

Agenda



AUDIT AND STANDARDS COMMITTEE

Date:	Thursday, 19 January 2017 at 6:30 pm
Venue:	Town Hall, St Annes, FY8 1LW
Committee members:	<p>Councillor John Singleton JP (Chairman) Councillor David Donaldson (Vice-Chairman)</p> <p>Councillors Delma Collins, Peter Collins, Paul Hayhurst, Roger Lloyd, Edward Nash, Graeme Neale, Roger Small.</p>

	PROCEDURAL ITEMS:	PAGE
1	Declarations of Interest: Declarations of interest, and the responsibility for declaring the same, are matters for elected members. Members are able to obtain advice, in writing, in advance of meetings. This should only be sought via the Council's Monitoring Officer. However, it should be noted that no advice on interests sought less than one working day prior to any meeting will be provided.	1
2	Confirmation of Minutes: To confirm the minutes, as previously circulated, of the meeting held on 17 November 2016 as a correct record.	
3	Substitute Members: Details of any substitute members notified in accordance with council procedure rule 24(c).	1
	AUDIT DECISION ITEMS	
4	Governance Review	3 - 13
5	Effectiveness of the Audit and Standards Committee - Terms of Reference	14 - 19
6	KPMG Certification of Claims and Returns – Annual Report 2015/16	20 - 24
7	Appointment of External Auditors from 2018/19 Financial Year - Update	25 - 48
	AUDIT INFORMATION ITEMS	
8	Internal Audit Interim Report 2016/17	49 - 57
9	Strategic Risk Register Update	58 - 67
10	Regulation of Investigatory Powers Act 2000: Authorisations	68 - 69

Contact: Katharine McDonnell - Telephone: (01253) 658423 – Email: democracy@fylde.gov.uk

The code of conduct for members can be found in the council's constitution at
<http://fylde.cmis.uk.com/fylde/DocumentsandInformation/PublicDocumentsandInformation.aspx>

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DECISION ITEM

REPORT OF		MEETING	DATE	ITEM NO
MONITORING OFFICER	AUDIT AND STANDARDS COMMITTEE		19 JANUARY 2017	4
GOVERNANCE REVIEW				

PUBLIC ITEM

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

SUMMARY

The Council changed governance systems in May 2015, following a public referendum in 2014, from a leader and cabinet to a committee system. Throughout the transition process discussions were held with a cross party Governance Working Group that had been established to frame the new governance system, and at each stage, the outcome of the Governance Working Group's work was put before Council. The cross party Governance Working Group recommended that the new governance arrangements are reviewed after the first year of operation.

The review was started early in 2016 after three cycles of meetings with views and feedback from councillors and officers regarding the operation of the current arrangements.

During May 2016, a Peer Review Challenge which was undertaken at Fylde by a team of local government professionals, both members and officers, on behalf of the Local Government Association. The new governance arrangements were examined as part of the Peer Challenge and it was recommended that the governance review should draw upon best practice from other local authorities who have made similar governance changes.

It was proposed that the council could engage the Institute of Local Government Studies at Birmingham University, the leading experts in governance. John Cade from the University had been involved in working with a number of Councils (including Great Yarmouth, Norfolk, Cambridgeshire and Peterborough) that have changed to committee governance arrangements. The Audit and Standards Committee in July 2016 recommended that Mr Cade was engaged to review the new arrangements through interviews with officers and members, to gauge opinion, draw on best practice elsewhere and present a short report for consideration. The work was carried out in September 2016 and the report is included as Appendix 2.

A schedule is contained in this report, which outlines recommendations on constitutional changes based on the findings from the review and other matters that seek direction from members.

Members are reminded, it is the remit of this committee to review constitutional arrangements, and to make any recommendations to Full Council which is responsible for authorising any changes to the constitution.

RECOMMENDATIONS

1. That any recommendations agreed by the committee with respect to amendments to the governance system be presented to Full Council for consideration.

SUMMARY OF PREVIOUS DECISIONS

The Council's governance system changed in May 2015. The new constitution, to reflect these changes was approved by Council in April 2015.

Feedback and initial recommendations from the cross party Governance Working Group was approved by Council in December 2014.

In July 2016, the Audit and Standards Committee resolved to invite John Cade from the Institute of Local Government Studies, University of Birmingham, to engage further with members and officers regarding the new governance arrangements and present a summary of his findings and any recommendations to this Committee for consideration. At this time, it was agreed that suggested changes from the council's own internal review would be considered in parallel with the report from the University of Birmingham.

CORPORATE PRIORITIES

Spending your money in the most efficient way to achieve excellent services (Value for Money)	√
Delivering the services that customers expect of an excellent council (Clean and Green)	
Working with all partners (Vibrant Economy)	
To make sure Fylde continues to be one of the most desirable places to live (A Great Place to Live)	
Promoting Fylde as a great destination to visit (A Great Place to Visit)	

REPORT

1. In accordance with an undertaking to review the new governance arrangements recommended by the cross party Governance Working Group, a survey was sent to councillors and a request for feedback and comments was sent out to officers in January 2016. A period of several weeks was allowed for comments and feedback with a paper version of the survey circulated at the Full Council meeting as well as links to the online version. Members and senior officers also had the opportunity to provide open comment and feedback on any aspect of the governance arrangements. The online consultation was available at www.fylde.gov.uk to allow comment from any stakeholders.
2. The feedback has generated a number of practical suggestions which are attached in a summary document as Appendix 1 to this report. Whilst the governance review feedback was being analysed, the Local Government Association, through the Peer Review Challenge in May 2016, suggested that the review would benefit from national best practice and the experience of other local authorities that have made a similar change of governance. The proposal provided the opportunity for an external professional perspective on the arrangements in place at Fylde as well as allowing comparison with other authorities that had made the same transition from cabinet to committee arrangements.
3. The council subsequently engaged John Cade from the Institute of Local Government Studies at Birmingham University ("INLOGOV") which is the leading UK centre for the study of local public service management, policy and governance, and has worked within local government and the public sector for over 40 years. The objective of INLOGOV is to increase the democratic

governance of local communities, working with politicians, managers, communities and partner organisations to enhance practice through academic insight¹.

4. John Cade, is an honorary lecturer in public sector governance at INLOGOV with extensive experience as a local government officer. He has worked with a number of Councils (including Great Yarmouth, Norfolk, Cambridgeshire and Peterborough) to support the same transition from cabinet to committee governance arrangements and delivers seminars on governance best practice. Mr Cade visited the council at the beginning of September 2016 engaging with 21 councillors and interviewing the management team.
5. Mr Cade focused on considering governance arrangements that are both best practice but also appropriate to the culture and appetite of the local authority, firmly understanding that any recommendations must be appropriate to the current ambition of the council. The report is included as Appendix 2, together with recommendations on four matters in particular that members should consider whether or not to recommend to Full Council for approval.

Finance	No direct implications
Legal	The Council can make adjustments governance arrangements but it must retain a committee system until at least 2025. In implementing a committee system, it is within the gift of the Council to establish arrangements as it considers appropriate.
Community Safety	No direct implications
Human Rights and Equalities	No direct implications
Sustainability and Environmental Impact	No direct implications
Health & Safety and Risk Management	Increasing the number of committees and/or the number of meetings would present a risk to the Council in having the appropriate resources to facilitate such a change in governance.

Tracy Morrison	01253 658521	5 January 2017	

Name of document	Date	Where available for inspection
Document name		Council office or web address

Attached documents

Appendix 1: Comments with commentary from the Monitoring Officer

Appendix 2: Governance review report from John Cade

¹ INLOGOV website at www.birmingham.ac.uk/schools/government-society/departments/local-government-studies/about/index.aspx

Appendix 1

Comment/suggestion(s)	Breakdown of comments	Comment from Monitoring Officer	Recommendation
Constitution is silent on which committee is responsible for land charges and building control, suggest that it should be added to Operational Management committee's remit.	The constitution needs to be clear which committee has responsibility for this council function.	Add the following wording to the constitution under the remit of the Operational Management Committee; "Considering reports, reviewing and formulating where necessary policies relating to building control and land charges".	Recommend that this is proposed to Council for approval
There should not be a need for a drawdown report where funds for a specific project are already in the Council's approved capital programme.	There is currently a requirement for a drawdown report to be taken to the relevant committee prior to a project starting despite the project being in the Council's approved capital programme.	The current practice can cause delays to the start of projects as officers are required to wait for committee approval.	To avoid delays, the removal of the requirement for a drawdown report to be taken to committee prior to spending. This would apply only for previously approved capital schemes up to the value of £100k. A subsequent report setting out how the money was spent would be reported to the relevant committee. Drawdown reports for more complex and costly schemes, over £100k in value, would still require the sign-off of elected members through the appropriate committee prior to the scheme commencing.
There were a number of respondents who offered comments regarding public speaking seeking review of public speaking, commenting on confusion regarding pre-registering, the need to tighten the	To draw all public speaking rules together in one place in the Constitution. To make the rules/guidelines clearer for the public. To tighten the scope	The public speaking rules would benefit from a redraft and consistency across all committees. The issues of whether or not pre-registration should be applied; the	The Audit and Standards Committee should review public speaking arrangements at meetings of the council and the committees making

scope for public platform, and the need to draw all public speaking together in the constitution.	of public platform to just items on the agenda.	number of speakers; the time allowed per speaker; and whether speakers can only address items on the current agenda, should be considered.	recommendations to Full Council on any changes they feel would benefit the democratic process and reduce confusion.
The INLOGOV report identified that one of the council's committees could fulfil a more corporate and pivotal role, and in essence the Finance & Democracy committee is doing so.	Members have previously had reservations about a committee that could be viewed as an executive, in line with best practice it is important to give consideration to have a committee that provides overall direction on policy and resource issues, this can prevent a 'silo' approach developing between committees with none responsible for the wider corporate picture. The Finance and Democracy Committee currently deals with a number of corporate policy matters including the budget, with its terms of reference amended it could be a corporate policy committee. Best practice would have the Chairs of the respective Programme Committees on this committee, which could require a re-calculation to retain the required political balance.	Members are requested to consider the feedback and recommend a course of action on this matter.	That the views of members are sought on recommending to the council that the membership of the Finance and Democracy Committee be expanded to allow a wider membership and its terms of reference be amended to reflect that it holds responsibility for considering and scrutinising reports relating to overall service performance and revenue and capital budget monitoring as opposed to the other programme committees.
The INLOGOV report noted that planning is an extremely sensitive and important area.	Whilst appreciating the workload of the Finance and Democracy	The view has been that the Development Management Committee have a full	To seek the views of members on this matter and if any changes are proposed

	Committee would increase, issues related to the planning policy framework and local plans should be a part of the remit of a committee with a corporate remit	understanding of planning issues and are best placed to develop policy, this results in the Committee being dual purpose, in having a regulatory remit in determining local planning matters, and also fulfilling a programme committee remit in reviewing and developing policy which can lead to confusion.	that they are applied after the approval of the current Local Plan.
The INLOGOV report recommended that the name of the Development Management Committee be changed to the Planning Committee.	This would more adequately reflect the mix of agenda items the DM Committee considers.	To support this suggestion	To change the name of Development Management Committee to Planning Committee
The INLOGOV report recommended that there should be provision for urgent decisions to be taken	It is best practice in committee arrangements for there to be provision within the Constitution for an officer(s) to take urgent decisions in consultation with the Chairman of a Committee or any other named member. The decision would then be reported the next meeting of the relevant committee for information.	Whilst decisions of this matter rarely arise, there is a need to be fleet of foot in such matters. To organise a special meeting causes undue delays where a matter is urgent and it is sensible to have this in-built flexibility in the Constitution to call upon if required. Under a committee system, delegations of this nature must be given to a named officer(s) as members do not have the ability to make individual decisions. However, this would normally be a decision taken in consultation with the leading member/members.	To give the Chief Executive, and Directors in his absence, the power to make urgent decisions in consultation with the relevant committee chairman, with the circumstances to be reported to the next available meeting of the relevant committee.

Fylde Council

Stocktake on Committee Governance Arrangements

Commentary by John Cade, Institute of Local Government Studies,
University of Birmingham

1. Background

- 1.1 Following your recent voluntary Peer Group Review I was asked to take a strategic view on the operation of your Committee arrangements.
- 1.2 In agreeing to undertake this review I asked that every Member of the Council should have the opportunity to express their views to me. I met with 21 Councillors in the course of meetings over the evening of 1st September and all-day on the 2nd September 2016. I also had two telephone conversations with Councillors who were not around during those days.
- 1.3 I also met with your Chief Executive and his Management Team.

2. Context

- 2.1 Both Members and Officers said to me that whilst the transition from Executive to Committee Governance arrangements had not been without some tensions the “wheels had not come off” and a working system was in place.
- 2.2 I would first of all want to endorse this and say that this comment does not do justice to the work which has clearly gone into providing efficacious Committee arrangements.
- 2.3 It is inevitable, however, that everything will not slot automatically into place straight away and I would like to make four suggestions for your consideration.

3. Four Considerations

3.1 Relationship between Finance and Democracy Committee and your three other Programme Committees

- 3.1.1 Whilst the Council meeting will ultimately agree your policy framework and budget a Committee needs to oversee its preparation and to “hold the corporate ring”.
- 3.1.2 Prior to the Local Government Act 2000 which introduced Executive arrangements and when Committee structures were universal, practically all Councils would have a Committee called something like a Policy and Resources Committee to ensure a corporate approach to policy and budget making.
- 3.1.3 Understandably, Councils who, since the Localism Act 2011, have reintroduced Committee arrangements have hesitated about setting up a Policy and Resources Committee, fearing that this would act and be viewed as Cabinet by another name. But in practice they all have a Committee - the name is less important - that carries out the role of ensuring that a silo approach does not develop with each Committee committed to its own interests but not always seeing the corporate perspective.
- 3.1.4 From comments made to me it is clear that the Finance and Democracy Committee is taking on this role and is more a Strategic than Programme Committee. But there are different perceptions about how it is going about this. Some Members, for example, thought it was taking practically all finance decisions, leaving the other Programme Committees to be “just talking shops”.
- 3.1.5 I believe the Finance and Democracy Committee should be recognised as the overarching Strategic Committee of the Council, including in its membership the other

Committee Chairmen to ensure that all aspects of the Council's work are represented.

3.1.6 At the same time it is essential to underline that the three Programme Committees can take their own decisions on areas within their terms of reference for which they have budget provision. Only if they are making proposals outwith their budget does the matter need to be taken to the Finance and Democracy Committee.

3.2 Development Management Committee

3.2.1 A number of Councillors expressed the view that there was confusion both about the title of this Committee and its role.

3.2.2 I can understand this confusion and also agree that in this very sensitive area of planning there could be worries about potential conflicts of interest.

3.2.3 To resolve this I would suggest that you put the operational decisions into a Planning Committee – a well understood title – and take the policy matters into the Finance and Democracy Committee.

3.2.4 I appreciate that this will increase the workload of the Finance and Democracy Committee but the issues around the Planning framework and Local Plans are so important to a Council like Fylde that they need this corporate attention.

3.3 Urgency Provisions

3.3.1 Whereas under Executive arrangements individual Cabinet Members can take decisions themselves; in a Committee system it is only the whole Committee which can take a decision. Committee Chairmen do not have individual decision making powers.

- 3.3.2 The issue then arises of what arrangements are in place if a decision needs to be taken before the next Committee meeting.
- 3.3.3 The only two options are to summon a Special Committee meeting or arrange for its delegation.
- 3.3.4 The norm is for urgent decisions to be delegated to an Officer(s) who takes the decision in consultation with the Chairman of the Committee and any other named Member. The decision is then reported to the next meeting of the relevant Committee explaining the reason for urgency.
- 3.3.5 Councils in the past have got themselves in difficulty by still believing that Committee Chairmen can take decisions and matters have been taken to them for a decision. It is really important that both Members and Officers are clear on how urgent matters are to be dealt with.
- 3.3.6 I know you may not anticipate many urgent decisions needing to be taken but I would suggest you consider giving delegated power to your Chief Executive for him to take genuine urgent decisions in consultation with the relevant Committee Chairman.

3.4 Working Groups

- 3.4.1 As I have found with other Councils, cross party Working Groups (or Task and Finish Groups) are seen by Members as very effective ways of addressing particular issues.
- 3.4.2 The role of cross party Working Groups was raised with me by Members across all Political Groups and these should be used where necessary.

3.4.3 Cross party Working Groups established by a Council Committee and serviced by Council Officers provide the opportunity for:

- (i) Members to be made aware of the challenges and able to make suggestions for dealing with them.
- (ii) Developing Member to Member and Member to Officer working relationships.
- (iii) More openness and transparency and with the absence of a Scrutiny Committee to demonstrate inclusivity.

4. In Sum

- 4.1 You have successfully made the transition from Executive to Committee governance.
- 4.2 I am grateful for your ready engagement with me on how you feel things are taking shape.
- 4.3 In the light of these comments I make the above four suggestions which I would be happy to discuss further with you.

DECISION ITEM



REPORT OF	MEETING	DATE	ITEM NO
INTERNAL AUDIT	AUDIT AND STANDARDS COMMITTEE	19 JANUARY 2017	5
EFFECTIVENESS OF THE AUDIT AND STANDARDS COMMITTEE - TERMS OF REFERENCE			

PUBLIC ITEM

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

SUMMARY

Following an initial report presented on 22 September 2016, in relation to the effectiveness of the Audit and Standards Committee, this report sets out proposed amendments to the committee's terms of reference to more closely reflect best practice guidance advocated by the Chartered Institute of Public Finance and Accountancy (CIPFA) in their published advice. This amendment forms part of the improvement action plan adopted by the Committee.

RECOMMENDATIONS

1. The Committee endorses the proposed terms of reference of the Audit and Standards Committee.
2. The Committee requests the Council to adopt the revised terms of reference as soon as practicable.

SUMMARY OF PREVIOUS DECISIONS

The review of the Committee's effectiveness was considered at its meeting on 22 September 2016 when an improvement action plan was adopted.

CORPORATE PRIORITIES	
Spending your money in the most efficient way to achieve excellent services (Value for Money)	√
Delivering the services that customers expect of an excellent council (Clean and Green)	√
Working with all partners (Vibrant Economy)	
To make sure Fylde continues to be one of the most desirable places to live (A Great Place to Live)	
Promoting Fylde as a great destination to visit (A Great Place to Visit)	

REPORT

1. In September 2016 the Audit and Standards Committee considered a report on its effectiveness compared to best practice guidance set out by CIPFA in its publication 'Audit Committees: Practical Guidance for Local Authorities and Police'. The guidance incorporates an effectiveness self-assessment checklist to permit benchmarking against good practice.
2. Evidence of effectiveness comprises influence, persuasion and support for improvement in various key areas. In addition, the committee itself must be properly constituted, with a knowledgeable and experienced membership, and proper authority in relation to all the core areas identified by CIPFA's guidance:
 - good governance
 - assurance framework
 - internal audit
 - external audit
 - financial reporting
 - risk management
 - value for money
 - counter-fraud and corruption
3. The Chair and Vice Chair of the Audit and Standards Committee carried out the self-assessment review against the checklist, supported by the Head of Internal Audit. The review related solely to the audit element of the committee's mandate.
4. The Improvement Plan raised two issues in relation to the committee's terms of reference:
 - The present terms of reference do not fully set out the purpose of an Audit Committee as documented in CIPFA's Position Statement
 - Although the current terms of reference do mention the core areas identified in CIPFA'S Position Statement, they are not always in the same context or to the same extent as the suggested core functions in the CIPFA guidance
5. The action agreed by the committee in relation to both observations above was to compare the existing terms of reference to the core areas as identified in CIPFA's guidance. Any enhancements or changes suggested would be referred to the Council for addition into the terms of reference as required.
6. In addition, the committee agreed that responsibility for and means of providing assurance on risk management to the Council and the public needed to be properly re-established and made clear in the revised terms of reference.
7. The following additions to the proposed terms of reference have been made:
 - Section 1 - new section that explains the committee's overall remit in terms of the audit element of the committee's mandate
 - Paragraph 2.7 - extends and defines the committee's role in relation to internal audit
 - Paragraph 2.4/5 - states the committee's role in relation to risk management
 - Paragraph 2.6 - new phrase added concerning governance and corporate objectives
 - Paragraph 2.8 - establishes the committee's right to consider reports from external audit and other inspection agencies
 - Paragraph 2.9 - refers to monitoring arrangements for fraud and value for money
 - Paragraphs 2.11 - relates to matters referred by other committees or by statutory officers

- Paragraphs 2.13 - sets out the treasury management role of the committee
- Section 3.2 - establishes the committee's right to consider the external auditor's opinion to those charged with governance
- Paragraph 4.2 - refers to the promotion of ethical values and arrangements to achieve them
- Paragraph 5.3 - establishes the right of the committee to report to other committees and corporate groups
- Paragraphs 5.4 - gives an undertaking to review committee performance annually

8. Some minor adjustments to phrasing and removal of duplicated sentences or words have also been made but these make no significant difference to the meaning or substance.
9. The proposed terms of reference for the audit element of the committee's mandate, which reflects best practice as described above, is attached as an Appendix to this report. New wording is highlighted.

IMPLICATIONS	
Finance	The proposed changes to the terms of reference of the Audit and Standards Committee will enhance good governance and probity. There are no financial implications arising from this report.
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	In completing this review the Council seeks compliance with best practice in demonstrating the effectiveness of the Audit and Standards Committee, which is a key component in the consideration of the system of internal control and risk

LEAD AUTHOR	TEL	DATE	DOC ID
Savile Sykes	01253 658413	19 January 2017	

LIST OF BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
Effectiveness of the Audit Committee 2016	September 2016	S:\Internal Audit\Effectiveness of the Audit & Standards Committee - 0916.doc
Audit and Standards Committee Improvement Plan 2016		S:\Internal Audit\Audit & Standards Improvement Plan.doc

Attached documents

1. Proposed Terms of Reference for the Audit and Standards Committee (audit element)

APPENDIX

AUDIT AND STANDARDS COMMITTEE

1. Function and Purpose

(i) The function of the Audit and Standards Committee is to provide an independent and high-level resource to support good governance and strong public financial management.

(ii) The purpose of the committee in relation to audit is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. By overseeing internal and external audit it also makes an important contribution to ensuring that effective assurance arrangements are in place.

(iii) The purpose of the committee in relation to standards is to promote and maintain the highest ethical standards and conduct by councillors. The committee is responsible for operating a locally based system for initial assessment of complaints that a member may have breached the Code of Conduct.

2. Audit Activity

(i) Considering the Chief Internal Auditor's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the authority's corporate governance arrangements.

(ii) Receiving other reports from the Chief Internal Auditor who may report directly to the Chairman of the Committee if deemed necessary.

(iii) Approving (but not directing) internal audit's strategy, plan and performance.

(iv) Considering summaries of specific internal audit reports as requested.

(v) Considering reports dealing with the management and performance of internal audit.

(vi) Considering reports from the Chief Internal Auditor on agreed recommendations not implemented within a reasonable timescale.

(vii) In relation to the authority's internal audit function:

- **overseeing its independence, objectivity, performance and professionalism**
- **supporting the effectiveness of the internal audit process**
- **promoting the effective use of internal audit within the assurance framework.**

(viii) Considering the external auditor's annual letter, relevant reports and the report to those charged with governance.

(ix) Considering specific reports as agreed with the external auditor.

(x) Receiving other reports from the external auditor who may report directly to the Chairman of the Committee if deemed necessary.

(xi) Commenting on the scope and depth of external audit work and ensuring it gives value for money.

(xii) Under current legislation appointing the council's external auditor.

(xiii) Commissioning work from internal and external audit.

(xiv) Supporting effective relationships between external and internal audit, inspection agencies

and relevant bodies, and that the value of the audit process is actively promoted.

(xv) Meeting the external auditor and Chief Internal Auditor in private if deemed necessary.

3. Regulatory framework

(i) Maintaining an overview of the council's constitution in particular the Contracts Procedure Rules, Financial Regulations and Codes of Conduct.

(ii) Advising the Council on changes to the Constitution.

(iii) Reviewing any issue referred to it by the Chief Executive or a Director, or any council body.

(iv) Considering the effectiveness of the authority's risk management arrangements and the control environment.

(v) Reviewing the risk profile of the authority and assurances that action is being taken on risk-related issues, including partnerships with other organisations.

(vi) Ensuring that the authority's assurance statements, in particular the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it **and demonstrate how governance supports the achievements of the authority's objectives.**

(vii) Overseeing the council's arrangements for corporate governance and agreeing necessary action to ensure compliance with best practice.

(viii) Considering the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or internal control.

(ix) Monitoring arrangements for ensuring value for money and for managing the authority's exposure to the risks of fraud and corruption.

(x) Monitoring council policies on Whistleblowing and the Anti-Fraud and Corruption Policy and Strategy and the council's complaints process.

(xi) Considering governance, risk or control matters at the request of other committees or statutory officers.

(xii) Considering the council's compliance with its own and other published standards and controls

(xiii) Reviewing and monitoring treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice.

3. Accounts

(i) Reviewing and approving the Annual Statement of Accounts. Specifically, considering whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

(ii) Considering the external auditor's opinion to those charged with governance on the financial statements and reports to members, and monitoring management action in response to the issues raised by external audit.

4. Standards

(i) To assist the Council in fulfilling its duty under the Localism Act 2011 to promote and maintain high standards of conduct by members.

(ii) To support ethical values and review the arrangements to achieve those values.

(iii) To monitor and advise the Council about the adoption, revision and operation of its Code of Conduct in the light of best practice and any changes in the law.

(iv) To keep under review the arrangements for dealing with allegations that a member of the Council or a member of a town or parish council within the Council's district has failed to comply with the relevant Code of Conduct.

(v) To determine whether a member for the Council or a member of a town or parish council within its district has failed to comply with the relevant Code of Conduct.

(vi) Where it finds that a failure to comply with the Code of Conduct has occurred, to determine what action, if any, to take.

(vii) To assist the Council with the appointment of an Independent Person(s) as required by the Localism Act 2011.

(viii) To determine any request for a dispensation under Section 33 of the Localism Act 2011.

(ix) To advise the Council on, and review as necessary, any local Protocols regulating the conduct of Members and to deal with allegations of breach of any such Protocol.

(x) To consider reports referred by the Monitoring Officer.

(xi) To respond on behalf of the Council to national reviews and consultations on standards related issues.

(xii) To consider and make recommendations to the Council on any other matter that may be referred to the Committee relating to the conduct of members within the authority.

5. Arrangements

The Committee will:

(i) meet a minimum of four times each year, (timetable to be agreed)

(ii) have the authority to request the attendance of any elected Member or Officer of the Authority

(iii) have the right to report to all other committees, corporate risk groups and other strategic groups

(iv) consider and assess the performance of the committee annually

DECISION ITEM



REPORT OF	MEETING	DATE	ITEM NO
RESOURCES DIRECTORATE	AUDIT AND STANDARDS COMMITTEE	19 JANUARY 2017	6
KPMG CERTIFICATION OF CLAIMS AND RETURNS – ANNUAL REPORT 2015/16			

PUBLIC ITEM

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

SUMMARY

The report presents the Certification of Claims and Returns - annual report for 2015/16 from KPMG. The report will be presented by KPMG.

RECOMMENDATIONS

1. The Committee is recommended to note the contents of the 'Certification of Claims and Returns - annual report for 2015/16' from KPMG which is attached to this covering report.

SUMMARY OF PREVIOUS DECISIONS

This item is considered each year by the Audit and Standards Committee in respect of the previous financial years grant claims.

CORPORATE PRIORITIES	
Spending your money in the most efficient way to achieve excellent services (Value for Money)	√
Delivering the services that customers expect of an excellent council (Clean and Green)	
Working with all partners (Vibrant Economy)	
To make sure Fylde continues to be one of the most desirable places to live (A Great Place to Live)	
Promoting Fylde as a great destination to visit (A Great Place to Visit)	

REPORT

1. The attached report has been prepared by the Council's external auditors, KPMG. It summarises the results of work carried out by KPMG on the certification of the Council's grant claims and returns relating to 2015/16.

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

LEAD AUTHOR	TEL	DATE	DOC ID
Paul O'Donoghue Chief Financial Officer	01253 658566	January 2017	

LIST OF BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
none		

Attached documents

1. Report of KPMG - Certification of Claims and Returns - annual report for 2015/16



KPMG LLP
Audit
 1 St Peter's Square
 Manchester M2 3AE
 United Kingdom

Tel +44 (0) 161 246 4000
 Fax +44 (0) 161 246 4040

Private & confidential

Paul O'Donoghue
 Chief Financial Officer
 Fylde Borough Council
 The Town Hall
 St Annes Road West
 Lytham St Annes
 FY8 1LW

Our ref Let-CP/2017/FBC/Grts

Contact Christopher Paisley
 0161 246 4934

10 January 2017

Dear Paul

Fylde Borough Council - Certification of claims and returns - annual report 2015/16

Public Sector Audit Appointments requires its external auditors to prepare an annual report on the claims and returns certified for each audited body. This letter is our annual report for the certification work we have undertaken for 2015/16.

In 2015/16 we carried out certification work on only one claim/return, the Housing Benefit Subsidy claim. The certified value of the claim was £19.860 million, and we completed our work and certified the claim on 29 November 2016.

Matters arising

Our certification work on Housing Subsidy Benefit claim included:

- agreeing standard rates, such as for allowances and benefit incomes, to the DWP Circular communicating the value of each rate for the year;
- sample testing of benefit claims to confirm that the entitlement had been correctly calculated and was supported by appropriate evidence;
- undertaking an analytical review of the claim form considering year-on-year variances and key ratios;
- confirming that the subsidy claim had been prepared using the correct benefits system version; and
- completing testing in relation to modified schemes payments, uncashed cheques and verifying the accurate completion of the claim form.



Our work identified one issue, which resulted in a qualification to our certification of this claim. Testing of a sample of cases drawn from the Rent Allowances population identified one case where the Authority had calculated claimant earnings incorrectly, based on the prime documents available, resulting in an overpayment of benefit to the claimant. The effect of this error was to overstate cell 102 of the claim form (Total expenditure related to cases not requiring referral to the rent officer) by a total of £12, with a corresponding understatement of cell 113 (LA error and administrative delay overpayments).

Additional testing in line with the PSAA HBCOUNT methodology identified one further instance of this error, which did not result in an overpayment of benefit. Although this error did not impact on the subsidy to be claimed, since we were unable to conclude that the original error identified was isolated within the Rent Allowances population, we certified the claim on 29 November 2016, subject to a qualification letter. Our qualification letter, also dated 29 November 2016, set out our findings in relation to this error in more detail.

Given the nature and value of the errors found, we have made no recommendations to the Council to improve its claims completion process. There were no recommendations made last year and there are no further matters to report to you regarding our certification work.

Certification work fees

Public Sector Audit Appointments set an indicative fee for our certification work in 2015/16 of £7,128. Our actual proposed fee is higher than this indicative fee, at £9,043. The increase compared with the indicative fee is due to additional work required this year in respect of the error outlined above. This included testing of a further sample of cases and the production of a qualification letter, to accompany the certified claim. The proposed fee remains subject to approval by PSAA. This compares to the 2014/15 fee for this claim of £11,610.

Yours sincerely

Amanda Latham
Director



This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Amanda Latham, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to andrew.sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

DECISION ITEM



REPORT OF	MEETING	DATE	ITEM NO
RESOURCES DIRECTORATE	AUDIT AND STANDARDS COMMITTEE	19 JANUARY 2017	7
APPOINTMENT OF EXTERNAL AUDITORS FROM 2018/19 FINANCIAL YEAR - UPDATE			

PUBLIC ITEM

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

SUMMARY

The report presents an update of the issues arising from the introduction of new powers for local authorities to appoint their external auditor from the 2018/19 financial year onwards. In addition the report proposes that Fylde Council agrees to opt into the national scheme for auditor appointments that is managed by Public Sector Auditor Appointments (PSAA).

RECOMMENDATIONS

The Committee is recommended to:

1. Note the update on the issues arising from the introduction of new powers for local authorities to appoint their external auditor from the 2018/19 financial year onwards as contained within this report; and
2. Recommend to Council that Fylde Council agrees to opt into the national scheme for auditor appointments that is managed by Public Sector Auditor Appointments Limited (PSAA).

SUMMARY OF PREVIOUS DECISIONS

This issue was previously been considered by the Audit & Standards Committee in January 2016 at which the committee considered a report of KPMG, the Councils current auditors, on this matter entitled 'Appointing Your External Auditor'.

CORPORATE PRIORITIES	
Spending your money in the most efficient way to achieve excellent services (Value for Money)	√
Delivering the services that customers expect of an excellent council (Clean and Green)	
Working with all partners (Vibrant Economy)	
To make sure Fylde continues to be one of the most desirable places to live (A Great Place to Live)	
Promoting Fylde as a great destination to visit (A Great Place to Visit)	

REPORT

1. Members of the committee are reminded that following a change in legislation and the cessation of role of the Audit Commission, the responsibility for the appointment of external auditors will fall to individual councils with effect from the audit of the 2017/18 accounts. An external auditor for the audit of the accounts for 2018/19 has to be appointed before the end of 2017. Consequently a procurement process will be necessary to provide for the selection of an external auditor from that date.
2. The matter was considered by this committee in January 2016. At that time the committee agreed that the Council should develop an appropriate procurement strategy and select a preferred approach during 2016. Progress towards achieving such an agreed approach has been delayed whilst the government considered a proposal from the Local Government Association (LGA) for a national collective scheme for auditor appointments to manage the procurement and selection process. The LGA proposed that such an arrangement would result in a more efficient and cost-effective way for individual authorities to manage the local appointment of their auditors.
3. In July 2016, the Secretary of State for Communities and Local Government specified Public Sector Auditor Appointments Limited (PSAA) as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. PSAA is a not-for-profit company established by the Local Government Association (LGA) which administered the previous audit contracts let by the Audit Commission before it closed. For audits of the accounts from 2018/19, PSAA will be able to appoint an auditor to relevant principal authorities that choose to opt into its national collective scheme.
4. In the summer of 2016 the PSAA produced a prospectus to set out how it planned to develop the arrangements for local auditor appointments. This is provided at Appendix A to this report.
5. The timetable that PSAA have outlined for appointing auditors under the scheme requires that formal invitations to local authorities to opt into these arrangements have now been issued. The deadline for councils to indicate their acceptance of this invitation is 9th March 2017. The invitation to participate in the scheme was accompanied by a further information document by PSAA which is provided at Appendix B to this report.
6. If a council chooses not to participate in the national auditor appointment scheme that is managed by PSAA it will be required to establish an internal procurement and selection process to manage the appointment of its future external auditor. This would require the commitment of staff and Member resources to ensure that the process is delivered effectively and may require the acquisition of specialist procurement services. Most of the other Lancashire district councils have indicated that they are likely to participate in the PSAA national scheme for auditor appointments to take advantage of the efficiencies that this would provide.

CONCLUSION

7. It is recommended that Fylde Council accept the invitation to participate in the PSAA national auditor appointment process as described within this report in order to benefit from the efficiencies and economies of scale offered by this approach. To comply with the relevant regulations this is a decision that must be made by the authority as a whole and consequently the final decision will be taken by Council.

IMPLICATIONS	
Finance	Participation in the PSAA national managed scheme for auditor appointments is regarded by most authorities as the most efficient and cost effective way of selecting and appointing an external audit provider. At this point the cost of the external auditor work for 2017/18 onwards is not known. It is expected however that the cost would be met from the existing approved budget provision.
Legal	The Local Audit and Accountability Act 2014 requires principal authorities to appoint auditors, and provides detailed procedures for making those appointments. The act also allows the secretary of state to specify a person who may make appointments on behalf of authorities. The Local Audit (Appointing Person) Regulations 2015 authorise PSAA as the appointing person. Fylde can therefore use PSAA to select and appoint its external auditor.
Community Safety	None arising directly from this report
Human Rights and Equalities	None arising directly from this report
Sustainability and Environmental Impact	None arising directly from this report
Health & Safety and Risk Management	None arising directly from this report

LEAD AUTHOR	TEL	DATE	DOC ID
Paul O'Donoghue Chief Financial Officer	01253 658566	January 2017	

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none		


Attached documents

Appendix A – PSAA Prospectus August 2016

Appendix B – PSAA Information document October 2016



Developing the option
of a national scheme for
local auditor appointments



“The LGA has worked hard to secure the option for local government to appoint auditors through a dedicated sector-led national procurement body. I am sure that this will deliver significant financial benefits to those who opt in.”

– Lord Porter CBE, Chairman,
Local Government Association

Over the next few months all principal authorities will need to decide how their auditors will be appointed in the future. They may make the appointment themselves, or in conjunction with other bodies. Or they can take advantage of a national collective scheme which is designed to offer them a further choice. Choosing the national scheme should pay dividends in quality, in cost, in responsiveness and in convenience.

Public Sector Audit Appointments Ltd (PSAA) is leading the development of this national option. PSAA is a not-for-profit company which already administers the current audit contracts. It has been designated by the Department for Communities & Local Government (DCLG) to operate a collective scheme for auditor appointments for principal authorities (other than NHS bodies) in England. It is currently designing the scheme to reflect the sector's needs and views.

The Local Government Association (LGA) is strongly supportive of this ambition, and 200+ authorities have already signalled their positive interest. This is an opportunity for local government, fire, police and other bodies to act in their own and their communities' best interests.

We hope you will be interested in the national scheme and its development. We would be happy to engage with you to hear your views – please contact us at **generalenquiries@psaa.co.uk**

You will also find some questions at the end of this booklet which cover areas in which we would particularly welcome your feedback.

Audit does matter

High quality independent audit is one of the cornerstones of public accountability. It gives assurance that taxpayers' money has been well managed and properly expended. It helps to inspire trust and confidence in the organisations and people responsible for managing public money.

Imminent changes to the arrangements for appointing the auditors of local public bodies are therefore very important. Following the abolition of the Audit Commission, local bodies will soon begin to make their own decisions about how and by whom their auditors are appointed. A list of the local government bodies affected can be found at the end of this booklet.

The Local Government Association (LGA) has played a leadership role in anticipating these changes and influencing the range of options available to local bodies. In particular, it has lobbied to ensure that, irrespective of size, scale, responsibilities or location, principal local government bodies can, if they wish, subscribe to a specially authorised national scheme which will take full responsibility for local auditor appointments which offer a high quality professional service and value for money.

The LGA supported PSAA's successful application to the Department for Communities & Local Government (DCLG) to be appointed to deliver and manage this scheme.

PSAA is well placed to award and manage audit contracts, and appoint local auditors under a national scheme

PSAA is an independent, not-for-profit company limited by guarantee and established by the LGA. It already carries out a number of functions in relation to auditor appointments under powers delegated by the Secretary of State for Communities & Local Government. However, those powers are time-limited and will cease when current contracts with audit firms expire with the completion of the 2017/18 audits for local government bodies, and the completion of the 2016/17 audits for NHS bodies and smaller bodies.

The expiry of contracts will also mark the end of the current mandatory regime for auditor appointments. Thereafter, local bodies will exercise choice about whether they opt in to the authorised national scheme, or whether they make other arrangements to appoint their own auditors.

PSAA has been selected to be the trusted operator of the national scheme, formally specified to undertake this important role by the Secretary of State. The company is staffed by a team with significant experience in appointing auditors, managing contracts with audit firms and setting and determining audit fees. We intend to put in place an advisory group, drawn from the sector, to give us ready access to your views on the design and operation of the scheme. We are confident that we can create a scheme which delivers quality-assured audit services to every participating local body at a price which represents outstanding value for money.

“Many district councils will be very aware of the resource implications of making their own appointment. Joining a well-designed national scheme has significant attractions.”

– Norma Atlay, President,
Society of District Council Treasurers

“Police bodies have expressed very strong interest in a national scheme led by PSAA. Appointing the same auditor to both the PCC and the Chief Constable in any area must be the best way to maximise efficiency.”

– Sean Nolan, President,
Police and Crime Commissioners
Treasurers’ Society (PACCTS)

The national scheme can work for you

We believe that the national scheme can be an excellent option for all local bodies. Early indications are that many bodies agree - in a recent LGA survey more than 200 have expressed an interest in joining the scheme.

We plan to run the scheme in a way that will save time and resources for local bodies - time and resources which can be deployed to address other pressing priorities. Bodies can avoid the necessity to establish an auditor panel (required by the Local Audit & Accountability Act, 2014) and the need to manage their own auditor procurement. The scheme will take away those headaches and, assuming a high level of participation, be able to attract the best audit suppliers and command highly competitive prices.

The scope of public audit is wider than for private sector organisations. For example, it involves forming a conclusion on the body's arrangements for securing value for money, dealing with electors' enquiries and objections, and in some circumstances issuing public interest reports. PSAA will ensure that the auditors which it appoints are the most competent to carry out these functions.

Auditors must be independent of the bodies they audit, to enable them to carry out their work with objectivity and credibility, and in a way that commands public confidence. PSAA plans to take great care to ensure that every auditor appointment passes this test. It will also monitor any significant proposals, above an agreed threshold, for auditors to carry out consultancy or other non-audit work to ensure that these do not undermine independence and public confidence.

The scheme will also endeavour to appoint the same auditors to bodies which are involved in formal collaboration/joint working initiatives or within combined authority areas, if the parties consider that a common auditor will enhance efficiency and value for money.

PSAA will ensure high quality audits

We will only contract with firms which have a proven track record in undertaking public audit work. In accordance with the 2014 Act, firms must be registered with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of their work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC). Current indications are that fewer than ten large firms will register meaning that small local firms will not be eligible to be appointed to local public audit roles.

PSAA will ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any concerns are detected at an early stage and addressed effectively in the new regime. The company will take a close interest in feedback from audited bodies and in the rigour and effectiveness of firms' own quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems arising. We will liaise with the National Audit Office (NAO) to help ensure that guidance to auditors is updated when necessary.

We will include obligations in relation to maintaining and continuously improving quality in our contract terms and quality criteria in our tender evaluation method.

PSAA will secure highly competitive prices

A top priority must be to seek to obtain the best possible prices for local audit services. PSAA's objective will be to make independent auditor appointments at the most competitive aggregate rate achievable.

Our current thinking is that the best prices will be obtained by letting three year contracts, with an option to extend to five years, to a relatively small number of appropriately registered firms in two or three large contract areas nationally. The value of each contract will depend on the prices bid, with the firms offering the best prices being awarded larger amounts of work. By having contracts with a number of firms we will be able to ensure independence and avoid dominance of the market by one or two firms.

Correspondingly, at this stage our thinking is to invite bodies to opt into the scheme for an initial term of three to five years.

The procurement strategy will need to prioritise the importance of demonstrably independent appointments, in terms of both the audit firm appointed to each audited body and the procurement and appointment processes used. This will require specific safeguards in the design of the procurement and appointment arrangements.

“Early audit planning is a vital element of a timely audit. We need the auditors to be available and ready to go right away at the critical points in the final accounts process.”

– Steven Mair, City Treasurer,
Westminster City Council

“In forming a view on VFM arrangements it is essential that auditors have an awareness of the significant challenges and changes which the service is grappling with.”

– Charles Kerr, Chair,
Fire Finance Network

PSAA will establish a fair scale of fees

Audit fees must ultimately be met by individual audited bodies. PSAA will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising PSAA's own costs. The changes to our role and functions will enable us to run the new scheme with a smaller team of staff. PSAA is a not-for-profit company and any surplus funds will be returned to scheme members.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk. Pooling means that everyone within the scheme will benefit from the most competitive prices. Current scale fees are set on this basis. Responses from audited bodies to recent fee consultations have been positive.

PSAA will continue to consult bodies in connection with any proposals to establish or vary the scale of fees. However, we will not be able to consult on our proposed scale of fees until the initial major procurement has been completed and contracts with audit firms have been let. Fees will also reflect the number of scheme participants - the greater the level of participation, the better the value represented by our scale of fees. We will be looking for principal bodies to give firm commitments to join the scheme during Autumn 2016.

The scheme offers multiple benefits for participating bodies

We believe that PSAA can deliver a national scheme which offers multiple benefits to the bodies which take up the opportunity to collaborate across the sector by opting into scheme membership.

Benefits include:

- assured appointment of a qualified, registered, independent auditor
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives or combined authorities, if the parties believe that it will enhance efficiency and value for money
- on-going management of independence issues
- securing highly competitive prices from audit firms
- minimising scheme overhead costs
- savings from one major procurement as opposed to a multiplicity of small procurements
- distribution of surpluses to participating bodies
- a scale of fees which reflects size, complexity and audit risk
- a strong focus on audit quality to help develop and maintain the market for the sector
- avoiding the necessity for individual bodies to establish an auditor panel and to undertake an auditor procurement
- enabling time and resources to be deployed on other pressing priorities
- setting the benchmark standard for audit arrangements for the whole of the sector

We understand the balance required between ensuring independence and being responsive, and will continually engage with stakeholders to ensure we achieve it.

How can you help?

We are keen to receive feedback from local bodies concerning our plans for the future. Please let us have your views and let us know if a national scheme operated by PSAA would be right for your organisation.

In particular we would welcome your views on the following questions:

1. Is PSAA right to place emphasis on both quality and price as the essential pre-requisites for successful auditor appointments?
2. Is three to five years an appropriate term for initial contracts and for bodies to sign up to scheme membership?
3. Are PSAA's plans for a scale of fees which pools scheme costs and reflects size, complexity and audit risk appropriate? Are there any alternative approaches which would be likely to command the support of the sector?
4. Are the benefits of joining the national scheme, as outlined here, sufficiently attractive? Which specific benefits are most valuable to local bodies? Are there others you would like included?
5. What are the key issues which will influence your decisions about scheme membership?
6. What is the best way of us continuing our engagement with you on these issues?

Please reply to: generalenquiries@psaa.co.uk

The following bodies will be eligible to join the proposed national scheme for appointment of auditors to local bodies:

- county councils in England
- district councils
- London borough councils
- combined authorities
- passenger transport executives
- police and crime commissioners for a police area in England
- chief constables for an area in England
- national park authorities for a national park in England
- conservation boards
- fire and rescue authorities in England
- waste authorities
- the Greater London Authority and its functional bodies.

BOARD MEMBERS

Steve Freer (Chairman), former Chief Executive CIPFA

Caroline Gardner, Auditor General Scotland

Clive Grace, former Deputy Auditor General Wales

Stephen Sellers, Solicitor, Gowling WLG (UK) LLP

CHIEF OFFICER

Jon Hayes, former Audit Commission Associate Controller

“Maintaining audit quality is critically important. We need experienced audit teams who really understand our issues.”

– Andrew Burns, Director of
Finance and Resources,
Staffordshire County Council

PSAA Ltd
3rd Floor, Local Government House
Smith Square
London SW1P 3HZ

27 October 2016

Email: appointingperson@psaa.co.uk

Allan Oldfield
Fylde Borough Council
Town Hall
Lytham St Annes Lancashire FY8 1LW

Copied to: Paul O'Donoghue, Chief Financial Officer, Fylde Borough Council
Ian Curtis, Head of Governance and Legal, Fylde Borough Council

Dear Mr Oldfield

Invitation to opt into the national scheme for auditor appointments

As you know the external auditor for the audit of the accounts for 2018/19 has to be appointed before the end of 2017. That may seem a long way away, but as there is now a choice about how to make that appointment, a decision on your authority's approach will be needed soon.

We are pleased that the Secretary of State has expressed his confidence in us by giving us the role of appointing local auditors under a national scheme. This is one choice open to your authority. We issued a prospectus about the scheme in July 2016, available to download on the [appointing person](#) page of our website, with other information you may find helpful.

The timetable we have outlined for appointing auditors under the scheme means we now need to issue a formal invitation to opt into these arrangements. The covering email provides the formal invitation, along with a form of acceptance of our invitation for you to use if your authority decides to join the national scheme. We believe the case for doing so is compelling. To help with your decision we have prepared the additional information attached to this letter.

I need to highlight two things:

- we need to receive your formal acceptance of this invitation by 9 March 2017; and
- the relevant regulations require that, except for a body that is a corporation sole (a police and crime commissioner), the decision to accept the invitation and to opt in needs to be made by the members of the authority meeting as a whole. We appreciate this will need to be built into your decision making timetable.

If you have any other questions not covered by our information, do not hesitate to contact us by email at appointingperson@psaa.co.uk.

Yours sincerely



Jon Hayes, Chief Officer

Appointing an external auditor

Information on the national scheme

Public Sector Audit Appointments Limited (PSAA)

We are a not-for-profit company established by the Local Government Association (LGA). We administer the current audit contracts, let by the Audit Commission before it closed.

We have the support of the LGA, which has worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national procurement body. We have established an advisory panel, drawn from representative groups of local government and police bodies, to give access to your views on the design and operation of the scheme.

The national scheme for appointing local auditors

We have been specified by the Secretary of State for Communities and Local Government as the appointing person for principal local government bodies. This means that we will make auditor appointments to principal local government bodies that choose to opt into the national appointment arrangements we will operate for audits of the accounts from 2018/19. These arrangements are sometimes described as the 'sector-led body' option, and our thinking for this scheme was set out in a prospectus circulated to you in July. The prospectus is available on the [appointing person](#) page of our website.

We will appoint an auditor for all opted-in authorities for each of the five financial years beginning from 1 April 2018, unless the Secretary of State chooses to terminate our role as the appointing person beforehand. He or she may only do so after first consulting opted-in authorities and the LGA.

What the appointing person scheme will offer

We are committed to making sure the national scheme will be an excellent option for auditor appointments for you.

We intend to run the scheme in a way that will save time and resources for local government bodies. We think that a collective procurement, which we will carry out on behalf of all opted-in authorities, will enable us to secure the best prices, keeping the cost of audit as low as possible for the bodies who choose to opt in, without compromising on audit quality.

Our current role means we have a unique experience and understanding of auditor procurement and the local public audit market.

Using the scheme will avoid the need for you to:

- establish an audit panel with independent members;
- manage your own auditor procurement and cover its costs;
- monitor the independence of your appointed auditor for the duration of the appointment;
- deal with the replacement of any auditor if required; and
- manage the contract with your auditor.

Our scheme will endeavour to appoint the same auditors to other opted-in bodies that are involved in formal collaboration or joint working initiatives, if you consider that a common auditor will enhance efficiency and value for money.

We will also try to be flexible about changing your auditor during the five-year appointing period if there is good reason, for example where new joint working arrangements are put in place.

Securing a high level of acceptances to the opt-in invitation will provide the best opportunity for us to achieve the most competitive prices from audit firms. The LGA has previously sought expressions of interest in the appointing person arrangements, and received positive responses from over 270 relevant authorities. We ultimately hope to achieve participation from the vast majority of eligible authorities.

High quality audits

The Local Audit and Accountability Act 2014 provides that firms must be registered as local public auditors with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of registered firms' work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC), under arrangements set out in the Act.

We will:

- only contract with audit firms that have a proven track record in undertaking public audit work;
- include obligations in relation to maintaining and continuously improving quality in our contract terms and in the quality criteria in our tender evaluation;
- ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any quality concerns are detected at an early stage; and
- take a close interest in your feedback and in the rigour and effectiveness of firms' own quality assurance arrangements.

We will also liaise with the National Audit Office to help ensure that guidance to auditors is updated as necessary.

Procurement strategy

In developing our procurement strategy for the contracts with audit firms, we will have input from the advisory panel we have established. The panel will assist PSAA in developing arrangements for the national scheme, provide feedback to us on proposals as they develop, and helping us maintain effective channels of communication. We think it is particularly important to understand your preferences and priorities, to ensure we develop a strategy that reflects your needs within the constraints set out in legislation and in professional requirements.

In order to secure the best prices we are minded to let audit contracts:

- for 5 years;
- in 2 large contract areas nationally, with 3 or 4 contract lots per area, depending on the number of bodies that opt in; and
- to a number of firms in each contract area to help us manage independence issues.

The value of each contract will depend on the prices bid, with the firms offering the best value being awarded larger amounts of work. By having contracts with a number of firms, we will be able to manage issues of independence and avoid dominance of the market by one or two firms. Limiting the national volume of work available to any one firm will encourage competition and ensure the plurality of provision.

Auditor appointments and independence

Auditors must be independent of the bodies they audit, to enable them to carry out their work with objectivity and credibility, and in a way that commands public confidence.

We plan to take great care to ensure that every auditor appointment passes this test. We will also monitor significant proposals for auditors to carry out consultancy or other non-audit work, to protect the independence of auditor appointments.

We will consult you on the appointment of your auditor, most likely from September 2017. To make the most effective allocation of appointments, it will help us to know about:

- any potential constraints on the appointment of your auditor because of a lack of independence, for example as a result of consultancy work awarded to a particular firm;
- any joint working or collaboration arrangements that you think should influence the appointment; and
- other local factors you think are relevant to making the appointment.

We will ask you for this information after you have opted in.

Auditor appointments for the audit of the accounts of the 2018/19 financial year must be made by 31 December 2017.

Fee scales

We will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising our own costs. Any surplus funds will be returned to scheme members under our articles of association and our memorandum of understanding with the Department for Communities and Local Government and the LGA.

Our costs for setting up and managing the scheme will need to be covered by audit fees. We expect our annual operating costs will be lower than our current costs because we expect to employ a smaller team to manage the scheme. We are intending to fund an element of the costs of establishing the scheme, including the costs of procuring audit contracts, from local government's share of our current deferred income. We think this is appropriate because the new scheme will be available to all relevant principal local government bodies.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk, most likely as evidenced by audit fees for 2016/17. Pooling means that everyone in the scheme will benefit from the most competitive prices. Fees will reflect the number of scheme participants – the greater the level of participation, the better the value represented by our scale fees.

Scale fees will be determined by the prices achieved in the auditor procurement that PSAA will need to undertake during the early part of 2017. Contracts are likely to be awarded at the end of June 2017, and at this point the overall cost and therefore the level of fees required will be clear. We expect to consult on the proposed scale of fees in autumn 2017 and to publish the fees applicable for 2018/19 in March 2018.

Opting in

The closing date for opting in is 9 March 2017. We have allowed more than the minimum eight week notice period required, because the formal approval process for most eligible bodies, except police and crime commissioners, is a decision made by the members of an authority meeting as a whole.

We will confirm receipt of all opt-in notices. A full list of authorities who opt in will be published on our website. Once we have received an opt-in notice, we will write to you to request information on any joint working arrangements relevant to your auditor appointment, and any potential independence matters that would prevent us appointing a particular firm.

If you decide not to accept the invitation to opt in by the closing date, you may subsequently make a request to opt in, but only after 1 April 2018. The earliest an auditor appointment can be made for authorities that opt in after the closing date is therefore for the audit of the accounts for 2019/20. We are required to consider such requests, and agree to them unless there are reasonable grounds for their refusal.

Timetable

In summary, we expect the timetable for the new arrangements to be:

- Invitation to opt in issued 27 October 2016
- Closing date for receipt of notices to opt in 9 March 2017
- Contract notice published 20 February 2017
- Award audit contracts By end of June 2017
- Consult on and make auditor appointments By end of December 2017
- Consult on and publish scale fees By end of March 2018

Enquiries

We publish frequently asked questions on our [website](#). We are keen to receive feedback from local bodies on our plans. Please email your feedback or questions to: appointingperson@psaa.co.uk.

If you would like to discuss a particular issue with us, please send an email to the above address, and we will make arrangements either to telephone or meet you.

INFORMATION ITEM



REPORT OF	MEETING	DATE	ITEM NO
HEAD OF INTERNAL AUDIT	AUDIT AND STANDARDS COMMITTEE	19 JANUARY 2017	8
INTERNAL AUDIT INTERIM REPORT 2016/17			

PUBLIC ITEM

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

SUMMARY OF INFORMATION

At its meeting in March 2016 the Audit and Standards Committee endorsed the Internal Audit Annual Plan for 2016/17. This report summarises the work undertaken by internal audit from April to December 2016 and performance information for the same period in accordance with the reporting requirements set out in the Public Sector Internal Audit Standards. It also outlines factors affecting the achievement of the annual plan.

SOURCE OF INFORMATION

Internal Audit
Audit Committee 17 March 2016

LINK TO INFORMATION

[Internal Audit Interim Report 2016/17](#)

WHY IS THIS INFORMATION BEING GIVEN TO THE COMMITTEE?

The report is relevant to the Committee's terms of reference and the responsibility of the Committee to monitor both the performance of the internal audit service and the framework of governance, risk management and control. The report also meets the requirements of the Internal Audit Charter and the Public Sector Internal Audit Standards.

FURTHER INFORMATION

Savile Sykes, Head of Internal Audit - call 01253 658413 or e-mail saviles@fylde.gov.uk

INFORMATION NOTE

Internal Audit Interim Report 2016/17



REPORT

1. Introduction

1.1 The Role of Internal Audit

The role of internal audit is to provide management with an objective assessment of the adequacy and effectiveness of internal control, risk management and governance arrangements. Internal audit is therefore a key part of the Council's internal control system and integral to the framework of assurance that the Audit Committee can place reliance upon in its assessment of the internal control system.

1.2 Definition of Internal Audit

The definition of internal audit, as described in the UK Public Sector Internal Audit Standards (PSIAS), is set out below:

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

1.3 Purposes of the Report

1.3.1 The Internal Audit Team is responsible to the Director of Resources for carrying out a continuous examination of the accounting, financial and other operations of the Council in accordance with Section 151 of the Local Government Act 1972 and the Accounts and Audit Regulations 2015. The latter states that "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance."

1.3.2 This report provides the Audit Committee with information on work undertaken and assurances gained in these respects between April and December 2016.

1.4 Statement of Conformance with Public Sector Internal Audit Standards

1.4.1 The Internal Audit service works to the Internal Audit Charter approved by the Committee in September 2016 that fully reflects the requirements of the PSIAS. This Charter governs the work undertaken by the service, the standards it adopts and the way it interfaces with the Council. The Internal Audit team is required to adhere to the code of ethics, standards and guidelines of relevant professional institutes and the relevant professional auditing standards.

1.4.2 Internal Audit has adopted the principles contained in the PSIAS and works in conformance with them, fulfilling the requirements of the Accounts and Audit Regulations 2015 and associated regulations in respect of the provision of an internal audit service.

1.4.3 The annual report on the assessment of internal audit conformance with the Standards was endorsed by the committee at its September meeting. There were no areas of non-conformance that required improvement action.

2. Assurance on Internal Control

2.1 During the period from April to December 2016 ten reports have been issued with action plans agreed where appropriate; a further review is at draft report stage.

2.2 In the action plans arising from audit work we categorise recommendations as high, medium or low

priority. High indicates a significant control weakness that may result in failure to achieve corporate objectives, reputational damage, material loss, exposure to serious fraud or failure to meet legal/statutory requirements. Medium suggests a less important vulnerability not fundamental to system integrity that could result in failure to achieve operational objectives, non-material loss, or non-compliance to departmental operational/financial procedures. Low priorities relate to good practice improvements or enhancements to procedures, although several low risks in combination may give rise to concern.

2.3 We also measure the overall level of assurance, where appropriate, based on the adequacy and effectiveness of internal control in a system on a five-point scale. Table One sets out the assurance levels and definitions as follows:

Table One: Levels of Assurance

Level	Definition
5 Full Assurance	There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives, which is consistently applied
4 Substantial Assurance	There is essentially a sound system of control but there are some minor weaknesses, which may put achievement of certain system objectives at risk
3 Moderate Assurance	While there is on the whole a sound system of control, some controls are not consistently applied resulting in more significant weaknesses that may put some system objectives at risk
2 Limited Assurance	There are significant/serious weaknesses and inconsistent application of controls in key areas that put the system objectives at risk
1 No Assurance	The control framework is generally weak leaving the system open to significant error or abuse and is not capable of meeting its objectives

2.4 Table Two shows the category of recommendations identified for each audit completed in the period, together with the assurance rating for the system reviewed.

Table Two: Reports, Risk & Assurance

Audit Area	High Risks	Med Risks	Low Risks	Assurance Level
Corporate Governance	-	4	4	Full
Procurement	3	13	8	Limited
Risk Management	1	11	2	Limited
Food Hygiene Rating Scheme	-	5	3	Substantial
Financial Controls Assurance Testing				
Business Rates	-	-	-	Full
Council Tax	-	-	-	Full
Housing Benefits	-	-	-	Full
Income Collection - Fairhaven Lake	1	10	-	Limited
IT Service Continuity	3	7	2	Limited
IT Probity	-	4	-	Moderate
Section 106 Agreements ¹	-	10	8	Moderate
Total	8	64	27	

¹ Review at draft stage

2.5 For 2016/17 reviews undertaken by Internal Audit to 31st December the average assurance score was 3.5 on the scale of 1 to 5. This equates to substantial assurance overall and indicates that the control framework is sound but some minor weaknesses may put some system objectives at risk.

2.6 There were eight important internal control weaknesses brought to the attention of management during the period, and one brought forward from previous years. Three actions have been completed in full and a further action completed subject to evidential review. The remaining five high priority actions are currently outstanding.

2.7 Table Three sets out the issues, the current position and/or agreed date for resolution.

Table Three: High Priority Risks Identified

Risk	Resolution Date	Comment
Previous Years' Risks		
1. Conduct an annual exercise to test the Council's planned response to business disruption	-	Completed
Current Year's Risks		
2. The Finance Team will take responsibility for compiling an up-to-date contracts register and maintaining it thereafter.	Mar 2017 (May 2016)	Actions concerning the compilation and publication of an up-to-date contracts register were not commenced in accordance with the agreed timetable. An officer with responsibility for this role has recently been appointed.
3. The contracts register will be published in accordance with the Local Government Transparency Code 2015.	Mar 2017 (Aug 2016)	
4. Unsuccessful bidders must be sent the mandatory 'Alcatel' letter at the conclusion of the procurement process both to allow a standstill period of at least 11 days for an effective challenge to the award decision before the contract is concluded and to provide details of the tender evaluation scores	Apr 2017 (Jul 2016)	Training will be given to responsible officers.
5. Responsibility for the delivery of the risk management function will be allocated to a competent resource on a permanent basis. Once appointed the risk management pages of the Intranet will be updated with the details of the responsible officer.	-	Completed
6. The Senior Coast & Countryside Officer will be designated as responsible for managerial supervision of Fairhaven Lake and for maintaining evidence of checks undertaken and any actions arising.	-	Completed
7. A programme of regular business continuity exercises will be carried out in accordance with the Business Continuity Management Policy to test	Mar 2017 (Sep 2016)	Following the BCP exercise in Sep 2016, a further meeting to review critical services will take

the effectiveness of all of the council's business continuity plans.

place in January. A BCP response team will be set up with roles agreed. Work is ongoing with plan owners to review plans. The BCP policy is to be reviewed.

8. Undertake an exercise to confirm that suitable support and maintenance agreements are in place for all ICT services and systems as a matter of urgency, and suitable actions taken to address any areas of weakness.

Completed*

9. Ensure procedures are developed so that each service is made aware of support and maintenance agreements as contracts expire to enable them to respond with replacements or reviews agreed in a timely manner to maintain cover

Apr 2017
(Jul 2016)

Currently all systems have existing suitable support arrangements. Further enhancements are ongoing, in order to build into the existing IT Help Desk function a complete and up-to-date asset catalogue of all hardware and software entitlements.

* subject to evidential review

3 Follow-Up Work

3.1 Follow-up reviews are performed to appraise management of post audit actions and provide assurance that audit recommendations have been implemented. Eleven follow-up reviews have been completed to 31 December.

3.2 Table Four shows the total number of agreed recommendations that were implemented by managers.

Table Four: Agreed Recommendations Implemented

Audit Area	R e c o m m e n d a t i o n s		
	Total Agreed	Number Implemented	% Implemented
Previous Years' Reports			
Treasury Management	3	3	100%
Fuel Cards	7	7	100%
Waste Management	10	9	90%
Sundry Debtors	3	1	33%
Income Collection (Central)	1	0	0%
IT Service Management	7	6	86%
Overtime Mileage Facility	3	2	67%
Travel and Expenses	14	13	93%

Attendance Management	12	11	92%
Corporate Governance 2015	4	3	75%
Civica Financials Application	5	5	100%
Total	69	60	87.0%

3.3 The implementation rate for follow-up reviews to 31 December stands at 87.0% against a target of 90%. This compares to last year's overall implementation figure of 98.9% and the 5-year average rate for overall implementation which stands at 92.1%.

4 Special Investigations and Counter Fraud Work

Investigations

4.1 During the year to the 31st December one new investigation into an allegation of fraud was commenced. The investigation, carried out by the shared corporate fraud resource, is currently ongoing.

4.2 Table Five summarises the results of the investigations into fraud and corruption for previous years.

Table Five: Results of Special Investigations

Outcome	2011-12	2012-13	2013-14	2014-15	2015-16
Disciplinary action	1	-	-	1	-
Management action	-	-	-	2	1
Third party restitution	-	1	-	-	-
No evidence to support allegation	1	2	-	1	-
Inconclusive evidence	-	-	1	1	-
Investigation terminated	-	-	1	-	-
Investigation ongoing	-	-	-	-	-
Total	2	3	2	5	1

4.3 Less than 2 days have been taken up dealing with special investigations and reactive fraud work during the period 1st April to the 31st December 2016.

National Fraud Initiative

4.4 The Head of Internal Audit acts as key contact for the National Fraud Initiative ongoing data matching exercise; nominating data download contacts and co-ordinating the production of housing benefit, payroll, council tax, creditor, licensing and electoral register information for the data matching exercise.

4.5 The extraction and upload of data for the main biennial exercise has recently been completed and the investigative work will commence early in 2017. The previous exercise revealed overpayments totalling more than £35,000 with ongoing savings in future years.

Shared Fraud Service

4.5 The Head of Internal Audit is responsible for overseeing the delivery of the shared fraud service provided by Preston City Council. The service is tasked with investigating fraud, bribery and corruption by employees, members, contractors, consultants, suppliers, service users and members of the public who have dealings with the Council. This excludes responsibility for the investigation of housing benefit fraud, which transferred to the Department for Work & Pensions in 2015.

4.6 In the current year to 31st December overpayments of £26,200 have been identified, almost all in

relation to Council Tax discounts/exemptions and overpayments under the Council Tax Reduction Scheme. The value of overpayments identified is less than in previous years because the amount of money involved in non-benefit fraud is generally lower. However, the fraud service is tasked with achieving annual savings greater than its £27,000 cost to the council, which has almost been achieved at the end of the third quarter.

Whistleblowing

4.7 There has been one employee whistleblowing during the current year to date, which resulted in advice and guidance rather than an investigation.

5 Performance of Internal Audit

5.1 A set of performance indicators for internal audit was adopted by the Audit Committee following an exercise to canvass the views of interested stakeholders. Table Six sets out the current performance information against the agreed targets:

Table Six: Performance Indicator Results

Performance Indicator	Target	Actual 2015/16	Current to 31/12/16
IA1 % of audit plan completed	90%	89.2% ¹	63.2%
IA2 % satisfaction rating indicated by post-audit surveys	90%	91.0%	90.0%
IA3 % of audit recommendations agreed with management	95%	100%	100%
IA4 % of agreed actions implemented by management	90%	98.9%	87.0%
IA5 % of 'High Priority' actions implemented by management	100%	100%	44.4%
IA6 % of 'High/Medium Priority' actions implemented by management	95%	100%	84.6%
IA7 % of recommendations implemented by the first agreed date	75%	57.1%	61.5%

¹ Revised Audit Plan

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

5.3 The percentage of the audit plan completed to date of 63.2% is explained and addressed in the following section of the report.

6 Internal Audit Plan

6.1 The original Audit Plan was approved by the Audit Committee in March 2016 and reflected the prevailing organisational risks and priorities for Internal Audit input at that time. Table Seven summarises the current position with each of audit reviews included in the plan

Table Seven: Internal Audit Plan 2016/17 at 31 December 2016

Audit Areas	Plan Days	Status
Main Financial Systems		
Council Tax/Business Rates ¹	20	Work in Progress
Council Tax FCAT	15	Ongoing
Creditors/Purchasing	18	To Commence Q4
Housing Benefit	2	To Commence Q4
Housing Benefit FCAT	18	Ongoing
National Non-Domestic Rates FCAT	12	Ongoing
Payroll FCAT	16	Ongoing
Sundry Debtors	16	Work in Progress
Risk Based Reviews		
Car Parking	18	Work in Progress
Emergency Planning	18	To Commence Q4
Fairhaven Lake - Income Collection	2	Complete
Information Governance	20	Work in Progress
Food Safety	4	Complete
Section 106 Agreements	13	Work in Progress
Procurement	5	Complete
Corporate Governance		
Annual Governance Review	14	Complete
Audit Committee - Effectiveness	2	Complete
Internal Audit - Effectiveness	3	Complete
Risk Management	4	Complete
Computer Audit		
IT Audit ²	16	To Commence Q4
IT Probity	5	Complete
IT Service Continuity	3	Complete
Anti- Fraud		
Corporate Fraud	8	Ongoing
National Fraud Initiative	8	Ongoing
Prevention of Fraud & Corruption	2	Complete
Follow Up		
Follow Up Reviews	20	Ongoing
Communication & Consultancy		
General Consultancy/Advice	15	Ongoing
Communication/Liaison	22	Ongoing
Public Sector Internal Audit Standards - Peer Review	20	Ongoing
Reactive Work		
Contingency	15	Ongoing
Total	354	

¹ Joint Audit with Blackpool Council² Externally provided

6.2 The percentage of the 2013/14 audit plan completed to 31st December was 63.2%, suggesting that the 90% target for the year may not be achieved. We anticipate completing all of the work currently in progress or ongoing. Of the four audit reviews scheduled to commence in the final quarter of 2016/17 we intend to focus on completing the two that relate to core financial systems - Creditors/Purchasing and Housing Benefit.

6.3 The IT Audit for 2016/17 included in the plan but not yet started is a specialised computer audit review, which is provided externally. In common with several other audit services across Lancashire, Fylde has used the County Council's computer audit resource to deliver this category of work. This option is no longer available and another suitable provider is currently being sought.

6.3 The final audit review not yet begun is the work on Emergency Planning. We anticipate commencing this audit but it likely that the bulk of the fieldwork and reporting will slip in next year. However, an effort to save days from within the audits currently in progress or yet to be performed will be attempted so that as much as possible of the planned work will be undertaken in the current year.

6.4 Despite the above, fundamental financial systems and significant corporate matters will have been audited as originally planned, allowing the Head of Internal Audit to formulate an opinion of the overall adequacy and effectiveness of the Council's control environment as required by the Public Sector Internal Audit Standards.

FURTHER INFORMATION AVAILABLE FROM

Savile Sykes, Head of Internal Audit, saviles@fylde.gov.uk, 01253 658413.

INFORMATION ITEM



REPORT OF	MEETING	DATE	ITEM NO
OFFICE OF THE CHIEF EXECUTIVE	AUDIT AND STANDARDS COMMITTEE	19 JANUARY 2017	9
STRATEGIC RISK REGISTER UPDATE			

PUBLIC ITEM

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

SUMMARY OF INFORMATION

This report summarises the current position of the risks contained within the 'Strategic Risk Register'. In addition to this, there is also a detail update on the action plan in relation to the Cyber Attack Prevention up to January 2017. The work has been undertaken by the Council's Corporate Support Officer.

SOURCE OF INFORMATION

1. An update has been provided by the leading council officers for the specific risks.
2. The action plan for the Cyber Attacks as held in InPhase.

LINK TO INFORMATION

[Appendix 1 - Cyber Attack - Risk Action Plan 05.01.2017.docx](#)

[Appendix 2 - January 2017 Latest update on the risks within the Strategic Risk Register.docx](#)

WHY IS THIS INFORMATION BEING GIVEN TO THE COMMITTEE?

As part of the Council's Risk Management Strategy, strategic risks are identified and reviewed on a regular basis with the involvement of Members and Officers to review the identification of the risks.

FURTHER INFORMATION

Contact Gary Marcus, Corporate Support Officer – 658412 gary.marcus@fylde.gov.uk

2016/2017 Risk Register

Cyber Attack Prevention Action Plan No: 1

Champion – Director of Resources

Issue Description	Cyber Attack Prevention
Council Objective	Value for money

EXISTING CONTROLS IN PLACE
<ul style="list-style-type: none"> ✓ Two corporate firewalls in place, with redundancy should one be compromised or fail ✓ Separate firewall for PSN (Public Services Network secure) originated traffic ✓ Proxy server and separate web filters based on user profiles ✓ Desktop Anti-virus (McAfee) ✓ Wave safe end control (end point security for restricting/ blocking USB devices) ✓ Intrusion Protection (IPS) ✓ Application control (Deep pack inspection including SSL traffic) ✓ Appsure Backup solution ✓ Virus awareness communications ✓ Web logs (monitoring) ✓ CERT UK, networking, attending conferences ✓ Patch policy, every Tuesday from Microsoft/ application vendors for security updates <input type="checkbox"/> Test environment for enable new patches or updates ✓ Data Leak Prevention (DLP) ✓ Anti-virus/ anti-malware at the firewall level ✓ Fusemail spam and email filtering ✓ Fortimail internally hosted spam and email filtering for PSN (Public Services Network secure) originated email exchange ✓ Network address translation (NAT) across all firewalls to 'hide' our network IP ranges behind outward facing Public ones ✓ Network connection redundancy through a separate link to the outside from the Cem and Crem ✓ SSID filtering and secure authentication through Cisco wireless controller ✓ Demilitarized zone for outward facing web servers ✓ Reverse proxy for outward facing web services, that are required to be hosted internally

Required action / control	Responsible for action	Risk Action	Progress	Status	Due Dates
Staff engagement & awareness programme of potential cyber threats	A. Scrivens	Review existing ICT Computer Security Policy with assistance from Blackpool Policy services.	Current Policy has been reviewed with ICT & Blackpool's Policy Team. The conclusion was the policy was and still is fit for purpose. However, when the new ICT manager starts in August, once this person is settled they would be in the best position to determine how this should be developed. The long term action for this post will be to ultimately review and maintain this policy going forward.	COMPLETE	April 2016
	A. Scrivens / R. Mckelvie	Review current ICT Security iPool module content, contact Blackpool to see if there has been any updates to their content since original version done (2011). Liaise with ICT to add wording for Fylde and make any relevant or necessary changes etc. Re-vamp and modernise content.	The decision was made to use the dedicated LearningPool.com version which is a standardised format design especially for all Local Government Authorities containing all the latest best practices. Allan Oldfield has communicated this new course to all staff, also adding about the requirement for completing this new course with a deadline date of October 2016.	COMPLETE	April 2016
	A. Scrivens	Use recent PowerPoint slides and quiz published by ICT to show what virus look like, add onto new iPool module as a quiz.	Available online. This is now live and published for staff to complete. Allan Oldfield has sent round comms for all staff to complete by October 2016.	COMPLETE	April 2016

	A. Scrivens	Relaunch ICT Security iPool Module, setup as next compulsory course for all staff to complete.	This is now live and published for staff to complete. Allan Oldfield has sent round comms for all staff to complete by October 2016.	COMPLETE	May 2016
	R. Mckelvie	IT network policy enforcement logon software	Log on prompt has been reviewed. Options will be explored to further improve additional policy information at log on.	COMPLETE	May 2016
	S. Stott	ICT to attend team briefs, undertake as an action once for all team briefs (AUG),	This has been done via a different approach, we cascaded the information via the intranet and the Chief Executives 5 points.	COMPLETE	August 2016
	S. Stott	Assess the impacts from team briefs via surveymonkey to analysis findings	An interactive quiz has been developed and distributed to staff based on the content previously distributed via the 5 point and on the intranet. Looking at the results of the quiz so far all staff have achieved a 100% score. We will continue to develop and distribute this but the results are encouraging and show that we have achieved a better understanding of the issue and what to do if you experience an issue.	COMPLETE	September 2016
	S. Stott	Mystery Shopping exercise with website checks by staff.	<i>Not yet due for reporting</i>	<i>Not yet due for reporting</i>	<i>March 2017</i>
Next Generation Threat	R. Mckelvie	Establish quotes for product (<i>approx. £15,000</i>)	The Fortigate unit which provides our main Unified Threat Management also includes this feature so after looking at options and	COMPLETE	March 2016

Control			<p>comparing functionality and cost; this solution is the most logical and fits in with our wider application/ appliance consolidation and rationalisation strategy.</p> <p>In implementing the virtual appliance to existing assets for both email and network infrastructure security we have been able to procure a robust solution for £1,552.80- a significantly lower cost than purchasing a standalone new appliance.</p> <p>This also reduces support considerations as the technology is already familiar to employees.</p>		
	R. Mckelvie	Purchase and deploy	<p>The Fortisandbox solution has been purchased and implemented by ICT services.</p> <p>By using an existing platform and not procuring an additional appliance for this security element the solution is fit for purpose and will also modularly cover our secure email space for GCSX adding an additional layer where our most sensitive and protected communication takes place.</p>	COMPLETE	April 2016
	R. Mckelvie	Publicise this via Vine & Directorate communications	<p>A Vine article has been produced and communications to the directorate via 5 points have been circulated to staff.</p> <p>These provide a high level overview to the staff using our infrastructure assets of the technology and security considerations we</p>	COMPLETE	April 2016

			undertake and help move the awareness and education agenda for this space forward.		
Baseline network/ check for changes to files/ configuration.	M. Don	Re-deploy existing software to detect file / network changes	<p>Network monitoring via PRTG software is in place and installed on our infrastructure server- which includes our full server space, switches and routers.</p> <p>This allows us to monitor changes and take action before malicious infections or exploits spread if introduced to our network.</p>	COMPLETE	April 2016
	R. Mckelvie	Prioritise backups, the way which areas are selected first based on the Business Continuity Plan.	<p>The initial action has been completed with backups being prioritised according to the BIA spreadsheet, an action which also came out of the external ICT audit.</p> <p>This will require periodic review to ensure that the backup arrangements in place meet the organisation/ service managers' expectations around how often they are taken.</p>	COMPLETE	May 2016
Block certain high risk sites.	R. Mckelvie	Web filtering software in place, review and implement	<p>Web filtering software is now in place and all high risk sites have been blocked.</p> <p>Further testing will continue going forward, the first date for testing will be on July 23rd (provisional date) where ICT will be migrating our Checkpoint firewalls which currently provide firewall protection and network address translation to our Fortigate 100D.</p> <p>In doing this we will also be implementing a</p>	COMPLETE	April 2016

			<p>new Fortigate 100D and pairing the two devices for high availability, performance and resilience.</p> <p>Robust web filtering via Fortigate 100d appliance is in place with rule sets set up for groups according to access needs with the policy of least privilege applied.</p>		
Review ICT Strategy / Plan	R. Mckelvie	Make sure virus controls are highlighted as high risks, ensure capacity within department is set at the appropriate level to reach maintain set standards	<p>McAfee anti-virus software is in place across our virtual desktop infrastructure, server space, and on laptop devices when issued.</p> <p>AV policies have been reviewed and hardened according to best practice following the cryptomalware exploits introduced to the network.</p>	COMPLETE	May 2016
CERT liaison, to implement best practice advice	S. Stott	Implement any actions through network groups, lean on Wyre & BLP ICT for council advice where possible.	<i>Not yet due for reporting</i>	<i>Not yet due for reporting</i>	March 2017
Server consolidation excise	S. Stott	Continue to reduce the amount of servers to eliminate virus, storage, backup constraints	<i>Not yet due for reporting</i>	<i>Not yet due for reporting</i>	March 2017

Update on the Risks within the 'Strategic Risk Register' – January 2017

Risk	Risks mitigation method	Monitoring Body	Lead Comments
Local Plan - risk that if the Local Plan is not submitted to the Secretary of State by early 2017, that any new allocation of New Homes Bonus due to the Council in that year will be withheld.	Action Plan	Development Committee	<p>The Local Plan together with a summary of the Responses made to the Publication consultation and the Council's summary responses to them was approved by Development Management Committee on 30th November 2016. On 9th December 2016 the Local Plan and submission documents were submitted to the Secretary of State for Examination in accordance with the Town and Country Planning (Local Planning) (England) Regulations 2012 Regulations 22(3)(b)and (c). The responsibility for progressing the plan in a timely manner will now largely rest with him and the Planning Inspectorate. A programme officer has been appointed by the Council, who will act on behalf of the Inspector to make arrangements for the examination. The Planning Inspectorate (PINS) have appointed a Planning Inspector to examine the plan. The Council have entered into a Service Level Agreement with PINS, the Examination in Public should commence within 11-14 weeks from the date of Submission. The Council is currently waiting for the Planning Inspector to make contact, which usually happens about 4 weeks after Submission.</p> <p>There have been some changes to the Team, which is still one planning officer short. However, staffing levels are under review and may need supplementing as the Examination in Public progresses.</p> <p>The Local Plan production process is currently on track and there are no major issues.</p> <p><i>Julie Glaister – Planning Policy Manager – January 2017</i></p>
LCC Cost Sharing- risk that	Progress reported to	Operational	The decision by Lancashire County Council to end the cost sharing

changes to the LCC cost sharing agreement on waste will result in a significant negative impact on resources making it difficult to deliver the Council's other priorities.	Operational Management and reported in terms of financial implications through the MTFS	Management & Finance Committee	<p>arrangement leaves a significant funding gap for the Council, with a recurring loss of £763,000 per annum from 2018/19 onwards which is currently used to support the Council's waste and recycling services. This loss of income has been reflected in the Council's MTFS from 2018/19 onwards. The work commissioned by LCC on the Lancashire wide waste review has been concluded and did not yield any significant savings. The authority now needs to put plans in place to mitigate against these known losses by considering changes in service delivery and income generating opportunities. At full council on 5 December 2017, a decision was taken with regards to the introduction of a subscription based green waste service, at a proposed charge of £30 per bin from 2017, and the MTFS will be updated to reflect the estimated income from year 1.</p> <p><i>Kathy Winstanley – Head of Health & Environment – January 2017</i></p>
Financial Challenges - medium term risk that the Council is unable to deliver key projects and services due to limited and reducing resources.	Managed via MTFS	Finance Committee	<p>The Medium Term Financial Strategy (MTFS) is currently in the process of being updated in line with the budget setting timetable. This involves budget holders from across the Council and includes a thorough review of assumptions and estimates for all income streams, government funding, and expenditure items together with an update of all identified risks. The Budget Working Group has also met to consider the updated financial forecast and will continue to do so through the budget cycle in order to assess the financial challenges faced by the Council. An updated MTFS including an updated financial forecast was presented to Council on 5th December 2016, and a January update to reflect the 2017/18 Local Government Finance Settlement will also be presented to Council. The final MTFS report for the year will be considered at the Budget Council meeting on 2nd March 2017.</p> <p><i>Paul O'Donoghue – Chief Financial Officer – January 2017</i></p>
Cyber Attacks - risk that	Risk Action Plan	SRMG & Reports to	"The actions within the 'Cyber Attack' action plan are almost

the Council's infrastructure is disabled by cyber-attack such that services cannot be delivered effectively.		Audit Committee	<p>complete, with only 3 actions remaining. These actions are on course to be completed by the end of the current financial year. Since the arrival of the new ICT manager (Simon Stott) a few months ago, the approach to completing some of the actions have modified slightly from the existing plan. The revised approach will hopefully create a better understanding of the issue for staff and ultimately more protection for the council.</p> <p>Simon's experience has enabled him to look at the current plan and provide more efficient and effective ideas and will continue to do this with outstanding actions in the future.</p> <p>A full update on the actions within the action plan will be provided to the committee along with this report.</p> <p><i>Gary Marcus – Corporate Support Officer – January 2017</i></p>
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INFORMATION ITEM



REPORT OF		MEETING	DATE	ITEM NO
RESOURCES DIRECTORATE		AUDIT AND STANDARDS COMMITTEE	19 JANUARY 2017	10
REGULATION OF INVESTIGATORY POWERS ACT 2000: AUTHORISATIONS				

PUBLIC ITEM

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

SUMMARY OF INFORMATION

Councillors are obliged to review the use of covert surveillance and covert human intelligence sources by the council at least quarterly. In the quarter to January 2017, there were no authorised operations.

SOURCE OF INFORMATION

Director of Resources

LINK TO INFORMATION

[Information Note](#)

WHY IS THIS INFORMATION BEING GIVEN TO THE COMMITTEE?

Regulations under the Regulation of Investigatory Powers Act 2000 ("RIPA") require councillors to consider a report on the use of RIPA at least quarterly.

FURTHER INFORMATION

Contact Ian Curtis on 01253 658506 or at ianc@fylde.gov.uk.

INFORMATION NOTE

Regulation of Investigatory Powers Act 2000: Authorisations

1. The Regulation of Investigatory Powers Act 2000 ("RIPA") regulates covert investigations by a number of bodies, including local authorities. It was introduced to ensure that individuals' rights are protected while also ensuring that law enforcement and security agencies have the powers they need to do their job effectively.
2. Fylde Council is therefore included within RIPA framework with regard to the authorisation of both directed surveillance and of the use of covert human intelligence sources.
3. Directed surveillance includes the covert surveillance of an individual in circumstances where private information about that individual may be obtained. A covert human intelligence source ("CHIS") is a person who, pretending to be someone that they are not, builds up a relationship of trust with another person for the purpose of obtaining information as part of an investigation.
4. Directed surveillance or use of a CHIS must be authorised by the chief executive or a director and confirmed by a Justice of the Peace. All authorisations are recorded centrally by the Head of Governance.
5. This is the required quarterly report on the use of RIPA. The information in the table below is about authorisations granted by the council during the quarter concerned.

Quarter	Directed surveillance	CHIS	Total	Purpose
22 September 2016 – January 2017 ¹	0	0	0	

FURTHER INFORMATION AVAILABLE FROM

Ian Curtis, Head of Governance, ianc@fylde.gov.uk , 01253 658506.

¹ Correct to the date the report was written. Officers will verbally update members if the figures have changed by the date of the meeting.