

Agenda

Audit Committee



Date:	Thursday, 29 January 2015 at 6:15 pm
Venue:	Town Hall, St Annes, FY8 1LW
Committee members:	Councillor John Singleton JP (Chairman) Councillor Brenda Ackers (Vice-Chairman) Councillors Ben Aitken, Christine Akeroyd, Leonard Davies, Howard Henshaw, Ken Hopwood, Linda Nulty, Louis Rigby

Item		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 of the previous meeting, held on 20 November 2014, as a correct record as attached.	3 - 5
3	Substitute Members: Details of any substitute members notified in accordance with council procedure rule 23(c)	1
4	KPMG Certification of Claims and Returns – Annual Report 2013/14	6 - 9
5	Annual Governance Statement – Progress Report	10 - 13
6	External Assessment of the Effectiveness of Internal Audit	14 - 16
7	Internal Audit Interim Report 2014/15	17 - 27
8	Strategic Risk 2014-15	28 - 30

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

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

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Minutes

Audit Committee

Date:	Thursday, 20 November 2014
Venue:	Town Hall, St Annes
Committee members:	Councillor John Singleton JP (Chairman) Councillors Brenda Ackers, Ben Aitken, Christine Akeroyd, Leonard Davies, Tony Ford, Ken Hopwood, Linda Nulty and Louis Rigby
Officers:	Paul O'Donoghue, Jillian Burrows (KPMG), Nicol McLellan and Katharine McDonnell

1. Declarations of interest

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

2. Confirmation of minutes

RESOLVED: To approve the minutes of the Audit Committee meeting held on 25 September 2014 as a correct record for signature by the Chairman.

3. Substitute members

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

Councillor Tony Ford for Councillor Howard Henshaw.

4. Annual Audit Letter 2013/14

Jillian Burrows (KPMG) explained that the Annual Audit letter was issued by the Council's external auditors (KPMG), detailing the auditor's opinion on the Council's performance and financial management. The auditors, in reaching their opinion, considered the financial governance of the Council, financial planning and control processes, in addition to how the Council prioritised its resources and sought to improve efficiency and productivity.

Mrs Burrows, drew the Committee's attention to an increase to the planned audit fee. She explained that the variance was due to additional work undertaken regarding the collection fund balances due to the changes in the NNDR returns, and that the increase was applicable to all local authorities, not just Fylde. Mrs Burrows advised that the Audit Commission had agreed the increase and confirmed their decision to the Section 151 Officer.

It was RESOLVED, having scrutinised the content,

1. To note the content of the Annual Audit Letter 2013/14

5. Mid-Year Prudential Indicators and Treasury Management Monitoring Report 2014/15

Paul O'Donoghue (Chief Financial Officer) and Nicol McLellan (Senior Accountant) presented the mid-year prudential indicators and treasury management monitoring report for Audit Committee to scrutinise in line with the recommendations of CIPFA (Chartered Institute of Public Finance Accountants) Code of Practice on Treasury Management 2011.

Mr O'Donoghue advised that the Council currently had borrowing of £3.8m, but no additional external borrowing had occurred during the 2014/2015 financial year. He further advised that the Council had a requirement to fund a further £3.0m for 2014/15 but this was funded by internal borrowing on the advice of the Council's Treasury Advisors.

He explained that £1.5m of external debt would be repaid in December 2014, reducing the level of external borrowing to £2.3m.

In regards to investment activity, Mr O'Donoghue advised that in line with the Treasury Strategy the Council was risk averse in its investment activity, with the primary consideration being to ensure security of the original investment, the secondary consideration being liquidity and thirdly the rate of return on the investment. He added that a higher rate of return would increase the risk of the investment and was not the Council's policy.

Mr O'Donoghue drew the Committee's attention to a new EU directive, due for implementation in January 2015. He explained that the Directive stopped government bail-outs of failing banks. Instead shareholders and creditors would bear the cost. The European Parliament had also approved revisions to the Deposit Guarantee Schemes Directive, which would increase the amount of loss local authorities would incur if a bank, in which the authority had deposits in, failed. As a consequence of these changes, the Council's Treasury Advisors considered that some major UK banks may have their credit rating downgraded.

In anticipation of these changes the Committee were asked to consider recommending to Council amendments to the Investment Strategy, to allow the Council to invest in BBB+ rated banks and building societies, in limited amounts for short periods as set out in the report. Mr O'Donoghue advised that the risk of a bank failing remains unchanged, but the amount of loss that the Council would incur in such circumstances increases as a consequence of these revised arrangements. He further advised that the Council would always seek to invest in the highest-rated institutions possible.

Mr O'Donoghue provided a brief overview of the Prudential Indicators, explaining the variations and revisions from the start of the financial year, to the current mid-year position.

The Committee requested that in future, the Forecast Interest Prudential Indicator added clear narrative of the interest paid by the Council over a given financial year.

In regards to the repayment of £1.5m of external debt in December 2014, the Committee asked when the next repayment of external debt would occur. Mr O'Donoghue advised that £1.3m was due to be repaid in 2016, half in May 2016 and the remaining half in November 2016.

The Committee formally thanked the Finance team for all their hard work.

It was therefore RESOLVED

1. To recommend to Council:

- i. That the revised Investment Strategy, including the amendment to the Strategy to allow investment in banks and building societies rated BBB+ or above for short periods of time as described at section 5 of the report to Committee, be approved; and
- ii. That the revised Prudential Indicators and Limits in Appendix B of the report to Committee be approved.

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REPORT



REPORT OF	MEETING	DATE	ITEM
RESOURCES DIRECTORATE	AUDIT COMMITTEE	29 JANUARY 2015	4

KPMG CERTIFICATION OF CLAIMS AND RETURNS – ANNUAL REPORT 2013/14

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 2013/14 from KPMG. The report will be presented by KPMG.

RECOMMENDATION

1. The Committee is recommended to consider the Certification of Claims and Returns - annual report for 2013/14 from KPMG which is attached to this covering report, and to note the unqualified certification of claims for the year.

CABINET PORTFOLIO

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

Finance & Resources - Councillor Karen Buckley

CORPORATE PRIORITIES

To Promote the Enhancement of The Natural & Built Environment (Place)		To Encourage Cohesive Communities (People)	
To Promote a Thriving Economy (Prosperity)	√	To Meet Expectations of our Customers (Performance)	√

SUMMARY OF PREVIOUS DECISIONS

This item is considered annually by the Audit Committee in respect of the previous financial year's grant claims.

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 2013/14.

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	24th December 2014	

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

Attached documents

1. Certification of Claims and Returns - annual report for 2013/14 from KPMG



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

16 December 2014

Dear Paul

Certification of claims and returns - annual report 2013/14

The Audit Commission requires its external auditors to prepare an annual report on the claims and returns it certifies for each client. This letter is our annual report for the certification work we have undertaken for 2013/14.

In 2013/14 we carried out certification work on the Housing Benefit subsidy claim (under Certification Instruction BEN01). The certified value of the claim was £20,272,204.

Matters arising

Our certification work did not identify any issues or errors with the claim, and we therefore certified the claim unqualified and without amendment.

Consequently we have made no recommendations to the Authority 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

The Audit Commission set an indicative fee for our certification work in 2013/14 of £9,504. Our actual fee was the same as the indicative fee, and this compares to the 2012/13 fee for this claim of £13,193.

Yours sincerely,

Tim Cutler
 Partner



KPMG LLP

Certification of claims and returns - annual report 2013/14

16 December 2014

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

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tim Cutler, who is the engagement leader to the Authority (telephone 0611 246 4774, e-mail tim.cutler@kpmg.co.uk) who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees (telephone 0161 236 4000, e-mail trevor.rees@kpmg.co.uk) who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 444 8330.

REPORT



REPORT OF	MEETING	DATE	ITEM
INTERNAL AUDIT	AUDIT COMMITTEE	29 JANUARY 2015	5

ANNUAL GOVERNANCE STATEMENT – PROGRESS REPORT

PUBLIC ITEM

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

SUMMARY

The report provides a progress report against those actions identified within the corporate governance statement which the Committee considered and approved in June 2014.

RECOMMENDATION

The Committee notes the progress made against the various actions and that an update report be brought forward to the committee on outstanding actions in June 2015.

CABINET PORTFOLIO

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

Finance & Resources - Councillor Karen Buckley

CORPORATE PRIORITIES

To Promote the Enhancement of The Natural & Built Environment (Place)		To Encourage Cohesive Communities (People)	
To Promote a Thriving Economy (Prosperity)		To Meet Expectations of our Customers (Performance)	√

SUMMARY OF PREVIOUS DECISIONS

The Annual Governance Statement was adopted by the Audit Committee at its meeting on 26 June 2014 in the following terms:

- (1) To approve the Annual Governance Statement for signature by the Leader of the Council and the Chief Executive, subject to the two minor amendments in regards to the actions identified for 2014/15, and that the word 'refresh' be deleted from actions (1) and (2) and replaced with the word 'review'; and
- (2) That a report providing an overview of the effectiveness, and compliance with, the protocol for members on outside bodies, be brought to a future meeting of the Audit Committee.

REPORT

1. Governance Issues

As a result of the assessment of the effectiveness of governance within the Council, the Corporate Governance Group identified four areas where it believed that focus should be given during 2014/15. These areas are related to business continuity, IT disaster recovery, project management and the governance framework in light of the May 2014 governance referendum. A further description is given below of these actions. Progress on these matters is then reported in the sections below:

- Review business continuity arrangements
- Review IT disaster recovery plan
- Review approach to project management
- Prepare for change in governance arrangements

1.2 Review of business continuity arrangements

An internal Audit Action Plan on the review of the Council's Business Continuity arrangements was agreed in 2013/2014. The action plan contained some 28 individual actions that were required to be undertaken before March 2015, and one by September 2015. Internal Audit is monitoring the progress of this action plan via the Council's Performance Management system, InPhase. The current situation is as below:

- The seven actions (1 high, 6 medium) due for completion by July 2014 have been completed.
- The one action (1 high) was due for completion in September 2014, this has been completed.
- Nine actions (2 high, 5 medium, 2 low) were due for completion by December 2014, seven of these actions are completed with the remaining two in the process of being completed. The actions still in the process of completion are the return of up-to-date Service Business Continuity plans. Of the 13 managers required to return SBCP, 9 have returned completed plans the remaining 4 are in the process of getting completed plans returned. These managers have been reminded of the necessity to have completed plans returned this month. The remaining action is to brief Management Team members of their roles in the BCP process. The final version of the Management Role is being developed and once this is complete the briefing will take place.
- Eleven actions due for completion by the end of March 2015.

Although two actions are slightly behind plan, they are both in progress and it is not envisaged that the delay on completion will have any material impact on the planned completion of the Business Continuity Plan by the end of March 2015.

1.3 Review of IT disaster recovery plan

An internal Audit Action Plan reviewing ICT Service Management arrangements was agreed in 2013/2014. The action plan contained a high priority action to implement a disaster recovery plan by March 2015. The ICT service is currently reviewing and refreshing its disaster recovery arrangements due to no arrangements being in place previously. Work has progressed despite the service restructure and arrangements have been put in place for a daily off site backup ensuring no data loss if the town hall building became unavailable.

The next stage of the project will move backup data to an out of town location and document the restore procedure in line with the business impact analysis scoring matrix completed by the senior management team.

Internal Audit will be monitoring the progress of this action plan via the Council's Performance Management system, InPhase. The current situation is as below:

- The one action (1 low) due for completion by April 2014 has been completed.
- The one action (1 medium) due for completion by July 2014 has been completed.
- The one action (1 medium) due for completion by September 2014 has been completed.
- The three actions (1 high, 1 medium, 1 low) due for completion by the end of March 2015 including the disaster recovery plan are on target for completion.
- The one action (1 medium) due to completion by March 2016 is on target for completion
- In addition to the audit recommendations Fylde ICT have identified the corporate phone system as a system that would need to be recovered. This sits outside the audit action and will be resolved during 2015.

1.4 Review of approach to project management

The Council has a project management approach which requires review, and subsequently guidance to be issued to Service Heads, to ensure a consistent approach to its application. Fylde ICT has been piloting a lightweight projects management toolkit allowing the team to understand outcomes, allocate work and measure outcomes once a project has been completed. Differing officers have previously had responsibility for this area of work over time but have since left the Council as a result of natural wastage. Identifying a resource to lead on this area of work has now been considered by the Chief Executive and Directors and as a result it has been identified that this activity will be added to the Job Description of a post subject to review.

A further update on this matter, and the likely time-frames involved, will be provided at the meeting.

1.5 Prepare for change in governance arrangements

This area has progressed well during the course of the year. Some key preparations for the change are set out below:

- Support from the Local Government Association (LGA) requested and agreed
- Information briefing for all councillors held in July 2014
- Cross-party Governance Working Group established by the Council in July 2014
- Agreement reached with the LGA that a peer member would work with the Governance Group and Chair its meetings
- Several meetings of the Governance Working Group have taken place ; the first held in August 2014 and a final meeting scheduled for 19 January 2015
- Information shared with all elected members on the work of the Governance Group
- Key principles agreed by Council in December 2014 incorporating such issues as Terms of Reference of the new Committees
- Final Constitution to be presented to the Council in March 2015 with the new system to be introduced post May 2015 Borough elections

2. Updated report

It is suggested that an updated report is brought back before the Committee on progress made against outstanding actions at the June 2015 meeting.

IMPLICATIONS	
Finance	At this stage there are no financial implications arising directly from this report.
Legal	The change in governance system must comply with relevant legislation and associated regulations.
Community Safety	No specific implications
Human Rights and Equalities	No specific implications
Sustainability and Environmental Impact	No specific implications
Health & Safety and Risk Management	No specific implications

REPORT AUTHOR	TEL	DATE	DOC ID
Tracy Morrison	01253 658521	14 January 2015	

LIST OF BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
Council reports on the governance change	28 th July 2014 1 December 2014	WWW.FYLDE.GOV.UK

REPORT



REPORT OF	MEETING	DATE	ITEM
INTERNAL AUDIT	AUDIT COMMITTEE	29 JANUARY 2015	6

EXTERNAL ASSESSMENT OF THE EFFECTIVENESS OF INTERNAL AUDIT

PUBLIC ITEM

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

SUMMARY

The report refers to the requirement established by the Public Sector Internal Audit Standards to have a periodic external assessment of the effectiveness of Internal Audit. A proposal to satisfy this requirement is outlined.

RECOMMENDATION

The Committee approves the approach whereby periodic external assessments of Internal Audit take the form of a self-assessment subsequently validated by suitably qualified individuals or teams from members of the Lancashire District Councils Audit Group on a reciprocal basis across a 5 year cycle.

CABINET PORTFOLIO

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

Finance & Resources - Councillor Karen Buckley

CORPORATE PRIORITIES

To Promote the Enhancement of The Natural & Built Environment (Place)		To Encourage Cohesive Communities (People)	
To Promote a Thriving Economy (Prosperity)		To Meet Expectations of our Customers (Performance)	√

SUMMARY OF PREVIOUS DECISIONS

The effectiveness of Internal Audit was confirmed previously by the Audit Committee at its meeting on 25 September 2014 following an internal self-assessment. An improvement action plan has been adopted.

REPORT

1. In April 2013 the Public Sector Internal Audit Standards (PSIAS) came into effect, replacing the CIPFA Code of Practice as the key framework document governing the Internal Audit arrangements within local authorities. The Standards, which are mandatory, include a requirement for an external assessment of the effectiveness of the Internal Audit function at least once every 5 years.
2. This requirement may be satisfied by either arranging for a ‘full’ external assessment or by undertaking a self-assessment with independent validation no later than 1 April 2018.
3. The Lancashire District Councils Audit Group (LDCAG) is considering the organisation of a system of peer reviews, with as many member authorities as possible taking part. The agreed approach to these peer reviews is that each Internal Audit Service would undertake a self-assessment which would be validated by suitably qualified individuals or teams from other members of the group across a 5 year cycle.
4. It was agreed at the last LDCAG meeting that each Head of Internal Audit would seek the support of their Audit Committees for this proposal.
5. Other options are available for procuring an external assessment of the effectiveness of internal audit:
 - ◆ Buying-in the function from a professional body e.g. Chartered Institute of Internal Auditors
 - ◆ Buying-in the service from a suitably qualified individual or firm
 - ◆ Provision of the service by the appointed external auditor
6. The benefits of the proposed approach include:
 - ◆ Cost benefits of carrying out the reviews within existing resources
 - ◆ Consistency of approach by the adoption of one method of review
 - ◆ Enhanced peer to peer learning opportunities
7. It is therefore recommended that participation in the LDCAG system of peer reviews becomes the agreed approach for Fylde. The reciprocal nature of the arrangement would mean that this would be at minimal additional cost to all the authorities concerned and is considered to be the most time and cost effective means of delivering the required assessment.
8. This approach has been agreed in principle with the Section 151 officer and now needs to be confirmed by the Audit Committee.
9. In the unlikely event that the LDCAG proposals do not proceed, a further report will be brought forward for consideration based on the other available options outline above.

IMPLICATIONS	
Finance	At this stage there are no financial implications arising directly from this report. If the process for reciprocal peer reviews of internal audit is accepted additional financial costs will be minimal and would be met from existing approved budget provision.
Legal	This report secures continued compliance with the Public Sector Internal Audit Standards’ which are mandatory for all principal local authorities subject to the Accounts and Audit Regulations 2011.

Community Safety	No specific implications
Human Rights and Equalities	No specific implications
Sustainability and Environmental Impact	No specific implications
Health & Safety and Risk Management	No specific implications

REPORT AUTHOR	TEL	DATE	DOC ID
Savile Sykes	01253 658413	29 January 2015	

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

REPORT

REPORT OF	MEETING	DATE	ITEM
INTERNAL AUDIT	AUDIT COMMITTEE	29 JANUARY 2015	7

INTERNAL AUDIT INTERIM REPORT 2014/15

PUBLIC ITEM

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

SUMMARY

At its meeting in March 2014 the committee endorsed the Internal Audit Annual Plan for 2014/15. This report summarises the work undertaken by internal audit from April to December 2014 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 and sets out a number of amendments to reflect the current situation.

RECOMMENDATIONS

- 1) To note the Internal Audit Interim Report
- 2) To note the position with regard to the Internal Audit Plan and the amendments to it

CABINET PORTFOLIO

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

Finance & Resources - Councillor Karen Buckley

CORPORATE PRIORITIES

To Promote the Enhancement of The Natural & Built Environment (Place)		To Encourage Cohesive Communities (People)	
To Promote a Thriving Economy (Prosperity)		To Meet Expectations of our Customers (Performance)	√

SUMMARY OF PREVIOUS DECISIONS

The internal audit annual plan for 2014/15 was approved by the Audit Committee at its meeting on 20 March 2014.

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 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 2011. The latter states that "the relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk."

1.3.2 This report provides the Audit Committee with information on work undertaken and assurances gained in these respects between April and December 2014.

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 Audit Committee in November 2013 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, and broadly complied with the principles contained in the PSIAS, and has fulfilled the requirements of the Accounts and Audit Regulations 2011 and associated regulations in respect of the provision of an internal audit service.

1.4.3 Areas of non-conformance with the standards have been developed into an Improvement Plan, which was endorsed by the committee at its September meeting. The outcomes will be reported in accordance with the agreed timetable.

2. Assurance on Internal Control

2.1 During the period from April to December 2014 seven action plans have been issued and agreed where appropriate. Copies of the reports and action plans are available to view via the Audit Work page on the Intranet.

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
Individual Electoral Registration ¹	-	1	2	Full
Business Continuity ¹	6	17	6	Limited
Data Quality - Sickness PI ¹	-	-	-	Moderate
Annual Governance Review	-	7	5	Substantial
Fleet Management	-	10	3	Moderate
Ethical Governance	-	6	9	Moderate
Waste Service Management ²	-	6	4	-
Total	6	47	29	

¹ Reviews from 2013/14 finalised in 2014/15

² Non-assurance review

2.5 For 2014/15 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 weaknesses may put system objectives at risk.

2.6 There were six important internal control weaknesses brought to the attention of management during the period, and one brought forward from 2013/14. The agreed implementation dates for four of the seven issues have not yet passed. Two of the actions in relation to business continuity have been addressed.

2.7 One action concerning the development of Business Continuity plans for critical services due for completion by the end of December is in the process of completion, with input from 9 of the 13 service managers received. It is expected that all plans will be completed by the end of January 2015.

2.8 Table Three sets out the issues, the responsible Directorates and the current position or date for resolution.

Table Three: High Priority Risks Identified

Risk	Director	Resolution Date
Previous Years' Risks		
1. Develop and test an effective Disaster Recovery Plan for ICT Services	Resources	Mar 2015
2. Carry out a full Business Impact Analysis (BIA) to identify critical services	Resources	Completed
3. Develop an effective and current Corporate Business Continuity Plan arising from the BIA and reflecting existing risks and structures	Resources	Mar 2015
4. Hold a copy of the Corporate Business Continuity Plan off site in a safe accessible place not dependent on a functioning ICT system	Resources	Mar 2015
5. Develop effective Business Continuity Plans for all critical services	Resources	Dec 2014
6. Provide training for key business continuity personnel	Resources	Completed
7. Conduct an annual exercise to test the Council's planned response to business disruption	Resources	Sep 2015

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. Twelve follow-up reviews have been completed to 31 December. 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			
Trade Waste	7	7	100%
Treasury Management	2	2	100%
FMS/MOT Service	20	20	100%
IT Contract Management	3	3	100%
Corporate Governance 2013	17	17	100%
Main Accounting	3	3	100%
Data Protection (Resources)	20	19	95%
Travel & Expenses	15	13	87%
Development Management - PIP Action Plan	9	9	100%
Homelessness	16	15	94%
Payroll	9	5	56%
2014-15 Reports			
Individual Electoral Registration	3	3	100%
Total	124	116	93.5%

3.2 The implementation rate for follow-up reviews to 31 December stands at 93.5% against a target of 90%. This compares to last year's overall implementation figure of 90.1% and the 5-year average rate for overall implementation which stands at 90.7%. Our discussions with responsible managers suggest that at least five of the outstanding actions will ultimately be delivered.

4 Special Investigations and Counter Fraud Work

Investigations

4.1 During the year to the 31st December the audit team commenced two special investigations into allegations of fraud and corruption. The responsible Directors/Heads of Service were made aware of the various issues as appropriate. In both cases the initial assessment of evidence and preliminary investigation has been concluded. In one case the matters raised have been completely resolved but investigations continue in the second.

4.2 Table Five summarises the results of the investigations into fraud and corruption during April to December compared with the outturn for previous years.

Table Five: Results of Special Investigations

Outcome	2010-11	2011-12	2012-13	2013-14	2014-15 Apr-Dec
Disciplinary action	-	1	-	-	-
Third party restitution	-	-	1	-	-
No evidence to support allegation	-	1	2	-	1
Inconclusive evidence	-	-	-	1	-
Investigation terminated	1	-	-	1	-
Investigation ongoing	-	-	-	-	1
Total	1	2	3	2	2

4.3 Altogether some 46 days have been taken up dealing with special investigations and reactive fraud work during the period 1st April to the 31st December 2014. This unusually high figure compares to 12 days for the whole of 2013/14 and a contingency of 15 days included in the 2014/15 annual plan. The amount of investigative work required is not predictable and this year its impact on the achievement of the audit plan has been significant.

National Fraud Initiative

4.4 Internal audit has acted 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. The live data has been extracted from the participant systems in accordance with the data specifications and uploaded to the NFI web application.

4.5 The previous biennial exercise revealed overpayments totalling of £74,000 with ongoing savings in future years. The current 2014/2015 exercise is ongoing with the next phase commencing during January/February 2015 involving the comparison of datasets from council tax to the electoral register, which will result in further matches for investigation.

Fraud Investigation Service

4.6 The Head of Internal Audit is responsible for overseeing the delivery of the benefit/CTRS fraud investigation service provided by Preston City Council. During the year the Fraud Service Level Agreement was extended to 31 May 2015. From this date responsibility for the investigation of housing benefit fraud transfers to the Department for Work & Pensions.

4.7 In the current year to 31st December overpayments of £125,000 have been identified against the annual target of £200,000 with 19 prosecutions and other sanctions against a target of 30. The Fraud Service remains optimistic that the annual targets will be met. A considerable number of other sanctions are currently pending, for example, several cases are with the Crown Prosecution Service awaiting prosecution.

Whistleblowing

4.8 There have been three instances of employee whistleblowing during the current year to date not including benefit fraud contacts. One related to allegations of fraud, mentioned above, while the other two were in connection to alleged poor management practice that were separately addressed by management.

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 2013/14	Current to 31/12/14
IA1 % of audit plan completed	90%	95.0%	59.3%
IA2 % satisfaction rating indicated by post-audit surveys	90%	89.6%	91.1%
IA3 % of audit recommendations agreed with management	95%	97.4%	100%
IA4 % of agreed actions implemented by management	90%	90.1%	93.5%
IA5 % of 'High Priority' actions implemented by management	100%	100%	100%
IA6 % of 'High/Medium Priority' actions implemented by management	95%	86.1%	89.5%
IA7 % of recommendations implemented by the first agreed date	75%	74.6%	71.0%

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 low percentage of the audit plan completed to date of 59.3% is explained and addressed in the following section of the report.

6 Internal Audit Plan

Reduced Resources

6.1 The resources of internal audit are almost exclusively manpower related. During 2014/15 various changes to the team and the recruitment process have impacted on the time available to achieve the annual plan.

6.2 During the course of the financial year a full time member of the audit team resigned and a recruitment period of 45 days occurred between the date of leaving and the appointment of the replacement officer from within the existing team. This was to allow for the recruitment process to be undertaken and the replacement to take up offer of the post. The appointment was on the basis of reduced hours equivalent to about 35 days in 2014/15.

6.3 Subsequently the recruitment of a second replacement auditor was commenced. Unfortunately this has been a protracted process as there were delays with identifying suitable candidates. However, a renewed recruitment procedure has now resulted in three good quality candidates coming forward and it is hoped that one of these will now be appointed in the near future. The impact of this on the audit plan amounts to a further 115 days.

6.4 The total impact of reduced manpower resources in the current audit year is 195 days. From this between 25% and 30% of time is accounted for by holidays, training, absences and non-audit duties. This equates to a loss of around 135 audit days.

Impact on Audit Plan

6.5 The original plan totalled 567 audit days. A total adjustment of 135 days needs to be made to take account of the reduced resources available. The original and revised plans are attached for information as an Appendix.

6.6 The objective for the remainder of the year will be to undertake the audits of the remaining fundamental financial systems, to complete the follow up reviews of audits already undertaken and to conclude those audits already commenced.

6.7 This means the following audit reviews that have not been started will have to be omitted from this year's programme of work. Table Seven below sets out the omitted reviews saving 98 days.

Table Seven: Audits to be Omitted

Audit Reviews	Planned days 2014-15
Cemetery & Crematorium	10
Complaints	18
Recruitment	18
Section 106 Agreements	18
Procurement	18
Expenses	8
IT Probity	8
	98

6.8 Additional net savings of 20 days will be made principally from the time allocated to Management & Administration, meaning that 118 days will be saved by not undertaking planned work in the current year. A concerted effort to save the remaining days from within the audits currently in progress or yet to be performed will be attempted but it is probable that some slippage will occur.

6.9 These essential amendments to the plan will permit the audit team to focus on the most significant work remaining. The audit reviews removed from the plan are now top of the reserve list and will be added back into the plan if any days become available either through work being completed quicker than the time allocation or through other unforeseen variations.

6.10 The changes to the audit plan will inevitably mean a reduced level of audit coverage overall. Nevertheless the fundamental financial systems and significant corporate matters will continue to be examined as originally planned. The compromise plan represents the best use of time available in the prevailing circumstances.

IMPLICATIONS	
Finance	<p>The Accounts and Audit Regulations 2011 require the Council to ensure that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.</p> <p>There is a statutory requirement for the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control (Accounts and Audit Regulations 2011)</p> <p>A significant number of audit projects carried out in 2014/15 related to finance, resource or property</p>
Legal	Internal Audit work contributes towards the production of the Annual Governance Statement published each year by the Council.
Community Safety	No specific implications
Human Rights and Equalities	No specific implications
Sustainability and Environmental Impact	No specific implications
Health & Safety and Risk Management	Internal audit work covers key areas of risk and should therefore strengthen the internal control framework. The Interim Internal Audit report arises from that work and is an important element of the assurance process for the effectiveness of the Council's systems of internal control.

LEAD AUTHOR	TEL	DATE	DOC ID
Savile Sykes	01253 658413	29 January 2015	

LIST OF BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
Audit Plan 2014/15	March 2014	All background papers or copies can be obtained from Savile Sykes – Head of Internal Audit on 01253 658413 or e-mail saviles@fylde.gov.uk

Attached documents

1. **Appendix 1** Internal Audit Revised Plan 2014-15

APPENDIX

INTERNAL AUDIT ANNUAL PLAN 2014-15 (REVISED)

Description of Audit Area	Original Days	Revised Days	Difference +/-	Status
Core Financial Systems				
Council Tax	20	20	0	Work in Progress
Council Tax (FCAT)	20	15	-5	Ongoing
Creditors	20	20	0	Work in Progress
Housing Benefits (FCAT)	20	15	-5	Ongoing
National Non-Domestic Rates (FCAT)	20	15	-5	Ongoing
Sundry Debtors	20	20	0	Work in Progress
Other Risks				
Attendance Management	18	25	7	Work in Progress
Cemetery & Crematorium	10	0	-10	Omitted
Complaints	18	0	-18	Omitted
Fleet Management	6	9	3	Complete
Recruitment	18	0	-18	Omitted
Section 106 Agreement	18	0	-18	Omitted
Procurement	18	18	0	Omitted
Corporate Governance				
Annual Governance Review	10	14	4	Complete
Audit Committee - Review of Effectiveness	2	2	0	To Commence Q4
Ethical Governance	18	23	5	Complete
Internal Audit - Review of Effectiveness	3	3	0	Complete
Individual Voter Registration	8	2	-6	Complete
Performance Management				
Data Quality Review	4	2	-2	Complete
Computer Audit				
ICT	15	15	0	Work in Progress
ICT Probity	8	0	-8	Omitted
ICT Service Management	3	1	-2	Complete

Description of Audit Area	Original Days	Revised Days	Difference +/-	Status
Anti-Fraud				
Expenses	8	0	-8	Omitted
Fuel Cards	8	4	-4	Work in Progress
National Fraud Initiative	8	4	-4	Ongoing
Prevention of Fraud & Corruption	2	2	0	To Commence Q4
Follow Up				
Follow Up	20	30	10	Ongoing
Communication and Consultancy				
General Consultancy and Advice	22	16	-6	Ongoing
Communication and Liaison	22	15	-7	Ongoing
Contingency				
Contingency	50	60	10	Ongoing
Audit Team				
Management & Administration	136	105	-31	Ongoing
Total Days	573	455	-118	

REPORT



REPORT OF	MEETING	DATE	ITEM
RESOURCES	AUDIT COMMITTEE	29 JANUARY 2015	8

STRATEGIC RISK 2014-15

PUBLIC ITEM

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

SUMMARY

The report summarises the work undertaken in completing the strategic risk actions contained in the Strategic Risk Register 2014-15.

RECOMMENDATIONS

1. That the progress made on completing the Strategic Risk Actions for 2014-15 be noted.
2. That any observations the committee have on the content of this report are passed to the Cabinet Portfolio Holder and / or the Strategic Risk Management Group.

CABINET PORTFOLIO

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

Finance & Resources - Councillor Karen Buckley

CORPORATE PRIORITIES (delete v which are not relevant)

To Promote the Enhancement of The Natural & Built Environment (Place)		To Encourage Cohesive Communities (People)	
To Promote a Thriving Economy (Prosperity)		To Meet Expectations of our Customers (Performance)	v

SUMMARY OF PREVIOUS DECISIONS

Audit Committee - 26 June 2014

Audit Committee approved the action plans contained in the 2014-15 Strategic Risk Register.

REPORT

1. In June 2014 the Risk and Emergency Planning Officer reported to the Audit Committee on the compilation of the 2014-2015 Risk Register. The purpose of the Register is to identify, analyse and prioritise those risks/opportunities that may affect the ability of the Council to achieve its corporate objectives in the financial year 2014-15. It forms part of the Council's corporate governance requirement to manage its risks/opportunities. The Risk Register is renewed annually as part of the Council's Risk Management Strategy which was first adopted by the Council in 2003.
2. The strategy requires the Corporate Management Team to hold a risk workshop to priorities the risks/opportunities each year. In 2014-5 five risk areas were identified at the initial risk workshop as requiring additional management and attention, over and above that which would normally be expected and these areas were formulated into individual action plans, see table 1 below. Each action plan was assigned to a "champion" (a member of the corporate management team) who was responsible for the assignment of the individual tasks identified in the plan. The "champion" is responsible for ensuring these actions are completed.

Table 1 – 2014-15 Strategic Risk Action Plans

Strategic Risk Area	Risk Champion
Capacity & Change	Chief Executive
Local Plan (Not progressed)	Director of Development
Travellers	Chief Financial Officer
Review of Assets	Director of Resources
Development Management – Cost of Planning Appeals	Chief Financial Officer

3. Monitoring of the Action Plans is carried out by the Strategic Risk Management Group (SRMG). This group is chaired by the Director of Resources who has responsibility for Risk Management. The group is attended by all directorate heads, the Chief Financial Officer, Head of Internal Audit, Head of Governance, along with representatives of the Council's insurers (Zurich Municipal) and Health & Safety advisors (Blackpool Council) and the Council's Risk & Emergency Planning Officer.
4. The four action plans approved by the Audit Committee in June 2014, contained 29 individual risk actions to be undertaken by assigned officers by specified dates throughout the year.
5. The current position with regard to the individual risk actions as at 31 December 2014, is as follows. Of the 15 risk actions due for completion by 31 December 2014, a total of 13 (87%) had been fully completed. The 2 (13%) uncompleted actions were included in the Capacity & Change Risk Action Plan. The first action was to carry out a skill / knowledge audit, this has had to be postponed due to capacity issues as this action will require high level management leadership. These resources will not be available until 2015-16. The second action was a follow-on of the skills audit which cannot progress until the skills audit is completed.

IMPLICATIONS	
Finance	The Accounts and Audit Regulations requires the Council to ensure that its financial management is adequate and effective and includes arrangements for the management of risk.
Legal	The Council is required to make arrangements for the management of risk as part of its corporate governance arrangements.
Community Safety	None arising directly from 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	The satisfactory completion of the action plans is essential to reducing the strategic risks facing the Council and assists in fulfilling the requirements of the Accounts Regulations and Corporate Governance requirements.

LEAD AUTHOR	TEL	DATE	DOC ID
Andrew Wilsdon	01253 658412	Date of report 24/12/14	

LIST OF BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
Audit Committee Minutes	26/6/14	www.fylde.gov.uk