

Agenda



AUDIT AND STANDARDS COMMITTEE

Date:	Thursday, 16 March 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 19 January 2017 as a correct record.	
3	Substitute Members: Details of any substitute members notified in accordance with council procedure rule 24(c).	1
	STANDARDS ITEMS	
4	Issues Raised with the Monitoring Officer (INFORMATION ITEM)	3 - 4
	AUDIT DECISION ITEMS	
5	KPMG Audit Plan 2016/17	5 - 23
6	Corporate Governance Update	24 - 42
	AUDIT INFORMATION ITEMS	
7	Internal Audit Plan 2017/18	43 - 50
8	Public Sector Internal Audit Standards – External Assessment	51 - 64

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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INFORMATION ITEM



REPORT OF		MEETING	DATE	ITEM
MONITORING OFFICER	AUDIT AND STANDARDS COMMITTEE		16 MARCH 2017	4
ISSUES RAISED WITH THE MONITORING OFFICER				

PUBLIC ITEM

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

SUMMARY

The Monitoring Officer has been appointed as Proper Officer to receive allegations of failure to comply with the Code of Conduct regarding councillors, town and parish councillors and co-opted members. The Monitoring Officer has delegated authority, after consultation with the 'Independent Person', to determine whether an allegation of members' misconduct requires investigation and arrange such an investigation.

The Monitoring Officer should seek resolution of complaints without formal investigation wherever practicable and she has the discretion to refer matters to the Audit and Standards Committee where she feels it is inappropriate for her to take a decision on a referral for investigation. She should also periodically prepare reports for the Audit and Standards Committee on the discharge of this function.

In order to keep the Audit and Standards Committee informed as to the number and general nature of matters brought to her attention; reports on the discharge of the function of Monitoring Officer are brought on a periodic basis.

It is a point of clarification that there are a number of stages in dealing with reported matters. Some matters are brought to the attention of the Monitoring Officer without merit. In instances where a breach may have been considered to arise, and in line with agreed procedures, wherever possible the Monitoring Officer should seek the resolution of complaints without the need for formal investigation.

SOURCE OF INFORMATION

The Monitoring Officer.

INFORMATION

The table below shows the nature of the allegations made in the complaints since last reported to the Audit and Standards Committee on 17 November 2016. Complainants do not need to specify a relevant part of the code where they believe a breach has occurred (and indeed some of these complaints relate to differing codes dependant on when the complaint originates). For the purpose of the table below, the Monitoring Officer has made a judgement and grouped them accordingly.

PARISH MATTERS	
Failure to treat others with respect	0
Bringing the authority into disrepute	0
Interests	0

BOROUGH MATTERS	
Failure to treat others with respect	4
Bringing the authority into disrepute	0
Interests	0

WHY IS THIS INFORMATION BEING GIVEN TO THE COMMITTEE?

Periodic reports to the Audit and Standards Committee show all the matters which have been brought to the attention of the Monitoring Officer for review in order that members of the Audit and Standards Committee have an appreciation of all matters arising.

FURTHER INFORMATION

Contact Tracy Morrison, Monitoring Officer Tel: 01253 658521

DECISION ITEM

REPORT OF	MEETING	DATE	ITEM NO
RESOURCES DIRECTORATE	AUDIT AND STANDARDS COMMITTEE	16 MARCH 2017	5
KPMG AUDIT PLAN 2016/17			

PUBLIC ITEM

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

SUMMARY

The report presents the Audit Plan from KPMG for the forthcoming financial year. The report will be presented by KPMG.

RECOMMENDATIONS

1. The Committee is recommended to consider and comment on the KPMG External Audit Plan for 2016/17 which is attached to this covering report.

SUMMARY OF PREVIOUS DECISIONS

The Audit Plan is considered each year by the Audit and Standards Committee.

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 how they will deliver their audit work for Fylde Borough Council during the coming year.

IMPLICATIONS	
Finance	No specific implications - the cost of external work can be met from existing budget provision.
Legal	None arising from this report
Community Safety	None arising from this report
Human Rights and Equalities	None arising from this report
Sustainability and Environmental Impact	None arising from this report
Health & Safety and Risk Management	None arising from this report

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

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

Attached documents

1. Report of KPMG - External Audit Plan 2016/17



External Audit Plan 2016/17

Fylde Borough Council

February 2017

The Local Government Landscape



Financial Statement Audit



There are no significant changes to the Code of Practice on Local Authority Accounting in 2016/17, which provides stability in terms of the accounting standards the Authority need to comply with.

Materiality

Materiality for planning purposes has been based on last year's expenditure and set at £0.75 million.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at £37,000.

Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- Significant changes in the pension liability due to LGPS Triennial Valuation; and
- Valuation of Property, Plant and Equipment.

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding have been identified as:

- Disclosure around retrospective restatement of Comprehensive Income and Expenditure (CIES) , Movement in Reserves Statement (MiRS) and Expenditure and Funding Analysis (EFA) note from 1 April 2016; and
- Recognition of pay and non-pay expenditure.

See pages 3 to 7 for more details.

Value for Money Arrangements work



Our risk assessment is ongoing and we will report VFM significant risks during our audit .

See pages 8 to 11 for more details.

Logistics



Our team is:

- Amanda Latham - Director
- Chris Paisley – Audit Manager
- Hasnen Anjum – Assistant Manager

More details are on **page 14**.

Our work is completed in four phases from December to September and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 13**.

Our fee for the audit is £47,700 (2015/16: £47,700) see **page 12**.

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2016/17 presented to you in April 2016, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

Our audit has two key objectives, requiring us to audit/review and report on your:

- *Financial statements (including the Annual Governance Statement)*: Providing an opinion on your accounts; and
- *Use of resources*: Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Acknowledgements

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

Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.



Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 8 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2016/17 and the findings of our initial VFM risk assessment.





Financial Statements Audit Planning

Our planning work takes place during December 2016 to February 2017. This involves the following key aspects:

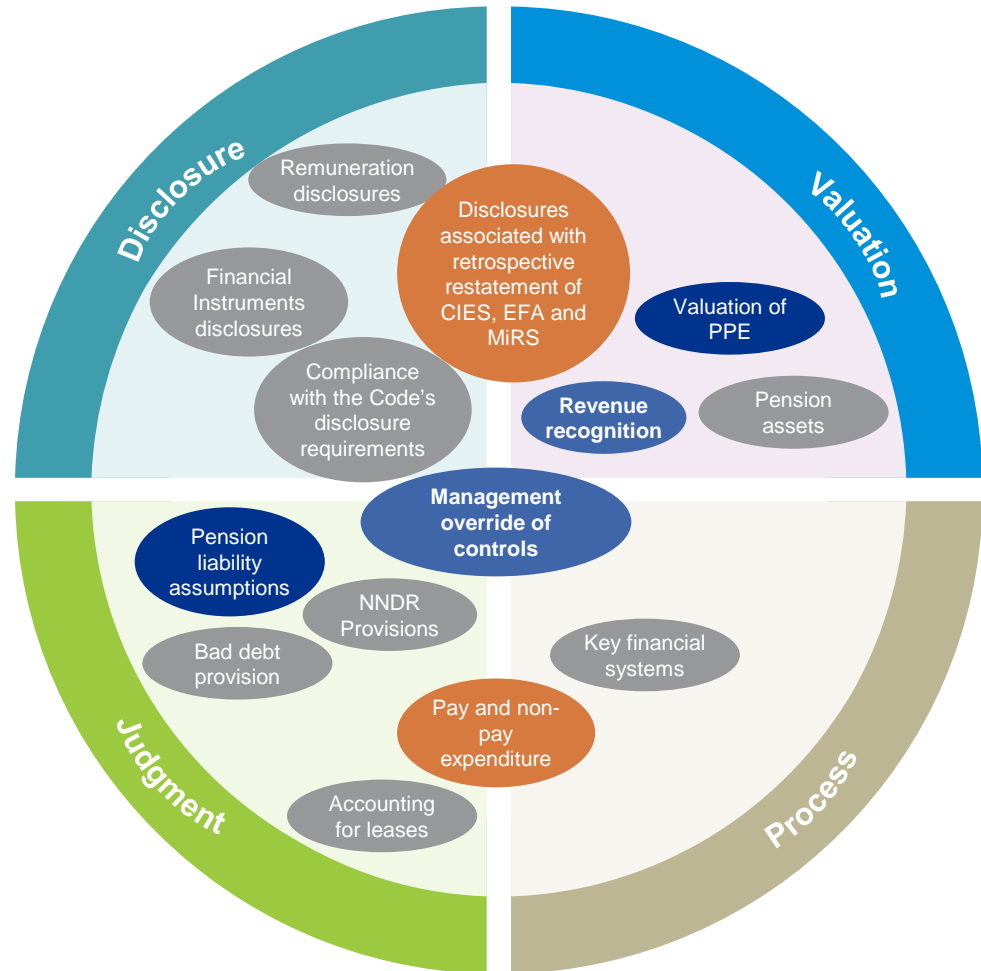
- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

Risk assessment

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

- **Management override of controls** – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- **Fraudulent revenue recognition** – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The diagram opposite identifies, significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.





Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error.

Risk : Significant changes in the pension liability due to LGPS Triennial Valuation

During the year, the Local Government Pension Scheme for Fylde Borough Council (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.

The pension liability numbers to be included in the financial statements for 2016/17 will be based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data.

There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Lancashire County Council, who administer the Pension Fund.

Approach : As part of our audit, we will agree any data provided by the Authority to the actuary, back to the relevant systems and reports from which it was derived, in addition to checking the accuracy of this data.

We will also liaise with Grant Thornton, who are the auditors of the Pension Fund, where this data was provided by the Pension Fund on the Authority's behalf to check the completeness and accuracy such data.

Risk : Valuation of Property, Plant and Equipment

The Authority undertakes a rolling revaluation of its Property, Plant and Equipment (PPE) assets. Assets are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current net book value; as a minimum, all assets are revalued at least every five years. The valuation of these assets is impacted significantly by the assumptions adopted by the Authority's expert valuation specialist. Further, Authorities are required to consider annually the possibility of any impairment to its existing estate. The asset valuation and impairment review processes are both estimates and therefore present a higher level of risk to the audit.

Approach : We will review the valuation basis adopted and consider its appropriateness. We will undertake appropriate work to understand the basis upon which any impairments to land and buildings have been calculated. We will test the associated assumptions. We will re-perform any calculations of movement in market value indices relied upon by the Trust, and confirm the data used by valuer, to the appropriate source data. We will assess the independence and objectivity of the surveyors and the terms under which they were engaged by management.



Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Disclosures associated with retrospective restatement of CIES, EFA and MiRS

During past years, CIPFA has been working with stakeholders to develop better accountability through the financial statements as part of its 'telling the whole story' project. The key objective of this project was to make Local Government accounts more understandable and transparent to the reader in terms of how the Councils are funded and how they use the funding to serve the local population. Outcome of this project resulted in two main changes in respect of the 2016-17 Local Government Accounting Code (Code) as follows:

- Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and
- Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MIRS) and replaces the current segmental reporting note

As a result of these changes, retrospective restatement of CIES (cost of services), EFA and MiRS is required from 1 April 2016 in the Statement of Accounts.

New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable Accounting Standards.

Though less likely to give rise to a material error in the financial statements, this is an important material disclosure change in this year's accounts, worthy of audit understanding.

Approach :

As part of our audit ;

- We will assess how the Authority has actioned the revised disclosure requirements for the CIES, MiRS and the new EFA statement as required by the Code ; and
- We will check the restated numbers and associated disclosures for accuracy, correct presentation and compliance with applicable Accounting Standards and Code guidance

Pay and non-pay expenditure

Staff costs represent a significant proportion of the Authority's expenditure base. The disaggregated nature of pay expenditure transactions and the number of changes to Payroll data that take place during the year indicates that staff costs should be given specific audit focus.

Non-pay expenditure is an area of audit focus because it is highly material to the users of the Accounts, and contains areas of management judgement in respect of, for example, accrued expenditure.

Approach:

In respect of pay costs, we will test the controls around changes to Payroll data, which impact directly on staff costs recognised in the financial statements, to confirm they have been operating effectively during 2016/17.

For non-pay expenditure, we will perform testing over controls in place around the approval of non-pay expenditure. We will perform substantive testing of non-pay expenditure transactions in 2016/17, as well as conducting a high-level analytical review of non-pay expenditure by category.



Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

Materiality for planning purposes has been set at £0.75 million, which equates to 1.9% percent of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

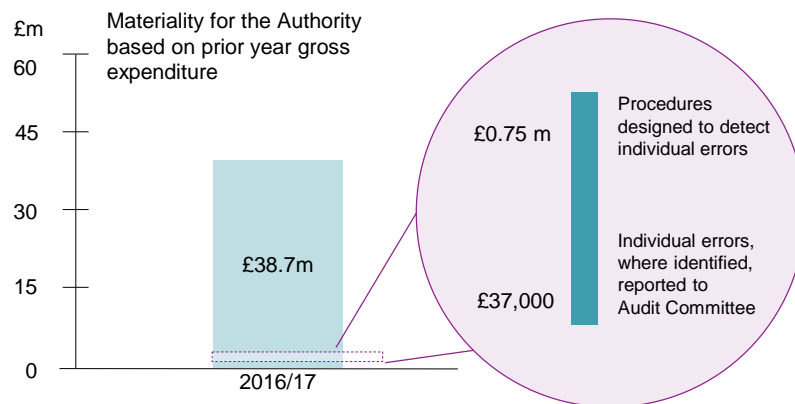
Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £37,000.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

We will report the following matters in our Report to those charged with Governance:

- Any deficiencies in the system of internal controls or instances of fraud which the subsidiary auditors identify;
- Any limitations on the group audit, for example, where the our access to information may have been restricted; and
- Any instances where our evaluation of the work the subsidiary auditors gives rise to concern about the quality of that auditor's work.



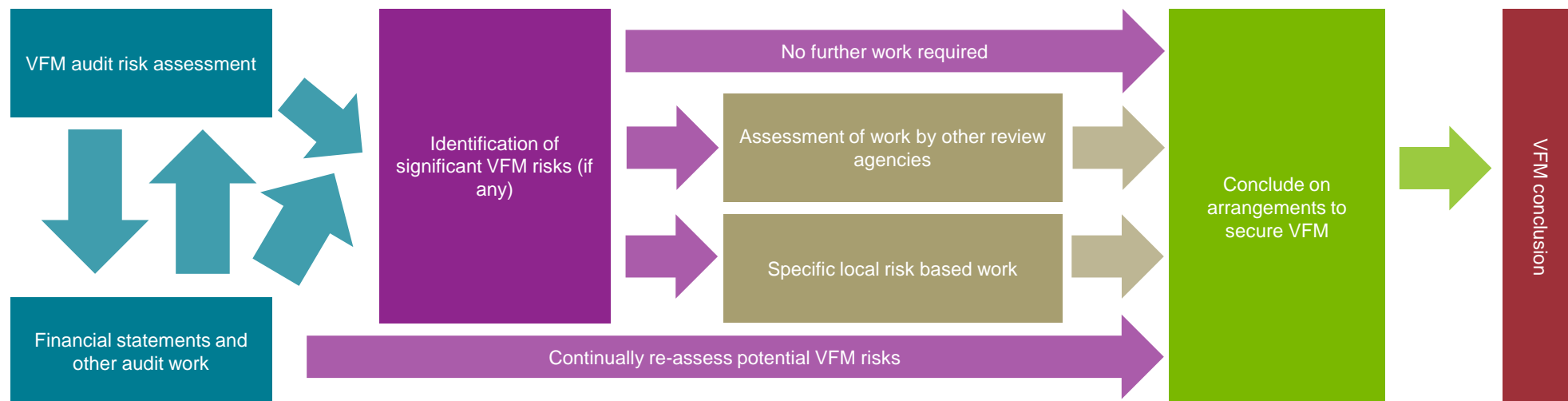


Background to approach to VFM work

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2015/2016 and the process is shown in the diagram below. The diagram overleaf shows the details of the criteria for our VFM work.





Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Informed decision making

Proper arrangements:

- Acting in the public interest, through demonstrating and applying the principles and values of sound governance.
- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.
- Reliable and timely financial reporting that supports the delivery of strategic priorities.
- Managing risks effectively and maintaining a sound system of internal control.

Sustainable resource deployment

Proper arrangements:

- Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.
- Managing and utilising assets to support the delivery of strategic priorities.
- Planning, organising and developing the workforce effectively to deliver strategic priorities.

Working with partners and third parties

Proper arrangements:

- Working with third parties effectively to deliver strategic priorities.
- Commissioning services effectively to support the delivery of strategic priorities.
- Procuring supplies and services effectively to support the delivery of strategic priorities.



VFM audit stage	Audit approach
VFM audit risk assessment	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> ■ The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ Information from the Public Sector Auditor Appointments Limited VFM profile tool; ■ Evidence gained from previous audit work, including the response to that work; and ■ The work of other inspectorates and review agencies.
Linkages with financial statements and other audit work	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
Identification of significant risks	<p>The Code identifies a matter as significant '<i>if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.</i>'</p> <p>If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> ■ Considering the results of work by the Authority, inspectorates and other review agencies; and ■ Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.



VFM audit stage	Audit approach
Assessment of work by other review agencies and Delivery of local risk based work	<p>Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.</p> <p>If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:</p> <ul style="list-style-type: none"> ■ Meeting with senior managers across the Authority; ■ Review of minutes and internal reports; ■ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.
Concluding on VFM arrangements	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
Reporting	<p>We have completed our initial VFM risk assessment and have not identified any significant VFM risks. We will update our assessment throughout the year should any issues present themselves and report against these in our ISA260.</p> <p>We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p>

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2016/17 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

- The right to inspect the accounts;
- The right to ask the auditor questions about the accounts; and
- The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.

Our audit team

Our audit team will be led by Amanda Latham, who will bring a fresh perspective to your audit. Continuity is provided by Chris Paisley as your Audit Manager, who has been part of your audit team for the last three years. Appendix 2 provides more details on specific roles and contact details of the team.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the Chief Finance Officer, and the Audit Committee. Our communication outputs are included in Appendix 1.

Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

Audit fee

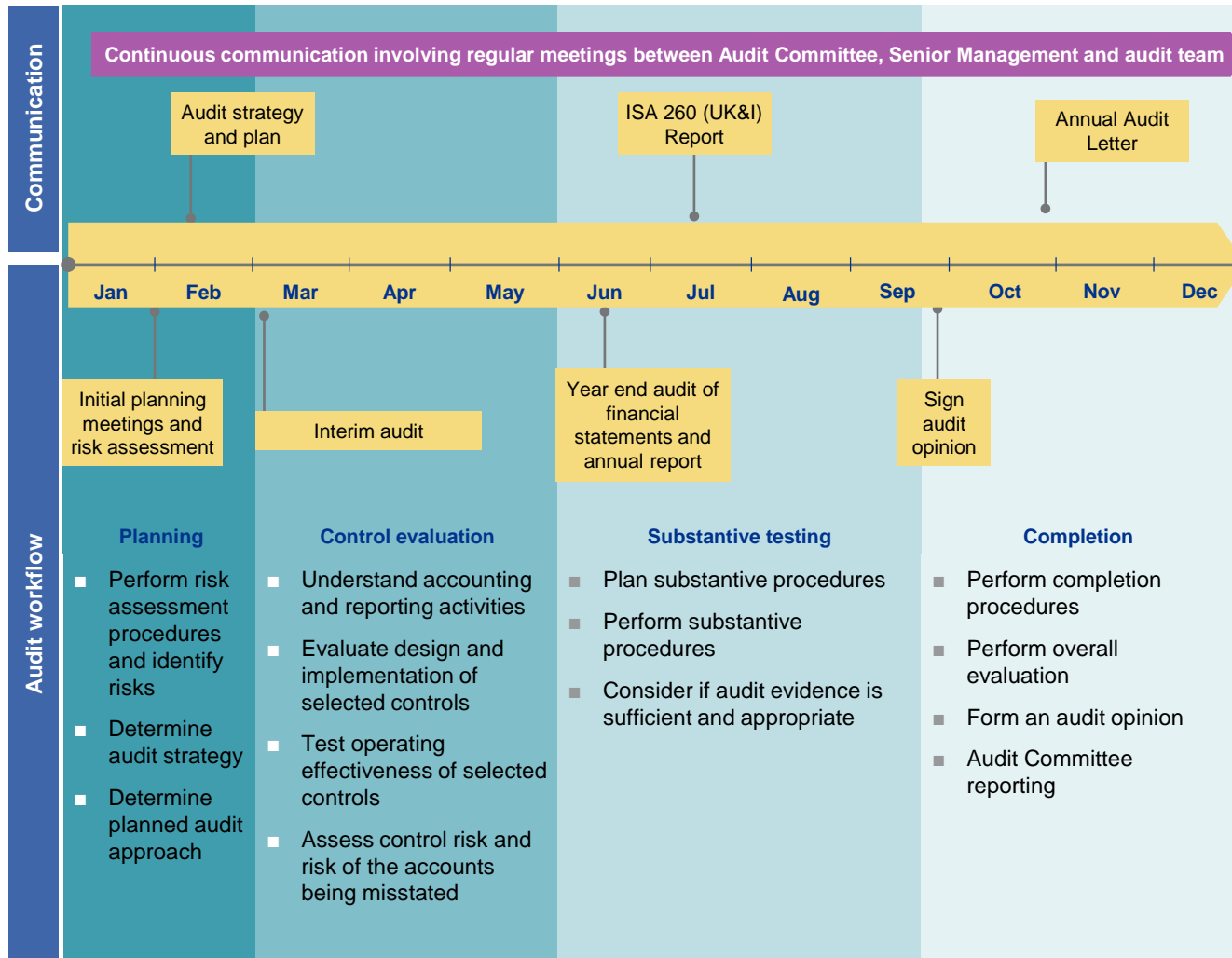
Our Audit Fee Letter 2016/2017 presented to you in April 2016 first set out our fees for the 2016/17 audit. This letter also sets out our assumptions.

We have not considered it necessary to make any changes to the agreed fees at this stage.

Our audit fee may be varied later, subject to agreement with PSAA, for changes in the Code, specifically this year the changes in relation to the disclosure associated with retrospective restatement of CIES, EFA and MiRS. If such a variation is agreed with PSAA, we will report that to you in the due course

The planned audit fee for 2016/17 is £47,700. This is consistent with the audit fee for 2015/16.

Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.



Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.' Data and Analytics allows us to:

- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as journals. We also expect to provide insights from our analysis of these tranches of data in our reporting to add further value from our audit.



Your audit team has been drawn from our specialist public sector assurance department. Our audit team will be led by Amanda Latham, who will bring a fresh perspective to your audit. Continuity is provided by Chris Paisley as your Audit Manager, who has been part of your audit team for the last three years.



Name	Amanda Latham
Position	Director
	<p>'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.</p> <p>I will be the main point of contact for the Audit Committee and Chief Executive.'</p>

Amanda Latham

Director

01772 473523

amanda.latham@kpmg.co.uk



Name	Chris Paisley
Position	Manager
	<p>'I provide quality assurance for the audit work and specifically any technical accounting and risk areas.</p> <p>I will work closely with Amanda to ensure we add value.</p> <p>I will liaise with the Head of Finance and other Directors.'</p>

Chris Paisley

Manager

0161 246 4934

christopher.paisley@kpmg.co.uk



Name	Hasnen Anjum
Position	Assistant Manager
	<p>'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'</p>

Hasnen Anjum

Assistant Manager

0161 246 4325

hasnen.Anjum@kpmg.co.uk

Independence and objectivity

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standards require us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Further to this auditors are required by the National Audit Office's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.

- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the PSAA's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

Confirmation statement

We confirm that as of February 2017 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.



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DECISION ITEM



REPORT OF	MEETING	DATE	ITEM NO
RESOURCES DIRECTORATE	AUDIT AND STANDARDS COMMITTEE	16 MARCH 2017	6
CORPORATE GOVERNANCE UPDATE			

PUBLIC ITEM

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

SUMMARY

This report gives an update on the three governance statement actions arising from last year's governance statement. An Action Plan is also attached which reflects these issues

RECOMMENDATION

1. To note the report and seek an update with respect to procurement information being incorporated into the contracts register at the June meeting of the committee.

SUMMARY OF PREVIOUS DECISIONS

Presentation of the 2015/16 Annual Governance Statement in June 2016 to the Audit and Standards Committee

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. This report gives an update on the three governance statement actions arising from last year's governance statement.
2. The first action related to risk management. At the time the governance statement was written, risk management was undergoing a period of transition following the appointment of a new officer. This officer has now been with the council for several months and has made excellent progress with this area of work. An action was noted around partnership risk registers and whether there was still a requirement for these registers to be in place. The registers had been

introduced as a result of the former Audit Commissions' inspection requirement of local government, in line with compulsory comprehensive performance assessment, and a requirement relating to risk management. The Audit Commission had provided inspection guidance that partnership risk registers should be in place, for example, with key partners such as the Citizens Advice Bureau (CAB). However, as the requirements of the Audit Commission and comprehensive performance assessments no longer exist, there was a question as to whether the requirement for such registers was still pertinent and this was articulated in last year's governance statement. The new Risk Management Officer has completed a benchmarking exercise with a cross-section of Lancashire authorities regarding this issue and has found that of those with whom the bench-marking was undertaken, none undertake joint partnership risk registers for external partnerships. In their place are contractual arrangements with key partners establishing the nature of the relationship between the Council and the organisation concerned. For example, in the case of the CAB there is a Service Level Agreement now in place. For this reason the review of the requirement for the need for these registers led to the conclusion that they are no longer a corporate requirement. As a result the revised Risk Management Strategy for the Council had removed the requirement for the creation of partnership risk registers.

3. A further action was around a relaunch of the corporate project management methodology. This has been successfully achieved throughout the year. Most notably it has been used in work around the self-sufficient council agenda with projects being put together using the project management methodology. Project management papers are attached for members' information.
4. With respect to the third matter, it was agreed that procurement information would be added to the contracts register. This work has forestalled a little due to a slight delay in recruiting an officer who will fulfil this role. However, an officer was successfully appointed at the end of January and it is anticipated that this work will be completed by the end of May and an update will be given to members on this matter at the June meeting of the committee.
5. The Action Plan below summarises the position with respect to these actions.

Table 1

Actions	Comment	Completion
Partnership Risk Registers	Following abolition of the comprehensive performance assessment and associated inspection requirements a benchmarking exercise has been undertaken with other authorities regarding continued requirement for shared partnership risk registers. It was concluded that these were no longer required as other methods in place to safeguard Council's relationship with external partners.	December 2016 – Status completed
Relaunch project management	This has been successfully achieved and already in use on the self-sufficient council-wide project.	December 2016 – Status completed
Procurement information added to online contracts register	Delayed due to recruitment of suitable officer. Officer now recruited. Target date reset.	End of December 2016 – target reset end of May 2017

IMPLICATIONS	
Finance	The are no financial implications arising directly from this report
Legal	None arising directly from this report
Community Safety	None arising directly from this report
Human Rights and Equalities	None arising directly from this report
Sustainability and Environmental Impact	None arising directly from this report
Health & Safety and Risk Management	None arising directly from this report

LEAD AUTHOR	TEL	DATE	DOC ID
Tracy Morrison	01253 658521	3 March 2017	

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

Attached documents

1. Project management papers

Project Management Overview @ FBC

INTRODUCTION

Project Management at Fylde Council (PM@FBC) has been developed and tested by experienced PRINCE2 practitioners. It is intended to be a 'light touch' methodology providing a scalable solution to the varied and sometimes complex requirements for officers engaged in project management and delivery across the Council and its partners.

When should PM@FBC be used?

This methodology should be used only for activity or projects that consist of more than one stage and / or need to be signed off by a Service Head level officer or higher.

The main characteristic is that the piece of work is '**Any activity undertaken to deliver specific improvement or change to business as usual**'.

Examples include the implementation of a new service, staff restructure, office move or depot relocation. If you have any doubts about whether the piece of work you are undertaking is a project then please contact Alex Scrivens.

THE PROCESS

PM@FBC consists of 3 stages;

- 1) Starting a project
- 2) Delivering a project
- 3) Closing a project

This is monitored and managed using 3 unique documents;

1. Project Brief (PM1)
2. Project Highlight / Exception Report (PM2)
3. Project Close Report (PM3)

HOW IT WORKS

PROJECT BRIEF (PM1)

In order to formalise what it is you want to achieve and what is required to achieve it you first complete the Project Brief. This sets out the priority of the project, the outline business case, what will be delivered, at what cost and the difference it will make and the benefits it will deliver given successful completion.

This captures all the information within the Project Brief in much more detail together with additional information such as an in-depth business case, costs, resource requirements, communication methods, quality criteria and milestones to be delivered during and at the end of the project.

If the Project Plan is approved the project moves from the Starting a project stage to the Delivering a project stage. The Project Manager commences project delivery ensuring that all existing Council protocols and procedures around Finance, Procurement, Health and Safety and Risk are adhered to.

PROJECT HIGHLIGHT / EXCEPTION REPORT (PM2)

Upon completion of significant milestones, deviation from project tolerances, or at Quarter end (whichever is sooner) the Project Manager submits a Project Highlight / Exception Report to the Project Board. This captures the current status of the project including overall status, budgetary spend and completion of milestones and other time constraints. It is an opportunity to inform relevant parties of how the project is progressing and bring to their attention any issues or obstacles the project may be facing. It is also required that the remedial action that is being taken is captured to ensure the project is still being successfully delivered. Any changes to the project delivery cost, timetable or outputs will also be documented.

This step will be repeated as many times as is required to ensure the project is delivered successfully and wherever possible within the agreed time scales and budgetary allocation.

PROJECT CLOSE REPORT (PM3)

Finally, moving into the Closing a Project stage, once all the milestones have been delivered, budget allocated and quality criteria met the Project Manager submits a Project Close Report to the Project Board.

This gives the Project Manager the opportunity to summarise the delivery of the project and provide evidence to demonstrate the successful delivery and acceptance of the project outputs. It also captures elements of the project that have gone well and those that didn't go so well together with suggestions as to how the PM@FBC methodology may be improved.

ROLES & RESPONSIBILITIES

- Project Sponsor – is the person or organisation providing the funding for the project this will usually be Management Team but could also include external bodies.
- Project Executive – is the person or organisation who will sign off and be accountable for the project delivery. This will usually be a Director or Head of Service.
- Project Manager – is the person delivering the project, managing risks, budgets, project quality and communicating progress. To ensure the integrity of the project management system the same individual cannot carry out the role of both Project Manager and Project Executive.
- Project Board – this is the individual or group of officers that have authority to start and end a project. This will usually be the Management Team of CEO.
- Member/ Cabinet Approval – This is only required where Member involvement is necessary. Irrespective of the methodology being applied, if the project requires Member or Cabinet approval then they should also authorise and sign off the relevant project management documents.



Project Brief (PM1)

PROJECT Title: **Add project title**

Project Manager: **Add name**

Date Created: **DD-MM-YYYY**

Version Number: **Add version reference**

Project Brief

For consideration of: (Name of Project Executive)

Prepared by: (Name of Project Manager)

Background (brief description of the project)

What it will involve and the benefits that will be realised from carrying it out

Project Definition

Outputs i.e. Products to be delivered

→

Outcomes i.e. The direct impact the outputs will have

→

Strategic Contribution i.e. Strong and diverse local economy

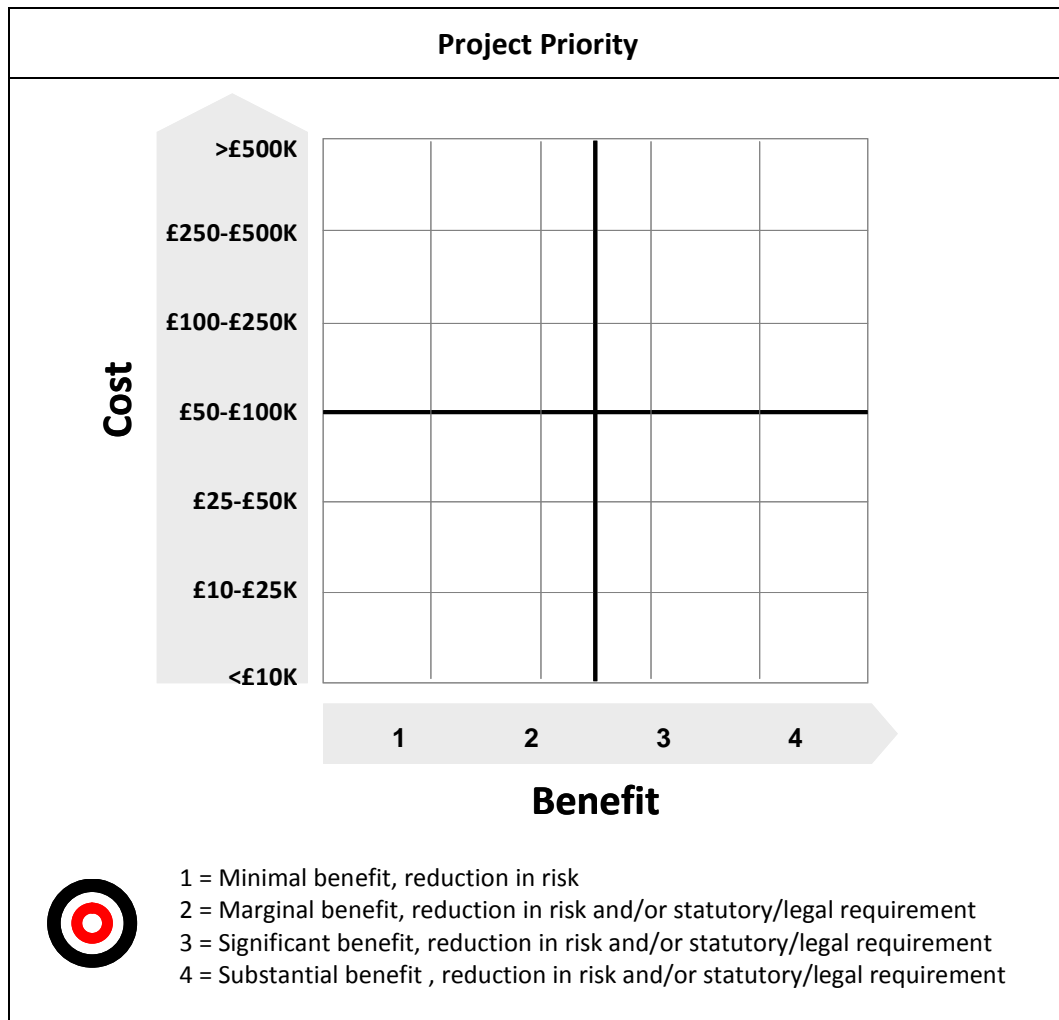
→

Other contribution i.e. Local Development Framework

→

Budget Resource Requirements (outline) Breakdown of initial costs such as Officer time, capital costs and support costs	
Initial estimated costs are: Internal costs: Additional budget cost: Savings/ payback achievable;	
Time Scale: After what period of time from start will it be considered completed?	
Start : (Date) / /	Completion: (Date) / /

Project Time Line and Milestones	
Milestones	Due Date
Add key milestones	X
Add key milestones	X
Add key milestones	X
Add key milestones	X
Add key milestones	X
Add key milestones	X
Add key milestones	X



Project Risks		
Risk	Impact	Action
People - Lack of staff support & engagement	Project fails to initiate	New project leader appointed
Time - Project over runs	Key external dates are missed	Ensure that final deadline is not missed
Money – Project overspends before completion	Only 8 sessions will be held, not the full 10	Alter spend on other resources to bring project back in to line

Justification / Consequence of not doing the project (Strategic contribution / Statutory requirement / Other contribution)
What is the need for the project and what will be the consequences if it is not carried out?

Project Brief authorisation	
Sponsor Signature:	
Date:	
Executive Signature:	
Date:	
Project Manager Signature:	
Date:	
Member Signature/ Cabinet Approval: (where required)	
Date:	



HIGHLIGHT / EXCEPTION REPORT (PM2)

PROJECT Title: **Add project title**

Project Manager: **Add name**





Date Created: **DD-MM-YYYY**

Version Number: **Add version reference**

Highlight / Exception Report

Prepared by: (Name of Project Manger)

Project description:
Can be copied from Project Brief

Performance Key			
Over Performing = by a month/better quality	On Track = within time limit/quality tolerance	Cautionary Under Performance = by a month/slight reduction in quality	Under Performing = two months or more/not met quality tolerance
			

Current Status Overview	
Overall Status:	Please use the one of the four performance key icons
Budget Status: (delivered within budget)	Please use the one of the four performance key icons
Time Status: (delivered within timeframe)	Please use the one of the four performance key icons
Outputs (ratio delivered on schedule e.g. 4 of 5)	Please use the one of the four performance key icons

Key milestones for this period:	Due Date	Status	If not completed - revised due Date
Milestones started & completed in this period		Please use one of the four performance key icons	Yes/No

Progress to date:
Overview of project to date

Cost	
Project Total:	£
Percentage of Spend to Date:	%

Recommendation to proceed:		
	<i>Delete as appropriate</i>	
Is the project on budget? If no please provide details	Yes	No
Is the project on time? If no please provide details	Yes	No
Are there any issues that the project board need to be aware of? If no please provide details	Yes	No
Do you approve that the project should proceed? If no please provide details	Yes	No
Project Manager Signature:		
Date:		



PROJECT CLOSE REPORT (PM3)

PROJECT Title: **Add project title**





Project Manager: **Add name**

Date Created: **DD-MM-YYYY**

Version Number: **Add version reference**

Project Close Report

For consideration of: (Name of Project Executive)

Performance Key			
<i>Over Performing = by a month/better quality</i>	<i>On Track = within time limit/quality tolerance</i>	<i>Cautionary Under Performance = by a month/slight reduction in quality</i>	<i>Under Performing = two months or more/not met quality tolerance</i>
			

Final Status Overview	
Overall Status:	Please use the one of the four performance key icons
Budget Status: (delivered within budget)	Please use the one of the four performance key icons
Time Status: (delivered within timeframe)	Please use the one of the four performance key icons
Outputs (ratio delivered on schedule e.g. 4 of 5)	Please use the one of the four performance key icons

Summary:
Summary conclusion of Project successes, the impact the project has had so far and potential benefits of the future

Assessment of Major Milestones:
Milestones delivered on time / budget?

Lessons Learnt:
<p>What went well or better than expected and why?</p> <p>What didn't go as well as expected?</p>

Reflection:
<p>What would you do differently about it should you have to do it again?</p> <p>What could you pass on to someone who was about to start delivery of your project?</p>

Recommendations:
<p>Are there some elements of the project that need to be revisited?</p> <p>Is there anything that could be still further improved?</p>

Project Close authorisation	
Sponsor Signature:	
Date:	
Executive Signature:	
Date:	
Project Manager Signature:	
Date:	
Member Signature/ Cabinet Approval: (where required)	
Date:	

Project Board Decision:	Project Closed / Project not Closed* (Delete as appropriate)
Signature:	
Date:	

*Remedial action and reasons to be agreed with Project Executive

INFORMATION ITEM



REPORT OF	MEETING	DATE	ITEM NO
RESOURCES DIRECTORATE	AUDIT AND STANDARDS COMMITTEE	16 MARCH 2017	7
INTERNAL AUDIT PLAN 2017-18			

PUBLIC ITEM

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

SUMMARY OF INFORMATION

The primary work of the Internal Audit Service is to provide independent assurance and to report upon the effective and efficient application of internal controls, governance arrangements and risk management at the Council. All Internal Audit reports form part of the evidence to enable the Chief Executive and Leader of the Council to sign the Annual Governance Statement (the obligatory statement in the Annual Accounts).

SOURCE OF INFORMATION

Head of Internal Audit

LINK TO INFORMATION

[Internal Audit Plan 2017-18 Information Note](#)

WHY IS THIS INFORMATION BEING GIVEN TO THE COMMITTEE?

The activities and areas of responsibility for the Audit and Standards Committee include approving but not directing internal audit's plan.

FURTHER INFORMATION

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

INFORMATION NOTE

Internal Audit Plan 2017-18



Audit Plan Development

1. The primary work of the Internal Audit Service is to provide independent assurance and to report upon the effective and efficient application of internal controls, governance arrangements and risk management at the Council. All Internal Audit reports form part of the evidence to enable the Chief Executive and Leader of the Council to sign the Annual Governance Statement (the obligatory statement in the Annual Accounts).
2. The work also enables compliance with the Council's Constitution and Code of Corporate Governance. Reports will make recommendations to address any weaknesses identified and, with the advice and agreement of management, give direction on how to support continual improvements by providing professional advice and guidance.
3. The Internal Audit Plan considers many factors and ensures that all stakeholders' contributions are included. The main drivers used to formulate the Audit Plan are detailed below:
 - ♦ Corporate Plan priorities
 - ♦ Engagement with Chief Executive, Directors and Section 151 Officer
 - ♦ Review of strategic corporate risks
 - ♦ Recent significant change to the Council or its operations
 - ♦ Cumulative audit knowledge and experience
 - ♦ Level of assessed risk within each service
4. Key financial systems are audited on an ongoing basis, such that a review relating to each main system takes place in alternate years. Usually the follow up work is completed in the succeeding year so that annual coverage is maintained. The same arrangements apply to risk management.
5. In addition to the above, some other areas are also reviewed annually - these include corporate governance and anti-fraud activities. These topics are not subject to the risk assessment process.
6. The work of the team may be broken down into several main services to the Council:
 - ♦ Risk Based: To provide assurance on the arrangements in place to manage key business risks. These are the audits that focus on risks in service and directorate plans and the corporate risk register and are designed to provide management and members with assurance that appropriate steps are being taken.
 - ♦ System and Compliance: To provide assurance to statutory officers and key stakeholders that key systems and processes are operating as intended and will include work on the core financial systems.
 - ♦ Anti-Fraud, Irregularity and Probity Programme: There will be ongoing proactive testing of systems and processes to identify potential fraud and misappropriation, as well as potential non-compliance with policies and procedures. In addition there is an allocation of resource for dealing with whistleblowing referrals and the investigation of potential irregularity, wrongdoing, fraud and corruption.
 - ♦ Consultation and Advice: Internal Audit provides ongoing advice across the Council. Whether through attendance at working groups or responding to ad hoc enquiries this remains an area where early advice can add value, support the transformation agenda and help maintain a robust control environment.
 - ♦ Follow Up Work: To provide assurance that improvements agreed by managers have been implemented in accordance with the approved action plan. This work is essential to

ensure the value added by internal audit is realised.

Prioritisation of Audit Reviews

7. In order to make best use of audit resources, the need for audit reviews in individual areas is considered, based on a risk assessment, which considers:
 - ♦ Business risk - the extent to which the risk impacts on the delivery of corporate priorities
 - ♦ Materiality - the relative value of funds flowing through a system or in the case of non-financial systems the comparative impact on service delivery and the control environment
 - ♦ Assurance - a factor to reflect the latest available assurance rating awarded by Internal Audit following a previous audit review of the area, or other assurance providers
 - ♦ Time - a factor to represent the time since the area was last subject to audit
8. This assessment of risks is then translated into an annual operational plan, which sets out the areas to be covered in the current year, taking into account resource constraints.
9. Planned audit work has been discussed with the Chief Executive and all members of Management Team, in particular the Section 151 Officer, to ensure wherever possible their major concerns are being addressed. The views of external audit have also been sought.

Other Factors

10. It should also be emphasised that within the dynamic environment that the Council operates, business risks are prone to change and the plan is not intended to be regarded as rigid. Areas for review may emerge in-year. As a result, the Plan should be treated as an indicative working document, subject to amendment, as necessary, to reflect changing corporate conditions or demands as well as reflecting any changes or refinement in the Council's Strategic Risk Register.
11. A contingency provision has also been included in the plan to cover changes in circumstances after the completion of the risk assessment, such as specific management requests for audit, ad hoc work, on-demand tasks and special investigations. This recognises that the plan, whilst produced on an acknowledged risk basis, remains a flexible document.
12. There are a small number of audit reviews from 2016-17 that will be ongoing at the end of March 2017 and the days to complete these are also included in the current year's plan.

Resources

13. As previously reported, the internal audit team has been affected by reduced resources in 2016/17 and this plan has been developed based on a staff resource of 2.3 FTE, which represents the existing permanent staff.
14. The plan targets available resources towards the core systems and significant corporate risks. This approach is intended to enable 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.

APPENDIX

INTERNAL AUDIT ANNUAL PLAN 2017-18

The Plan indicates how the work of internal audit links to the five corporate priorities of the Council, together with an additional probity category to reflect the highest standards of financial and ethical conduct expected, as follows:

CORPORATE PRIORITIES

VALUE FOR MONEY	CLEAN & GREEN	VIBRANT ECONOMY	GREAT PLACE TO LIVE	GREAT PLACE TO VISIT	PROBITY
1	2	3	4	5	6
Council Finances Budget Management Performance Customer Focus Service Delivery	Public Health Parks & Open Spaces Waste Services Infrastructure	Transport Infrastructure Car Parking Development Control Economic Development	Local Plan Housing Heritage Assets Leisure Crime Reduction	Coast & Countryside Arts & Heritage Tourism Events	Governance Framework Democratic Processes Accountability Stewardship Ethical Standards

INTERNAL AUDIT ANNUAL PLAN 2017-18

Description of Audit Area	Indicative Days	Comment	Corporate Plan					
			1	2	3	4	5	6
Core Financial Systems								
Business Rates (FCAT)	12	Key financial system. Testing matrix for compliance with approved management procedures and internal controls.	x					x
Cash Collection	18	Key financial system. System and compliance audit to provide assurance over the effectiveness of a core financial system.	x					x
Council Tax Collection	20	Key financial system. A review to provide assurance over the effectiveness of a core financial process. This is a joint audit with Blackpool Council internal audit.	x					x
Council Tax (FCAT)	12	Key financial system. Testing matrix for compliance with approved management procedures and internal controls.	x					x
Creditors/Purchasing	10	Slippage item: key financial system. System and compliance audit to provide assurance over the effectiveness of a core financial system.	x					x
Housing Benefits Risk Based Verification	20	Key financial system. System and compliance audit to provide assurance over the effectiveness of a core financial process. This is a joint audit with Blackpool Council internal audit.	x					x
Housing Benefits (FCAT)	12	Key financial system. Testing matrix for compliance with approved management procedures and internal controls.	x			x		x
Payroll (FCAT)	12	Key financial system. Testing matrix for compliance with approved management procedures and internal controls.	x					x
Treasury Management	16	Key financial system. System and compliance audit to provide assurance over the effectiveness of a core financial system.	x					x

Description of Audit Area	Indicative Days	Comment	Corporate Plan					
			1	2	3	4	5	6
Other Risks								
Car Parking	5	Slippage item: Testing there are effective controls in place for income management and cash handling	x		x			x
Coastal Defence Project - Assurance Assessment	20	An audit to determine and review the adequacy of the assurance arrangements in place to secure the delivery of the project to the specification	x		x		x	x
Disabled Facilities Grant	16	An evaluation of the controls in place for the effective delivery of disabled facilities grants	x			x		x
Emergency Planning	16	Slippage item: A periodic review of the arrangements for emergency planning		x		x		
Green Waste Charges	15	A review of the controls established for the newly introduced green waste collection charge	x	x				x
HMO Licensing	12	An audit of the controls to ensure legislative and policy objectives are achieved in the licensing of House in Multiple Occupation		x		x		
ICT Allowance - Paper Reduction Project	4	A review of the allowance awarded to members in terms of its effectiveness in paper reduction	x					x
Information Governance	3	Slippage item: A periodic review of the arrangements for dealing with data security/protection, records management and FOI	x					x
Personal Data Handling & Security	15	A review to provide assurance that effective controls are in place for the secure handling of personal data off-site	x					x
Corporate Governance								
Annual Governance Review	14	Annual review of governance arrangements in support of the process for evidencing and compiling the Annual Governance Statement	x					x
Audit Committee – Review of Effectiveness	2	Annual self-assessment with the Chair and Vice Chair in relation to the effectiveness of the Audit and Standards Committee						x
Internal Audit - Review of Effectiveness	2	Annual assessment of internal audit service against Public Standards for Internal Audit – CIPFA checklist						x
Risk Management	16	Biennial review of arrangements and support to ensure there is an effective risk management process within the governance framework	x					x

Description of Audit Area	Indicative Days	Comment	Corporate Plan					
			1	2	3	4	5	6
Computer Audit								
ICT	16	Specific areas to be agreed with management following risk assessment. The audit work will be led by an external provider						x
Anti-Fraud								
Corporate Fraud	5	Shared service monitoring and liaison. Overseeing the delivery of the shared corporate fraud service. The fraud service is provided by Preston City Council	x			x		x
National Fraud Initiative	5	Co-ordination of the Council’s response to the NFI including data collation, review of matches and action to address anomalies	x			x		x
Prevention of Fraud & Corruption	5	To review key anti-fraud policies and arrangements	x			x		x
Follow Up								
Follow Up	15	Follow-up of agreed Internal Audit recommendations and updating action plans	x					x
Communication & Consultancy								
Consultancy and Advice	20	Professional advice and assistance adding value to all services in support of transformation within a robust control environment	x					x
Communication and Liaison	23	Reporting and presentations/attending meetings and groups	x					x
Public Sector Internal Audit Standards	10	Peer review: Participation in a periodic external assessment of the effectiveness of internal audit services on a reciprocal basis						x
Reactive Work								
Contingency	15	Contingency to respond to emerging risks						
TOTAL AUDIT WORK	386							

Description of Audit Area	Indicative Days	Comment	Corporate Plan					
			1	2	3	4	5	6
Audit Team								
Management & Administration	80	Audit team management, planning and administration						
Non-Audit Work								
Corporate & Democratic Core	9	Committee attendance, corporate initiatives						
Directorate Matters	2	Directorate briefings, service planning						
Risk Services	3	Annual strategic risk identification and facilitation of Management Team risk assessment process						
Other	6	Reactive duties possibly including controlled stationery, occupational health & safety, office relocation etc.						
TOTAL DAYS ALLOCATED	486							

INFORMATION ITEM



REPORT OF	MEETING	DATE	ITEM NO
RESOURCES DIRECTORATE	AUDIT AND STANDARDS COMMITTEE	16 MARCH 2017	8
PUBLIC SECTOR INTERNAL AUDIT STANDARDS - EXTERNAL ASSESSMENT			

PUBLIC ITEM

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

SUMMARY OF INFORMATION

The Public Sector Internal Audit Standards require that an external assessment of an organisation's internal audit function is carried out once every five years by a qualified, independent assessor or assessment team from outside the organisation.

SOURCE OF INFORMATION

Head of Internal Audit

LINK TO INFORMATION

[Public Sector Internal Audit Standards - External Assessment – Information Note](#)
[Peer Review of Internal Audit Against the UK Public Sector Internal Audit Standards](#)

WHY IS THIS INFORMATION BEING GIVEN TO THE COMMITTEE?

The peer review of Fylde's internal audit service was carried out in November 2016 by the Heads of Internal Audit from Preston City Council, South Ribble Borough Council and Chorley Council.

FURTHER INFORMATION

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

INFORMATION NOTE

Public Sector Internal Audit Standards - External Assessment

Peer Review

1. The Public Sector Internal Audit Standards require that an external assessment of an organisation's internal audit function is carried out once every five years by a qualified, independent assessor or assessment team from outside the organisation.
2. The Lancashire District Councils Audit Group (LDCAG) has established a system of peer reviews that is managed and operated by the constituent authorities. The agreed approach to these peer reviews is that each Internal Audit Service will undertake a self-assessment which will be validated by suitably qualified individuals or teams from other members of the group across a 5 year cycle.
3. The peer review of Fylde's internal audit service was carried out in November 2016 by the Heads of Internal Audit from Preston City Council, South Ribble Borough Council and Chorley Council.
4. A desktop review of the completed self-evaluation together with relevant evidence and supporting documentation was considered prior to the on-site review. The supporting evidence included:

<ul style="list-style-type: none"> ◆ The Corporate Plan ◆ Internal Audit Annual Report ◆ Internal Audit Annual Plan ◆ Client Feedback Surveys ◆ Internal Audit Charter 	<ul style="list-style-type: none"> ◆ Internal Audit Code of Ethics ◆ Quality Assurance Improvement Plan ◆ Strategic Risk Register ◆ Annual Governance Statement ◆ Internal Audit Register of Interests
---	---
5. A customer survey form was issued to key personnel within the Council who were subsequently interviewed during the on-site phase. The personnel interviewed were:

<ul style="list-style-type: none"> ◆ Chief Executive ◆ Section 151 Officer ◆ Monitoring Officer ◆ Director of Development Services 	<ul style="list-style-type: none"> ◆ Chair of the Audit & Standards Cttee ◆ Head of Governance ◆ Head of Internal Audit ◆ Senior Auditor
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6. Following the on-site visit the review team produced their report (attached as an Appendix). It concluded that Fylde Council conformed to the requirements of the Public Sector Internal Audit Standards.
7. The report included positive observations, together with a number of minor observations and advisory points on how the internal audit service might continue to improve. These will constitute the Quality Assurance and Improvement Programme for 2017/2018. Progress on these points will be reported to the Audit and Standards Committee on an annual basis.

FURTHER INFORMATION AVAILABLE FROM

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

FYLDE BOROUGH COUNCIL

**PEER REVIEW OF INTERNAL AUDIT AGAINST THE UK
PUBLIC SECTOR INTERNAL AUDIT STANDARDS**

DATE DECEMBER 2016

Review Team

Gordon Brown – Chief Internal Auditor

Dawn Highton – Operational Head of Audit

1 Introduction

- 1.1 All principal local authorities and other relevant bodies subject to the Accounts and Audit (England) Regulations 2015 (amended), the Accounts and Audit (Wales) regulations 2005, section 95 of the Local Government (Scotland) Act 1973 and the Amendment to the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006 must make provision for internal audit in accordance with the Public Sector Internal Audit Standards (PSIAS) as well as the (CIPFA) Local Government Application Note.
- 1.2 A professional, independent and objective internal audit service is one of the key elements of good governance in local government.
- 1.3 The PSIAS require that an external assessment of an organisation's internal audit function is carried out once every five years by a qualified, independent assessor or assessment team from outside of the organisation. External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation.
- 1.4 The Lancashire Districts Chief Auditor Group (LDCAG) has established a 'peer-review' process that is managed and operated by the constituent authorities. This process addresses the requirement of external assessment by 'self-assessment with independent external validation' and this report presents the summary findings of the review carried out on behalf of Fylde Borough Council.
- 1.5 "An independent assessor or assessment team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs." This review has been carried out by the operational Heads of Internal Audit at Preston City Council & Chorley and South Ribble Borough Councils. Their 'pen pictures', outlining background experience and qualifications, are included at **Appendix A**.

2 Approach/Methodology

- 2.1 The LDCAG has agreed a detailed Memorandum of Understanding (MoU) that outlines the broad methodology for the conduct of this review. A copy of the MoU is available upon request. However, in summary, the key elements of the process are:
 - The peer review is undertaken in three stages: pre-review; on-site review; post-review and covers audit activity during the period covered in the latest Head of Internal Audit Annual Report and Opinion. For example, reviews commencing after 1 July 2016 will cover the audit year 1 April 2015 to 31 March 2016.
 - Each authority is required to complete and share its self-evaluation of the Internal Audit service together with any relevant supporting evidence/documentation in advance of on-site review commencement. The LDCAG has agreed that the self-assessment will use the **CIPFA Local Government Application Note (LGAN)** checklist. Typically,

supporting evidence will include the Internal Audit Plan & Charter, The Head of Internal Audit Annual Report and Opinion, Quality Assurance and Improvement Programme and examples of final audit reports.

- To support the on-site review, a customer survey form will be issued to key personnel within the authority being reviewed.
- The review itself comprises a combination of 'desktop' and 'actual on-site' review.
- The review cannot reasonably consider all elements of the LGAN self-assessment and the review team must use the 'desktop' period to determine strengths, weaknesses and subsequent key lines of enquiry in order that the review itself is risk-based, timely and adds real value. Each authority will be assessed against the three broad themes of: Purpose and Positioning; Structure and Resources; and Audit Execution.
- Upon conclusion, the Review team offers a 'true and fair' judgement and it is proposed that each Authority will be appraised as **Conforms**, **Partially Conforms** or **Does Not Conform** against each thematic area of the LGAN, from which an aggregation of the three themed scores gives an overall Authority score.

3 Summary Findings

3.1 Following a detailed examination process, the review team has concluded the following judgements:

Area of Focus	Judgement
Purpose & Positioning	Conforms
Structure & Resources	Conforms
Audit Execution	Conforms
Overall Judgement	Conforms

Assessment against the individual elements of each area of focus is included in the table at **Appendix B**.

3.2 Positive Observations

- The Head of Internal Audit is viewed as professional and is well respected.
- There is an excellent relationship with both the Chair and members of the Audit and Standards Committee.
- Senior management have the opportunity to contribute to the annual Internal Audit Plan.
- There was universal acknowledgement that Internal Audit raises significant control issues at an appropriate level within the organisation.

- Internal Audit is seen as promoting appropriate ethics and values throughout the organisation.
- Comprehensive documentation exists in relation to Internal Audit's role and responsibilities.

3.3 Significant Observations

None identified.

3.4 Minor Observations

The underlying theme in the following observations is one of a traditional approach which has been adopted by Internal Audit, which has contributed to the Service conforming with the standards. The subsequent action points at **Appendix C**, whilst cross referencing to relevant standards, however, are aimed at assisting the section to develop further and raising its profile as a key strategic partner within the organisation.

PSIAS 2000

Although, there is evidence of agreed actions and customer feedback that demonstrate value added to the organisation, responses from surveys and interviews highlighted a incomplete appreciation of the value that the service can bring to the organisation. – Point for Consideration 1

PSIAS 2010 / 2050

- a) It is unclear from the documentation how sources of assurance have informed the risk based annual plan. – Point for Consideration 2
- b) There is no reference within the Internal Audit Strategy as to how the Internal Audit Service will be developed. – Point for Consideration 3
- c) Although liaison does take place with External Audit there is no evidence that internal and external plans are co-ordinated. – Point for Consideration 4

PSIAS 2200 / 2210

It is unclear from the documentation how the identified risks to the service are being addressed as audit programmes primarily comprise standard key controls. - Point for Consideration 5

PSIAS 2120

There is a clear framework of measures in place to manage the risk of fraud at the corporate level, however, there is no evidence from the documentation to indicate how fraud risks are identified and managed at service level. – Point for Consideration 6

- 3.5** Additional advisory points for consideration identified during the review that are out of the scope of the Standards / LGAN requirements but are contributory to the overall effectiveness and efficiency of the internal audit service are presented in the table at **Appendix D** of the report for information and consideration only.

Review Team

Gordon Brown CPFA , BA (hons)

Gordon is a Chartered Public Finance Accountant and is currently Chief Internal Auditor at Preston City Council. He has 31 years experience in internal auditing, including 21 years as Head of Service and has worked in 5 other local authorities as well as a housing association during his career.

Dawn Highton MIIA

Dawn is a fully qualified member of the Chartered Institute of Internal Auditors and is currently the Operational Head of Audit for the South Ribble Borough Council and Chorley Council Shared Assurance Service. Dawn has 15 years experience in internal audit having previously worked in finance within the leisure industry

Detailed Assessment

PSIAS Ref		Conforms	Partially conforms	Does not conform	Comments
Purpose & positioning					
1000	• Remit				
1000	• Reporting lines	X			
1110	• Independence	X			
2010	• Risk based plan	X			
2050	• Other assurance providers		X		
Structure & resources					
1200	• Competencies				
1210	• Technical training & development	X			
1220	• Resourcing	X			
1230	• Performance management	X			
1230	• Knowledge management	X			
Audit execution					
1300	• Quality Assurance & Improvement Programme	X			
2000	• Management of the IA function	X			
2200	• Engagement planning	X			
2300	• Engagement delivery	X			
2400	• Reporting	X			
2450	• Overall opinion	X			

Conforms

X

Partially
ConformsDoes Not
Conform

Fylde Borough Council Internal Audit Service – PSIAS Action Table

Appendix C

The following points for consideration, whilst relating to the Standards will help to develop the Internal Audit Service. Some of these also reflect the views expressed during the interviews conducted with Chief Officers at Fylde Borough Council during the course of the assessment:

PSIAS Ref		Point For Consideration	Responsible	Action
Minor obs/ 2000	1	Internal Audit should consider the need for a flexible, more embracing stance in relation to wider ranging corporate issues This will require communication with senior management to enhance their understanding of the value that Internal Audit can add outside of its main assurance work.	Head of Internal Audit	Internal Audit has always been positively engaged in developing an approach to wider corporate issues. In recent times constraints on resources have led to a greater focus on core assurance work. However, in communicating with senior management we will ensure that our key skills are recognised and actively seek opportunities for adding greater value.
2010 2050	2	In developing an assurance framework, each of the various sources of assurance for each audit activity should be identified in order to help inform the audit planning process.	Head of Internal Audit	We are currently developing the assurance framework along with management, which encompasses the identification of the various sources of assurance for each audit activity.
2010 2050	3	Consider expanding the opportunities to develop and improve the delivery of the internal audit service in the Internal Audit Strategy, by including such things as wider networking, relevant courses, CIPFA benchmarking etc.	Head of Internal Audit	The relevant section of the Internal Audit Strategy will be expanded to more properly reflect the range of developmental opportunities available to and utilised by internal auditors.

2010 2050	4	Consider a more co-ordinated approach between External Audit and Internal Audit at the audit planning stage to share thoughts and ideas as to the content of their respective plans to ensure that maximum benefit from both audit functions is achieved.	Head of Internal Audit	This was a standard feature of internal/external audit relations until fairly recent times, although we do continue to supply all our reports to external audit. We will seek to re-establish a consistent process for sharing plans to ensure proper coverage and minimise duplication of efforts.
2200 2210	5	When risks are identified at the scoping stage, these should be prioritised according to severity. In addition, the associated controls should also be identified and these should be tested in preference to standard key controls in order to ensure assurance is provided on current business risks providing added value to the service manager.	Head of Internal Audit	We have now adopted the approach of prioritising risks identified at the scoping stage by severity in order to focus on areas of greatest risk. We will identify and test associated controls in order to ensure assurance is provided on current business risks.
2120	6	<p>Fraud risks should be identified and recorded at the scoping stage, the controls identified and then tested in order to provide assurance that the risk of fraud is being effectively mitigated.</p> <p>At the corporate level, consideration could be given to including the risk of fraud within the strategic risk register.</p> <p>Both actions 5 & 6 will be facilitated by the implementation of service risk registers which in turn will benefit Internal Audit in developing its approach. (see below)</p>	Head of Internal Audit	<p>Internal audit always takes fraud risk into consideration for every relevant audit undertaken. We will identify and record these at the scoping stage and test the controls identified.</p> <p>In order to facilitate actions 5 & 6 we will seek the development of service risk registers as part of the development of the risk management framework.</p>

Fylde Council Internal Audit Service – Additional Advisory Points for Consideration Action Table

Appendix D

During the review, the following additional advisory points were identified. Whilst these are outside of the scope of the Standards / LGAN requirements, they are nonetheless contributory to the overall effectiveness and efficiency of the Internal Audit service and are presented in this report for further consideration.

	Point For Consideration	Responsible	Action
Additional comment	Consider closer working between Internal Audit and the BPR team in order to ensure that controls are considered at the outset of any new process re-design and the initiative works effectively.	Senior Management	Through communication with senior management and as part of our approach to adding greater value outside our core assurance work, we will seek closer working with the BPR team to ensure controls are properly incorporated into new process re-design activities.
Additional comment	Further development of the risk management framework within the organisation, specifically the development of service risk registers which would enable the internal audit service to more easily adopt a modern risk based approach in line with good practice and could facilitate a more directed assessment of assurance which is better linked to the current risks facing the organisation.	Senior Management	In co-operation with senior management we will seek the development of service risk registers as part of the development of the risk management framework.

Additional comment	From observations and feedback, Internal Audit should always aim to ensure that its proposals for actions are relevant, material and risk focused.	Head of Internal Audit	No action necessary. All proposed actions following audit reviews are already determined by and agreed with managers. High and Medium priority concerns are always relevant, material and risk-focused. Matters that are good practice items only are only included with the manager's agreement.
Additional comment	At the closure meetings, consideration could be given to a single auditor attending in order to avoid a duplication of time and effort, and provide a means of developing the skills of the Audit team members.	Head of Internal Audit	Not a material issue. However, we will consider this in appropriate cases.
Additional comment	Consideration could be given to reviewing the extent of narrative in the introduction within audit reports to streamline this into a more concise, focused report.	Head of Internal Audit	Not a material issue. However, we are currently intending to revise our reports and will take account of this comment.
Additional comment	Consideration should be given to ensuring that the recipients of the reports are those referred to in the Audit Notification and that the quality review process ensures that all material findings are reflected within the proposed actions.	Head of Internal Audit	No action necessary. It is already the case that recipients of reports are referred to in the Audit Notification.
Additional comment	Consider putting the criterion of "the need for auditors to be aware of any	Head of Internal Audit	No action necessary. We will consider this.

	possible areas of concern” within the Procedures Manual rather than the Internal Audit Charter.		
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