



Meeting Agenda

**Audit Committee
Town Hall, St Annes
Tuesday 29th September 2009, 7:00 p.m.**

**The doors to the Town Hall will be open to the public at
6:40p.m.**

The maximum capacity for this meeting room is 60 persons –
once this limit is reached no other person can be admitted.

AUDIT COMMITTEE

MEMBERSHIP

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

Councillors

Ben Aitken	Paul Rigby
Fabian Craig-Wilson	Janine Owen
Linda Nulty	Elizabeth Oades
Louis Rigby	Keith Hyde

Contact: Peter Welsh, St. Annes (01253) 658502, Email:
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Our Vision

To establish Fylde Borough Council as a high performing local authority

Our Corporate Objectives

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

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

We will achieve this by:

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



A G E N D A

PART I - MATTERS DELEGATED TO COMMITTEE

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1. DECLARATIONS OF INTEREST: <i>If a member requires advice on Declarations of Interest he/she is advised to contact the Monitoring Officer in advance of the meeting. (For the assistance of Members an extract from the Councils Code of Conduct is attached).</i>	4
2. CONFIRMATION OF MINUTES: <i>To confirm as a correct record the minutes of the Audit Committee held on 25th and 30th June 2009. As attached at the end of the agenda.</i>	4
3. SUBSTITUTE MEMBERS: <i>Details of any substitute members notified in accordance with council procedure rule 25.3</i>	4
4. REPORT TO THOSE CHARGED WITH GOVERNANCE (ISA 260 INCORPORATING THE USE OF RESOURCES SCORE)	7
5. REVIEW OF FINANCIAL PLANNING AND MANAGEMENT	8 – 20
6. PROJECT PROGRESS UPDATE –NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)	21 – 24
7. CORPORATE GOVERNANCE IMPROVEMENT PLAN 2009/10	25 – 30
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Personal interests

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

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

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

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

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

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

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

Disclosure of personal interests

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

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

Prejudicial interest generally

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

Prejudicial interests arising in relation to overview and scrutiny committees

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

Effect of prejudicial interests on participation

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

REPORT



REPORT OF	MEETING	DATE	ITEM NO
KPMG, THE COUNCIL'S EXTERNAL AUDITORS	AUDIT COMMITTEE	29 SEPT 2009	4

REPORT TO THOSE CHARGED WITH GOVERNANCE (ISA 260 INCORPORATING THE USE OF RESOURCES SCORE)

Public item

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

Summary

Report to follow.

REPORT



REPORT OF	MEETING	DATE	ITEM NO
GOVERNANCE AND PARTNERSHIPS DIRECTORATE	AUDIT COMMITTEE	29 SEPT 2009	5

REVIEW OF FINANCIAL PLANNING AND MANAGEMENT

Public item

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

Summary

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



Infrastructure and Government

Fylde Borough Council

**Review of Financial Planning
and Management**

August 2009

AUDIT

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.

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Trevor Rees on 0161 236 4000, email 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 Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

Introduction

Background

Financial Management has been described by CIPFA as the system by which the financial aspects of an organisation's business are directed and controlled to support the delivery of its goals. An important element of the financial management process is producing a meaningful annual budget, which is not only a part of the Council's internal control system, but also the foundation of its financial plan to support priorities.

Over the last year the Council has looked to improve its systems for financial planning and management to ensure they are fit for purpose and provide management with key information in a timely manner to aid the decision making process whilst delivering value for money.

During November 2008 Fylde BC approved a revised Medium Term Financial Strategy (MTFS) with a view to managing pressures and delivering a balanced budget for 2008/09. During March 2009 the MTFS for 2009/10 - 2012/13 was approved.

This review looked at recent changes to the MTFS and ongoing changes to the Council's financial planning and management arrangements. A key issues was the prompt identification of pressure points and management of these by budget holders at a service level.

Objectives and scope of the review

The objective of this review was to proactively comment on proposed changes to the Council's financial management arrangements.

The review specifically considered the following in respect of the continued development of the MTFS and financial management arrangements:

- The robustness of arrangements for identifying and delivering a balanced budget for 2008/09 and beyond.
- An assessment of the Councils cash flow position in light of the current financial pressures being faced.
- The links between financial and service planning whilst delivering savings and improved performance outcomes.
- The use of risk management tools and different modelling techniques to help anticipate the impact on both financial and performance targets.
- The adequacy and timeliness of budget information provided to both budget holders and Members to support key decisions.

Audit Approach

This review took place from November 2008 to May 2009 and fieldwork consisted of:

- Review of key documents.
- Interviews and discussion with key staff involved in the financial strategy development, budget preparation and linked processes.
- Comparisons to other councils and good practice where relevant.

Acknowledgements

We would like to take this opportunity to thank those staff and Council members who assisted with this review.

Executive Summary

Executive summary

Over the last 12 – 18 months the Council has faced some significant challenges in managing its finances. Unforeseen budget pressures from Concessionary travel and increased fuel costs combined with lower than recommended levels of reserves placed undue pressure on the 2008/09 budget and MTFS. The Council has taken the necessary steps to address the immediate issues and has been benefited by some one off actions. Management recognise that processes have improved coming from a very low base and sound building blocks are starting to be put in place. However in our view there remains much to be done to improve financial management across the Council as the current arrangements require sustained improvement over the medium to long term.

Our review highlighted the following key issues which we would like to draw your attention to:

- We understand the Council has delivered a balanced budget for 2008/09 and in doing so achieved some challenging savings targets.
- A balanced budget is proposed for 2009/10 and the assumptions contained within the MTFS are realistic although there remain a number of uncertainties, e.g. concessionary travel arrangements. These require close monitoring to ensure the MTFS remains appropriate and reserves are available to deliver desired service improvements going forward.
- The Council has approved a Treasury Management Strategy and has arrangements in place to manage its day to day cash position but it could do more to benefit from potential higher investment rates for longer term deposits and minimise cash flows pressure points through more long term forecasting.
- Service and financial planning needs to be improved with service managers being more responsible for reviewing how services are structured and delivered to improve user satisfaction whilst minimising the cost to the Council.
- The Council may benefit from the use of more risk management and sensitivity analysis to predict and model different scenarios and their impact on both performance outcomes and financial budgets.
- Reports to Members would benefit from the inclusion of joint financial and performance data to allow informed decisions to be taken on a timely basis.
- Budget holders should use the online finance system to monitor budgets within five working days of the period end to allow for timely reporting to Members to aid decision making.

Findings and recommendations

Objective 1

The robustness of arrangements for identifying and delivering a balanced budget for 2008/09 and beyond.

Audit work performed

Our review involved the following:

- Review of MTFS.
- Discussions with budget holders, Members and the finance department.
- Review of budget monitoring arrangements.
- Review of 2008/09 'rescue savings'.
- Review of savings identified for 2009/10 and beyond.

Findings

The process for setting the budget is driven by the management team. Over recent years, including 2008/09, the Council's approach to budget setting has been through using an incremental approach i.e. taking the budget for the prior year as a base, and identifying savings which are least likely to have a detrimental impact on service priorities to deliver a balanced budget. To date this approach has worked satisfactorily with service managers achieving desired savings targets where necessary. Although particular budget pressures were faced during 2008/09 when rescue savings of £337,000 were identified part way through the year and a freeze was placed on all uncommitted and unnecessary spending in order to deliver a balanced budget. Many savings were identified through vacancy management and / or deferral of maintenance spend. This action was required in response to events beyond the Councils control including the additional costs associated with concessionary travel. These measures were required as reserves levels, although in line with CIPFA recommended best practice, were not sufficient to mitigate these additional costs without leaving the Council further exposed.

In the current climate and with reductions in government spending likely going forward it is recognised that the current approach to budget setting is not sustainable in the medium to long term. Reserve levels need to be increased to fund future expenditure and service improvements and this is recognised within the MTFS.

The Council's budget for 2009/10 and beyond appear to be on a firmer footing following the award of a capitalisation directive up to £705,000 from the Department for Communities and Local Government and a potential to reclaim a significant amount of VAT from HMRC. Without these one off benefits the underlying financial position remains challenging and the Council should carefully consider how and which services it continues to provide.

A balanced budget for 2009/10 has been set and a revised MTFS is in place to help improve the level of reserves required to make the Council less susceptible to one off issues such as concessionary fares going forward.

The MTFS in the medium term is based on a realistic set of assumptions although there are uncertainties, specifically in two areas, the £300,000 savings identified as 'review of staffing costs' and £800,000 associated with 'concessionary fares transfer of responsibility'. These savings are speculative at present – alternatives may need to be identified should they prove unachievable and therefore should not be reallocated at this stage to other service areas.

Following the investment in the Finance team and involvement from Preston CC there has been a marked improvement in the way Council manages its finances. Having come from such a low base the basics are starting to be put in place although the Council recognise there remains much further still to go. One specific improvement has been around the engagement with budget holders and the training provided around budget monitoring. This has helped engage Budget holders and increase awareness of their accountability to deliver services which not only deliver Value for Money for users but also are sustainable and contribute towards delivering a balanced Council budget. Elements of this are recognised in delivering £337,000 worth of savings to achieve a balanced budget in 2008/09.

The Council are currently testing a 'procure-to-pay' purchase ordering system. This would allow commitment basis accounting - where financial records reflect the allocation of budgetary resources when they are committed instead of when they are paid – thereby helping to prevent budget overruns and aid in more timely financial reporting.

Findings and recommendations (*continued*)

Recommendations

- 1 The Council should continually assess the viability of the savings identified in the MTFS, especially the £300,000 'staffing cost'. Alternatives may need to be identified should this prove unachievable.
- 2 The Council should look to implement a 'procure-to-pay' purchase ordering system – thereby allowing a more commitment basis for monitoring budgets whilst ensuring a consistent approach to procurement across the Council which may in turn deliver value for money savings through economies of scale.

Objective 2

An assessment of the Councils cash flow position in light of the current financial pressures being faced.

Audit work performed

- Review of the cash position.
- Review of cash flow forecasting arrangements.
- Review of Treasury Management Strategy.

Findings

Although there are underlying budget pressures facing the Council the cash position appears to be satisfactory.

A Treasury Management Strategy is now in place and has been approved by Members. The proposed upgrade to the cash receipting system will further help in this area. However, day-to-day treasury management procedures are still to be agreed.

Cash flow forecasting is limited at present and is only used on a day to day basis to influence cash deposit investment decisions. Cash flow forecasting should be improved to include a 1, 3, 6 and 12 month forecast - especially in the current economic environment. There is a risk with only managing investments on a day to day basis the Council is not positioned to benefit from better rates from placing funds on longer term deposits. Likewise should cash flow pressures be identified going forward the Council may not be able to meet its obligations without making prior arrangements.

Recommendations

- 3 The Council should improve its cash flow forecasting arrangements to include a 1, 3, 6 and 12 month forecast.

Findings and recommendations (*continued*)

Objective 3

The links between financial and service planning whilst delivering savings and improved performance outcomes.

Audit work performed

- Review of MTFS.
- Discussions with budget holders, Members and the finance department.
- Review of reports to Members.
- Analysis of Performance Indicator data.
- Analysis of Audit Commission Value for Money data.

Findings

Due to financial pressures faced during 2008/09 the 2009/10 budget is essentially a roll-forward with additional savings identified to achieve a balanced budget. Identification of savings has been the primary focus for management and budgets are not necessarily performance driven. Savings are identified by Directors and budget holders and approved by Executive Members based on those likely to maximise potential savings whilst having minimal impact on services. The impact on service delivery is outlined to Executive Members and savings approved or declined accordingly in line with Corporate Priorities. Whilst this approach is understandable in the short term, it needs improvement in the medium to long term as incremental savings become more difficult to identify and deliver.

Despite a halt on uncommitted expenditure during 2008/09 the performance of services according to key performance Indicators (KPIs) suggest a consistent level of delivery across a number of key service areas. However continued cuts in expenditure will eventually lead to a reduction in service performance unless services evolve to meet users expectations.

In the longer term the Council needs to improve financial and service planning. The Council need to identify how and what services are to be delivered and assess how best to structure these to maximise user satisfaction whilst minimising costs to the Council. One such method that has been adopted by others has been through undertaking a number of Base Budget Reviews / Value for Money reviews to challenge service managers to proactively think how they deliver services and the resources required. Where savings are identified these could then be used to realign spending towards delivering and improving services in priority areas.

At present service performance and finance are not seen to be fully linked, the Corporate Report to Scrutiny Committee for instance treats them as two distinct areas. Linkages between service and financial planning are essential to deliver the Council's service priorities. Decision making without both financial and performance data about a service is almost impossible as Members are not always in receipt of the necessary performance information to assess the impact on users. Our review identified there are clear links between corporate objectives and service priorities in the latest MTFS but it was more difficult to identify clear links between service priorities and budgets.

Recommendations

- 4 The Council needs to better link financial and service planning and should consider a number of pilot Base Budget / Value for Money Reviews for services.
- 5 Reports to Members should include both financial and performance data to enable informed decisions to be made.

Findings and recommendations (*continued*)

Objective 4

The use of risk management tools and different modelling techniques to help anticipate the impact on both financial and performance targets.

Audit work performed

- Discussions with budget holders, Members and the finance department.

Findings

There is clear evidence of Directors and service managers identifying potential savings and these being discussed at Council and Cabinet. Proposals are considered and approved based upon impact on services and whilst ensuring where possible minimal impact upon delivery of key priorities.

As part of the budget setting process, we note that high-level sensitivity analysis was performed to assess the impact on expenditure, income and saving variances on the general fund reserve balance as part of the MTFS. However, there was little evidence of risk management tools and modelling techniques being used to help anticipate the impact on both financial and performance targets.

Given the current volatility within the economy the Council may want to consider the impact this will have in terms of its own finances and performance KPI's by modelling income streams such as Council Tax and National Non Domestic Rates (NNDR) etc.

Recommendations

- 6 The Council should further develop risk management tools and modelling techniques to help anticipate the impact on both financial and performance targets at a service level.

Findings and recommendations (*continued*)

Objective 5

The adequacy and timeliness of budget information provided to both budget holders and Members to support key decisions.

Audit work performed

- Discussions with budget holders, Members and the finance department.
- Review of budget monitoring reports.
- Review of Council and Committee minutes.

Findings

There has been a marked improvement in the quality of budget monitoring arrangements over the last 12 months. This follows a period during late 2007 when budget monitoring controls lapsed. Budget monitoring information is now reported direct from budget holders to Members – after scrutiny by the finance department. Quarterly finance reports to Members are clear, concise and fit for purpose. We also note that budget holders were trained to access budget reports themselves during June 2008 which has helped improve the quality of this information.

Budget information is generally reported to Members, particularly Cabinet, on a timely basis. However, timely budget information is not always reported to Scrutiny Committee as these meetings fall too close to the quarter end. Management should consider the timetabling of meetings as well as looking to improve the monthly closedown table to turn around information in a more timely manner.

Some budgets are not profiled in line with service delivery across the year (i.e. expected income/expenditure estimated month by month). Profiling is essential to ensure the accuracy and relevance of monitoring information and profiling would reduce the number of variances that need to be investigated helping improve the turnaround of financial information to Members.




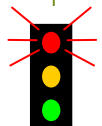

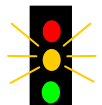
Budget holders should be encouraged to make use of the online finance system to monitor budgets and report any variances to the central finance team. This should reduce the need for specific requests to be made to Budget holders by the central finance team and help to improve the timely turnaround of information to Members. This has contributed to Scrutiny not being able to consider both financial and performance information collectively.

Recommendations


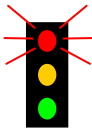


- 7 Budget holders should be encouraged to use the online financial systems to monitor and report variances on budgets within five working days of the period end to allow Scrutiny Committee to consider both financial and performance information collectively on a timely basis.
- 8 Budget holders should look to profile budgets across the year to make these more aligned with service delivery and avoid seeking explanations for significant variances.

Appendix A: Recommendations


We have given each recommendation a risk rating (as explained below) and agreed what action management will need to take. We will follow up these recommendations next year.

Priority rating for recommendation				
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.		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.		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	Officer and due date
1		The Council should continually assess the viability of the savings identified in the MTFS, especially the £300,000 'staffing cost'. Alternatives may need to be identified should this prove unachievable.	MT is currently assessing the viability of savings. Cabinet will consider in due course and identify any further action required in the light of that report. The success of the Capitalisation approval means that the total amount of the savings target does not need to be found in the short term.	MT October / November 2009
2		The Council should look to implement a 'procure-to-pay' purchase ordering system – thereby allowing a more commitment basis for monitoring budgets whilst ensuring a consistent approach to procurement across the Council which may in turn deliver value for money savings through economies of scale.	MT agreed a prioritised list of financial system implementation with the purchase ordering system as number one (number 2 is the ICON cash receipting replacement system which must also be completed during 2009/10 – this is to ensure PCI / DCC compliance). Implementation of the purchase ordering system is now under way with roll-out across the Council in progress. Finance are project lead with support from ICT Services.	Purchase Ordering System – Head of Finance with support from the ICT Manager. The software is now up and running as at September 2009 and will be rolled out section by section over the next 6-12 months (to be completed by the end of June 2010). Resource pressures could delay this roll out. ICON Replacement – Head of Finance By March 2010. Resource pressures could delay implementation. MT being kept up to date on both projects.
3		The Council should improve its cash flow forecasting arrangements to include a 1, 3, 6 and 12 month forecast.	The Finance team manage cash flow over the short term 1 to 3 month maximum which is manageable within existing resources. To achieve a 6-12 month forecast would require additional resources.	Head of Finance Short term forecast – in place 6-12 month forecast – not achievable within existing resources. Alternative options are being investigated.

Appendix A: Recommendations *(continued)*

No.	Risk	Issue and recommendation	Management response	Officer and due date
4	2 	The Council needs to better link financial and service planning and should consider a number of pilot Base Budget / Value for Money Reviews for services.	A pilot project proposal of VFM reviews will be considered by management team and recommended to council.	Chief Executive December 2009
5	1 	Reports to Members should include both financial and performance data to enable informed decisions to be made.	Chief Executive will instruct report authors to include linked financial and performance data where appropriate to improve decision making.	Chief Executive September 2009
6	2 	The Council should further develop risk management tools and modelling techniques to help anticipate the impact on both financial and performance targets at a service level.	Financial interactive modelling techniques already in place. Focus has been on achieving a balanced budget in financial crisis to make it sustainable. MTFs Contains major financial risk analysis. Financial scenario planning and risk management techniques will be built into future budget modelling at service level.	Further work to be undertaken during 2010/11 Budget setting cycle (October to March 2010) by MT.
7	2 	Budget holders should be encouraged to use the online financial systems to monitor and report variances on budgets within five working days of the period end to allow Scrutiny Committee to consider both financial and performance information collectively on a timely basis	Budget holders already have full access to CIVICA financial ledger systems and the system is used actively by budget holders to monitor and report any variances to the central finance team. A reminder on the importance of this activity will be issued to budget holders. The timetable of the Performance and Improvement Scrutiny meetings is under review to facilitate earlier consideration.	Head of Finance August 2009 Senior Scrutiny Officer Current meeting dates to be reviewed by the next scrutiny meeting on 22 October 2009.

Appendix A: Recommendations (continued)

No.	Risk	Issue and recommendation	Management response	Officer and due date
8	2 	Budget holders should look to profile budgets across the year to make these more aligned with service delivery and avoid seeking explanations for significant variances.	<p>Agreed. Existing profiling will be enhanced and improved on an ongoing basis to ensure that budgets are more aligned with service delivery and avoid seeking explanations for significant variances.</p> <p>Preston CC have recently (August 2009) undertaken some more CIVICA system training for the finance staff on budget profiling in order to provide advice to budget holders.</p>	Head of Finance Ongoing

REPORT

REPORT OF	MEETING	DATE	ITEM NO
FINANCE	REPORT TO AUDIT COMMITTEE	29 TH SEPT 09	6

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

Public Item

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

1. Summary

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

Recommendation

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

Cabinet Portfolio

The item falls within the following Cabinet portfolio:

Corporate Resources & Finance Councillor Roger Small

Report

2. Information

- 2.1 As a reminder for Members, Local Authorities are currently required to prepare their annual Statement of Accounts in accordance with United Kingdom Generally Accepted Accounting Practice (referred to as 'UK GAAP'), as modified for the public sector. Publicly listed (private sector) companies within the European Union have been required to report under IFRS since 2005.

- 2.2 In the 2008 Central Government Budget Report it was stated that Local Government must implement IFRS from 2010/11 onwards.
- 2.3 Even though IFRS is to be effectively implemented in the 2010/11 financial year, the actual IFRS transition date is 31st March 2010 for comparison purposes. Therefore the Council must:
- (i) Re-state the opening balance sheet as at 1st April 2009 to comply with IFRS.
 - (ii) Prepare the 2009/10 accounts in accordance with UK GAAP and then restate the 2009/10 results to comply with IFRS, this will enable prior year comparatives. This will mean that the 2009/10 financial statements will be prepared in both UK GAAP and IFRS format.
 - (iii) Prepare the 2010/11 results on an IFRS basis only.
- 2.4 Although detailed guidance is yet to be issued by CIPFA early indications state that the Council should seek to restate the opening balance sheet as at 1 April 2009 by the beginning of Quarter 1 2010, and it is hoped the audit of these results will probably take place by the end of Quarter 1 2010 although detailed conversations have yet to take place with the Council's external auditors, KPMG. Both the external auditors and local authorities currently await further detail on IFRS accounting from CIPFA. CIPFA consultation closes on 11th September 2009.

3. Progress to Date

- 3.1 As Members are already aware the intention is to share some of the implementation resources and associated costs with Preston City Council. Preston City Council have employed an external IFRS Project Manager who is a qualified accountant with private sector and health service IFRS implementation experience. The brief agreed for Fylde BC is to perform the initial impact assessment, the financial accounts review, produce a detailed project plan, provide IFRS training for the finance team and other departments (mainly Property and Legal) and perform elements of the detailed review required for IFRS
- 3.2 The detailed project plan has been compiled for Fylde summarised under the following categories :
- Project Planning
 - Communication and Training
 - Systems and Processes
 - Area Specific Issues and Plans
 - Key Future Milestones

The project work will be completed by 28th February 2010

The detailed project plan can be circulated to Members if they wish to see all the detailed tasks that need to be undertaken.

- 3.3 The IFRS Project Manager has met with both Fylde BC Finance and Property Services staff to discuss the main focus of the IFRS project plan as the main focus of the review will concentrate on;

Fixed Assets £13.8m (current valuation at as 31st March 09)

The classification of all Fylde leases – splitting them into Finance or Operating Leases.

Calculation of holiday pay/flexi-time accrual un-taken at year end

- 3.4 The objective of the IFRS project is to be able to re-state the opening balance sheet as at 1/4/09 so that comparatives as at 31/3/2010 will be compliant with IFRS guidelines and that all the relevant notes to the accounts can be re-written. This will involve changes to current process and procedures across the council and will not just be limited to Finance.

4.0 Work to be undertaken during next quarter (Sept to Dec 09)

- 4.1 Using the detailed project plan Fylde BC Finance Team & Property Team staff will need to conduct a detailed impact assessment and a detailed financial accounts review as required to assess the impact of IFRS on the Financial Statements.
- 4.2 The training of the Finance Team on the requirements of IFRS will commence during September 2009 and further training will be offered to other relevant departments (mainly Property & Legal) after September 2009. The plan is that these training sessions will be run out of the Preston City Council offices by the IFRS Project Manager in order to minimise additional costs for Fylde Borough Council.
- 4.3 Other activities planed for the next quarter include a review of the fixed asset register and a look at all of the leases to ensure that they are classified correctly.
- 4.4 A further update on progress will be provided at the next audit committee meeting.

5.0 Estimated Project Costs

- 5.1 As part of the Outturn Report (reported to Cabinet in June 09) it was agreed that a revenue budget of £15,000 would be slipped into 2009/10 to cover the cost associated with the IFRS project. From the initial assessment undertaken by the IFRS Project Manager it is anticipated that this budget will be sufficient to cover these project costs for the Finance Team. However Members need to be aware that additional resources may still be required by the Property Team (see work needed under 4.1). These potential additional costs are not known at time of writing this report.

6. Conclusions

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

7. Impact Statement

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

8.0 Reason for Decision

- 8.1 Statutory requirements must be adhered to.

Report Author	Tel	Date	Doc ID
J.Scott (AD(Head of Finance)	(01772) 906059	07/09/09	

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

Attached documents

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

REPORT



REPORT OF	MEETING	DATE	ITEM NO
GOVERNANCE & PARTNERSHIPS DIRECTORATE	AUDIT COMMITTEE	29/09/09	7

CORPORATE GOVERNANCE IMPROVEMENT PLAN 2009/10

Public Item

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

Summary

The Audit Committee is charged with adopting the Annual Governance Statement and monitoring the progress in fulfilling the Corporate Governance Improvement Plan.

Recommendation

The Committee notes the latest position with regard to each of the issues included on the Corporate Governance Improvement Plan 2009/10.

Reasons for recommendation

The report indicates the current situation

Alternative options considered and rejected

This report is for information and comment only

Cabinet Portfolio

The item falls within the following Cabinet portfolio:

Finance & Resources (Councillor Roger Small)

Report

1. The Annual Governance Statement for the year ended 31 March 2009, together with its associated improvement actions, was adopted by the Committee at its meeting on 25 June 2009. The responsibility for keeping the Corporate Governance Improvement Plan under review falls to the Audit Committee.
2. This interim report reveals the progress made so far in implementing the various actions to achieve improved corporate governance during 2009/10 and indicates areas where agreed actions have yet to be completed.
3. The 2009/10 Improvement Plan included 14 actions to secure improved corporate governance. The present position as advised by responsible managers is as follows:
 - Four improvements have been completed in full – numbers 2, 11, 12,14

Of the remaining ten improvements:

- Three have seen progress being made towards the agreed improvement - numbers 1, 3, 10.
 - One action is ongoing without a target end-date – number 6
 - The remaining six actions have not yet commenced but remain achievable within their original target date – numbers 4, 5, 7, 8, 9, 13
4. Progress monitoring will continue and a follow up of the all the improvements included in the plan will be undertaken once the final implementation date has passed. A further report will be prepared to indicate the revised position.
 5. The Improvement Plan for 2009/10 is attached as an Appendix showing the responsible officers, target dates for completion and the current status.

Risk Assessment

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

Report Author	Tel	Date	Doc ID
Savile Sykes	(01253) 658413	Date of report	30/09/09

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

Delivering Good Governance in Local Government	2007	All background papers or documents can be obtained from Savile Sykes – Head of Internal Audit on 01253 658413 or e-mail saviles@fylde.gov.uk
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Attached documents

1. Corporate Governance Improvement Plan 2009/10.

IMPLICATIONS	
Finance	No specific implications
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

Corporate Governance Improvement Plan 2009/10 **Appendix**

SIGNIFICANT GOVERNANCE ISSUES		AGREED IMPROVEMENT PLAN			
Objective	Action	Officer	Date	Status	Comment
AGS 1. The Council will work further to implement the Council's Medium Term Financial Strategy (MTFS) ensuring that the level of reserves are reviewed and maintained and that budgetary control procedures are enhanced during the course of the year.	1. The minimum level of reserves will be maintained at £750k. throughout the financial year	Section 151 Officer	Mar 10	In progress	The current level of reserves is above the target minimum.
	2. Budgetary control procedures will incorporate: <ul style="list-style-type: none"> Monthly budget monitoring reports to budget holders Quarterly 'Hotspot' budget monitoring reports to the Finance & Resources portfolio holder Both monthly and quarterly reports will feed into the MTFS 	POD	Sep 09	In place	The up-to-date MTFS will be presented to November Cabinet in accordance with the budget strategy timetable.
AGS 2. The Council will ensure that the purchase ordering system, which comprises part of the financial management system CIVICA, is embedded.	3. The purchase ordering system will be: <ul style="list-style-type: none"> piloted in IT and Finance rolled out across the authority embedded within the financial management system 	POD	Jun 10	In progress	The purchase ordering module of the CIVICA financial management system has been successfully piloted in the IT and Finance teams. It will be rolled out section by section over the next nine months. (Resource pressures may delay roll out)
AGS 3. The Council will continue to build on recent Value for Money (VFM) work to ensure the relationship of cost, outcomes and performance is understood and used to improve and drive quality, efficiency and inform commissioning decisions.	4. The service planning template will be upgraded to emphasise the requirement to benchmark services to assist in the assessment of VFM.	TS	Nov 09	Pending	The Scrutiny review is an ongoing process without a target end-date
	5. A pilot project proposal of VFM reviews will be considered by MT and recommended to Council.	MT	Dec 09	Pending	
	6. Scrutiny will undertake a rolling review of all shared service arrangements including VFM.	MT	N/A	Ongoing	
	7. Quarterly 'Hotspot' budget monitoring reports will be reported to Scrutiny to coincide with quarterly performance reports in order to improve knowledge of and linkages between costs, outcomes and performance.	Partnership Manager	Nov 09	Pending	

Corporate Governance Improvement Plan 2009/10 **Appendix**

SIGNIFICANT GOVERNANCE ISSUES		AGREED IMPROVEMENT PLAN			
Objective	Action	Officer	Date	Status	Comment
AGS 4. The Council will revise the Capital Strategy and existing Asset Management Plan to provide an asset base fit for purpose, providing Value for Money and maximising the use of assets for the benefit of the community.	8. The Capital Strategy and existing Asset Management Plan will be revised to provide an asset base fit for purpose, providing VFM and maximising the use of assets for the benefit of the community.	PW	Mar 10	Pending	
AGS 5. The Council will develop a framework to ensure that it is efficient in its use of natural resources and its impact on the environment.	9. The first draft of a framework to ensure the Council is efficient in its use of natural resources and sensitive to its impact on the environment will be developed.	AL	Mar 10	Pending	
AGS 6. The Council will further develop its HR/Organisation and Workforce Development Strategy to reflect current challenges such as sickness absence and ensure that sufficient investment is made into employee training.	10. The existing HR/Organisation and Workforce Development Strategy will be developed to reflect current challenges such as sickness absence.	AO	Mar 10	In progress	
	11. The Attendance Management Policy will be reviewed to strengthen measures that contribute to a consistent, supportive and fair approach to dealing with absence, and embedded.	AO	Jun 09	In place	The Attendance Management Policy was introduced and effective from May 2009.
	12. Refresher training will be provided to managers in the consistent application of the new policy.	AO	Jun 09	In place	Refresher training has been provided to managers in the application of the policy. Extensive guidance is available to managers on the Intranet.

Corporate Governance Improvement Plan 2009/10 **Appendix**

SIGNIFICANT GOVERNANCE ISSUES		AGREED IMPROVEMENT PLAN			
Objective	Action	Officer	Date	Status	Comment
AGS 7. The Council will put in place more robust arrangements to engage with stakeholders in line with the Duty to Involve requirements ensuring that feedback is used to guide future service delivery and failures are addressed through a corporate complaints system.	13. A Communication & Consultation Strategy will be developed to secure effective communication and consultation with all stakeholders as an integral component in the decision-making and service delivery process.	TS	Jan 10	Pending	
	14. A corporate Complaints Procedure will be adopted which: <ul style="list-style-type: none"> ♦ is simple to use and equally accessible to all ♦ gives customers confidence that their complaints are being dealt with effectively ♦ takes action to solve problems and generates a positive attitude to feedback ♦ generates a consistent approach to complaints throughout the Council 	AO	Sep 09	In place	The new corporate complaints process was introduced and effective from August 2009.

KEY: AL = Andrew Loynd; AO = Allan Oldfield; MT = Management Team; POD = Paul O'Donoghue; PW = Paul Walker; TS = Tracy Scholes

REPORT



REPORT OF	MEETING	DATE	ITEM NO
INTERNAL AUDIT	AUDIT COMMITTEE	29/09/09	8

EFFECTIVENESS OF INTERNAL AUDIT

Public Item

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

Summary

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

Recommendations

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

Reasons for recommendation

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

Alternative options considered and rejected

No other course of action is advocated.

Cabinet Portfolio

Finance & Resources

Councillor Roger Small

Report

1 Introduction

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

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

1.3 The regulations and guidance relating to the assessment of the system of internal audit allow for different methods of review. In 2008/09 the review was successfully carried out by KPMG, the Council’s external auditors, who passed no adverse comments and placed reliance on the work of internal audit.

1.4 To meet the requirement of the Accounts and Audit Regulations in the current year a self-assessment review has been conducted by the Head of Internal Audit, benchmarking the service against the best practice outlined in the Code. The results of the review will be reflected in the Annual Governance Statement and are presented in this report.

2 Findings of the Review of Internal Audit Effectiveness

2.1 The CIPFA Code of Practice for Internal Audit checklist is attached as Appendix 2. The checklist has been completed essentially indicating full or partial compliance with the Code.

2.2 Where the few responses of “No” are given, they generally contain caveats explaining the relevant circumstances or reflect areas that are not considered to materially detract from the effectiveness of the system of Internal Audit in the Council and can, in most instances, be easily addressed, if applicable. Not all areas have to be ticked as “yes” to be rated as compliant with the Code

2.3 The Code of Practice contains eleven standards as follows:

- ♦ Scope of Internal Audit
- ♦ Independence
- ♦ Ethics for Internal Auditors
- ♦ Audit Committees
- ♦ Relationships

- ♦ Staffing, Training and Development
- ♦ Audit Strategy and Planning
- ♦ Undertaking Audit Work
- ♦ Due professional care
- ♦ Reporting
- ♦ Performance, Quality and Effectiveness

Standard 1 - Scope of internal audit

The overall scope of Internal Audit should be formally defined by the organisation in terms of reference consistent with the CIPFA Code. An Internal Audit Terms of Reference was submitted to and approved by the Audit Committee in June 2008. This document meets all the requirements of the code.

Standard 2 - Independence

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

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

Standard 3 - Ethics for internal auditors

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

The review concluded that Internal Audit generally complies with this standard. The Internal Audit Manager ensures that auditors are regularly reminded of their ethical responsibilities and ensure that the principles of integrity, objectivity, competence and confidentiality are upheld. This is evidenced through the completion of declarations of adherence to the Internal Audit Code of Ethics. The only possible issue was the inability to rotate auditor staff between jobs to ensure they cover different areas on an annual basis. The smallness of audit team makes this impractical.

Standard 4 - Audit Committee

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

Standard 5 - Relationships

Internal Audit is involved in a wide range of internal and external relationships. The quality of these relationships impacts on the effective delivery of the audit function, its reputation and independence. The review concluded that Internal Audit generally complies with this standard. However, joint working on shared services with other internal audit teams had not been investigated. Also internal and external audit plans were not co-ordinated.

Suggested Action:

- R1. Explore the possibility of a joint approach to aspects of audit work in relation to services currently shared with other local authorities
- R2. Share draft plan proposals with external audit to assist with co-ordination

Standard 6 – Staffing, Training and Development

For staffing, the CIPFA code stresses that Internal Audit should be appropriately resourced to meet its objectives and have appropriate numbers of staff in terms of grades, qualifications, personal attributes and experience or have access to appropriate resources in order to meet its objectives and to comply with these standards. The review found that Internal Audit complied with the standard.

Standard 7 – Audit Strategy and Planning

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

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

Standard 8 – Undertaking Audit Work

The Code sets out the requirements for the planning, approach and recording of audit assignments. The review found that the undertaking of internal audit work met the requirements of the Code. However, two improvements were possible. The Code suggests that management should be informed of interim findings where serious issues have arisen. Although this occurs the process is not formalised. Also the Code requires that the access policy for audit files and records should be defined.

Suggested Action:

- R3. Update the Audit Procedure Manual to reflect the practice whereby management is informed of interim findings where serious issues have arisen
- R4. Include an access policy for audit files and records in the Audit Procedure Manual

Standard 9 – Due Professional Care

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

Standard 10 – Reporting

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

However, three potential enhancements to procedures were noted. Firstly, circulation details for reports should be included in the audit brief to managers. Secondly, mechanisms should be in place to ensure risk registers are updated to reflect significant risks identified by audit work. Finally where internal audit recommendations are not implemented a formal escalation procedure needs to be established.

Suggested Actions:

- R5. Include in the brief to managers details of circulation for any potential report arising from audit work
- R6. Develop a process to ensure that relevant risk registers are updated to reflect significant risks identified by audit work
- R7. Establish a procedure whereby the failure to implement internal audit recommendations is escalated to higher levels of management and ultimately to Audit Committee

Standard 11 – Performance, Quality and Effectiveness

The Code states that Internal Audit should establish policies and procedures in an audit manual to guide staff in performing their duties and complying with this Code. The requirement has been largely achieved but there are some further improvements necessary to achieve full compliance.

The Audit Performance Manual refers to the Code but does not provide guidance on how to comply with it. In addition, it was last reviewed in 2007 and now requires some updating to reflect

changes in current working practices and standards. In terms of performance management, while a range of indicators and targets have been developed this has not involved input from clients.

Suggested Actions:

- R8. Include guidance within the Audit Procedure Manual to assist auditors to comply with the Code in the performance of their duties
- R9. Review the Audit Procedure Manual on an annual basis to ensure it reflects current working practices and standards
- R10. Revisit and update audit performance measures taking account of input from clients

3 Evaluating the Review

3.1 In 2007/08 the review of internal audit against the Code was carried by the Audit Commission. The change of external auditors resulted in the review being undertaken again by KPMG in 2008/09. The expected understanding is that such reviews by external audit will take place triennially. However, the Audit Commission's view is that such reviews alone will not be comprehensive enough to cover all elements and cannot be relied upon solely to fulfil the requirements of the Regulations.

3.2 The spirit of the regulations points to an independent review conducted externally where possible. However, this needs to be balanced against the practicalities either in terms of cost or the resources required to undertake a reciprocal external review each year.

3.3 Therefore, the following approach is suggested for each three year period:

Year 1 – Assessment by external audit

Year 2 – Self assessment via the checklist with independent evaluation

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

3.4 It is considered that Year 2 of this cycle has now been reached and a reciprocal agreement with Wyre BC internal audit has been reached whereby each internal audit manager will review the self assessment exercise carried out by the other to provide evidence of suitable assurance and challenge.

4 Risk Assessment

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

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

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

<ul style="list-style-type: none"> ♦ The Accounts and Audit Regulations 2006 ♦ CIPFA Code of Practice for Internal Audit in Local Government (including effectiveness checklist) ♦ Head of Internal Audit's 2008/09 Annual Report presented to 25 June 2009 Audit Committee ♦ The report on the Annual Governance Statement presented to the 25 June 2009 Audit Committee ♦ Periodic progress reports during 2008/09 on the audit plan, to various meetings of the Audit Committee ♦ KPMG's Interim Audit Report (including Review of Internal Audit) 	2006	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
	25 June 2009	Agendas and minutes of the Audit Committee are available online at www.fylde.gov.uk
	25 June 2009	
	5 June 2008	

Attached documents

1. Action Plan – to bring into effect the recommendations of the report.
2. Checklist – Compliance with the Code of Practice for Internal Audit

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

COMPLIANCE WITH INTERNAL AUDIT CODE OF PRACTICE – ACTION PLAN

Ref	Action	Checklist Reference	Responsible Officer	Target Completion Date	Status September 2009
R1	Explore the possibility of a joint approach to aspects of audit work in relation to services currently shared with other local authorities	5.3.1	Head of Internal Audit	November 09	Pending
R2	Share draft plan proposals with external audit to assist with co-ordination	5.4.3	Head of Internal Audit	March 10	Pending
R3	Update the Audit Procedure Manual to reflect the practice whereby management is informed of interim findings where serious issues have arisen	8.2.2	Head of Internal Audit	November 09	Pending
R4	Include an access policy for audit files and records in the Audit Procedure Manual	8.3.6	Head of Internal Audit	November 09	Pending
R5	Include in the brief to managers details of circulation for any potential report arising from audit work	10.2.7	Head of Internal Audit	October 09	Pending
R6	Develop a process to ensure that relevant risk registers are updated to reflect significant risks identified by audit work	10.2.8	Head of Internal Audit	November 09	Pending
R7	Establish a procedure whereby the failure to implement internal audit recommendations is escalated to higher levels of management and ultimately to Audit Committee	10.3.2	Head of Internal Audit	November 09	Pending
R8	Develop a procedure to provide a revised opinion following a follow-up audit, where appropriate	10.3.3	Head of Internal Audit	November 09	Pending
R9	Include guidance within the Audit Procedure Manual to assist auditors to comply with the Code in the performance of their duties	11.1.2	Head of Internal Audit	November 09	Pending
R10	Review the Audit Procedure Manual on an annual basis to ensure it reflects current working practices and standards	11.1.3	Head of Internal Audit	November 09	Pending
R11	Revisit and update audit performance measures taking account of input from clients	11.3.2	Head of Internal Audit	November 09	Pending

CHECKLIST – COMPLIANCE WITH THE CODE

Ref	Adherence to Standard	Y	P	N	Evidence
1	Scope of Internal Audit				
1.1	Terms of Reference				
1.1.1	<p>Do terms of reference:</p> <p>(a) establish the responsibilities and objectives of Internal Audit?</p> <p>(b) establish the organisational independence of Internal Audit?</p> <p>(c) establish the accountability, reporting lines and relationships between the Head of Internal Audit and:</p> <p>(i) those charged with governance?</p> <p>(ii) those parties to whom the Head of Internal Audit may report?</p> <p>(d) recognise that Internal Audit's remit extends to the entire control environment of the organisation?</p> <p>(e) identify Internal Audit's contribution to the review of the effectiveness of the control environment?</p> <p>(f) require and enable the Head of Internal Audit to deliver an annual audit opinion?</p> <p>(g) define the role of Internal Audit in any fraud-related or consultancy work (see also 1.3.2)?</p> <p>(h) explain how Internal Audit's resource requirements will be assessed?</p> <p>(i) establish Internal Audit's right of access to all records, assets, personnel and premises, including those of partner organisations, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities?</p>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>			<p>Included in Financial Regulations and IA Terms of Reference</p> <p>Refers to process if resources deemed to be inadequate but not how to assess resource requirements. HIA will keep situation under review.</p>
1.1.2	Does the Head of Internal Audit advise the organisation on the content and the need for subsequent review of the terms of reference?	✓			Head of Internal Audit advises the Audit Committee on any changes required to the terms of reference
1.1.3	Have the terms of reference been formally approved by the organisation?	✓			Internal Audit Charter (now TOR) originally adopted September 2002 and a revised version approved by Performance Improvement Forum (pre-Audit Committee) in November 2005. Subsequent

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

	anti-fraud and anti-corruption policies, to be notified of all suspected or detected fraud, corruption or impropriety?				Whistleblowing Policy are on the Intranet and contain guidance on notifying internal audit of suspected fraud, corruption of impropriety.
2	Independence				
2.1	Principles of Independence				
2.1.1	Is Internal Audit: (a) independent of the activities it audits? (b) free from any non-audit [operational] duties?	✓			Internal audit has no recognised operational duties
1.4.1	Where internal audit staff have been consulted during system, policy or procedure development, are they precluded from reviewing and making comments during routine or future audits?		✓		Internal audit offers all advice and consultation without prejudice to any later review of the area. HIA will review situation and the decision to preclude or not will be based on the nature of the consultation / involvement with the issue.
2.2	Organisational Independence				
2.2.1	Does the status of Internal Audit allow it to demonstrate independence?	✓			Internal audit has direct reporting lines to Chief Executive, Section 151 Officer and Audit Committee. All reports are in the name of HIA. Head of Internal Audit.
2.2.2	Does the Head of Internal Audit have direct access to: (a) officers? (b) members?	✓			As 2.2.1 above
2.2.3	Does the Head of Internal Audit report in his/her own name to members and officers?	✓			As 2.2.1 above
2.2.4	(a) Is there an assessment that the budget for Internal Audit is adequate? (b) Does any budget delegated to service areas ensure that: i) Internal Audit adherence to the Code is not compromised? ii) the scope of Internal Audit is not affected? iii) Internal Audit can continue to provide assurance for the Annual Governance Statement?	✓ n/a			Annual budgetary review Not applicable. Managers do not have delegated budgets to procure their own IA services. They have to utilise the corporate IA Service.

2.3	Status of the Head of Internal Audit				
2.3.1	Is the Head of Internal Audit managed by a member of the corporate management team?	✓			Reports to the Director of Governance and Partnerships who is a member of CMT
2.4	Declarations of Interest				
2.4.1	Do audit staff make formal declarations of interest?	✓			Audit staff make annual declaration to abide by the IA Code of Ethics which requires declarations of interest
2.4.2	Does the planning process take account of the declarations of interest registered by staff?	✓			No declarations registered to date. If a significant conflict of interest was declared audit member concerned would not be allocated to that area.
3	Ethics for Internal Auditors				
3.1	Purpose				
3.1.1	Does the Head of Internal Audit regularly remind staff of their ethical responsibilities?	✓			As 2.4.1 above
3.2	Integrity				
3.2.1	Has the internal audit team established an environment of trust and confidence?	✓			A 2007 biennial staff survey indicated that 65% of staff would report suspicions of fraud to internal audit with others using different reporting options. Client satisfaction surveys indicate excellent feedback regarding auditors' professionalism.
3.2.2	Do internal auditors demonstrate integrity in all aspects of their work?	✓			All audit staff abide by the IA Code of Ethics which requires integrity, truthfulness and honesty. IA is regularly asked by management to participate in confidential matters requiring integrity
3.3	Objectivity				
3.3.1	Are internal auditors perceived as being objective and free from conflicts of	✓			Acknowledged as undertaking an independent

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

4.2.2	Does the committee approve the internal audit strategy and monitor progress?	✓			Internal Audit Strategy approved April 2009
4.2.3	Does the committee approve the annual internal audit plan and monitor progress?	✓			Internal Audit annual plan approved April 2009. Monitoring reports presented to Audit Committee.
4.2.4	Does the Head of Internal Audit: (a) attend the committee and contribute to its agenda? (b) participate in the committee's review of its own remit and effectiveness? (c) ensure that the committee receives and understands documents that describe how Internal Audit will fulfil its objectives? (d) report on the outcomes of internal audit work to the committee? (e) establish if anything arising from the work of the committee requires consideration of changes to the audit plan, or vice versa? (f) present the annual internal audit report to the committee?	✓ ✓ ✓ ✓ ✓ ✓			HIA attends most Audit Committee meetings HIA together with Chair and Vice Chair reviewed Audit Committee effectiveness HIA presents all documents explaining the role, remit, objectives and achievements of internal audit Outcomes of IA work presented to committee twice yearly Any changes to the audit plan arising from the work of the committee would be noted by HIA The HIA presents an annual report to the committee
4.2.5	Is there an opportunity for the Head of Internal Audit to meet privately with the committee?	✓			This has occurred when HIA briefed Chair and Vice concerning annual report and in performing review of Audit Committee effectiveness
5	Relationships				
5.1	Principles of Good Relationships				
5.1.1	Is there a protocol that defines the working relationship for Internal Audit with: (a) management? (b) other internal auditors? (c) external auditors? (d) other regulators and inspectors? (e) elected members?	✓			The Internal Audit Terms of Reference defines the basis and nature of these relationships
5.2	Relationships with Management				
5.2.1	Does the Head of Internal Audit seek to maintain effective relationships between internal auditors and managers?	✓			Undertaken as part of the overall audit process, pre-closure and closure meetings, etc. Open Door policy of the team demonstrated by the level of requests for advice and guidance. Also by meetings between the Head of Internal Audit and Directors as part of the planning process and high levels of manager

					satisfaction as measured by feedback questionnaires
5.2.2	Is the timing of audit work planned in conjunction with management?		✓		Announcement Letter issued to managers prior to audit commencing and managers can request deferment for valid reasons. However, timing is usually determined by internal audit initially
5.3	Relationships with Other Internal Auditors				
5.3.1	Do arrangements exist with other internal auditors that include joint working, access to working papers, respective roles and confidentiality?			✓	Currently shared services exist for revenues, benefits and benefit fraud. The possibility of a joint approach to certain aspects of audit work should be explored.
5.4	Relationships with External Audit				
5.4.1	Is it possible for Internal Audit and External Audit to rely on each other's work?	✓			Annual external inspection has consistently replaced reliance on Internal Audit work
5.4.2	Are there regular meetings between the Head of Internal Audit and the External Audit Manager?		✓		Not regular meetings - as and when required
5.4.3	Are the internal and external audit plans co-ordinated?			✓	Internal and External Audit plans are not co-ordinated
5.5	Relationships with Other Regulators and Inspectors				
5.5.1	Has the Head of Internal Audit sought to establish a dialogue with the regulatory and inspection agencies that interact with the organisation?		✓		Dialogue established as and when considered necessary
5.6	Relationships with Elected Members				
5.6.1	Do the terms of reference for Internal Audit define the channels of communication with members and describe how such relationships should operate?	✓			The Terms of Reference define such channels of communications. Reports are submitted on a regular basis to the Audit Committee
5.6.2	Does the Head of Internal Audit maintain good working relationships with members?	✓			Comments in meetings of the Audit Committee generally reflect Member satisfaction with the work of Internal Audit

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

7	Audit Strategy and Planning				
7.1	Audit Strategy				
7.1.1	(a) Is there an internal audit staff strategy for delivering the service? (b) Is it kept up to date with the organisation and its changing priorities?	✓			The Internal Audit Strategy was approved by the Audit Committee in April 2009. It will be reviewed on a regular basis
7.1.2	Does the strategy include: (a) Internal Audit objectives and outcomes? (b) how the Head of Internal Audit will form and evidence his or her opinion on the control environment? (c) how Internal Audit's work will identify and address local and national issues and risks? (d) how the service will be provided, ie internally, externally, or a mix of the two? (e) the resources and skills required to deliver the strategy?	✓			All these points are included in the Audit Strategy
7.1.3	Has the strategy been approved by the audit committee?	✓			The Internal Audit Strategy was approved by the Audit Committee in April 2009
7.2	Audit Planning				
7.2.1	Is there a risk-based plan that is informed by the organisations risk management, performance management and other assurance processes?	✓			Audit Plan produced on a risk basis. Internal Audit Universe comprising all auditable systems and processes is determined and incorporated into an indicative five year strategic plan from which the annual plan is derived.
7.2.2	Where the risk management process is not fully developed or reliable, does the Head of Internal Audit undertake his or her own risk assessment process?	✓			Audit plan based upon materiality, business risk, previous audit work, exposure to fraud and time since last audit
7.2.3	Are stakeholders consulted on the audit plan?	✓			CMT members consulted to identify issues in their services. S151 Officer reviews draft audit plan. Report to CMT and Audit Committee
7.2.4	Does the plan demonstrate a clear understanding of the organisation's	✓			The audit planning process is comprehensive and covers all the Council's functions as well as

	functions?				stakeholder concerns. The plan is developed in consultation with members of CMT and the S151 Officer
7.2.5	Does the plan: (a) cover a fixed period of no longer than one year? (b) outline the assignments to be carried out? (c) prioritise assignments? (d) estimate the resources required? (e) differentiate between assurance and other work? (f) allow a degree of flexibility?	✓			The audit plan incorporates all these elements
7.2.6	If there is an imbalance between the resources available and resources needed to deliver the plan, is the audit committee informed of proposed solutions?	✓			If necessary a report is presented to Audit Committee
7.2.7	Has the plan been approved by the audit committee?	✓			The audit plan approved by the Audit Committee annually
7.2.8	If significant matters arise that jeopardise the delivery of the plan, are these addressed and reported to the audit committee?	✓			If necessary a report is presented to Audit Committee
8	Undertaking Audit Work				
8.1	Planning				
8.1.1	(a) Is a brief prepared for each audit? (b) Is the brief discussed and agreed with the relevant managers?	✓			A brief is prepared for each audit Copy given to managers prior to audit taking place for comment as part of audit announcement process including the opportunity to meet
8.1.2	Does the brief set out: (a) objectives? (b) scope? (c) timing? (d) resources? (e) reporting requirements?	✓			The audit brief covers all these aspects

8.2	Approach				
8.2.1	Is a risk-based audit approach used?	✓			Where possible previous audit work informs the approach, alternatively high risk areas would be identified at the planning phase for audit focus
8.2.2	Does the audit approach show when management should be informed of interim findings where key (serious) issues have arisen?		✓		Significant issues are discussed with relevant managers when they arise but this process is not formalised
8.2.3	Does the audit approach include a quality review process for each audit?	✓			All working papers and draft reports are reviewed for quality by the Head of Internal Audit or Senior Auditor
8.3	Recording Audit Assignments				
8.3.1	Has the Head of Internal Audit defined a standard for audit documentation and working papers?	✓			Audit files are compiled to a standard pattern. Auditors use standard formats and templates which, if changed or adapted, are subject to approval by the Head of Internal Audit
8.3.2	Do quality reviews ensure that the defined standard is followed consistently for all audit work?	✓			All working papers and draft reports are reviewed for quality by the Head of Internal Audit or Senior Auditor
8.3.3	Are working papers such that an experienced auditor can easily: (a) identify the work that has been performed? (b) re-perform it if necessary? (c) see how the work supports the conclusions reached?	✓			Working papers inform and permit all these tasks
8.3.4	Is there a defined policy for the retention of all audit documentation, both paper and electronic?	✓			Audit documents retained for the two most recent audits undertaken in accordance with Audit Procedure Manual
8.3.5	Do all retention and access policies conform to appropriate legislation, i.e. Data Protection Act, Freedom of Information Act, etc and any organisational requirements?	✓			The Council's corporate policy applies

8.3.6	Is there an access policy for audit files and records?		✓		No formal access policy. Paper files and records are secured in locked filing cabinets and access to electronic files restricted to audit team
9	Due Professional Care				
9.1	Responsibilities of the Individual Auditor				
9.1.1	Are there documents that set out the requirements on all audit staff in terms of: (a) being fair and not allowing prejudice or bias to override objectivity? (b) declaring interests that could be perceived to be conflicting or could potentially lead to conflict? (c) receiving and giving gifts and hospitality from employees, clients, suppliers or third parties? (d) using all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base conclusions? (e) being alert to the possibility of intentional wrongdoing, errors or omissions, poor value for money, failure to comply with management policy or conflict of interest? (f) having sufficient knowledge to identify indicators that fraud or corruption may have been committed? (g) disclosing all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice? (h) disclosing any non-compliance with these standards? (i) not using information they gain in the course of their duties for personal use?	✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓			Included in Internal Audit Code of Ethics Included in Internal Audit Code of Ethics Included in Internal Audit Code of Ethics Included in Audit Procedure Manual Included in Audit Procedure Manual Included in Audit Procedure Manual Included in Audit Procedure Manual Included in Internal Audit Code of Ethics Included in Audit Procedure Manual
9.1	Responsibilities of the Head of Internal Audit				
9.2.1	Has the Head of Internal Audit established a monitoring and review programme to ensure that due professional care is achieved and maintained?	✓			Quality review process on each audit performed. The Head of Internal Audit reviews all audit files and reports prior to their issue to management Annual declaration of adherence to Audit Code of Ethics by all internal auditors Annual appraisal process addresses performance issues
9.2.2	Are there systems in place for individual auditors to disclose any suspicions of	✓			Such issues would be raised with the Head of Internal

	fraud, corruption or improper conduct?				Audit immediately at the time of discovery. Weekly team meetings also take place. Corporate Whistleblowing Policy also in place.
10	Reporting				
10.1	Principles of Reporting				
10.1.1	Is an opinion on the control environment and risk exposure given in each audit report?	✓			Audit reports give an opinion on risks and controls using approved methodology. An assurance level is given and recommendations are prioritised in terms of risk for each audit
10.1.2	Has the Head of Internal Audit determined the way in which Internal Audit will report?	✓			There is a standard template for reports which is sometimes adapted to suit a specific service or need
10.1.3	Has the Head of Internal Audit set out the standards for internal audit reporting?	✓			Reporting standards are established in the Audit Procedure Manual
10.1.4	Are there laid-down timescales for reports to be issued?	✓			Target reporting times for all stages of an audit including issuing the draft and final reports are included in the Audit Procedure Manual
10.2	Reporting on Audit Work				
10.2.1	Do the reporting standards include: (a) format of the reports? (b) quality assurance of reports? (c) the need to state the scope and purpose of the audit? (d) the requirement to give an opinion? (e) process for agreeing reports with the recipient? (f) an action plan or record of points arising from the audit and, where appropriate, of agreements reached with management together with appropriate timescales?	✓			Reporting standards established in the Audit Procedure Manual include all these points
10.2.2	Does the audit reporting process include discussion and agreement of reports?	✓			Pre-closure meetings with operational manager/s and

					end of audit closure meetings with service manager where agreed management action plans are finalised
10.2.3	Has the Head of Internal Audit determined a process for prioritising recommendations according to risk?	✓			Prioritised management action plans in accordance with Audit Procedure Manual
10.2.4	Are areas of disagreement recorded appropriately?	✓			Management action plans
10.2.5	Are those weaknesses giving rise to significant risks that are not agreed drawn to the attention to senior management?	✓			Management action plans
10.2.6	Is the circulation of each audit report determined when preparing the audit brief?				Protocol established in Audit Procedure Manual
10.2.7	a) Does the reporting process include details of circulation of that particular audit report? (b) Is this included in the brief for each individual audit?	✓		✓	Protocol established in Audit Procedure Manual Report circulation details are not included in the audit brief although circulation protocol is established
10.2.8	Does the Head of Internal Audit have mechanisms in place to ensure that: (a) recommendations that have a wider impact are reported to the appropriate forums? (b) risk registers are updated?	✓		✓	Particular high-priority recommendations may be reported to the Audit Committee and be considered by Governance Group for inclusion in AGS Insurance & Risk Manager advised where the recommendation may have an impact on risk registers but this process needs to be formalised
10.3	Follow-up Audits and Reporting				
10.3.1	Has the Head of Internal Audit defined the need for and the form of any follow-up action?	✓			All audit recommendations are followed up in accordance with the Audit Procedure Manual
10.3.2	Has the Head of Internal Audit established appropriate escalation procedures for internal audit recommendations not implemented by the agreed date?			✓	High-priority recommendations not implemented are reported to the Audit Committee but escalation procedures need to be formalised
10.3.3	Where appropriate, is a revised opinion given following a follow-up audit and reported to management?			✓	A revised opinion is not provided after a follow-up audit principally because implementation dates can be several months after the original audit and other

					factors may have altered
10.3.4	Are the findings of audits and follow-ups used to inform the planning of future audit work?	✓			Audit plan is produced on a risk basis including the findings from previous audit work and follow ups
10.4	Annual Reporting and Presentation of Audit Opinion				
10.4.1	Does the Head of Internal Audit provide an annual report to support the Corporate Governance Statement?	✓			Head Of Internal Audit's Annual Report presented to Audit Committee and taken into account by Governance Group for AGS purposes
10.4.2	Does the Head of Internal Audit's annual report: (a) include an opinion on the overall adequacy and effectiveness of the organisation's control environment? (b) disclose any qualifications to that opinion, together with the reasons for the qualification? (c) present as summary of the audit work from which the opinion was derived, including reliance placed on work by other assurance bodies? (d) draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Corporate Governance Statement? (e) compare the actual work undertaken with the planned work and summarise the performance of the internal audit function against its performance measures and targets? (f) comment on compliance with the standards of the Code? (g) communicate the results of the internal audit quality assurance programme?	✓			Head Of Internal Audit's Annual Report meets all the points
10.4.3	Has the Head of Internal Audit made provision for interim reporting to the organisation during the year?	✓			Head of Internal Audit reports at least twice annually to the Audit Committee
11	Performance, Quality and Effectiveness				
11.1	Principles of Performance, Quality and Effectiveness				
11.1.1	Is there an audit manual?	✓			Audit Performance Manual n place
11.1.2	Does the audit manual provide guidance on: (a) carrying out day-to-day audit work?	✓			Audit Performance Manual includes guidance on carrying out day-to-day audit work

	(b) complying with the Code?		✓		Audit Performance Manual refers to the Code but does not provide guidance on compliance
11.1.3	Is the audit manual reviewed regularly and updated to reflect changes in working practices and standards?		✓		Last reviewed in 2007 – requires some updating to reflect changes in working practices and standards
11.1.4	Does the Head of Internal Audit have arrangements in place to assess the performance and effectiveness of: (a) each individual audit? (b) the internal audit service as a whole?	✓ ✓			File review arrangements and documents Performance indicators, audit standards, effectiveness review
11.2	Quality Assurance of Audit Work				
11.2.1	Does the Head of Internal Audit have a process in place to ensure that work is allocated to auditors who have the appropriate skills, experience and competence?	✓			As far as possible within a small team of auditors, work is allocated according to the skills and experience required and so that there is adequate supervision
11.2.2	Does the Head of Internal Audit have a process in place to ensure that all staff are supervised appropriately throughout all audits?	✓			Ongoing supervision and assistance in place Weekly team meetings used to monitor progress and highlight problems/issues arising Quality review process on each audit performed
11.2.3	Does the supervisory process cover: (a) monitoring progress? ✓ Audit file documents (b) assessing quality of audit work? (c) coaching staff?	✓ ✓ ✓			Weekly team meetings used to monitor progress and highlight problems/issues arising Quality review process on each audit performed Staff appraisals and probation arrangements for newly recruited staff
11.3	Performance and Effectiveness of the Internal Audit Service				
11.3.1	Does the Head of Internal Audit have a performance management and quality assurance programme in place?	✓			Individual audit reports and supporting documentation are reviewed, staff performance appraisals are conducted annually and audit satisfaction surveys are issued with each final audit report. The results are analysed and reported to the Audit Committee

11.3.2	<p>Does the performance management and quality assurance framework include as a minimum:</p> <p>(a) a comprehensive set of targets to measure performance:</p> <p>(i) which are developed in consultation with appropriate parties?</p> <p>(ii) which are included in service level agreements, where appropriate?</p> <p>(iii) against which the Head of Internal Audit measures, monitors and reports appropriately on progress?</p> <p>(b) user feedback obtained for each individual audit and periodically for the whole service?</p> <p>(c) a periodic review of the service against the strategy and the achievement of its aims and objectives, the results of which are used to inform the future strategy?</p> <p>(d) Internal quality reviews to be undertaken periodically to ensure compliance with this Code and the audit manual?</p> <p>(e) an action plan to implement improvements?</p>	✓		✓	<p>Several targets are established</p> <p>No input from clients in developing targets</p> <p>Not applicable at present</p> <p>Measured and monitored by HIA; reported to Audit Committee</p> <p>Audit satisfaction surveys are issued with each final audit report; user feedback for whole unit 2005</p> <p>Strategy reviewed annually to inform strategy for the next year</p> <p>Self-assessment via the checklist reported to Audit Committee</p> <p>Action Plan presented to Audit Committee</p>
11.3.3	Does the Head of Internal Audit compare the performance and the effectiveness of the service over time, in terms of both the achievement of targets and the quality of the service provided to the user?	✓			<p>Annual internal audit report and opinion</p> <p>Comparisons are undertaken with previous years' performances. Any under achievements against measures are investigated</p>
11.3.4	<p>Do the results of the performance management and quality assurance programme evidence that the internal audit service is:</p> <p>(a) meeting its aims and objectives?</p> <p>(b) compliant with the Code?</p> <p>(c) meeting internal quality standards?</p> <p>(d) effective, efficient, continuously improving?</p> <p>(e) adding value and assisting the organisation in achieving its objectives?</p>	✓			<p>Internal audit service is generally achieving the standards listed</p> <p>Compliance with the Code evidenced by external audits review of internal audit</p> <p>Adding value element is evidenced via consultancy projects and investigations undertaken at the request of management and client satisfaction surveys</p>
11.3.5	Does the Head of Internal Audit report on the results of the performance management and quality assurance programme in the annual audit report?	✓			<p>Performance results against a number of indicators are included in the Head of Internal Audit's annual report. An analysis of internal audit customer feedback is also provided</p>
11.3.6	Does the Head of Internal Audit provide evidence from his or her review of the	✓			Report to Audit Committee

	performance and quality of the internal audit service to the organisation for consideration as part of the annual review of the effectiveness of the system of internal audit?				
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REPORT



REPORT OF	MEETING	DATE	ITEM NO
HEAD OF INTERNAL AUDIT	AUDIT COMMITTEE	29/09/09	9

FOLLOW UP REPORTS 2008-09 (UPDATE)

Public Item

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

Summary

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

Recommendations

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

Reasons for recommendation

The report indicates the current situation.

Alternative options considered and rejected

This report is for information and comment only.

Cabinet Portfolio

The item falls within the following Cabinet portfolio:

Finance & Resources (Councillor Roger Small)

Report

Background

1. Internal Audit carries out follow-up reviews to appraise management of post audit actions and to provide assurance that agreed audit recommendations have been implemented. Twenty three (23) follow-up reviews were completed during the financial year 2008/09.
2. The Internal Audit Annual Report for 2008/09 noted that the overall implementation rate had declined from 83% in 2007/08 to 79%. This was in spite of the introduction during the year of the Escendency system, which alerts responsible officer when the implementation date has passed for each agreed recommendation.
3. At its meeting in June 2009 the Audit Committee requested the Head of Internal Audit to provide a further report outlining the number of such recommendations still not in place. This report set out the position at 15 September 2009.

Current Position

4. A total of 35 agreed recommendations were reported as outstanding in the Internal Audit Annual Report. One is no longer applicable following changes in service delivery. Of the remaining 34 a total of 5 have now been implemented.
5. This increases the overall annual rate of implementation from 79% to 81%. The rate of implementation for high and medium recommendations has now increased from the originally reported figure of 75% to 79%.
6. The Table below shows the total number of agreed high & medium recommendations that have now been implemented by managers from follow up reviews in 2008/09:

Table: High & Medium Recommendations Implemented as at 15 September 2009

Audit Area	High Priority		Medium Priority		% Implemented	New Date
	Yes	No	Yes	No		
Vehicle & Plant	-	-	6	2	75%	Sep 09
Cash Collection (Central Cashiers)	-	-	3	-	100%	
Cash Collection (Fylde Direct)	-	-	5	-	100%	
Cash Collection (Remote)	-	-	4	1	80%	
Car Parking	-	-	5	4	56%	
Car Allowances	-	-	6	-	100%	
Payroll	1	-	7	-	100%	
Confidential Waste	-	-	10	-	100%	
Creditors	1	-	4	2	71%	

Sundry Debtors	-	-	5	-	100%	
Interests, Gifts & Hospitality	-	-	7	1	88%	Nov 09
Stores (Bins & Sacks)	-	-	4	3	57%	Sep 09
Stores (CVMU)	1	-	2	7	30%	Sep 09
Stores (Lowther Pavilion)	-	-	3	1	75%	Dec 09
IT Audit (Civica)	-	-	5	3	60%	Dec 09
(former) Streetscene Assurance (CS)	-	-	4	1	80%	
(former) Streetscene Assurance (OS)	1	-	2	1	75%	
Housing/CTax Benefits	-	-	1	-	100%	
Building Security	1	-	7	1	89%	
Mobile Phones	-	-	1	1	50%	Jan 10
Council Tax/Business Rates	-	-	4	-	100%	
Internet Usage	-	-	10	-	100%	
Treasury Management	2	-	-	1	67%	Sep 09
Total	7	0	105	29	79%	

7. For those audits where there is no revised target implementation date, internal audit is either about to hold meetings with the responsible managers or is awaiting feedback following a request for information on progress.

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

Risk Assessment

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

Report Author	Tel	Date	Doc ID
Savile Sykes	(01253) 658413	30/09/09	

List of Background Papers		
Name of document	Date	Where available for inspection
Head of Internal Audit's Annual Report	25/06/09	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

IMPLICATIONS

Finance	The Accounts and Audit Regulations 2003 require the Council to ensure that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.
Legal	No specific implications
Community Safety	No specific implications
Human Rights and Equalities	No specific implications
Sustainability and Environmental Impact	No specific implications
Health & Safety and Risk Management	Internal audit work covers key areas of risk and should therefore strengthen the internal control framework.

REPORT

REPORT OF	MEETING	DATE	ITEM NO
GOVERNANCE AND PARTNERSHIPS DIRECTORATE	AUDIT COMMITTEE	29 SEPT 2009	10

AUDIT COMMITTEE WORK PLAN 2009-10

Public Item

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

Summary

The report presents the proposed work plan for the Audit Committee during 2009-10.

Recommendation

The Committee considers and comments on its proposed work plan for 2009/10.

Reasons for recommendation

A committee work plan will enable internal officers and external auditors to plan their work and for the committee to receive timely reports on Audit matters.

Alternative options considered and rejected

Not to agree a planned programme of work would detract from the efficiency and effectiveness of the work of the Audit Committee.

Cabinet Portfolio

The item falls within the following Cabinet portfolio:
Finance & Resources (Councillor Roger Small)

Report

1. In response to a request by the Chairman of the Audit Committee, a draft proposed audit committee work plan has been produced for 2009-10. This work plan will be updated after each meeting and reported to the following meeting. This will assist members of the committee, officers of the council and our external auditors in planning the work of the committee within realistic timescales and within the resources available.
2. The proposed work programme for the Audit Committee covering the period 2009-10 is appended to this report.
3. The committee is asked to consider and if appropriate add to or amend the work programme before final approval.

Report Author	Tel	Date	Doc ID
Governance and Partnerships Directorate	(01253) 658516	25/06/09	

List of Background Papers		
Name of document	Date	Where available for inspection
None.		

Attached documents

1. Proposed Audit Committee Work Plan 2009-10.

IMPLICATIONS	
Finance	No specific implications
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

Audit Committee Work Plan

Meeting Date	Report	Objective of Report	Responsible Person/Organisation
28 January 2010	Internal Audit Interim Report	Update on internal audit issues 2009/10	Head of Internal Audit, Fylde Borough Council
	Risk Management interim update	To review progress of the risk register 2009 - 2010 action plan	Risk Management and Insurance Officer, Fylde Borough Council
	IT Risk Assessment Action Plan	Review progress against item R5.	IT Manager – Andrew Marriot
	Annual Governance Statement	Update Annual Governance Statement 2008/09	Council's Solicitor
	Audit Committee Work plan	To update the committee work plan	Governance and Partnerships Directorate
April (date to be decided)			

Audit Committee



Date	Thursday 25 th June 2009
Venue	Town Hall, St. Annes
Committee members	Councillor John Singleton (Chairman) Councillor Linda Nulty (Vice Chairman) Councillors Ben Aitken, Fabian Craig-Wilson, Keith Hyde, Elizabeth Oades, Janine Owen
Other Councillors	Brenda Ackers
Officers	Tracy Scholes, Joanna Scott, Andrew Wilsdon, Ian Curtis, Dean Francis, Hazel Wood
Other Attendees	Richard Foster

1. Declarations of interest

Members were reminded that any personal/prejudicial interests should be declared as required by the Council's Code of Conduct adopted in accordance with the Local Government Act 2000.

2. Confirmation of minutes

RESOLVED: To approve the minutes of the Audit Committee meeting held on 30th April 2009 as a correct record for signature by the chairman.

3. Substitute members

The following substitutions were reported under council procedure rule 22.3:
Councillor Brenda Ackers for Councillor Paul Rigby.

4. Audit Plan 2009/10

Richard Foster (KPMG) presented a report on the Audit Plan for 2009/10 where he outlined the proposed fee for the current financial year.

Following discussion the Committee RESOLVED to note the Audit plan for 2009/10.

5. Financial & Planning Management Review

Richard Foster (KPMG) introduced the report on the Financial & Planning Management Review. Richard outlined the five key areas the review specifically considered which are set out below:

- The robustness of arrangements for identifying and delivering a balanced budget for 2008/09 and beyond.
- An assessment of the Council's cash flow position in light of the current financial pressures being faced.

- The links between financial and service planning whilst delivering savings and improved performance outcomes.
- The use of risk management tools and different modeling techniques to help anticipate the impact on both financial and performance targets.
- The adequacy and timeliness of budget information provided to both budget holders and Members to support key decisions.

Joanna Scott, Deputy Section 151 Officer, was also in attendance and reported that the next stage in taking this report forward was to agree with KPMG appropriate actions and translate these into an Action Plan. This Action Plan would then come back before the Audit Committee at its next meeting.

Following discussion the Committee RESOLVED:

1. To note the report.
2. To add a further item into the Work Plan of the Committee for the September meeting to sign off the Action Plan for this piece of work.
3. Councillor Keith Hyde, Chairman of the Performance Improvement Scrutiny Committee, to consider the alignment of his future meeting dates to the issue of budgetary information to make the monitoring of this information more timely.

6. Risk Management Annual Report

Andrew Wilsdon (Insurance and Risk Management Officer) introduced a report which summarised the year end report on the 2008-2009 Risk Register Action Plans, the work undertaken by the Council's Insurance and Risk Management Officer in producing the Strategic Risk Register for 2009 - 2010 and the annual review of the Risk Management Strategy. Andrew informed the committee that the report links principally to the Corporate Objective - "Delivering high quality cost effective services".

Following discussion the Committee RESOLVED:

1. To note the year end report of the progress made on the 2008-2009 Risk Action plans.
2. To note the Strategic Risk Register for 2009-2010.
3. To note the Risk Management Strategy and the committee to review again in January 2010.

7. Internal Audit Annual Report 2008-09

Tracy Scholes (Director of Governance & Partnerships) presented a report which summarised the work undertaken by internal audit from April 2008 to March 2009 and performance information for the same period. It included an opinion on the soundness of the Council's internal control environment.

Following discussion the Committee RESOLVED:

1. To approve the annual report of the Head of Internal Audit.
2. To express disappointment that the overall implementation rate at 79 % represented a drop in previous performance
3. To identify a target date for table six of the report identifying High and Medium recommendations implemented.

8. Effectiveness of the Audit Committee

Tracy Scholes (Director of Governance & Partnerships) introduced the report which presented the findings of a self assessment exercise undertaken by the Chairman and Vice Chairman of the Committee in relation to the effectiveness of the Audit Committee and made recommendations for improvement. The self assessment compared existing

arrangements with those advocated by the Chartered Institute of Public Finance and Accountancy (CIPFA) in their published advice.

Following discussion the Committee RESOLVED:

1. The Committee agreed to the findings of the self assessment of the effectiveness of the Audit Committee against the checklist provided by the CIPFA better governance forum in their publication 'A Toolkit for Local Authority Audit Committees' undertaken by the Chairman and Vice Chairman of the Committee.
2. The Committee recommended that the Council adopt the Statement of Purpose and Terms of Reference based on the full CIPFA model as set out in Appendix D of the report, incorporating amendments to reflect both the increased responsibilities already accorded to the Audit Committee and the Standards Committee's role in monitoring the members' Code of Conduct.
3. The Committee are to adopt the Training Programme set out in the report as the basis for enhancing the skills and experience of Audit Committee members.
4. The Committee resolved that all agenda papers are to be submitted sufficiently early to allow members reasonable time for preparation.
5. The Committee requires the Section 151 Officer or deputy to attend Audit Committee on a regular basis and at all times when financial or accounting business is to be considered, or where the need for advice on such matters may reasonably be anticipated.

9. Annual Governance Statement

Ian Curtis (Head of Legal Services) introduced a report on the Annual Governance Statement prepared under the CIPFA/SOLACE framework the local code of corporate governance for approval.

RESOLVED:

1. To approve the Annual Governance Statement for signature by the chairman and review the plan at the September meeting of the Audit committee.
2. To bring forward a report to the September Committee outlining the actions to be taken during the course of the year to mitigate against the significant governance issues identified within the report

10. Audit Committee Work Plan 2009-10

Tracy Scholes (Director of Governance & Partnerships) gave an overview of the proposed work plan for the Audit Committee during 2009-10.

Councillor Oades expressed concern in relation to the financial circumstances experienced by the Streetscene Business Unit during 2007/08 which was referred to at the last meeting of the Audit committee and requested that an item be added to the Work Plan to provide an explanation to the committee. Tracy Scholes reported that she believed that this would be beyond the remit of the Audit Committee and the Chairman endorsed this view.

In reaching the decision set out below, Councillor Oades moved and seconded by Councillor Aitken and RESOLVED:

1. That whilst the Committee recognised that the reasons relating to the financial circumstances experienced by the former Streetscene Department may fall out of the bounds of the remit of the Audit Committee, the Committee recommended that either it or the most appropriate committee be provided with a copy of the report prepared by the Chief Executive in relation to this matter in order that an explanation could be provided in the interests of transparency.

2. To approve the proposed work plan for 2009/10 with the addition of two items added during the course of this meeting for the September cycle.

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Audit Committee



Date	Tuesday, 30 th June 2009
Venue	Town Hall, St. Annes
Committee members	Councillor John Singleton (Chairman) Councillor Linda Nulty (Vice-Chairman) Councillors Christine Akeroyd, Ben Aitken, Fabian Craig-Wilson, Keith Hyde, Elizabeth Oades, Janine Owen, Louis Rigby
Other Councillors	none
Officers	Bernard Hayes, Lyndsey Lacey
Other Attendees	none

1. Declarations of interest

Members were reminded that any personal/prejudicial interests should be declared as required by the Council's Code of Conduct adopted in accordance with the Local Government Act 2000.

2. Substitute members

The following substitution was reported under council procedure rule 22.3:

Councillor Christine Akeroyd for the Mayor, Councillor Paul Rigby.

3. Medium Term Financial Strategy - Outturn 2008/09 (including General Fund, Capital Programme & Treasury Management)

Bernard Hayes (Finance Director) presented a comprehensive report to committee on the General Fund Outturn (including Revenue, Capital and Treasury Management) for 2008/09. The report explained major variations between the latest approved Budget and Actual Expenditure and quantified the impact on the Council's reserves.

Members were advised that the Medium Term Financial Strategy was presented to Cabinet on 29 June and subsequently approved.

Mr Hayes reminded the committee that in line with the Accounts and Audit Regulations 2003, the Council is required to approve the Statement of Accounts by 30th June each year. The Audit Committee has delegated powers to approve the Statement of Accounts.

The General Fund Expenditure and Income Account comparing Actual Expenditure against Latest Approved Estimate by service together with a detailed list of major

variances within services which contributed to the outturn position were set out in appendices to the report.

Mr Hayes stated that work was currently being undertaken to verify whether the budget variances reported were 'one off' or recurring items. He added that the outcome of this work would be reflected in future revenue budget forecasts.

Mr Hayes further reported that included in the outturn position was the impact of capitalisation.

Councillor Nulty made reference to paragraph 5.4 of the report relating to the costs associated with planning appeals and enquired if it was likely that the council would include a specific budget for this in the future. Mr Hayes acknowledged that planning appeal costs were not inconsiderable sums and whilst the council could opt for setting aside a budget for this, the Council's currently policy was to use General fund reserves for such purposes given the unpredictability of appeals.

Councillor Oades stressed the importance of budgeting for planning appeals. She added that the absence of a suitable budget would undermine the planning appeal process and the work of the committee on such matters. She also enquired about the £1m short term borrowing as detailed in paragraph 12.4 of the report. Mr Hayes responded to these points.

Councillor Oades and Councillor Rigby commented on the shortfall in budgeted fee income and the associated competition from approved inspectors in relation to Building Control. Mr Hayes stated that the Audit Committee could ask the Performance and Improvement Scrutiny Committee to undertake a further review on the performance and operation of the building control section.

Councillor Nulty asked about the Council's contribution to Lowther Trust and the likelihood of it being budgeted for in the future. Mr Hayes indicated that the Council would need to look at variances to determine whether the shortfall in income was a 'one off' or a recurring item.

The Chairman enquired when it would be likely that the International Financial Reporting Standards Code (IFRS) would be in place. Mr Hayes stated that the plan should be in place by January / February next year.

Following detailed consideration the Committee noted the report.

4. Annual Statement of Accounts 2008/09

Bernard Hayes (Finance Director) presented a report on the Council's Annual Statement of Accounts. A copy of the Statement of Accounts had previously been circulated.

Members were reminded that the Council prepared its Annual Accounts and supporting financial statements in accordance with applicable laws and regulations and in line with the Statement of Recommended Practice (SORP) on Local Authority accounting in the UK.

The Chairman commenced the debate by thanking Mr Hayes and his team for their hard work in completing the accounts in a timely manner.

Councillor Aiken enquired about the Council's proposal to build up reserves. More specifically, he asked whether there it was likely that there would be an increase in the minimum level of balances of £750,000. Mr Hayes indicated that this was a moving target in the current climate and was under constant review.

Councillor Oades commented on paragraph A7 of the document relating to Government Grants and in particular, the Local Authority Business Growth Incentive Scheme and Area Based Grants. Mr Hayes provided an update on these two areas.

Councillor Oades also enquired about A8 relating to the Refuse collection contract and whether the council had taken account of the additional costs of purchasing extra bins for Wyre.

Councillor Oades also made reference to the appointments to the Clifton Lytham Housing and the associated cost implications.

Councillor Nulty enquired about the costs associated with Fylde Tourism (A4 refers) sought additional information on A8 (Goods and Services) and B22 (Section 106 agreements) and (Housing stock Transfers). Mr Hayes addressed these points.

Following discussion the Committee RESOLVED to approve the Statement of Accounts for 2008/09.

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