

## Meeting Agenda

**Audit Committee  
Town Hall, St Annes  
Thursday 29 March 2012, 7:00p.m.**

**The main doors to the Town Hall will be open to the public at 6:45pm**  
The maximum capacity for this meeting room is 60 persons –  
once this limit is reached no other person can be admitted.

# AUDIT COMMITTEE

## MEMBERSHIP

CHAIRMAN - Councillor John Singleton JP  
VICE-CHAIRMAN – Councillor Brenda Ackers

### **Councillors**

Ben Aitken	Christine Akeroyd
Leonard Davies	Kath Harper
Howard Henshaw	Linda Nulty
Louis Rigby	

Contact: Lyndsey Lacey, St. Annes (01253) 658504, Email:  
[lyndseyl@fylde.gov.uk](mailto:lyndseyl@fylde.gov.uk)



## **Our Vision**

*Fylde Borough Council will work with partners to provide and maintain a welcoming, inclusive place with flourishing communities.*

## **Our Corporate Objectives**

- To Promote the Enhancement of the Natural & Built Environment
  - To Promote Cohesive Communities
  - To Promote a Thriving Economy
- To meet the Expectations of our Customers

## **The Principles we will adopt in delivering our objectives are:**

- To ensure our services provide value for money
- To work in partnership and develop joint working



## A G E N D A

### PART I - MATTERS DELEGATED TO COMMITTEE

ITEM	PAGE
<b>1. DECLARATIONS OF INTEREST:</b> If a member requires advice on Declarations of Interest he/she is advised to contact the Monitoring Officer in advance of the meeting. (For the assistance of Members an extract from the Councils Code of Conduct is attached).	<b>4</b>
<b>2. CONFIRMATION OF MINUTES:</b> To confirm as a correct record the minutes of the Audit Committee held on 26 January 2012. As attached at the end of the agenda.	<b>4</b>
<b>3. SUBSTITUTE MEMBERS:</b> Details of any substitute members notified in accordance with council procedure rule 25.3	<b>4</b>
<b>4. AUDIT PLAN - KPMG</b>	<b>7 – 31</b>
<b>5. CERTIFICATE OF GRANTS AND RETURNS 2010/11</b>	<b>32 – 41</b>
<b>6. GOVERNANCE REVIEW – MELTON GROVE TASK AND FINISH GROUP RECOMMENDATIONS</b>	<b>42 – 46</b>
<b>7. REGULATION OF INVESTIGATORY POWERS ACT 2000: AUTHORISATIONS</b>	<b>47 – 49</b>
<b>8. CORPORATE GOVERNANCE IMPROVEMENT PLAN 2011/12</b>	<b>50 – 53</b>
<b>9. INTERNAL AUDIT PLAN 2012-2013</b>	<b>54 – 59</b>
<b>10. ANNUAL REVIEW OF COUNTER FRAUD POLICIES</b>	<b>60 – 68</b>
<b>11. DATA SECURITY HIGH PRIORITY ACTION (UPDATE)</b>	<b>69 - 71</b>

**Personal interests**

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

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

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

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

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

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

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

**Disclosure of personal interests**

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

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

#### **Prejudicial interest generally**

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

#### **Prejudicial interests arising in relation to overview and scrutiny committees**

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

#### **Effect of prejudicial interests on participation**

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

# REPORT

REPORT OF	MEETING	DATE	ITEM NO
RESOURCES DIRECTORATE	AUDIT COMMITTEE	29 <sup>TH</sup> MARCH 2012	4

## AUDIT PLAN - KPMG

### 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.

### Recommendation

The Committee is recommended to consider and comment on the KPMG External Audit Plan for 2011/12 which is attached to this covering report.

### Reasons for recommendation

### Alternative options considered and rejected

None

### Cabinet Portfolio

The item falls within the following Cabinet portfolio:

Finance & Resources: Councillor Karen Buckley

Continued....

## 1.0 Report

1.1 The attached report has been prepared by the Council's external auditors, KPMG. It describes how they will deliver their audit work for Fylde Borough Council during the coming year.

Report Author	Tel	Date	Doc ID
Paul O'Donoghue Chief Financial Officer	(01253) 658566	8th March 2012	

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

### Attached documents

1. Report of KPMG – External Audit Plan 2011/12

IMPLICATIONS	
Finance	No specific implications - the cost of external work can be met from existing budget provision.
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





cutting through complexity™

# External Audit Plan 2011/12

Fylde Borough Council

8 March 2012



**The contacts at KPMG in connection with this report are:**

**Tim Cutler**  
Engagement Lead  
KPMG LLP (UK)

Tel: 0161 246 4774  
Tim.Cutler@kpmg.co.uk

**Iain Leviston**  
Manager  
KPMG LLP (UK)

Tel: 0161 246 4403  
Iain.Leviston@kpmg.co.uk

**Shan Prior**  
Assistant Manager  
KPMG LLP (UK)

Tel: 0161 246 4501  
Shan.Prior@kpmg.co.uk

## Report sections

■ Introduction	2
■ Headlines	3
■ Financial statements audit approach	4
■ Key financial statements audit risks	9
■ VFM audit approach	11
■ Audit team, deliverables, timeline and fees	15

## Appendices

1. Balance of internal controls and substantive testing	19
2. Independence and objectivity requirements	20
3. Quality assurance and technical capacity	21

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

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tim Cutler who is the engagement lead to the Authority, telephone 0161 246 4474 email [tim.cutler@kpmg.co.uk](mailto:tim.cutler@kpmg.co.uk) who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto: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, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to [complaints@audit-commission.gov.uk](mailto:complaints@audit-commission.gov.uk). Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

**This document describes  
how we will deliver our audit  
work for Fylde Borough  
Council.**

## Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998*, the *Local Government Act 1999* and the Audit Commission's *Code of Audit Practice*.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to 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 Commission's *Statement of Responsibilities of Auditors and Audited Bodies* sets out the respective responsibilities of the auditor and the Authority.

## Scope of this report

This document describes how we will deliver our financial statements audit work for Fylde Borough Council. It supplements our *Audit Fee Letter 2011/12* presented to you in April 2011.

We also set out our approach to value for money (VFM) work for 2011/12.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

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.

## Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, focusing on the key risks identified this year for the financial statements audit.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 provides further detail on the financial statements audit risks.
- Section 5 explains our approach to VFM work.
- Section 6 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

## Acknowledgements

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

We have identified a number of key risks that we will focus on during the audit of the 2011/12 financial statements.

These are described in more detail on pages 9 and 10.

The remainder of this document provides information on our:

- Approach to the audit of the financial statements;
- Approach to VFM work; and
- Audit team, proposed deliverables, timescales and fees for our work.

Area	Risk	Audit work
Savings plans	<p>The Authority currently estimates that it will outperform its budget in 2011/12 and contribute £36,000 to reserves at the end of the financial year.</p> <p>Further cost savings are planned through 2012-2016 but reserves will be used throughout this period to maintain essential services – reserves of an average of £603,000 will be used each year so that the balance will stand at £1,174,000 at 31 March 2016 compared to the current minimum balance of £750,000.</p> <p>The Authority will need to define and manage its savings plans to secure longer term financial and operational sustainability and ensure that any related liabilities are accounted for in its 2011/12 financial statements as appropriate.</p>	In conjunction with our VFM work on the Authority's financial resilience we will critically assess the controls in place to ensure a sound financial standing and review how the Authority is planning and managing its savings plans. We will also review the Authority's assessment of potential liabilities and any provisions in its 2011/12 financial statement.
Code changes	The Authority will need to review and appropriately address the changes introduced by the <i>Code of Practice on Local Authority Accounting in the United Kingdom 2011/12</i> ('the Code'). These include a new requirement to obtain valuations for certain 'heritage assets'.	We will discuss and review the Authority's proposed accounting treatments in the affected areas.

## Section three

# Our audit approach – overview

We undertake our work on your financial statements in four key stages during 2012:

- **Planning** (January to March).
- **Control Evaluation** (April).
- **Substantive Procedures** (July).
- **Completion** (August to September).

We have summarised the four key stages of our financial statements audit process for you below:



## Section three

# Our audit approach – planning

**Between January and March we complete our planning work.**

**We assess the key risks affecting the Authority's financial statements based on our historical and sector knowledge.**

**We assess if there are any weaknesses in respect of central processes, including the Authority's IT systems, that would impact on our audit.**

**We determine our audit strategy and approach, and agree a protocol for the accounts audit, specifying what evidence we expect from the Authority to support the financial statements.**

Our planning work takes place between January and March 2012. This involves the following aspects:

### Planning

- Update our business understanding and risk assessment.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue our *Accounts Audit Protocol*.

### Business understanding and risk assessment

We update our understanding of the Authority's operations and identify any areas that will require particular attention during our audit of the Authority's financial statements.

We identify the key risks affecting the Authority's financial statements. These are based on our knowledge of the Authority, our sector experience and our ongoing dialogue with Authority staff. The risks identified to date are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Authority's responsibility to adequately address these issues. We encourage the Authority to continue to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We meet with the finance team on a regular basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

### Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit. Most of the organisational controls we assess were previously linked to the use of resources assessment. In particular, the areas risk management, internal control and ethics and conduct have implications for our financial statements audit.

The Authority relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

### Audit strategy and approach

The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities.

We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of judgement and is set by the Engagement Lead.

### Accounts audit protocol

At the end of our planning work we will issue our *Prepared by Client List*. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide during our interim and final accounts visits.

We met with the Section 151 Officer to discuss mutual learning points from the 2010/11 audit. These will be incorporated into our work plan for 2011/12. We revisit progress against areas identified for development in our regular meetings with the finance team.



During April we complete our interim work.

We assess if controls over key financial systems were effective during 2011/12. We work with your internal audit team to avoid duplication.

We work with your finance team to enhance the efficiency of the accounts audit.

Our interim visit on site will be completed during the week commencing 16 April. During this time we will complete work in the following areas:

## Control Evaluation

- Evaluate and test controls over key financial systems.
- Review the internal audit function.
- Review the accounts production process.
- Review progress on critical accounting matters.

## Controls over key financial systems

We update our understanding of the Authority's key financial processes where these are relevant to our final accounts audit. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Appendix 1 illustrates how we determine the most effective balance of internal controls and substantive audit testing.

We work with the Authority's internal auditors to assess the control framework for key financial systems and seek to rely on any relevant work they have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place reliance on their work. We have a joint working protocol and have met with the Head of Internal Audit to discuss the principles and timetables for the managed audit process for 2011/12.

## Review of internal audit

Where we intend to rely on internal audit's work in respect of the Authority's key financial systems, auditing standards require us to review aspects of their work. This includes re-performing a sample of tests completed by internal audit. We will provide detailed feedback to the Head of Internal Audit at the end of our interim visit.

## Accounts production process

We had no recommendations to raise in our *Report to Those Charged with Governance (ISA 260 Report) 2010/11* relating to the accounts production process.

## Critical accounting matters

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

**During July we will be on site for our substantive work.**

**We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.**

**We also review the Annual Governance Statement for consistency with our understanding.**

**We will present our *ISA 260 Report* to the Audit Committee in September.**

Our final accounts visit on site has been provisionally scheduled for the weeks commencing 9 and 16 July. During this time, we will complete the following work:

### Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify audit adjustments.
- Review the Annual Governance Statement.

### Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the Authority's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

### Critical accounting matters

We conclude our testing of the key risk areas as identified at the planning stage and any additional issues that may have emerged since.

### Audit adjustments

During our on site work, we will meet with the Section 151 Officer on a weekly basis to discuss the progress of the audit, any differences found and any other issues emerging.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Audit Committee. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

### Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are key to this.

We report the findings of our final accounts work in our *ISA 260 Report*.



**In addition to the financial statements, we also audit the Authority's Whole of Government Accounts pack.**

**We may need to undertake additional work if we receive objections to the accounts from local electors.**

**We will communicate with you throughout the year, both formally and informally.**

**Our independence and objectivity responsibilities under the Code are summarised in Appendix 2. We confirm our audit team's independence and objectivity is not impaired.**

### Whole of government accounts (WGA)

We are required to review and issue an opinion on your WGA consolidation to confirm that this is consistent with your financial statements. The audit approach has been agreed with HM Treasury and the National Audit Office.

### Elector challenge

The Audit Commission Act 1998 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 questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission's fee scales.

### 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 finance team and the Audit Committee. Our deliverables are included on page 16.

### Independence and objectivity confirmation

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 Standard 1 Integrity, Objectivity and Independence* requires 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.

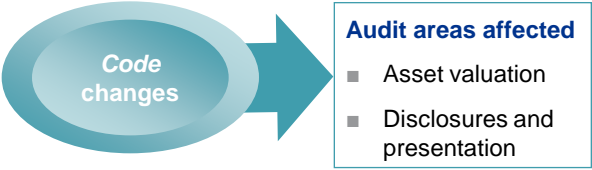
### Confirmation statement

We confirm that, as of the date of this report, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Appointed Auditor and audit team is not impaired.

For each key risk area we have outlined the impact on our audit plan.

Key audit risks	Impact on audit
 <p><b>Audit areas affected</b></p> <ul style="list-style-type: none"> <li>■ Reserves and balances</li> <li>■ Provisions</li> <li>■ Going concern</li> </ul>	<p><b>Risk</b></p> <p>As at 1 March 2012 the Authority was forecasting that it would outperform its 2011/12 budget after realising £598,000 of savings, allowing it to make a £36,000 contribution to reserves compared to the budgeted £562,000 call on reserves.</p> <p>The Authority has also identified savings of approximately £100,000 per annum through the periods 2012/13 to 2015/16. Income forecasts reflect the Authority's expectations of grant reductions throughout the life of the plan, being a 14% reduction in 2012/13 and a further 7.5% year on year reduction in 2013/14 and subsequent periods. Against a backdrop of continued demand pressures it will become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability. If there are any related liabilities at year end, these will need to be accounted for in the 2011/12 financial statements as appropriate.</p> <p>The Authority's Medium Term Financial Strategy (MTFS) also sets out the estimated call on reserves each year, and average of £603,000 per annum from 2012/13 to 2015/16, leaving a reserves balance of £1,174,000 at 31 March 2016. This MTFS has been prepared on a prudent basis and includes assumptions for various savings to be made, such as payroll efficiencies. The payroll efficiency targets for 2011/12 and 2012/13 have already been achieved by, amongst other things, the restructure of the management team, flexible retirements, savings from the revised Section 151 officer arrangements and an Authority-wide salary sacrifice scheme.</p> <p><b>Our audit work</b></p> <p>In conjunction with our work on the Authority's financial resilience, which will help inform the VFM conclusion, we will critically assess the controls the Authority has in place to ensure a sound financial standing, specifically that its Medium Term Financial Plan has duly taken into consideration the potential funding reductions and that it is sufficiently robust to ensure that the Authority can continue to provide services effectively. We will also review how the Authority is planning and managing its savings plans.</p> <p>As part of our final accounts audit we will review the Authority's assessment of any potential liabilities arising from its savings plans against the <i>Code</i>. If applicable, we will review the Authority's provision, including the methodology, assumptions and calculations.</p>

For each key risk area we have outlined the impact on our audit plan.

Key audit risks	Impact on audit
	<p><b>Risk</b></p> <p>The 2011/12 <i>Code</i> includes a number of accounting changes, including a new requirement to carry 'heritage assets' at valuation. Heritage assets include historical buildings, museum and gallery collections and works of art.</p> <p>The 2011/12 <i>Code</i> also clarifies requirements in a number of areas where ambiguity was identified in the 2010/11 <i>Code</i>.</p> <p>The Authority needs to review and appropriately address these changes in its 2011/12 financial statements.</p> <p><b>Our audit work</b></p> <p>As part of our interim work we will review the Authority's approach to addressing the <i>Code</i> changes. This will be in two stages:</p> <ol style="list-style-type: none"> <li>1. Reviewing the process the Authority has adopted to identify assets that fall within the scope of the new accounting requirements for heritage assets; and</li> <li>2. Considering whether the valuation approach adopted in respect of the assets identified is appropriate.</li> </ol> <p>As part of our final accounts audit we will also review the appropriateness of the accounting entries and disclosures in the accounts.</p>

Our approach to VFM work follows guidance provided by the Audit Commission.

### Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology broadly unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below.

Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing <b>financial resilience</b> .	The organisation has robust systems and processes to: <ul style="list-style-type: none"> <li>■ manage effectively financial risks and opportunities; and</li> <li>■ secure a stable financial position that enables it to continue to operate for the foreseeable future.</li> </ul>	<ul style="list-style-type: none"> <li>■ Financial governance</li> <li>■ Financial planning</li> <li>■ Financial control</li> </ul>
The organisation has proper arrangements for challenging how it <b>secures economy, efficiency and effectiveness</b> .	The organisation is prioritising its resources within tighter budgets, for example by: <ul style="list-style-type: none"> <li>■ achieving cost reductions; and</li> <li>■ improving efficiency and productivity.</li> </ul>	<ul style="list-style-type: none"> <li>■ Prioritising resources</li> <li>■ Improving efficiency and productivity</li> </ul>

## Section five

### VFM audit approach (continued)

We will follow a risk based approach to target audit effort on the areas of greatest audit risk.

#### Overview of the VFM audit approach

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



Each of these stages are summarised further below.

VFM audit stage	Audit approach
<b>VFM audit risk assessment</b>	<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"> <li>■ the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks;</li> <li>■ information from the Audit Commission's VFM profile tool and financial ratios tool;</li> <li>■ evidence gained from previous audit work, including the response to that work; and</li> <li>■ the work of the Audit Commission, other inspectorates and review agencies.</li> </ul>

## Section five

### VFM audit approach (continued)

Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

We will then form an assessment of residual audit risk to identify the areas where more detailed VFM audit work is required.

VFM audit stage	Audit approach
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>
Assessment of residual audit risk	<p>It is likely that further audit work will be necessary in some areas to ensure comprehensive coverage of the two VFM criteria.</p> <p>This work will involve a range of interviews with relevant officers, and review of documents such as policies, plans and minutes. We will also refer to any self assessment the Authority may prepare against the characteristics.</p> <p>To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion.</p> <p>At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted.</p>
Identification of specific VFM audit work	<p>If we identify residual audit 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"> <li>■ considering the results of work by the Authority, the Audit Commission, other inspectorates and review agencies; and</li> <li>■ 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.</li> </ul>

## Section five

### VFM audit approach (continued)

Where relevant, we draw upon the range of audit tools and review guides developed by the Audit Commission.

We will report on the results of the VFM audit through our *Report to those charged with governance*.

VFM audit stage	Audit approach
Delivery of local risk based work	<p>Depending on the nature of the residual audit risk identified, we will be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as:</p> <ul style="list-style-type: none"> <li>■ local savings review guides based on selected previous Audit Commission national studies; and</li> <li>■ update briefings for previous Audit Commission studies.</li> </ul> <p>The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.</p>
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 will report on the results of the VFM audit through our <i>Report to those charged with governance</i>. This report will summarise our progress in delivering the VFM audit, the results of the risk assessment and 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>

There has been a change to our audit team for 2011/12 with Tim Cutler replacing Trevor Rees as the Engagement Lead. The rest of the audit team were all part of the Fylde Borough Council audit last year. Contact details are shown on page 1.

The audit team will be assisted by other KPMG specialists as necessary.



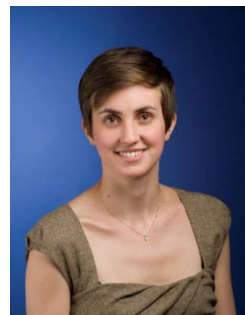
Tim Cutler  
**Engagement Lead**

“My role is to lead our team and ensure the delivery of a high quality external audit opinion. I will be the main point of contact for the Audit Committee and the Chief Executive.”



Iain Leviston  
**Manager**

“I will direct and coordinate the audit and provide strategic direction to the audit team. I will work closely with Tim to ensure we add value. I will be the main contact for the Director of Resources, Section 151 Officer and other Executive Directors.”



Shan Prior  
**Assistant Manager**

“I will be responsible for the on-site delivery of our work. I will liaise with the Accountancy Service Managers and Internal Audit Managers. I will also supervise the work of our audit assistants.”



At the end of each stage of our audit we issue certain deliverables, including reports and opinions.

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agreed each report with the Authority's officers prior to publication.

Deliverable	Purpose	Committee dates
<b>Planning</b>		
<b>Financial Statements Audit Plan</b>	<ul style="list-style-type: none"> <li>■ Outline audit approach.</li> <li>■ Identify areas of audit focus and planned procedures.</li> </ul>	<b>March 2012</b>
<b>Substantive procedures</b>		
<b>Report to Those Charged with Governance (ISA 260 Report)</b>	<ul style="list-style-type: none"> <li>■ Details and resolution of control and process issues.</li> <li>■ Details the resolution of key audit issues.</li> <li>■ Communication of adjusted and unadjusted audit differences.</li> <li>■ Performance improvement recommendations identified during our audit.</li> <li>■ Commentary on the Authority's value for money arrangements.</li> </ul>	<b>September 2012</b>
<b>Completion</b>		
<b>Auditor's report</b>	<ul style="list-style-type: none"> <li>■ Providing an opinion on your accounts (including the Annual Governance Statement).</li> <li>■ Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).</li> </ul>	<b>September 2012</b>
<b>Annual Audit Letter</b>	<ul style="list-style-type: none"> <li>■ Summarises the outcomes and the key issues arising from our audit work for the year.</li> </ul>	<b>November 2012</b>

We will be in continuous dialogue with you throughout the audit.

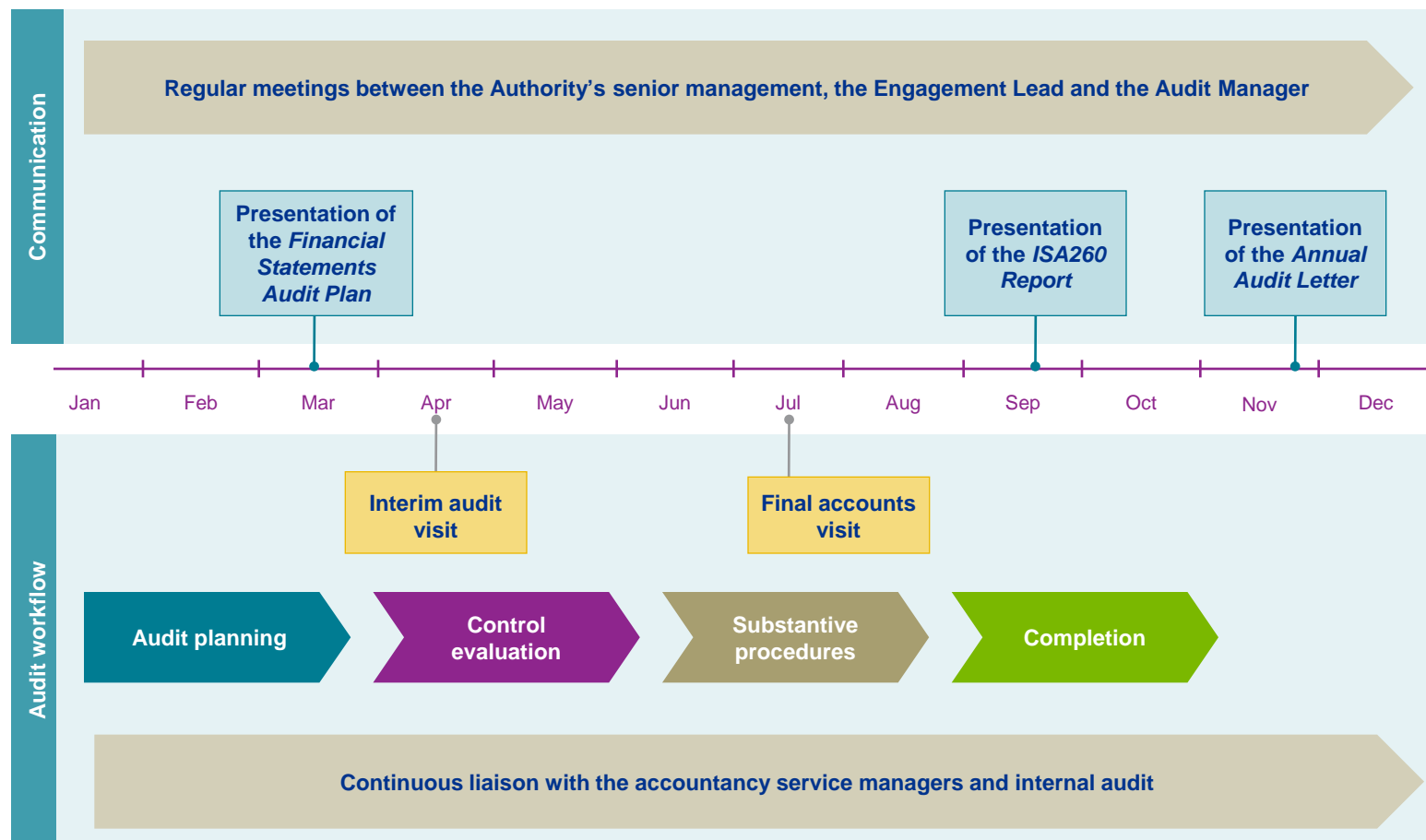
Key formal interactions with the Audit Committee are:

- March – Financial Statements Audit Plan;
- September – ISA 260 Report;
- November – Annual Audit Letter.

We work with the Section 151 Officer and internal audit throughout the year.

Our main work on site will be our:

- Interim audit visit during April.
- Final accounts audit during July.



The main fee for 2011/12 audit of the Authority is £96,140. The fee is based on that set out in our *Audit Fee Letter 2011/12* issued in April 2011, but also recognises the 8% rebate agreed by the Audit Commission.

Our audit fee remains indicative and based on you meeting our expectations of your support.

Meeting these expectations will help the delivery of our audit within the proposed audit fee.

The fee for our grants work will be confirmed through our summary *Report on the certification of grants and returns*. The report for 2010/11 was issued in January 2012.

#### Audit fee

Our *Audit Fee Letter 2011/12* presented to you in April 2011 first set out our fees for the 2011/12 audit.

Element of the audit	2011/12 (planned)	2010/11 (actual)
Gross audit fee	£104,500	£110,000
Less: Audit Commission rebate	-£8,360	-£6,117
<b>Total</b>	<b>£96,140</b>	<b>£103,883</b>

The main fee for 2011/12 audit is £96,140 after the rebate has been applied which includes our work on the VFM conclusion and our audit of the Authority's financial statements.

#### Audit fee assumptions

The audit fee is indicative and based on you meeting our expectations. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2010/11;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2011/12* within your 2011/12 financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:
  - the financial statements are made available for audit in line with the agreed timescales;
  - good quality working papers and records will be provided at the start of the final accounts audit;

- requested information will be provided within the agreed timescales;
- prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit adheres to our joint working protocol and completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the Authority continues to achieve an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

#### Changes to the audit plan

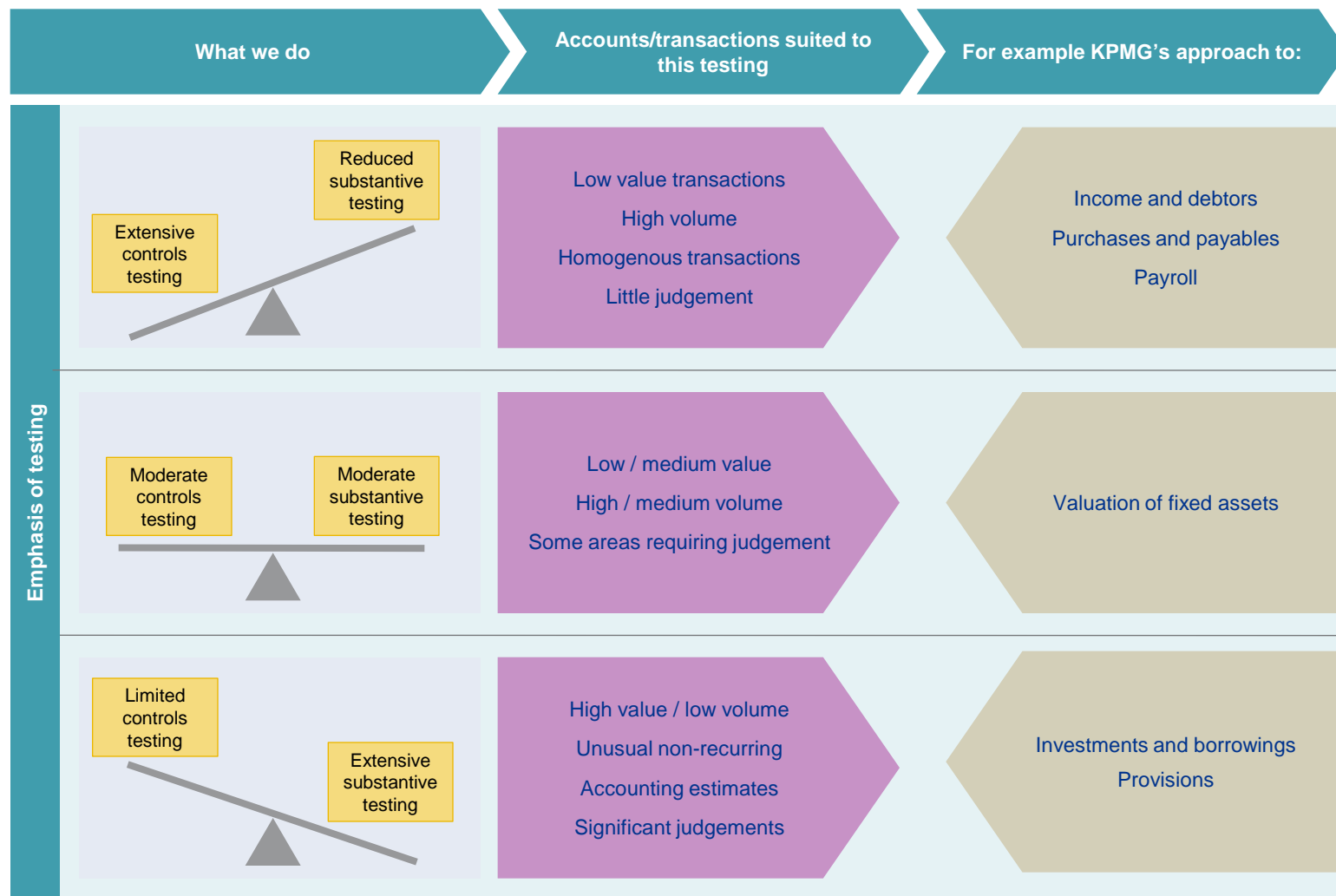
Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
- additional work is required of us by the Audit Commission or other regulators; and
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Section 151 Officer.

## Appendix 1: Balance of internal controls and substantive testing

This appendix illustrates how we determine the most effective balance of internal controls and substantive audit testing.



**This appendix summarises auditors' responsibilities regarding independence and objectivity.**

### Independence and objectivity

Auditors are required by the *Code* to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the *Code* specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the *Code*. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the *Audit Commission Act 1998*.

The *Code* also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner.
- Audit staff are expected not to accept appointments as lay school inspectors.
- Firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned.

- Auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on each audit at least once every five years (subject to agreed transitional arrangements). Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- The Commission must be notified of any change of second in command within one month of making the change. Where a new Engagement Lead or second in command has not previously undertaken audits under the *Audit Commission Act 1998* or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

The diagram summarises our approach and each level is expanded upon.

We recruit the best staff through our rigorous selection and assessment criteria. In addition, we expect that future talent to develop with our application of most effective in-house and external training support.

Our audit methodology determines that we use a standardised audit approach and pro forma work papers. We also have standards of audit evidence and working papers including requirements for working paper retention.

At critical periods of the audit we conduct both manager and engagement leader review of the work completed. Upon final completion, managers and directors complete a checklist to indicate the satisfactory conclusion of the audit under the audit methodology.

Partners who meet certain skills and experience criteria, conduct quality control reviews of individual audits depending on the level of audit risk. Their role is to perform an objective evaluation of the significant accounting, auditing and financial reporting matters with a high degree of detachment from the audit team. This provides an objective internal assessment on the quality of our audit. Peer review is undertaken across the firm, with an annual sample of our work being undertaken from a different national office. This encourages a constant focus on quality and ensures there is continuous improvement and that best practice is shared.

### Our quality review results

We are able to evidence the quality of our audits through the results of National Audit Office and Audit Commission reviews. The results of the Audit Commission's annual quality review process is made publicly available each year ([www.audit-commission.gov.uk/reports](http://www.audit-commission.gov.uk/reports)). The latest report dated October 2011 showed that we performed highly against all the Commission's criteria.



### Resolving accounting and financial reporting issues

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director (based in our London office) who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.
- A national technical network of public sector audit professionals that meets on a monthly basis and is chaired by our national technical director.
- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.
- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based bi-monthly technical training.

When dealing with the Audit Commission, as you would expect, we both attend and cascade across the firm the papers considered by their various technical groups for auditors. In addition, as the Audit Commission has developed we have established a series of formal and informal relationships. These benefit both the Audit Commission and our local authority clients. As a result of all of these factors, and combined with our overall audit approach, we seek to offer early warnings of issues arising with the independent regulator and provide pragmatic solutions.



*cutting through complexity™*

© 2012 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (KPMG International), a Swiss entity. All rights reserved.

The KPMG name, logo and 'cutting through complexity' are registered trademarks or trademarks of KPMG International Cooperative (KPMG International).

# REPORT



REPORT OF	MEETING	DATE	ITEM NO
RESOURCES DIRECTORATE	AUDIT COMMITTEE	29 <sup>TH</sup> MARCH 2012	5

## CERTIFICATE OF GRANTS AND RETURNS 2010/11

### Public Item

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

### Summary

The report presents the Certificate of Grants and Returns 2010/11 from KPMG. The report will be presented by KPMG.

### Recommendation

The Committee is recommended to consider and comment on the Certificate of Grants and Returns 2010/11 report from KPMG which is attached to this covering report.

### Alternative options considered and rejected

None

### Cabinet Portfolio

The item falls within the following Cabinet portfolio:

Finance & Resources: Councillor Karen Buckley

### 1.0 Report

Continued....



1.1 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 2010/11.

Report Author	Tel	Date	Doc ID
Paul O'Donoghue Chief Financial Officer	(01253) 658566	06 March 2012	

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

#### **Attached documents**

1. Report of KPMG - Certificate of grants and returns 2010/11

IMPLICATIONS	
Finance	No specific implications – the cost of certification of grants and returns can be met from existing budget provision.
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



*cutting through complexity™*

# Certification of grants and returns 2010/11

Fylde Borough Council  
January 2012

The contacts at KPMG in connection with this report are:

**Trevor Rees**  
*Partner*

Tel: 0161 246 4063  
trevor.rees@kpmg.co.uk

**Iain Leviston**  
*Manager*

Tel: 0161 246 4403  
iain.leviston@kpmg.co.uk

**Shan Prior**  
*Assistant Manager*

Tel: 0161 246 4501  
shan.prior@kpmg.co.uk

	Page
■ Headlines	2
■ Summary of certification work outcomes	3
■ Fees	5
■ Recommendations	6

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

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Trevor Rees, the appointed engagement lead to the Authority, who is also 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, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to [complaints@audit-commission.gov.uk](mailto:complaints@audit-commission.gov.uk). Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

Introduction and background	<p><b>This report summarises the results of work on the certification of the Authority's 2010/11 grant claims and returns.</b></p> <ul style="list-style-type: none"> <li>■ For 2010/11 we certified: <ul style="list-style-type: none"> <li>– Housing and Council Tax Benefit claim with a value of £22,505,327.</li> <li>– Disabled Facilities Grant with a value of £366,000.</li> <li>– NNDR return with a value of £20,321,728.</li> </ul> </li> </ul>	-
Certification results	<p><b>We issued unqualified certificates for two grants but qualification was necessary for one claim.</b></p> <ul style="list-style-type: none"> <li>■ The Housing and Council Tax Benefit claim required qualification as a result of one case which we tested where benefit had been underpaid because the Authority incorrectly cancelled the award of benefit for a period of eight weeks. Audit Commission rules are explicit in requiring that the Housing and Council Tax Benefit claim is qualified where any instances of underpaid benefit are identified, irrespective of their size or number.</li> <li>■ We issued unqualified certificates for all grants and returns audited in 2009/10.</li> </ul>	Pages 3 – 4
Audit adjustments	<p><b>No adjustments were necessary to any of the Authority's grants and returns as a result of our certification work this year.</b></p> <ul style="list-style-type: none"> <li>■ There was one adjustment necessary to the Housing Benefit and Council Tax subsidy in 2009/10 of £397.</li> </ul>	Pages 3 – 4
The Council's arrangements	<p><b>The Authority has good arrangements for preparing its grants and returns and supporting our certification work.</b></p> <ul style="list-style-type: none"> <li>■ The Authority has robust systems in place with experienced staff to accurately record and compile grants and returns.</li> <li>■ The Authority has appropriate accounting records in place to verify grants and returns.</li> </ul>	-
Fees	<p><b>Our overall fee for the certification of grants and returns is £25,870, an increase of £6,070 on the previous year.</b></p> <ul style="list-style-type: none"> <li>■ The Housing and Council Tax Benefit claim cost £22,545, a 35% increase on the prior year. The new benefits system went live in October 2010 – running two systems during the year meant some audit tests had to be completed twice, while other tests required both systems to be interrogated, increasing the time and costs of completing the work.</li> <li>■ There was a small increase on the NNDR claim as additional testing had to be completed in 2010/11 as part of a three year cycle of audit tests, but a saving was made on the DFG claim which partially offset this increase.</li> </ul>	Page 5

# Certification of grants and returns 2010/11

## Summary of certification work outcomes




**Overall, we certified three grants and returns:**

- **Two were unqualified with no amendment;**
- **One claim required a qualification to our audit certificate.**

Detailed comments are provided overleaf.

Detailed below is a summary of the key outcomes from our certification work on the Authority's 2010/11 grants and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate.

A qualification means that issues were identified concerning the Authority's compliance with a scheme's requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Authority to satisfy itself that the full amounts of grant claimed are appropriate.

	Comments overleaf	Qualified certificate	Significant adjustment	Minor adjustment	Unqualified certificate
Housing and Council Tax Benefit	1				
Disabled Facilities Grant					
NNDR					
		1	-	-	2

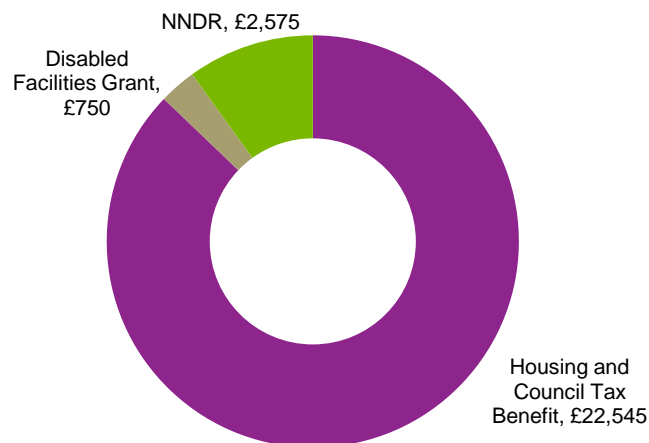
This table summarises the key issues behind the qualification that was identified on the previous page.

Ref	Summary observations	Amendment
1	<b>Housing and Council Tax Benefit</b> <ul style="list-style-type: none"> <li>■ Testing of the initial audit sample identified one case where benefit had been underpaid because the Authority incorrectly cancelled the award of benefit for a period of eight weeks.</li> <li>■ As there is no eligibility for the Authority to claim subsidy for benefit which has not been paid, the claim cannot be amended, and instead must be qualified.</li> <li>■ There is a risk to the Authority that Housing and Council Tax benefit claims will again require amendment or qualification in future years if the issue is not addressed.</li> <li>■ This issue is not a repeat of the issue raised in the previous year.</li> </ul>	Not Required

Our overall fee for the certification of grants and returns is £25,870, an increase of £6,070 on the previous year.

Using two different housing benefit systems as part of the introduction of the new system meant duplication of testing with costs increasing as a result.

### Breakdown of certification fees 2010/11



### Breakdown of fee by grant/return

	2010/11 (£)	2009/10 (£)
Housing and Council Tax Benefit	22,545	16,700
Disabled Facilities Grant	750	900
NNDR	2,575	2,200
<b>Total fee</b>	<b>25,870</b>	<b>19,800</b>

Our initial estimated fees for certifying 2010/11 grants and returns was £20,000. The actual fee charged was higher than that estimate. The main reason for the fee exceeding the original estimate because the introduction of the new benefits system by the service centre shared with Blackpool Council meant that the audit process was more difficult and time consuming:

- There are a number of tests that are required to be undertaken on the parameters included in the system, and ensuring that the latest version of the software has been used – these tests needed to be undertaken on both systems, doubling the time taken on this element of the audit; and
- When reviewing specific cases, the claim history on both systems had to be reviewed as the information from the old system was not copied forward onto the new. Therefore both systems had to be reviewed and the results aggregated, taking additional time to complete each test.

In both cases these issues should not recur in 2011/12 as only a single system will be in use throughout the year.

There was a small increase in costs relating to the NNDR claim. This came about because the audit programme contains two parts, Part A and Part B. Due to the size of the claim Part A only needs to be completed in most years, however every three years Part B must also be completed – this was the case in 2010/11.

We have given the recommendation a risk rating and agreed what action management will need to take. We will follow up this recommendation during next year's audit.

### Priority rating for recommendations

<b>1</b> Issues that are fundamental and material to your overall arrangements for managing grants and returns or compliance with scheme requirements. We believe that these issues might mean that you do not meet a grant scheme requirement or reduce (mitigate) a risk.	<b>2</b> Issues that have an important effect on your arrangements for managing grants and returns or complying with scheme requirements, but do not need immediate action. You may still meet scheme requirements in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	<b>3</b> Issues that would, if corrected, improve your arrangements for managing grants and returns or compliance with scheme requirements in general, but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.
---	--	--

Issue	Implication	Recommendation	Priority	Comment	Responsible officer and date
<b>Qualification issue</b>					
<b>Underpaid Council Tax benefit</b>  Audit Commission rules require that the claim is qualified where any instances of underpaid benefit are identified.  Testing identified one case where benefit had been underpaid because the Authority incorrectly cancelled the award of benefit for a period of eight weeks. The value of the underpayment was £168.40.	As there is no eligibility to subsidy for benefit which has not been paid, the claim cannot be amended, and instead must be qualified.  It should be noted that this is a minor issue and small errors such as this are likely to occur given the large volume of benefit claims processed by Blackpool Council on behalf of the Authority.	Staff should be reminded of the need to double check entitlement before claims are cancelled for payment, and when claims are reinstated consideration should be given to backdate payment if required.	<b>2</b>		





*cutting through complexity™*

© 2012 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

The KPMG name, logo and 'cutting through complexity' are registered trademarks or trademarks of KPMG International Cooperative (KPMG International).

# REPORT



REPORT OF	MEETING	DATE	ITEM NO
DIRECTOR OF RESOURCES	AUDIT COMMITTEE	29 MARCH 2012	6

## GOVERNANCE REVIEW – MELTON GROVE TASK AND FINISH GROUP RECOMMENDATIONS

### Public/Exempt item

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

### Summary

The Council previously referred the recommendations of the Melton Grove Task and Finish Group to the Audit Committee for review. At the last meeting it was reported that Mark Towers, Blackpool Council's Monitoring Officer, had been asked to consider the recommendations.

This report summarises Mr. Tower's approach to this work and makes commentary on suggested actions as endorsed by both the Council's Chief Executive and Director of Resources.

**Recommendation** To consider the commentary and suggested actions in the attached document and make recommendations to Council accordingly.

1. This report summarises work undertaken to consider the recommendations made by the Task and Finish Group established to review the sale of Melton Grove.
2. One of the key aims of the review was to engage Members and Officers in order to raise awareness of and compliance with the provisions in the Constitution in light of these recommendations and best practice/compliance with legislation
3. Mark Towers, the Head of Democratic Services and Monitoring Officer at Blackpool Council undertook this review in early 2012. The following people were interviewed:

- *Annie Womack and Lyndsey Lacey (Principal Democratic Services Officers).*
- *Tracy Morrison (Director of Resources) and Ian Curtis (Head of Governance/ current Monitoring Officer)*
- *Councillor David Eaves (Leader of the Council - Conservative)*

Continued....

- *Councillor Elizabeth Oades (Leader of the Opposition - Independent)*
- *Councillor Kiran Mulholland (Chairman of the Community Focus Scrutiny Committee – Independent, non aligned)*
- *Councillor Charlie Duffy (Independent)*
- *Councillor John Singleton (Chairman of the Audit Committee – Conservative)*

A follow up discussion and feedback session was also held with the Chief Executive and Director of Resources.

4. The attached document sets out the recommendations from the Melton Grove Task and Finish Group. Under each recommendation a commentary box sets out recommended action and/or commentary.
5. In addition to the Melton Grove review work, a further report will be brought forward in due course relating to further constitutional changes as a result of the work undertaken by Mark Towers.

IMPLICATIONS	
Finance	None
Legal	Addressed within the commentary within the report.
Community Safety	None
Human Rights and Equalities	None
Sustainability	None
Health & Safety and Risk Management	None

REPORT AUTHOR	TEL	DATE	DOC ID
Tracy Morrison	(01253) 658506	13 March 2012	

LIST OF BACKGROUND PAPERS		
NAME OF DOCUMENT	DATE	WHERE AVAILABLE FOR INSPECTION
Council constitution		Town Hall, St Annes, or <a href="http://www.fylde.gov.uk">www.fylde.gov.uk</a>

## DECISIONS AGREED BY COUNCIL FROM THE MELTON GROVE SCRUTINY REVIEW

1	That competencies and a skills-set should be established for Councillors who will represent the Council as Board members on outside bodies, or arms-length organisations and that Councillors should be required to demonstrate how they meet those competencies and skills-set before they can be appointed.
Action / Comment	This could be encompassed in job roles and descriptions for elected members – which can be generic but make clear reference appropriate competencies. However this cannot be a feature of an elected member appointment. The Member Development Steering Group has been investigating the option of required competencies. These could also be cross referenced in the recommended Appointments to Outside Body protocol. Whenever an appointment to an Outside Body is proposed appropriate supporting credentials of the nominee should be included with any proposal.
2	That in future scrutiny should be involved at all stages of any similar sale or acquisition, especially one that falls outside of the existing land transaction procedure rules.
Action / Comment	This recommendation will be formally included as part of the scrutiny procedures.
3	That in future, any public consultation should fit with the requirements of the Community Engagement Strategy, which ensures that any affected body or person is fully aware of the issues affecting them; and that they should have a realistic timeframe in which to respond; and that the consulting body, whether it is the Council or an organisation with which the Council is closely associated, is clearly shown to have taken those views into account in reaching a decision.
Action / Comment	This recommendation will be formally adopted however a commitment would be required from any closely associated organisation, as the Council may only be able to have influence to ensure this occurs rather than an enforcing role.
4	That major decisions taken by decision-making bodies of the Council, or of bodies with Councillors as voting Board members, should reveal within the minutes of their meetings the rationale for the decision.
Action / Comment	This is a laudable proposal and would be considered good practice, although it would not be directly enforceable with councillors on outside bodies, but it could be something the Council agrees with the body prior to appointing Councillors (by some form of written agreement). All Executive decisions have the reasons for decisions (i.e. their rationale) listed as part of the decision in the Committee reporting template used at Fylde.
5	That any Councillor or Cabinet Member appointed to the Board of an outside body or arms-length organisation should have regard to their dual role and maintain a separation of interest where appropriate; that they should report in the first place not to Cabinet or the ruling group, but to scrutiny.
Action / Comment	Clearly relevant point regarding the separation of interest. As the Council has agreed for the appointed Member to report to scrutiny then this will be implemented and could be covered in the Appointments to Outside Body protocol. This would give an opportunity for more information to be set out regarding how the reporting back operates, frequency of reporting back etc.

## DECISIONS AGREED BY COUNCIL FROM THE MELTON GROVE SCRUTINY REVIEW

6	<p>There exists a clearly stated obligation, agreed by Council, for Councillors appointed to outside bodies for reporting back; the T&amp;F Group recommends:</p> <p>(a) that this should be strengthened to ensure reporting back within clearly defined guidelines and timeframes to an appropriate scrutiny committee;</p> <p>(b) that relevant minutes should be attached to the report;</p> <p>(c) that where there is an official of the Council taking minutes there should be a minimum required standard and format; and</p> <p>(d) that the Head of Governance should have responsibility for making sure the above requirements are delivered.</p>
Action / Comment	<p>One option may be to have a protocol with regard to Appointments to Outside Bodies within the Constitution stating these type of requirements – see links below for best practice in this area:</p> <p><a href="https://cms.wiltshire.gov.uk/documents/s12571/Protocol%203%20-%20Guidance%20to%20Members%20on%20Outside%20Bodies.doc.pdf">https://cms.wiltshire.gov.uk/documents/s12571/Protocol%203%20-%20Guidance%20to%20Members%20on%20Outside%20Bodies.doc.pdf</a></p> <p>or</p> <p><a href="http://www1.eaststaffsbc.gov.uk/CMISWebPublic/Binary.ashx?Document=3841">http://www1.eaststaffsbc.gov.uk/CMISWebPublic/Binary.ashx?Document=3841</a></p> <p>It can be something for the Monitoring Officer to ensure happens, particularly if that designation is going to change.</p>
7	<p>That there should be a change to the Constitution which gives the Council's Monitoring Officer a primary and proactive role in advising the Mayor at Council meetings on constitutional issues; and that the Monitoring Officer should assume a more proactive role in advising all Councillors in their rights and responsibilities relative to the governance of the Council.</p>
Action / Comment	<p>There does not need to be a change in the Constitution for this to happen. It did come through as a strong theme in the interviews that it was more of a reactive response from the Monitoring Officer in relation to advice given. However, it may be useful for the Monitoring Officer to have in place a protocol agreed by the Standards Committee and Council to assist with clarity and understanding for all interested parties– see <a href="http://www.tameside.gov.uk/profile/monitoringofficer">http://www.tameside.gov.uk/profile/monitoringofficer</a> or <a href="http://www.stockton.gov.uk/yourcouncil/standprob/monofficer/">http://www.stockton.gov.uk/yourcouncil/standprob/monofficer/</a> (see Monitoring Officer – General Protocol). This would be a good foundation for a new Monitoring Officer to build from.</p>
8	<p>That the Council strengthens its decision-making process to ensure that that Councillors of all political persuasions have parity in terms of access to information and officer advice and that an external agency be invited to facilitate it, at the earliest opportunity.</p>
Action / Comment	<p>The Access to Information Procedure Rules and the Member/ Officer Protocol already covers this. Although it should be noted that a Councillor in receipt of a Special Responsibility Allowance would normally be expected to receive a certain level of information to allow them to carry out their duties. It should not be necessary for an external agency to facilitate this; it is the role of the Monitoring Officer to ensure that any part of the Constitution is being implemented properly. If a Councillor has an issue regarding Access to Information (or any other part of the Constitution) then they should approach the Monitoring Officer in the first instance.</p>

## DECISIONS AGREED BY COUNCIL FROM THE MELTON GROVE SCRUTINY REVIEW

	The main review undertaken addresses some of this recommendations in relation to the 'Role of the Opposition' and puts forward proposals for strengthening the sharing of information and involvement.
9	That Portfolio Holders should take all reasonable steps to ensure that they are in full possession of all relevant facts, before taking individual Portfolio Holder Decisions; that adequate timescales are in place to allow Portfolio Holders to research their topic, discuss with officers or other suitably experienced persons, and have time to reach a decision.
Action / Comment	This is considered good practice and should be encompassed in the Executive Procedure Rules that will be checked and revised to ensure that this is the case. To reinforce the message then should be covered in the induction for any newly appointed Cabinet Member. It can also be included within the decision notice of any Cabinet Member decision, at the point where they 'sign off' the decision, for the Cabinet Member to confirm that they have taken all reasonable steps to ensure ...etc.
10	When the Council or any arms-length organisation associated closely with the Council is engaging outside consultants, their role must be clearly defined stating the criteria and objectives of the engagement to remove any ambiguity or potential for misunderstanding of the task.
Action / Comment	This recommendation will be formally adopted however the Council may only be able to influence (rather than compel) an arms length organisation.
11	Any councillor who quotes from a written document during a Council debate, in order to strengthen their case should have taken all reasonable steps to verify the accuracy and provenance of that document and should, on request, make it available for scrutiny by any other Councillor during that debate and for a period of one month after.
Action / Comment	As this is a Council decision, it needs to be incorporated into a relevant document and it will be included within the Access to Information Procedure Rules.

# REPORT



REPORT OF	MEETING	DATE	ITEM NO
RESOURCES DIRECTORATE	AUDIT COMMITTEE	29 MAR 2012	7

## REGULATION OF INVESTIGATORY POWERS ACT 2000: AUTHORISATIONS

### Public/Exempt item

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

### Summary

Councillors are obliged to review the use of covert surveillance and covert human intelligence sources by the council at least quarterly. In the quarters to December 2011, and March 2012 there were no authorised operations.

### Recommendation/s

1. Note the information in the report.

### Cabinet portfolio

The item falls within the following cabinet portfolio[s]: Finance & resources: (Councillor Karen Buckley).

### Report

#### The RIPA framework

1. The Regulation of Investigatory Powers Act 2000 ("RIPA") regulates covert investigations by a number of bodies, including local authorities. It was introduced to ensure that individuals' rights are protected while also ensuring that law enforcement and security agencies have the powers they need to do their job effectively.

Continued....

2. Fylde Borough Council is therefore included within RIPA framework with regard to the authorisation of both directed surveillance and of the use of covert human intelligence sources.
3. Directed surveillance includes the covert surveillance of an individual in circumstances where private information about that individual may be obtained. A covert human intelligence source ("CHIS") is a person who, pretending to be someone that they are not, builds up a relationship of trust with another person for the purpose of obtaining information as part of an investigation.
4. Directed surveillance or use of a CHIS must be authorised by the chief executive or a director. All authorisations are recorded centrally by the Head of Governance.
5. Regulations under RIPA require councillors to consider a report on the use of RIPA at least quarterly.
6. This is the required quarterly report on the use of RIPA. The information in the table below is about authorisations granted by the council during the quarters concerned.

Quarter	Directed surveillance	CHIS	Total	Purpose
Oct – Dec 2011	0	0	0	
Jan – Mar 2012 <sup>1</sup>	0	0	0	

IMPLICATIONS	
Finance	No direct financial implications. This work will be delivered within existing revenue budget resources.
Legal	<p>The report is for the information of councillors and is produced to comply with the council's obligations under the Regulation of Investigatory Powers (Directed Surveillance and Covert Human Intelligence Sources) Order 2010.</p> <p>The council is only able to authorise surveillance under RIPA if it is for the purpose of preventing or detecting crime or preventing disorder.</p>
Community Safety	An authorising officer should consider any community safety issues among the other relevant factors in deciding whether to authorise surveillance.
Human Rights and	None arising directly from this report.

<sup>1</sup> Correct at the time the report was written. Any update will be reported verbally at the meeting and in writing in the next quarterly report.



Equalities	
Sustainability	None arising directly from this report.
Health & Safety and Risk Management	None arising directly from this report.

REPORT AUTHOR	TEL	DATE	DOC ID
Ian Curtis	(01253) 658506	13 March 2012	

LIST OF BACKGROUND PAPERS		
NAME OF DOCUMENT	DATE	WHERE AVAILABLE FOR INSPECTION
None		

# REPORT



REPORT OF	MEETING	DATE	ITEM NO
RESOURCES DIRECTORATE	AUDIT COMMITTEE	29 MAR 2012	8

## CORPORATE GOVERNANCE IMPROVEMENT PLAN 2011/12

### Public Item

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

### Summary

The Audit Committee is charged with adopting the Annual Governance Statement and monitoring the progress in fulfilling the Corporate Governance Improvement Plan. At the last meeting of the Committee on 26 January 2012, a further progress report on the 2011/12 Improvement Plan was requested.

### Recommendation

1. The Committee notes the latest position with regard to each of the issues included on the Corporate Governance Improvement Plan 2011/12.

### Reasons for recommendation

The report indicates the current situation

### Alternative options considered and rejected

This report is for information and comment only

## Cabinet Portfolio

Finance & Resources

Councillor Karen Buckley

### Report

1. The Annual Governance Statement for the year ended 31 March 2011, together with its associated improvement actions, was adopted by the Committee at its meeting on 23 June 2011. The responsibility for keeping the Corporate Governance Improvement Plan under review falls to the Audit Committee.
2. This further interim report was requested by the committee at its last meeting on 26 January 2012. It reveals the progress made so far in implementing the various actions to achieve improved corporate governance during 2011/12 and indicates areas where agreed actions have yet to be completed. A verbal update will be given at the meeting.
3. The 2011/12 Improvement Plan includes 8 actions to secure improved corporate governance and the current status (including target dates) as advised by the responsible managers is as set out in Appendix 1.
4. Progress monitoring will continue and a follow up of the all the improvements included in the plan will be undertaken once the final implementation date has passed. A further report will be prepared to indicate the revised position.

### **Risk Assessment**

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

Report Author	Tel	Date	Doc ID
Lyndsey Lacey and Ian Curtis	(01253) 658504 (01253) 658506	14 March 2012	5/9/11

List of Background Papers		
Name of document	Date	Where available for inspection
Delivering Good Governance in Local Government	2007	Town Hall, St Annes

Code of Corporate Governance	April 3 2008	Town Hall, St Annes or <a href="http://www.fylde.gov.uk/council-and-democracy/governance-and-control">www.fylde.gov.uk/council-and-democracy/governance-and-control</a>
Annual Governance Statement 2011	2011	Town Hall, St Annes or <a href="http://www.fylde.gov.uk/council-and-democracy/governance-and-control">www.fylde.gov.uk/council-and-democracy/governance-and-control</a>

### Attached documents

1. Corporate Governance Improvement Plan 2011/12.

IMPLICATIONS	
Finance	Good governance ensures development of the capacity and capability of the Council to be financially effective and efficient
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	Good governance encourages informed and transparent decisions which are subject to effective risk management

## Corporate Governance Improvement Plan 2011/12

SIGNIFICANT GOVERNANCE ISSUES		AGREED IMPROVEMENT PLAN			
Objective	Actions	Officer	Date	Status	Comment
AGS 1. The development of corporate purchasing arrangements will be finalised with the roll out of the Civica purchasing module on an authority-wide basis.	1. Develop an effective plan and timetable for the roll-out of the Civica purchasing module for use across the whole Council	POD	Jun 11	Complete	An effective project management framework has been developed and approved by Management Team
	2. Complete roll-out process, including staff training, such that Civica purchasing module is operational on an authority-wide basis	POD	Mar 11 Dec 11	Complete	*B/f from 2010/11 Improvement Plan Electronic purchasing rolled out and in use by all Directorates (Dec 2011)
AGS 2. Data Protection and Freedom of Information training and guidance will be provided for staff to refresh and embed knowledge concerning the individual's right to privacy with respect to the handling and processing of personal data.	3. Develop and deliver a targeted programme of data protection training to all relevant staff	IC	Mar 11 Mar 12	In progress	*B/f from 2010/11 Improvement Plan To be updated verbally
	4. Review and refresh the Council's Data Protection Policy to reflect best practice	IC	Dec 11	Complete	Data Assurance Policy developed adopted by Cabinet.
AGS 3. Training and guidance will be provided on equalities to ensure staff have the requisite knowledge concerning this area taking into account recent changes in legislation.	5. Develop and deliver a targeted programme of equalities training and guidance for all staff	AO	Mar 12	In progress	To be updated verbally
AGS 4. Procurement arrangements will be enhanced further to achieve best value and effective use of resources.	6. Liaise directly with Heads of Service to determine where procurement resources should be focused to secure their most effective use, and to inform and validate the strategy	IC	Oct 11	Complete	Exercise completed and being used to inform and validate the procurement strategy
	7. Develop and upgrade the procurement strategy to achieve best value and effective use of resources taking account of Action 6 (above) and subject to review by scrutiny with recommendations to Cabinet	IC	Mar 11 Mar 12	In progress	*B/f from 2010/11 Improvement Plan To be updated verbally
AGS 5. Business Continuity arrangements will be reviewed and refreshed to ensure that contingency plans remain robust in light of any emergency which may face the Council	8. Review and refresh the Business Continuity arrangements to ensure that contingency plans remain robust	TS/MT	Mar 12	In progress	Detailed Action Plan agreed by Strategic RM Group

# REPORT

REPORT OF	MEETING	DATE	ITEM NO
RESOURCES DIRECTORATE	AUDIT COMMITTEE	29 MAR 2012	9

## INTERNAL AUDIT PLAN 2012-2013

### Public Item

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

### Summary

The terms of reference for the Audit Committee include approving but not directing internal audit's plan. This report outlines the Internal Audit Plan for the financial year 2012-13 and briefly describes the methodology used in its production.

### Recommendation

The Committee approves the Annual Internal Audit Plan 2012-13.

### Reasons for Recommendation

The Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government requires that Internal Audit should have a plan and that the Audit Committee should approve but not direct it.

### Alternative options considered and rejected

No other course of action is advocated.

### Cabinet Portfolio

Finance & Resources

Councillor Karen Buckley

Continued....

## **Report**

### **Introduction**

1. This report sets out the audit work plan for the financial year 2012 -13. The work planned takes into account:
  - ♦ Internal Audit's objectives
  - ♦ discussions with managers
  - ♦ key issues identified for 2012-13
  - ♦ the results of previous audits
  - ♦ the resources available
  - ♦ level of risk within each service
  - ♦ the cyclical programme of audit work
2. The work of the team may be broken down into several main services to the Council:
  - ♦ Reviews of Council systems and processes on a risk assessed basis to ensure controls are adequate
  - ♦ Compliance testing to ensure significant financial systems remain 'fit for purpose'
  - ♦ Provision of consultancy and advice to management on request regarding aspects of internal control
  - ♦ Fraud investigation, where appropriate, in conjunction with the Investigations team
  - ♦ Follow Up Work to ensure findings are implemented

### **Planning considerations**

3. The Code of Practice requires the Chief Internal Auditor to prepare a risk based audit plan. 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:
  - ♦ 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
  - ♦ business Risk - the extent to which the system is perceived to be well managed
  - ♦ assurance - a factor to reflect the latest available assurance rating awarded by Internal Audit following an audit review of the area
  - ♦ sensitivity - the external profile of the service
  - ♦ time - a factor to represent the time since the area was last subject to audit

The risk scores are statistically weighted and provide a level of relative risk for each system.

4. This risk assessment is then translated into a five year strategic audit plan which shows the frequency of audit reviews, and an annual operational plan, which sets out the areas to be covered in the current year, taking into account resource constraints.

### Other Elements

5. Key financial systems are audited on an ongoing basis, such that each main system is reviewed in alternate years. Usually the follow up work is completed in the succeeding year so that annual coverage is maintained.
6. In addition to those activities identified as a result of the above process 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.
7. 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 can and will emerge in-year.
8. Consequently 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.
9. There are a number of audit reviews from 2011-12 that will be ongoing at the end of March 2012 and the days to complete these are also included in the current year's plan.

### Conclusion

The Audit Plan for the 2012/13 financial year is attached as an Appendix.

### Risk Assessment

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

Report Author	Tel	Date	Doc ID
Savile Sykes	(01253) 658413	29 March 2012	

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



Internal Audit Plan 2012-13		All background papers or copies can be obtained from Savile Sykes, Head of Internal Audit on 658413 or email <a href="mailto:saviles@fylde.gov.uk">saviles@fylde.gov.uk</a>
--------------------------------	--	---

### Attached documents

#### 1. Internal Audit Plan 2012-13

IMPLICATIONS	
Finance	Key financial systems are subject to a full system based audit every two years.
Legal	None arising directly from the report
Community Safety	None arising directly from the report
Human Rights and Equalities	None arising directly from the report
Sustainability and Environmental Impact	None arising directly from the report
Health & Safety and Risk Management	The agreement of an annual audit plan will assist the Council to put in place an appropriate control framework and effective internal controls that provide reasonable assurance of effective and efficient operations, financial stewardship, probity and compliance with laws and regulations.

**FYLDE BOROUGH Council  
Internal Audit Plan 2012/2013**

<b>Main Financial Systems</b>	<b>Days</b>	<b>Sub Totals</b>
Cash Collection	2	
Council Tax	17	
Creditors	18	
Housing /CTax Benefit	33	
Main Accounting	1	
National Non-Domestic Rates	19	
Payroll	20	
Sundry Debtors	18	
Treasury Management	1	129
<b>Planned Reviews</b>		
Car Allowances & Expenses	18	
Community Services - Licensing	18	
CRB Checks	12	
FMS – MOT Service	12	
Vehicle & Plant	20	
Follow Up Work	10	
Slippage (FMS, Procurement, Purchasing)	25	115
<b>Corporate Governance</b>		
Annual Governance Review	8	
Audit Committee – Review of Effectiveness	2	
Internal Audit – Review of Effectiveness	4	
Risk Management	16	30
<b>Computer Audit</b>		
Data Protection	18	
ICT Audit Liaison/Assistance	18	
Follow Up Work	1	37
<b>Anti-Fraud</b>		
National Fraud Initiative	10	
Prevention of Fraud & Corruption	3	
Follow Up Work	3	
Slippage (Fraud Awareness)	5	21
<b>Other Audit Work</b>		
Authorisation Schedules	5	
Cancelled/Replacement Cheques	11	16
<b>Communication/Consultancy</b>		
General Consultancy/Advice	23	
IA Communication/Liaison	23	46
<b>Reactive Work</b>		
Contingency	45	45
<b>TOTAL AUDIT WORK</b>	<b>439</b>	<b>439</b>

<b>Audit Team</b>		
Management & Administration	169	169
<b>Non-Audit Work</b>		
Benefit Fraud Monitoring/Liaison	8	
Controlled Stationery	1	
Corporate & Democratic Core	13	
Risk Services - Management	13	
Other	12	47
<b>TOTAL DAYS ALLOCATED</b>	<b>655</b>	<b>655</b>

# REPORT

REPORT OF	MEETING	DATE	ITEM NO
INTERNAL AUDIT	AUDIT COMMITTEE	29/03/12	10

## ANNUAL REVIEW OF COUNTER FRAUD POLICIES

### Public Item

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

### Summary

The Audit Committee's terms of reference include the adoption and approval of counter fraud policies, which include the Anti-fraud & Corruption Policy and Strategy, the Whistleblowing Policy, the Anti-Money Laundering Policy and the Sanction & Prosecution. In addition an Anti-Bribery Policy has been developed for approval. Together these policies create an integrated approach to tackling fraud.

### Recommendation

1. The Committee approves the policy documents attached as Appendices to this report and the amendments described.

### Reasons for recommendation

To ensure that the Council has in place the key elements of the corporate approach to fraud and corruption in support of the zero tolerance culture.

### Alternative options considered and rejected

No other course of action is advocated.

### Cabinet Portfolio

Finance & Resources

Councillor Karen Buckley

Continued....

## Introduction

The Audit Committee's terms of reference and the work plan include the approval of counter fraud policies. It was agreed in March 2010 that an annual review would take place as part of the committee's work plan to avoid dealing with this important area in a piecemeal fashion.

All counter fraud policies were approved by the committee twelve months ago. In order to ensure that an effective and up-to-date framework for countering fraud and corruption is maintained a further comprehensive review of all the following policies and strategies has been undertaken:

- ♦ Anti-fraud and Corruption Policy
- ♦ Anti-fraud and Corruption Strategy
- ♦ Whistleblowing Policy
- ♦ Anti-Money Laundering Policy
- ♦ Sanction and Prosecution Policy

In addition, to maintain the effectiveness of the Council's counter fraud arrangements an additional policy has been developed. This follows the introduction of the Bribery Act 2010 and seeks to ensure that due diligence procedures are applied, taking a proportionate and risk based approach to mitigate the risk of bribery:

- ♦ Anti-Bribery Policy

The above new policy is attached as an Appendix. All other policies have been refreshed but not significantly amended. As a result they are not attached but may be viewed in their entirety on the Council's Intranet.

## Anti-fraud and Corruption Policy

This policy was originally adopted by the Audit Committee on 28 February 2008. It has been refreshed to reflect any changes to corporate arrangements and refers to the new Anti-Bribery Policy but there are no significant amendments requiring committee approval.

## Anti-fraud and Corruption Strategy

This strategy was originally adopted by the Audit Committee on 28 February 2008. It has been refreshed to reflect any changes to corporate arrangements and in addition, some amendments have been made as follows:

Paragraph/Section	Comment
Various	Refers to impending decisions on member conduct and standards
22.2	Sets out Investigating Officer for Service Directors under investigation
24.3	Offences defined under the Bribery Act 2010 included
29.2	Recognises that HR representatives are not always required at all interviews
40.3	Includes next review date

## Whistleblowing Policy

This policy was originally adopted by the Audit Committee on 28 February 2008 and was modified to fully reflect the British Standards Institution (BSI) Whistleblowing Arrangements Code of Practice in March 2010. It has been refreshed to reflect any changes to corporate arrangements and in addition, some amendments have been made as follows:

Paragraph/Section	Comment
Various	Refers to impending decisions on member conduct and standards
10.1	Deletes Standards Board for England from contacts list
13.2	Includes next review date

## Anti-Money Laundering Policy

The policy was adopted by the Audit Committee on 30 March 2010 replacing the Council's 2006 money laundering procedures and guidance. It has been refreshed to reflect any changes to corporate arrangements but there are no significant amendments requiring committee approval.

Paragraph/Section	Comment
6.3, 7.3-7.7	Replaces National Criminal Intelligence Service (NCIS) as reporting agency with Serious Organised Crime Agency (SOCA)
10.1-10.2	Adds review arrangements for policy including next review date

## Sanction and Prosecution Policy

The Council's Sanction and Prosecution Policy for use in connection with Housing Benefit and Council Tax Benefit frauds was adopted by the Audit Committee on 30 March 2010 replacing the 2005 policy. It has been refreshed to reflect any changes to corporate arrangements but there are no significant amendments requiring committee approval.

## Anti-Bribery Policy

The Bribery Act 2010 includes a corporate offence under Section 7 of failure by the Council to prevent bribery. The Council will have a defence to this corporate offence if it can show that it had in place adequate procedures designed to prevent bribery by persons associated with the Council. As part of these requirements the Council needs to ensure that its bribery prevention policies and procedures are embedded and understood throughout the organisation and the first stage of this is the adoption of this policy document. The sections of the policy are as follows:

Section	Comment
Policy Statement	Describes the basic principles and objectives underlying the policy
1 - Policy	Sets out the objectives, scope, Council's commitment and briefly outlines the key offences under the Bribery Act
2 – Procedures	Explains the principles supporting the Council's procedures, the proscribed actions, refers to existing Gifts & Hospitality procedures, explains staff responsibilities and how to raise a concern
3 - Framework	Sets out other relevant Council policies and the terms of review

## Risk Assessment

There are some minor risks associated with the actions referred to in this report. Where necessary directorate operational risk registers can accommodate these.

Report Author	Tel	Date	Doc ID
Savile Sykes	(01253) 658413	29 March 2012	

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

BSI Whistleblowing Arrangements Code of Practice	2008	All background papers or copies can be obtained from Savile Sykes, Head of Internal Audit on 658413 or email <a href="mailto:saviles@fylde.gov.uk">saviles@fylde.gov.uk</a>
Money Laundering Regulations 2007 Act	2007	
Bribery Act	2010	

### Attached documents

Appendix – Anti-Bribery Policy

IMPLICATIONS	
Finance	The policies seek to minimise the financial impact of fraud and corruption and support the public stewardship of funds.
Legal	The policies assist in good governance and the probity of Council actions and decision-making. Where appropriate the policies will ensure the Council is compliant with prevailing legislation and regulations.
Community Safety	None arising directly from the report
Human Rights and Equalities	None arising directly from the report
Sustainability and Environmental Impact	None arising directly from the report
Health & Safety and Risk Management	The policies seek to address the risk of the Council being a victim to fraud and corruption. If controls have proved ineffective or breached deliberately, the Whistleblowing Policy supports the reporting of malpractice.

# **ANTI-BRIBERY POLICY**

## **POLICY STATEMENT**

Bribery is a criminal offence. It is an inducement or reward offered, promised or provided to gain personal, commercial, regulatory or contractual advantage. The Council and its staff do not, and will not, pay bribes or offer improper inducements to anyone for any purpose, nor accept bribes or improper inducements.

To use a third party as a conduit to channel bribes to others is a criminal offence. The Council and its staff do not, and will not, engage indirectly in or otherwise encourage bribery.

The Council is committed to the prevention, deterrence and detection of bribery. The Council has zero-tolerance towards bribery. The Council aims to maintain anti-bribery compliance “business as usual”, rather than as a one-off exercise.

## **1 THE POLICY**

### **1.1 Objective of this policy**

This policy provides a coherent and consistent framework to enable the Council’s employees to understand and implement arrangements enabling compliance. In conjunction with related policies and key documents it will also enable employees to identify and effectively report a potential breach.

The Council requires that all personnel, including those permanently employed, temporary staff, agency staff and contractors:

- act honestly and with integrity at all times and to safeguard the Council's resources for which they are responsible
- comply with the spirit, as well as the letter, of the laws and regulations of all jurisdictions in which the Council operates, in respect of the lawful and responsible conduct of activities

### **1.2 Scope of this policy**

This policy applies to all of the Council’s activities. For partners, joint ventures and suppliers, the Council will seek to promote the adoption of policies consistent with the principles set out in this policy.

Within the Council, the responsibility to control the risk of bribery occurring resides at all levels of the organisation. It does not rest solely within assurance functions, but in all directorates and corporate functions.



This policy covers all personnel, including all levels and grades, those permanently employed, temporary agency staff, contractors, non-executives, agents, Members (including independent members), volunteers and consultants.

### **1.3 The Council's commitment**

The Council commits to:

- ♦ Setting out a clear anti-bribery policy and keeping it up to date
- ♦ Making all employees aware of their responsibilities to adhere strictly to this policy at all times
- ♦ Training all employees so that they can recognise and avoid the use of bribery by themselves and others
- ♦ Encouraging its employees to be vigilant and to report any suspicions of bribery, providing them with suitable channels of communication and ensuring sensitive information is treated appropriately
- ♦ Rigorously investigating instances of alleged bribery and assisting police and other appropriate authorities in any resultant prosecution
- ♦ Taking firm and vigorous action against any individual(s) involved in bribery
- ♦ Providing information to all employees to report breaches and suspected breaches of this policy
- ♦ Including appropriate clauses in contracts to prevent bribery.

### **1.4 The Bribery Act**

There are four key offences under the Act:

- ♦ bribery of another person
- ♦ accepting a bribe
- ♦ bribing a foreign official
- ♦ failing to prevent bribery

The Bribery Act 2010 makes it an offence to offer, promise or give a bribe (Section 1). It also makes it an offence to request, agree to receive, or accept a bribe (Section 2). Section 6 of the Act creates a separate offence of bribing a foreign public official with the intention of obtaining or retaining business or an advantage in the conduct of business.

There is also a corporate offence under Section 7 of failure by a commercial organisation to prevent bribery that is intended to obtain or retain business, or an advantage in the conduct of business, for the organisation. This is what is known as a "strict liability" offence. This means that there is no need to prove negligence or management complicity. An organisation will have a defence to this corporate offence if it can show that it had in place adequate procedures designed to prevent bribery by or of persons associated with the organisation.

## **2 ANTI BRIBERY PROCEDURES**

### **2.1 The Council's procedures cover six principles:**

#### **Proportionality**

The Council has procedures in place to prevent bribery by persons associated with it. These are proportionate to the bribery risks faced by the Council and to the nature, scale and complexity of the Council's activities. They are also clear, practical, accessible, effectively implemented and enforced.

#### **Top level commitment**

The Chief Executive and Directors are committed to preventing bribery by persons associated with it. They foster a culture within the organisation in which bribery is never acceptable.

#### **Risk Assessment**

The nature and extent of the Council's exposure to potential external and internal risks of bribery on its behalf by persons associated with it is periodically assessed. This includes financial risks but also other risks such as reputational damage.

#### **Due diligence**

The Council takes a proportionate and risk based approach, in respect of persons who perform or will perform services for or on behalf of the organisation, in order to mitigate identified bribery risks.

#### **Communication (including training)**

The Council seeks to ensure that its bribery prevention policies and procedures are embedded and understood throughout the organisation through internal and external communication, including training that is proportionate to the risks it faces.

#### **Monitoring and review**

Procedures designed to prevent bribery are monitored and reviewed and improvements are made where necessary.

**The Council is committed to proportional implementation of these principles.**

### **2.2 Bribery is not tolerated**

It is unacceptable to:

- ♦ give, promise to give, or offer a payment, gift or hospitality with the expectation or hope that a business advantage will be received, or to reward a business advantage already given
- ♦ give, promise to give, or offer a payment, gift or hospitality to a government official, agent or representative to "facilitate" or expedite a routine procedure
- ♦ accept payment from a third party that you know or suspect is offered with the expectation that it will obtain a business advantage for them

- ♦ accept a gift or hospitality from a third party if you know or suspect that it is offered or provided with an expectation that a business advantage will be provided by us in return
- ♦ retaliate against or threaten a person who has refused to commit a bribery offence or who has raised concerns under this policy
- ♦ engage in activity in breach of this policy

Bribery is a serious offence against the Authority and employees will face disciplinary action if there is evidence that they have been involved in this activity, which could result in summary dismissal for gross misconduct. Disciplinary action will be taken in addition to, or instead of, criminal proceedings, depending on the circumstances of each individual case.

### **2.3 Facilitation payments**

Facilitation payments are not tolerated and are illegal. Facilitation payments are unofficial payments made to public officials in order to secure or expedite actions.

### **2.4 Gifts and hospitality**

This policy is not meant to amend the existing Gifts and Hospitality procedures already in place. These arrangements make it clear that:

Simple tokens of modest value such as pens, diaries or calendars whether given personally, or received in the post, may be retained unless they could be regarded as an inducement or reward. Modest hospitality offered in the course of normal business such as a simple working lunch may also be accepted.

You should refuse any gift with a value greater than £10 (or return the gift) and the offer of hospitality or an invitation of a value greater than £25.

### **2.5 Staff responsibilities**

The prevention, detection and reporting of bribery and other forms of corruption are the responsibility of all those working for the Council or under its control. All staff are required to avoid activity that breaches this policy.

Employees must:

- ♦ read, understand and comply with this policy
- ♦ raise concerns as soon as possible as the result of any suspicion that a conflict with this policy has occurred, or may occur in the future.

### **2.6 Raising a concern**

The Council is committed to ensuring that all of us have a safe, reliable, and confidential way of reporting any suspicious activity. It is important that each and every member of staff knows how they can raise concerns.

All employees have a responsibility to help detect, prevent and report instances of bribery. The proper vehicle for raising a concern regarding a suspected instance of bribery or corruption is the Whistleblowing Policy.

Concerns can be anonymous. In the event that an incident of bribery, corruption, or wrongdoing is reported, the Council will act as soon as possible to evaluate the situation. We have clearly defined procedures for investigating fraud, misconduct and non-compliance issues and these will be followed in any investigation of this kind.

### **3. CORPORATE FRAMEWORK**

#### **3.1 Other Relevant Policies**

This Policy forms an important part of the Council's approach to dealing with fraud and corruption by setting the scope, culture and standards of the Council, as part of the corporate framework.

The corporate framework requires a whole range of high level component parts if it is to contribute to the Council having an effective counter-fraud strategy. A range of documents have been issued to reinforce this, including:

- ♦ Anti-fraud and Corruption Policy
- ♦ Anti-fraud and Corruption Strategy
- ♦ Whistleblowing Policy
- ♦ Anti-Money Laundering Policy
- ♦ Contract Procedures and Financial Regulations
- ♦ Codes of Conduct for members and employees
- ♦ Disciplinary Procedure
- ♦ Recruitment Policy

#### **3.2 Review**

This policy is available to all Council employees via its inclusion in the Corporate Policies and Strategies page on the Intranet. Copies of the Policy are available for reference by staff on request.

It may also be made available on request to any interested external parties. This could include contractors, partners and other external stakeholders.

The Director of Resources or his/her nominated representative will review the Policy on an annual basis. Any need for change will be reported to the Audit Committee for approval.

# REPORT



REPORT OF	MEETING	DATE	ITEM NO
RESOURCES DIRECTORATE	AUDIT COMMITTEE	29/03/12	11

## DATA SECURITY HIGH PRIORITY ACTION (UPDATE)

### Public Item

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

### Summary

At its meeting in January 2012 the committee considered the Internal Audit Annual Interim Report for 2011/12. The Head of Internal Audit was requested provide a further report concerning the outstanding Data Security high priority action. This report sets out the current position.

### Recommendations

The Committee notes the latest position with regard to Data Security high priority action.

### Reasons for recommendation

The report indicates the current situation.

### Alternative options considered and rejected

This report is for information and comment only.

### Cabinet Portfolio

The item falls within the Finance & Resources portfolio (Councillor Karen Buckley)

Continued....

## **Background**

1. During 2010/11 a review of information governance was carried out in conjunction with Lancashire County Council IT auditors, which resulted in several recommendations. These sought to establish on a formal basis an information security regime appropriate to the Council's needs.
2. There were four high priority actions arising from the review. At the time of the Internal Audit Annual Report in June 2011, three of these were completed. The full wording of the fourth action that was not completed was as follows:

*“Each Director will ensure that designated Information Asset Owners (IAOs) undertake the prescribed Information Audit of key data sets and subsequently put in place timetabled action plans, where necessary, to ensure robust information security arrangements are achieved and/or maintained.”*

3. Originally the completion date agreed by management for the above action was May 2011 but this target was not met. The report to the September meeting of the Audit Committee explained, “This action was dependent upon the completion of another related action, in particular, the identification of key data sets and the responsible ‘owners’ of the relevant information systems”.
4. A revised date for implementation had been agreed for the end of September 2011. However, by the time of the Interim Internal Audit Report to the last Audit Committee the action was not fully completed, although progress had been made.
5. At its meeting in January 2012 the Audit Committee requested the Head of Internal Audit to provide a further report outlining the current position.

## **Current Position**

6. Information has been received from the Directors that the audit of key data sets has been completed and, where necessary, timetabled action plans have been put in place. The Council's Senior Information Risk Officer (SIRO) is satisfied that robust arrangements are now in place and will monitor the situation on a continuous basis.
7. At the time of writing, although advice of completion has been received, internal audit has not had the opportunity to examine all the relevant evidence to confirm the completion of the action for each Directorate. However, it is anticipated that this will be undertaken before the meeting of the committee and a verbal update will be provided.

## **Risk Assessment**

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

Report Author	Tel	Date	Doc ID
Savile Sykes	(01253) 658413	29/03/12	

List of Background Papers		
Name of document	Date	Where available for inspection
Corporate Governance Improvement Plan	21/10/10	All background papers or copies can be obtained from Savile Sykes – Head of Internal Audit on 01253 658413 or e-mail <a href="mailto:saviles@fylde.gov.uk">saviles@fylde.gov.uk</a>
Head of Internal Audit's Annual Report	23/06/11	
High Priority Actions 2010/11 (Update)	22/09/11	
Internal Audit Interim Report	26/01/12	

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

## Audit Committee



Date:	Thursday, 26 January 2012
Venue:	Town Hall, St. Annes
Committee members:	Councillor John Singleton JP (Chairman) Councillor Brenda Ackers (Vice-Chairman) Councillors Ben Aitken, Christine Akeroyd, Leonard Davies, Kath Harper, Louis Rigby
Other Councillors:	Councillor Karen Buckley and Charlie Duffy
Officers:	Paul Walker, Allan Oldfield, Tracy Scholes, Ian Curtis, Gary Sams, Paul O'Donoghue, Andrew Wilsdon, Savile Sykes, Paul Rogers
Other Attendees:	Iain Leviston (KPMG)

### 1. Declarations of interest

Members were reminded that any personal/prejudicial interests should be declared as required by the Council's Code of Conduct adopted in accordance with the Local Government Act 2000. No declarations were declared.

### 2. Confirmation of minutes

RESOLVED: To approve the minutes of the Audit Committee meeting held on 10 November 2011 as a correct record for signature by the Chairman.

### 3. Substitute members

There were no substitutions.

### 4. Annual Audit Letter - 2010/11

Iain Leviston presented the Annual Audit and Inspection letter which gave the Auditor's opinion on the Council's performance and financial management and an opinion on the Council's preparation of the financial statements. The letter summarised the key issues arising from their 2010-11 audit of the Council. He referred Members to the key points which were set out on page 11 of the Audit Letter and that the accounts had required very few adjustments. He made reference to the high priority recommendation shown on page 12 and informed the Committee that the Council had advised him that it was well on the



way to getting the issues resolved. He drew Members attention to the figure set out in the paragraph relating to Certification of Grants and Returns in Appendix 3 on page 15 and advised that currently the actual figure was just over £25,000. The increase was due to additional auditing of grant claims required as a result of the change in the Revenues and Benefits IT system introduced by the shared service with Blackpool Council. He would be presenting a report on grants and certification to the next Audit Committee meeting.

It was RESOLVED that the Annual Audit and Inspection Letter 2010-11 be noted.

(The Chairman indicated that he was satisfied that the matter was not controversial and dealt with the matter by a show of hands rather than by taking a recorded vote.)

#### 5. Sandwinning Operations

Paul Walker (Director of Development Services) presented a report regarding the investigation about the possibility that sand was being removed from Squires Gate beach without payment to the Council.

Councillor Christine Akeroyd welcomed the report and requested that the beach area be monitored over the coming months with a review of the issue being brought to the September meeting of the Audit Committee.

It was RESOLVED that

- (1) the Committee notes the investigation which is that there is no evidence that sand is being removed without payment to the Council;
- (2) the issue referred to in (1) above be monitored and that an update report be submitted to the September meeting of this Committee.

(The Chairman indicated that he was satisfied that the matter was not controversial and dealt with the matter by a show of hands rather than by taking a recorded vote.)

#### 6. Strategic Risk 2011-2012

Andrew Wilsdon (Insurance and Risk Management Officer) presented a report which summarised the work undertaken in completing the Strategic Risk Actions contained in the 2011-12 Risk Register. He made particular reference to paragraph 2.3 on page 22 of the report and advised that 15 actions had been completed by 31 December 2011. He also drew members attention to the table on page 22 and advised that the delays in the sale of the Wesham site (RMAP 1) and the Derby Road and St Davids Road (RMAP 4) sites were causing delays in the Accommodation work (RMAP 4) due to the fact that monies received from the sale of all three sites would be utilised in the accommodation refurbishment. He informed the Committee that the officers were endeavouring to achieve the right price. With regard to the final action in respect of the Planning LDF (RMAP 5), he advised that the original completion date had been delayed due to changes that had been made by Cabinet resulting in the completion date being revised to 31 March 2012.

In response to the Chairman's concern about delays in the actions, Paul Walker (Director of Development Services) advised that dates which had been set at the outset were best estimates. He further advised that there were many issues which had to be addressed initially and those together with a slow rate of enquiries. Since bids were submitted, negotiations had taken longer due to considerations around compliance with planning policies. Together these had culminated in the delays to the sale. He further informed the Committee that the actions were being closely monitored by the Accommodation working group and the LDF Steering group with reports from those groups being submitted to Cabinet.

Councillor John Singleton, Chairman, expressed his concern that delays could cause costs to rise on the accommodation refurbishment. Paul Walker advised that at the current point in time he was unaware of any increases to costs that might arise due to the delays. He added that the Accommodation working group would report on the costs issue in due course.

It was RESOLVED that

- (1) the progress made on completing the Strategic Risk Actions for 2011-12 be noted;
- (2) a review of the actions set out in the table in paragraph 2.4 be submitted to the June Audit Committee meeting and the Cabinet Portfolio Holder and / or the Risk Management Group be informed of the Committees actions and concerns.

(The Chairman indicated that he was satisfied that the matter was not controversial and dealt with the matter by a show of hands rather than by taking a recorded vote)

#### 7. Sale of Clifton (Lytham) Housing Association - Recommendations for Consideration

Tracy Scholes (Director of Resources) presented a report detailing the recommendations of the Task and Finish Group appointed to look into the processes and procedures surrounding the sale of Clifton (Lytham) Housing Association Ltd.

In summary, the report outlined previous deliberations on the matter and the subsequent decision of Council at its meeting 28 November 2011 which sought to consider the impact on the Council's Constitution by the Audit Committee.

Mrs Scholes informed the committee that Mark Towers, (Blackpool Council's Monitoring officer) had already initiated the review and would be undertaking interviews with Councillors Kiran Mulholland, David Eaves (Leader) and John Singleton. Officers to be interviewed will be herself, Ian Curtis (Monitoring Officer), Annie Womack and Lyndsey Lacey (Principal Democratic Services Officers). She emphasised that the purpose of the review was to ensure that the Constitution was fit for purpose and identify whether it could be strengthened as a consequence of the Task and Finish group recommendations.

The Chairman requested that Councillor Charlie Duffy also be interviewed.

In response to a Member's question, Mrs Scholes informed the Committee that Mr Towers was heavily involved with the Association of Democratic Services Officers and delivered training nationally on democratic standards. The cost to the Council would be in the region of £1000. She advised that a further report with a draft of the revised constitution would be submitted to the March Audit Committee with a view to going to Council in June.

It was RESOLVED that

- (1) subject to recommendation 1 on page 25 being considered by the Member Development Steering group on 17 February 2012, the Committee notes recommendations 2 to 11 on page 25 of the report;
- (2) the Committee notes that a further report is being submitted to the March Audit Committee meeting regarding the review and that Mark Towers be requested to attend the meeting.

(The Chairman indicated that he was satisfied that the matter was not controversial and dealt with the matter by a show of hands rather than by taking a recorded vote)

#### 8. Regulation of Investigatory Powers Act 2000: Authorisations

Ian Curtis (Monitoring Officer) presented a report regarding the Council's use of covert surveillance and covert human intelligence sources during the quarter October to December 2011.

It was RESOLVED that the information in the report be noted.

(The Chairman indicated that he was satisfied that the matter was not controversial and dealt with the matter by a show of hands rather than by taking a recorded vote)

#### 9. Corporate Governance Improvement Plan 2011-12

Ian Curtis (Monitoring Officer) presented a report which monitored progress in fulfilling the Corporate Governance Improvement Plan. Actions on AGS 2, 3 and 4 were outstanding but should be completed by March 2012 the previously agreed completion date. AGS 4 was scheduled to be completed on time.

The Chairman expressed concern about the potential slippage and requested an update at the March meeting.

It was RESOLVED that a further update report on AGS 2 and 4 be submitted to the March Audit Committee meeting

(The Chairman indicated that he was satisfied that the matter was not controversial and dealt with the matter by a show of hands rather than by taking a recorded vote)

#### 10. Internal Audit Interim Report 2011-12

Savile Sykes (Chief Internal Audit) presented a report which summarised the work undertaken by internal audit from April to December 2011 and performance information for the same period. He referred to table 1 on page 36 and informed Members that the levels of assurance were categorised as low, medium or high level, 1 being low and 5 being high. Referring to paragraph 3 on Follow Up Work and Table 4, which summarised agreed recommendations implemented he hoped that the 82 per cent implementation rate would increase over the final quarter. He made reference to the Council's involvement in the National Fraud Initiative which had resulted in savings in the region of £53,000 during the previous exercise. He drew attention to paragraph 4.6 on page 39 and the recognition of the benefit fraud partnership between Preston City Council and this Council by the Institute of Revenues, Rating and Valuation as an exemplar of partnership working, receiving the Institute's Gold Award. In referring to the Internal Audit Plan at paragraph 7, he informed the Committee that at the end of December 68.4 per cent of the plan had been completed, suggesting that the 90% target for the year would be achieved. In response to a Member's question, he informed the Committee that a substantial amount of fraud payments are returned to this Council as a deduction from ongoing benefits entitlement.

Councillor Kath Harper referred to the number of actions implemented in relation to Contracts & Tendering as shown in Table 4 on page 38 and asked why so few had been implemented. Mr Sykes advised that an audit had been carried out of the contract and tendering arrangements and that subsequently 8 actions were still outstanding. One was low priority and the remainder were medium priority.

The Chairman referred to Table 3 on page 37 and the high risk in relation to the data security weaknesses and the slippage in implementation date. Mr Sykes informed the Committee that this action was at the final stage and was on the point of being implemented.

The Chairman also referred to IA6 in Table 6 on page 41 'High/Medium Priority' actions implemented by management and the low percentage compared to the previous year. Mr

Sykes advised that managers still had the opportunity to complete the implementation of agreed recommendations but that this was the current situation.

It was RESOLVED that

- (1) a further update with regard to the high priority Data Security weakness action point and its implementation be submitted to the March Audit Committee meeting;
- (2) an email be sent to Audit Committee members setting out the percentages of completion of the high risk priorities shown in Table 3 on page 37 of the report

(The Chairman indicated that he was satisfied that the matter was not controversial and dealt with the matter by a show of hands rather than by taking a recorded vote.)

#### 11. Effectiveness of Internal Audit

Savile Sykes (Chief Internal Auditor) presented a report which gave the findings of a review by external audit on the effectiveness of internal audit against the criteria set out in the Code of Practice for Internal Audit. He drew attention to the Actual Assessment shown on page 50 of the report and that all actions had been implemented.

It was RESOLVED that

- (1) the Committee notes the findings of the external audit review on the effectiveness of internal audit and confirms the conclusion that there is compliance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006;
- (2) The Committee expresses its thanks to the Audit team for the splendid work during the year to date.

(The Chairman indicated that he was satisfied that the matter was not controversial and dealt with the matter by a show of hands rather than by taking a recorded vote.)

### **Fylde Borough Council copyright [2012]**

You may re-use this document/publication (not including logos) free of charge in any format or medium. You must re-use it accurately and not in a misleading context. The material must be acknowledged as Fylde Borough Council copyright and you must give the title of the source document/publication.

Where we have identified any third party copyright material you will need to obtain permission from the copyright holders concerned.

This document/publication was also available on our website at  
[www.fylde.gov.uk](http://www.fylde.gov.uk)

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

**© Fylde Borough Council copyright [2012]**

You may re-use this document/publication (not including logos) free of charge in any format or medium. You must re-use it accurately and not in a misleading context. The material must be acknowledged as Fylde Borough Council copyright and you must give the title of the source document/publication.

Where we have identified any third party copyright material you will need to obtain permission from the copyright holders concerned.

This document/publication is also available on our website at [www.fylde.gov.uk](http://www.fylde.gov.uk)

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