



Meeting Agenda

**Audit Committee
Town Hall, St Annes
Thursday 31 March 2011, 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
VICE-CHAIRMAN – Councillor Linda Nulty

Councillors

Ben Aitken	Paul Rigby
Christine Akeroyd	Janine Owen
Louis Rigby	Elizabeth Oades
Keith Hyde	

Contact: Lyndsey Lacey, St. Annes (01253) 658504, Email:
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
1. DECLARATIONS OF INTEREST: <i>If a member requires advice on Declarations of Interest he/she is advised to contact the Monitoring Officer in advance of the meeting. (For the assistance of Members an extract from the Councils Code of Conduct is attached).</i>	4
2. CONFIRMATION OF MINUTES: <i>To confirm as a correct record the minutes of the Audit Committee held on 27 January 2011. As attached at the end of the agenda.</i>	4
3. SUBSTITUTE MEMBERS: <i>Details of any substitute members notified in accordance with council procedure rule 25.3</i>	4
4. CERTIFICATE OF GRANTS AND RETURNS 2009/10	7-14
5. ANNUAL AUDIT AND INSPECTION LETTER – 2009/10	15-24
6. AUDIT PLAN - KPMG	25-48
7. REGULATION OF INVESTIGATORY POWERS ACT 2000: AUTHORISATIONS	49-51
8. INTERNAL AUDIT PLAN 2011-2012	52-57
9. ANNUAL REVIEW OF COUNTER FRAUD POLICIES	58-80
10. PRUDENTIAL INDICATORS & TREASURY STRATEGY 2010/11 TO 2013/14	81-99
11. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) – PROJECT PROGRESS UPDATE (AS AT FEBRUARY 2011)	100-105
12. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) – APPROVAL OF FIXED ASSET COMPONENTISATION POLICY	106-111

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
GOVERNANCE AND PARTNERSHIPS DIRECTORATE	AUDIT COMMITTEE	31 MARCH 2011	4

CERTIFICATE OF GRANTS AND RETURNS 2009/10

Public Item

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

Summary

The report presents the Certificate of Grants and Returns 2009/10 from KPMG. The report will be presented by KPMG.

Recommendation

The Committee considers and comments on the Certificate of Grants and Returns 2009/10, attached.

Alternative options considered and rejected

None

Cabinet Portfolio

The item falls within the following Cabinet portfolio:
Finance & Resources: Councillor Karen Buckley

Report Author	Tel	Date	Doc ID
Tracy Scholes	(01253) 658521	4 March 2011	

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

Attached documents

1. Certificate of grants and returns

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

PUBLIC SECTOR

Certification of grants and returns 2009/10

Fylde Borough Council

January 2011

AUDIT

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● Headlines	2
● Summary of certification work outcomes	3
● Fees	5

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

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

If you have any concerns or are dissatisfied with any part of KPMG’s work, in the first instance you should contact Trevor Rees, who is the engagement leader to the Authority (telephone 0161 246 4063, e-mail trevor.rees@kpmg.co.uk) who will try to resolve your complaint. Trevor 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, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

Headlines

Introduction and background	<p>This report summarises the results of work on the certification of the Council's 2009/10 grant claims and returns</p> <ul style="list-style-type: none"> For 2009/10 we certified <ul style="list-style-type: none"> Housing & Council Tax Benefit grant claim – with a value of £20,669,665 Disabled Facilities Grant – with a value of value £366,000 NNDR Return – with a value of £21,409,051.55 	-
Certification results	<p>We issued unqualified certificates for all grants and returns</p> <ul style="list-style-type: none"> We also issued unqualified certificates for all grants and returns in 2008/09 	Pages 3 – 4
Audit adjustments	<p>One adjustment was necessary to the Council's grants and returns as a result of our certification work this year</p> <ul style="list-style-type: none"> The total Housing Benefit and Council Tax subsidy claimed increased by £397 There were no adjustments necessary to the Council's grants and returns in 2008/09 	Pages 3 – 4
The Council's arrangements	<p>The Council has good arrangements for preparing its grants and returns and supporting our certification work</p> <ul style="list-style-type: none"> The Council has robust systems in place with experienced staff to accurately record and compile grants and returns The Council has appropriate accounting records in place to verify grants and returns The Council complied with all grant scheme requirements 	Page 5
Fees	<p>Our overall fee for the certification of grants and returns has been contained within the original estimate</p> <ul style="list-style-type: none"> The fee is lower than the 2008/09 fee 	Page 5

Overall, we certified three grants and returns

- Two were unqualified with no amendment
- One was unqualified but required some minor amendment to the final figures

Detailed comments are provided overleaf

Detailed below is a summary of the key outcomes from our certification work on the Council’s 2009/10 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 Council’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 Council to satisfy itself that the full amounts of grant claimed are appropriate.

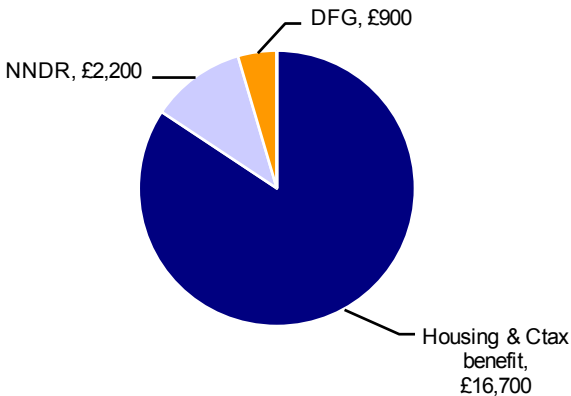
Comments overleaf	Qualified certificate	Significant adjustment	Minor adjustment	Unqualified certificate
Housing and Council Tax Benefit	<div><div></div></div>			
NNDR	<div><div></div></div>			
Disabled Facilities Grant	<div><div></div></div>			
Total	0	0	1	2

This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page

Ref	Summary observations	Amendment
1	Housing and Council Tax Benefit <ul style="list-style-type: none">Minor amendments were made to the claim as a result of the workbook testing carried out. These amendments related to overpayments being incorrectly excluded from the claim form.The risk to the Council is minimal since the amount of the amendment and the number of individual errors were both small.This amendment is not a repeat from the previous year as no amendments were required in 2008/09.	+ £397

Our overall fee for the certification of grants and returns is lower than our original estimate

Breakdown of certification fees 2009/10



Breakdown of fee by grant / return	2009/10 (£)	2008/09 (£)
Housing and Council Tax Benefit	16,700	16,397
NNDR	2,200	2,670
Disabled Facilities Grant	900	995
Total fee	19,800	20,062

Our initial estimated fees for certifying 2009/10 grants and returns was £25,000. The actual fee charged was lower than that estimate. The main reasons for the variance from the original estimate were:

- We were able to audit the NNDR claim more efficiently than the prior year. We coordinated our audit work with that of Blackpool Council’s NNDR claim which saved both KPMG and the Authority staff time.
- The Housing and Council Tax Benefit claim required more time to complete due to the additional 40+ testing that had to be carried out. This was not required in 2008/09.

REPORT



REPORT OF	MEETING	DATE	ITEM NO
GOVERNANCE AND PARTNERSHIPS	AUDIT COMMITTEE	31 MARCH 2011	5

ANNUAL AUDIT AND INSPECTION LETTER – 2009/10

Public Item

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

Summary

To consider the contents of the Annual Audit letter issued by the Council's Auditors, KPMG for the 2009/10. This details the auditor's opinion on performance and financial management. The opinion of KPMG is also provided on the council's preparation of its financial statements. The report will be presented by KPMG.

Recommendation

That the Audit Committee are invited to make comments for referral to, and consideration by, the Cabinet.

Cabinet Portfolio

The item falls within the following Cabinet portfolio:

Finance and Resources: Councillor Karen Buckley

Report

1. The Annual Audit letter is produced each year by the Council's external auditors and the judgements contained within it are based on inspection activity which has been undertaken during the previous financial year.
2. Detailed commentary is also provided within the letter about the external auditor's opinion on the Council's financial statements, including its accounts and International Financial Reporting Standards.

Continued....

3. A copy of the Annual Audit Letter for 2009/10 is attached.

IMPLICATIONS	
Finance	Implications are detailed within the body of the Letter.
Legal	Implications are detailed within the body of the Letter.
Community Safety	None arising directly from the report.
Human Rights and Equalities	None arising directly from the report.
Sustainability	None arising directly from the report.
Health & Safety and Risk Management	None arising directly from the report.

Report Author	Tel	Date	Doc ID
Tracy Scholes	01253658521	4 March 2011	Annualletter2007-08/Auditcommittee

List of Background Papers		
Name of document	Date	Where available for inspection
As attached		Town Hall or www.fylde.gov.uk

Attached documents

1. Annual Audit and Inspection Letter 2009/10



PUBLIC SECTOR

Fylde Borough Council

Annual Audit Letter 2009/10

7 December 2010

AUDIT

The contacts at KPMG in connection with this report are:

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Background

This Annual Audit Letter summarises the key issues arising from our 2009/10 audit of Fylde Borough Council (the Council). Although this letter is addressed to the Members of the Council, it is also intended to communicate these issues to key external stakeholders, including members of the public. The letter will also be published on the Audit Commission website at oneplace.audit-commission.gov.uk. It is the responsibility of the Council to publish the letter on the Council's website. In the letter we highlight areas of good performance and also provide recommendations to help you improve performance. We have reported all the issues in this letter to you throughout the year and a list of all reports we have issued is provided in Appendix A.

Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998. Our main responsibility is to carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the code) which requires us to report on:

Use of Resources (UoR)

We conclude on the arrangements in place for securing economy, efficiency and effectiveness ('value for money') in your use of resources.

Financial Statements

We provide an opinion on your accounts.

Fees

Our fee for 2009/10 was £116,900 excluding VAT (2008/09: £125,000). This includes £70,000 for the audit of the financial statements and £46,900 for the use of resources. Our fee for the certification of grants and returns are expected to be in the region of £20,000 excluding VAT (2008/09: £20,010) once the work has been completed. Because the Council fell outside the scope of having its Whole of Government Accounts audited, the fee for this work of £3,100 excluding VAT will be refunded.

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Use of Resources	Use of Resources assessment	<ul style="list-style-type: none"> ● In May 2010 the government announced that the Comprehensive Area Assessment (CAA) would be abolished. The Audit Commission subsequently confirmed that work related to CAA should cease with immediate effect. This included work for UoR scored assessments at local authorities. However, there is no change to the requirement in the statutory Code of Audit Practice for auditors to issue a VFM conclusion. ● At the time of the announcement, the vast majority of UoR work for 2010 had already been completed and this therefore informed our 2009/10 VFM conclusion. ● During 2008/09 there were three KLoE that were graded a level one, and as such led to a qualified Value for Money conclusion being issued. From the work performed during 2009/10 we were satisfied that all three of these KLoE's would have been scored at level two or higher. ● There was one new KLoE to assess in 2009/10, KLoE 3.1 relating to the use of natural resources. Whilst the Authority is taking operational measures to address some of the requirements of the KLoE, there was a lack of evidence to demonstrate that these decisions are being made within a clear strategic framework.
	Our conclusion	<ul style="list-style-type: none"> ● We issued an unqualified value for money conclusion for 2009/10 except for arrangements to make effective use of natural resources. This means that we are satisfied that you have put into place proper arrangements for securing economy, efficiency and effectiveness in your use of resources.

Headlines

Financial Statements	Annual accounts	<ul style="list-style-type: none"> • We are pleased to report that there were no significant adjustments required to the financial statements arising from our audit work. • There were no significant matters which we were required to report to 'those charged with governance'.
	Annual Governance Statement	<ul style="list-style-type: none"> • No significant adjustments were required to the AGS.
	Our conclusion	<ul style="list-style-type: none"> • We issued an unqualified opinion on your accounts on 29 September 2010. This means that we believe the accounts give a true and fair view of the financial affairs of the Council and of the income and expenditure recorded during the year.
Recommendations	Audit recommendations	<ul style="list-style-type: none"> • We are pleased to report that there are no new recommendations arising from our 2009/10 audit work. • We have also identified that both prior year recommendations had been dealt with in a satisfactory manner by management.
Public Interest Reporting	Elector complaint	<ul style="list-style-type: none"> • We received a complaint from an elector in September 2010. The matter is currently being dealt with, and the Chief Executive is being kept up-to-date on progress.

High profile issues

Economic Downturn and pressure on the public sector

- Following the Comprehensive Spending Review announcement in October 2010, there is now greater clarity on the spending cuts that will affect local government. Local authorities will face 7.25% annual cuts representing 26% reductions over the next four years. Although this is less than many commentators had predicted, this still represents one of the biggest cuts for any part of the public sector. Detailed analysis will be required as further details of these funding cuts are clarified – the real impact will not be known until the government departments produce their business plans in mid-December and organisations have a chance to digest the Chancellor's messages.
- The Council undertook a Financial Forecast Update in early November 2010 taking into account the Comprehensive Spending a Review and a range of other significant risks facing the financial health of the Council. These include:
 - Concessionary travel
 - The review of public sector pensions and the Lancashire LGPS triennial revaluation
 - The waste management contract with Wyre BC
 - Other income streams such as Planning Application and Building Control fees
 - Changes in the regulations relating to Council Tax capping.
- The forecasts predict the following financial outturn and the resulting impact on the reserves position:

	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
Call on Reserves	441	1,567	1,813	1,893	2,131
Forecast reserves at year end	1,132	12	(1,801)	(3,694)	(5,825)

High profile issues

Economic Downturn and pressure on the public sector (continued)

- The Council has a legal duty to set a balanced budget on an annual basis. This requires the Council, based on the financial forecast presented to members in November, to identify £740k of cost savings or additional income for the 2011/12 financial year, rising to £2.1m in 2014/15. Efficiency savings alone will not be enough to save this amount of expenditure. Members and senior management must instead work together to identify radical ways of reducing the Council's spend. A number of authorities have already undertake similar reviews, and developed solutions including:
 - Outsourcing or shared services arrangements of substantial elements of the Council's core activities;
 - Increasing the level of income earned from the Council's activities either by imposing fees for the first time, or increasing fees already charged; and
 - Reviewing the Council's activities, and discontinuing completely services that are not legal requirements or priority activities for the residents of Fylde.

Future audit work

Changes to next year's value for work programme

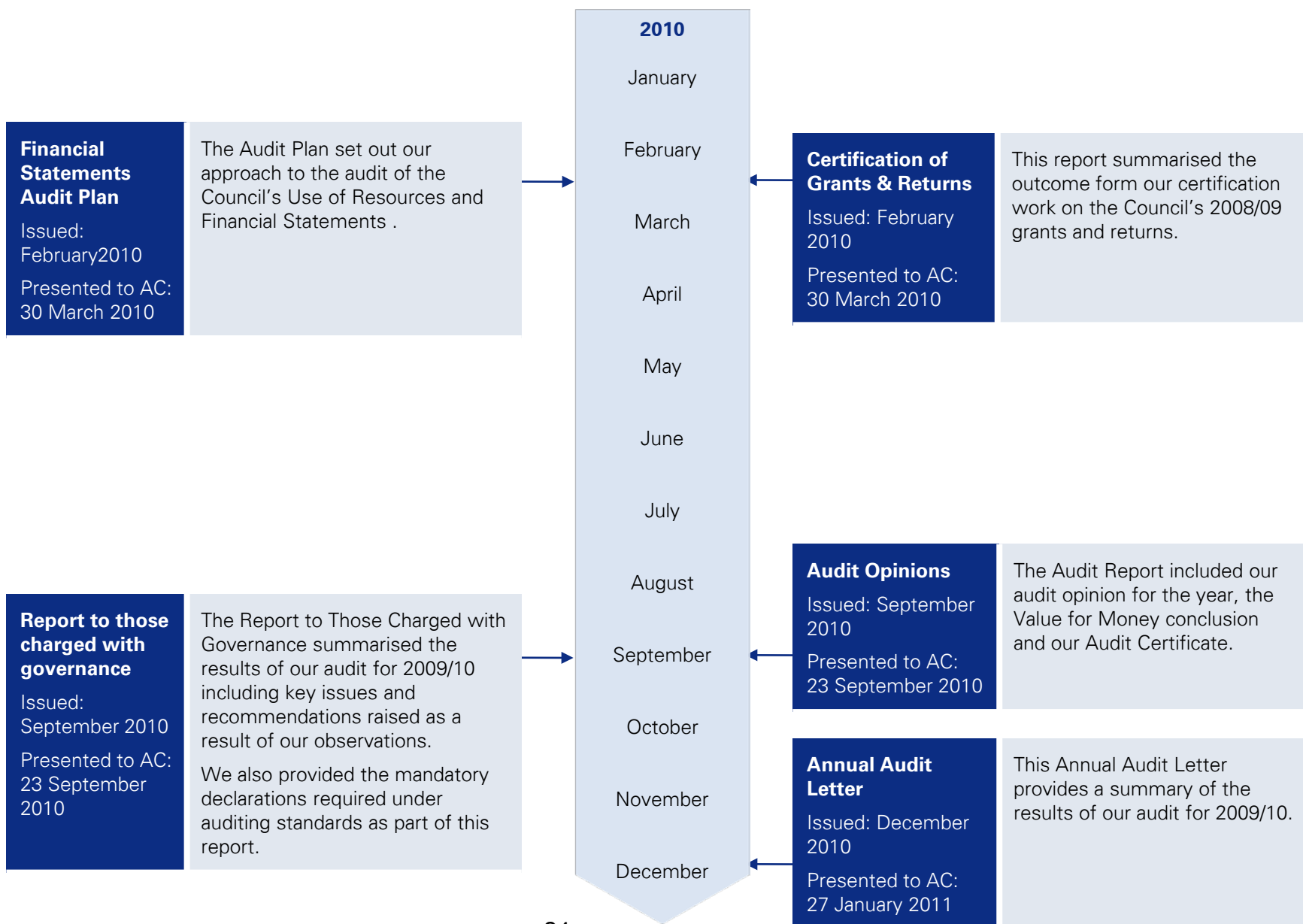
- Given the scale of the pressures facing public bodies in the current economic climate, the Audit Commission has reviewed its work programme for 2010/11 onwards. As part of this exercise, the Commission has been discussing possible options for a new approach to local value for money (VFM) audit work with key national stakeholders. From 2010/11 we will therefore apply a new, more targeted and better value approach to our local VFM audit work. This will be based on a reduced number of reporting criteria specified by the Commission, concentrating on:
 - securing financial resilience; and
 - prioritising resources within tighter budgets.
- We will determine a local programme of VFM audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities. We will no longer make annual scored judgements relating to our local VFM audit work. Instead we will report the results of all the local VFM audit work and the key messages for the audited body in our annual report to those charged with governance and in a clear and accessible annual audit letter.

Future audit arrangements

- In August 2010 the Secretary of State for Communities and Local Government announced proposals to abolish the Audit Commission. The proposed abolition will be from 2012 and the government will seek legislation in this session of Parliament.
- There is no immediate change to the current audit arrangements. We will keep you informed about the future audit programme and any changes to audit arrangements.

Appendix A: Summary of Reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter.



REPORT



REPORT OF	MEETING	DATE	ITEM NO
GOVERNANCE AND PARTNERSHIPS DIRECTORATE	AUDIT COMMITTEE	31 MARCH 2011	6

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 considers and comments on the KPMG Audit Plan.

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....

Report Author	Tel	Date	Doc ID
Tracy Scholes	(01253) 658521	4 March	

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

Attached documents

1. Audit Plan

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



PUBLIC SECTOR

Fylde Borough Council

Financial Statements Audit Plan 2010/11

March 2011

AUDIT

The contacts at KPMG in connection with this report are:

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

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Trevor Rees who is the engagement partner to the Council, telephone 0161 246 4063, email trevor.rees@kpmg.co.uk who will try to resolve your complaint. Trevor 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 Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

Summary

Our audit is divided into:

- **use of resources; and**
- **financial statements.**

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

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’).

The Audit Commission’s Code 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 Council. The table below summarises the work will do this year.

Our responsibility	Risks, proposed work and output
Financial Statements and Annual Governance Statement	<p>The key audit risks are identified on pages six to 10 of this report. Our work will encompass:</p> <ul style="list-style-type: none">● Review of the controls over the completion of the accounts, relying on Internal Audit wherever possible to avoid duplication.● A detailed audit of the financial statements, associated disclosure notes and the Annual Governance Statement.● Review of the key audit risks identified, addressed through our detailed audit work and discussions with senior finance officers. <p><i>The findings of this work support the audit opinion that we issue on your financial statements.</i></p>
Use of Resources / Value for Money work	<p>In response to the changing financial environment, the Audit Commission has introduced a new approach to local value for money (VFM) work at those bodies previously subject to a use of resources (UoR) assessment. The new, more focused approach could reduce the work auditors do in order to meet their statutory VFM responsibilities. However, given the Authority’s challenging financial position, we envisage undertaking a broadly similar level of work to previous years. Our work will encompass:</p> <ul style="list-style-type: none">● Financial resilience.● A risk assessment to identify the amount and focus of local VFM work.● Where applicable, undertaking local VFM work to address the risks identified in the risk assessment. <p><i>The findings of this work will inform our value for money conclusion.</i></p>

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. The remainder of this document provides details of our risk assessment, proposed work and fees for our work on the financial statements audit. It supplements the high level audit plan presented in 2010.

Audit overview

We undertake our work on your financial statements and Annual Governance Statement ('AGS') in four key stages.

Our work results in our audit opinion on your financial statements.

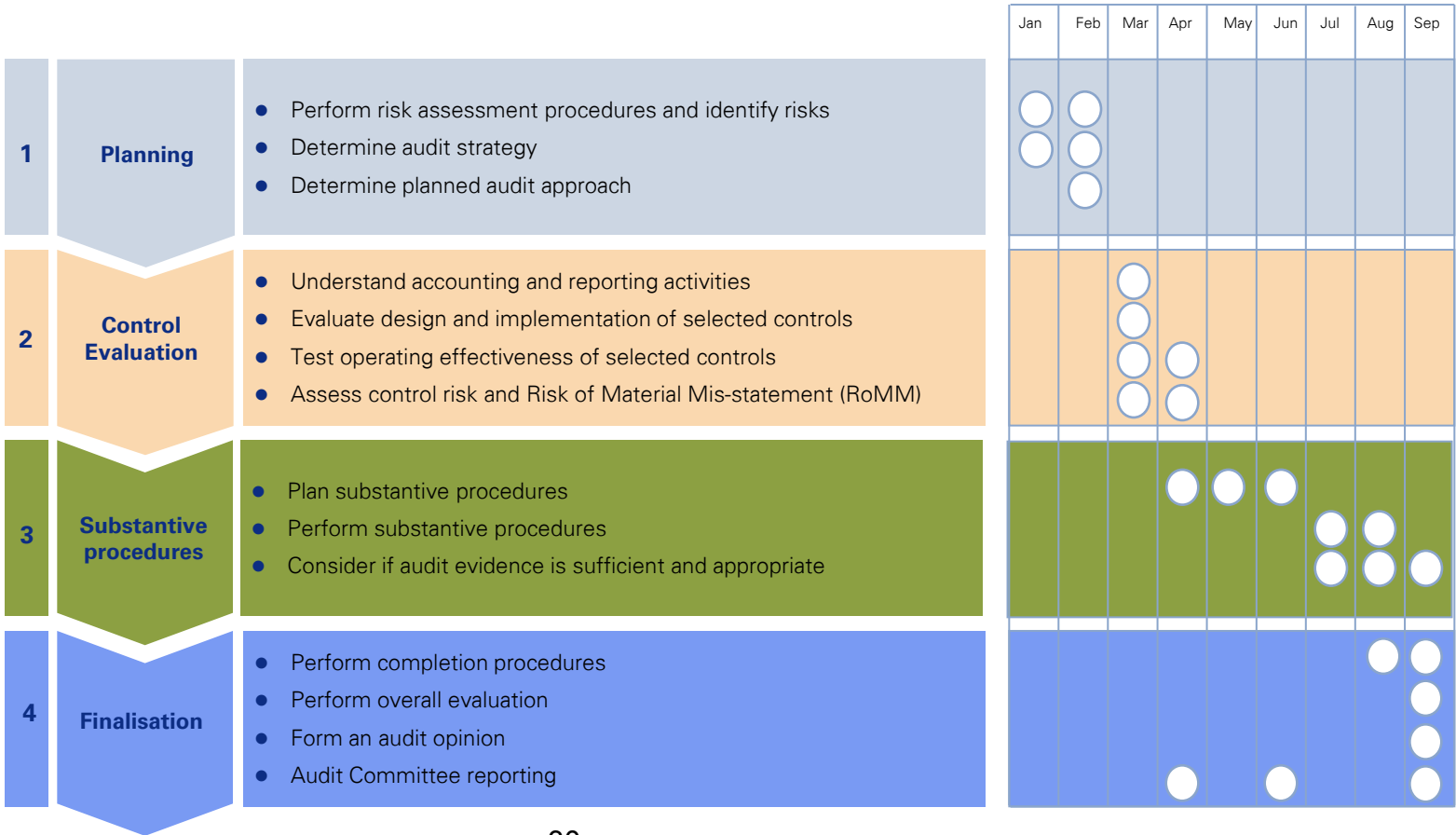
We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We are required to provide an audit opinion on the accounts.

We are also required to satisfy ourselves that your AGS 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 opinion.

In addition to the Council’s financial statements, we are also required to audit and provide an opinion on the Whole of Government Accounts return submitted to central government.

Our audit process

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



Audit overview (continued)

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

Our audit process (continued)

As part of our audit process, we will work closely with the finance team to understand and continually improve the accounts production process. At the planning stage of our audit we will issue the Council with a 'prepared by client' list which will include a detailed schedule of information requests to support the financial statements.

Our audit procedures also include an assessment of your arrangements to deliver your responsibilities to prevent and detect fraud. The auditing standard for fraud, ISA240 (revised), responds to the increased sensitivity to fraud and the importance given to auditors' work on fraud. Additionally, the Fraud Act 2006 and the Government Review of Fraud 2006 may impact on your responsibilities to manage fraud.

Liaising with internal audit

We have a strong working relationship with Internal Audit and we will continue to work closely with them to maximise the effectiveness of their work on core financial systems and governance at the Council.

International Financial Reporting Standards (IFRS)

All Local Authorities are required to implement IFRS, moving away from UK GAAP for the 2010/11 financial statements. We will continue to work closely with the finance team to ensure the smooth transition to IFRS. We will audit the restated 2009/10 balances prior to the final visit in order to provide early assurance on key aspects of your IFRS migration work, identify any issues on a timely basis and also ensure some accounting and audit effort is brought forward to alleviate the busy closedown and final accounts audit season over the summer.

Whole of government accounts (WGA)

KPMG may be required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office. This depends on whether the Council qualifies for the exemption from review, due to size, that it was able to take advantage of in 2009/10. Irrespective of the need to undertake the review, the Council will need to prepare a 2010/11 WGA consolidation pack will need to be produced in accordance with the International Financial Reporting Standards (IFRS) for submission to the Department for Communities and Local Government.

National Fraud Initiative

The Council participates in the National Fraud Initiative, which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated against public bodies. During our audit we will review the Council's progress and actions in following up the matches identified

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

Elector Challenge

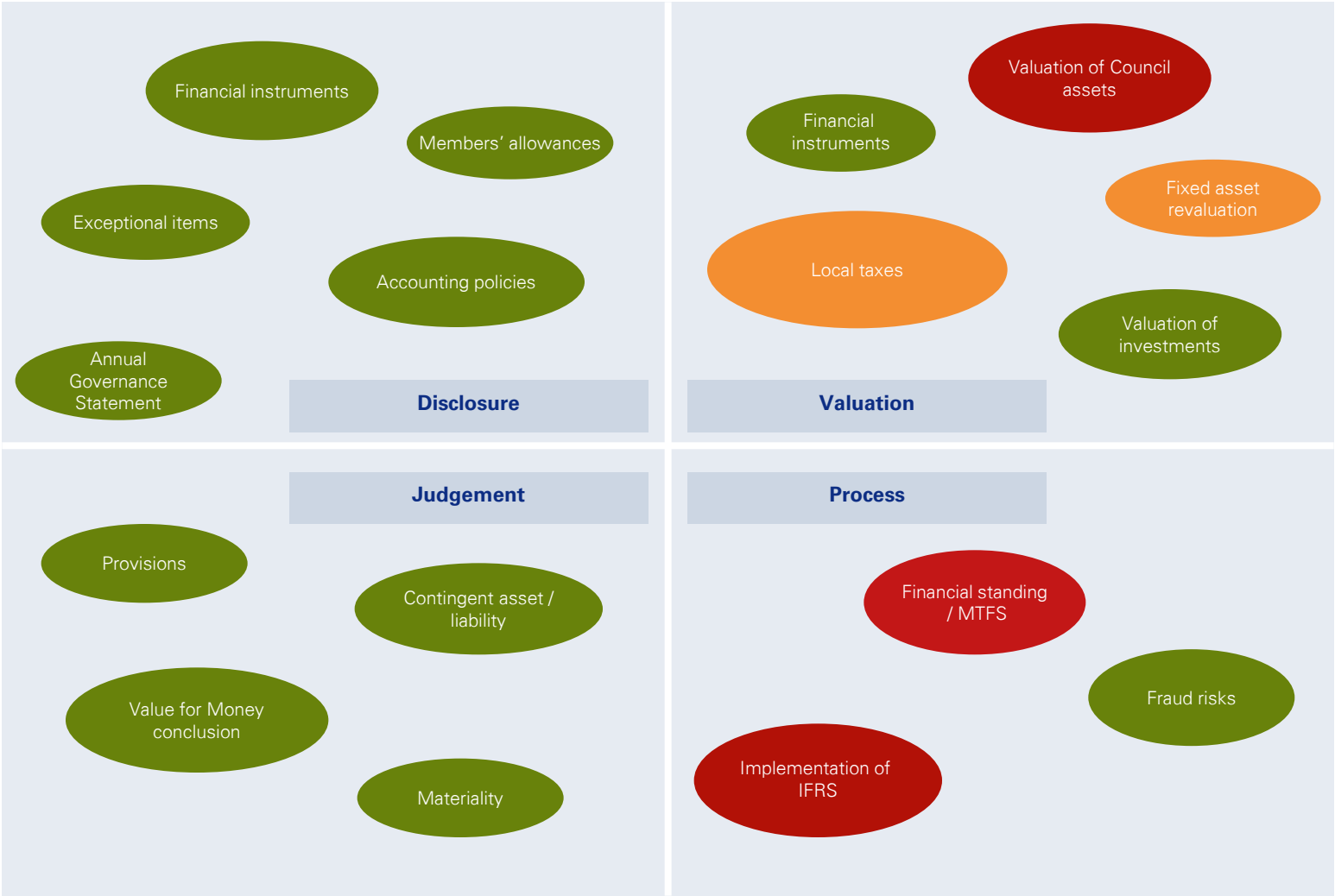
The Audit Commission Act 1998 gives electors certain rights. These are:

- 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 any 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.

Key financial statement audit risks

These are the key financial statement risks identified for 2010/11. We seek to tailor our audit approach to reflect this.



■ High ■ Medium ■ Low

The high risk issues are discussed overleaf

Key financial statement audit risks (continued)

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

We will provide updates to the Audit Committee on these risk issues throughout our audit.

KEY audit risks



Impact on audit plan

Financial standing / medium term financial planning

- The Council, like many public sector bodies, faces significant pressures over the coming months to agree and then achieve a balanced budget in the wake of public sector spending cuts. The Council has monitored spending very carefully throughout the year to provide the strongest possible reserves position ahead of the 2011/12 financial year and the funding reductions that will then begin.
- For 2011/12 the Council faces a cut in the main recurrent grant of £1.5m compared to 2010/11, and a further £0.5m cut in 2012/13. Continuing efficiency savings such as freezing recruitment will not be sufficient to address this situation. This is despite the savings that the Council has made with regard to the concessionary travel scheme which has now been transferred to Lancashire County Council, eliminating a significant cost to the Council.
- The MTFS agreed in March 2011 identified calls on reserves over the next four years which would leave the Council at its agreed minimum level at 31 March 2015. This assumes that various factors such as the New Homes Bonus income and financial savings will be realised. At present not all of the required savings have been identified, and those that have been identified still need to be realised.
- Following the elections due for May 2011 officers will need to work with members to identify the Council's service priorities as further savings will be needed to achieve a balanced budget in future years.
- Given the significant financial pressures the Council will face we will ensure that we maintain close links with management during this period so we remain up to date with developments as they occur.
- Linking with our use of resources audit work, we will consider the Council's general financial standing and in particular its approach to medium term financial planning. We will consider the potential impact of the outcome from this work on our financial statements audit.

Key financial statement audit risks (continued)

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

We will provide updates to the Audit Committee on these risk issues throughout our audit.

KEY audit risks	Impact on audit plan
<div><div>Valuation of Council Assets</div><div>➔</div><div>Audit areas affected<ul style="list-style-type: none">• Tangible fixed assets</div></div>	Valuation of Council Assets <ul style="list-style-type: none">• We will review third party valuations obtained by the Council to ensure that asset values have been correctly recorded in asset registers and the financial statements.• We will assess valuation assumptions for appropriateness.• We will review the Council’s processes for identifying assets which may require impairment and consider whether these impairments have been accounted for correctly within the financial statements.

Key financial statement audit risks (continued)

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

We will provide updates to the Audit Committee on these risk issues throughout our audit.

Transitions to IFRS represents the largest change in accounting for a number of years. We have detailed within the next slides the major implications of the new standards and how our audit work will be adapted to address these key risks.

KEY audit risks



Audit areas affected

- Restated opening balances
- Various balances and disclosures within 2010/11 financial statements

Impact on audit plan

IFRS conversion process

Impact of conversion process

- The IFRS conversion process has required a lot of planning and resources to ensure a smooth and successful transition.

Our audit work

- We are auditing the re-stated 2009/10 financial statement figures during January 2011. During this time we will assess the processes being undertaken by the Council and provide advice on how this can be improved to ensure the final years figures are compliant with the standards.
- We will continue to keep in regular contact with the finance team during this period, discussing emerging issues and current guidelines.
- During the final accounts audit we will audit all figures in line with IFRS.



Audit areas affected

- Lease classification
- Disclosures

Leases

Impact of IAS 17

- Increased number of finance leases as IAS 17 gives a broader definition of finance leases than SSAP 21 resulting in more assets coming on to balance sheet.

Our audit work

- During the interim we will assess the Council's process for ensuring that there is a complete record of all leases and these are reviewed under the requirements of IAS 17.
- During the final phase we will review all material leases and contracts to determine whether they been correctly treated as an operating lease or finance lease under IAS 17.

Key financial statement audit risks (continued)

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

We will provide updates to the Audit Committee on these risk issues throughout our audit.

Transitions to IFRS represents the largest change in accounting for a number of years. We have detailed within the next slides the major implications of the new standards and how our audit work will be adapted to address these key risks.

KEY audit risks



Impact on audit plan

Employee benefits

Impact of IAS 19

- New liability to be recognised on the balance sheet where there is a requirement to pay wages and salaries, bonuses and holiday pay.

Our audit work

- We have agreed a methodology with the Council for calculating the holiday pay accrual using data obtained on a sample basis.
- During the final process we will audit the balance using the data collated by the Council to ensure it is line with the requirements of the standard.

Property, plant and equipment

Expected impact of IAS 16

- Local authorities are to component account for any additions or valuations on or after 1 April 2010. This means when an item of property, plant and equipment comprises individual components for which different depreciation methods or rates are appropriate each component is accounted for separately.

Our audit work

- During the interim visit we will assess the controls in place to ensure that additions/valuations are being addressed as components and appropriately recorded in the fixed asset register.
- During the final phase of our audit we will substantively test additions and valuations to ensure that these are correctly accounted for in line with the component requirements of IAS 16.

Materiality

Our audit work is planned to detect errors that are material to the accounts as a whole.

Our forecast materiality for 2010/11 is £480,000.

What do we mean by materiality?

Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

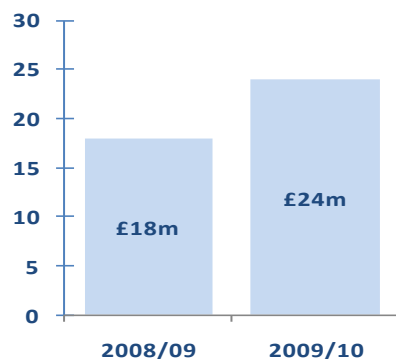
Why do we have a level of materiality?

To make our sample testing most effective, our work is driven by an assessment of risk and a level of materiality. This means we sample test the transactions that are more likely to be prone to significant fraud or error.

Determining materiality

- We consider quantitative and qualitative factors in setting materiality and in designing our audit procedures.
- Materiality has been set at £480,000 which is 2% of total assets per the 2009/10 financial statements. However, we design our procedures to detect errors at a lower level of precision, i.e. £360,000.
- We use our judgement to reduce materiality for balances we consider to be more risky.

Total assets



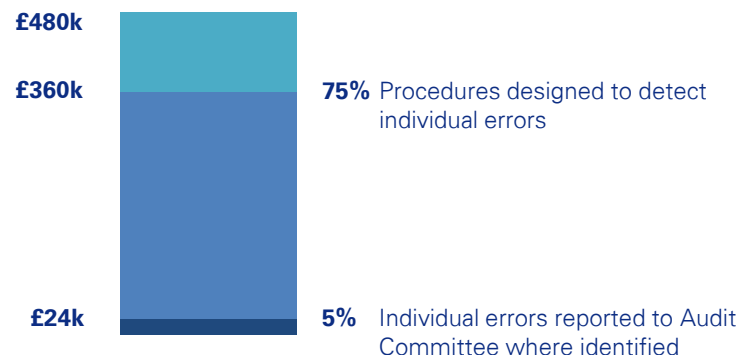
Source: Financial Statements 2009/10

Note: Materiality may be updated on receipt on the draft financial statements

Reporting to Audit Committee

- Although materiality is set at £480,000, we will report all audit differences greater than £24,000 to Audit Committee.
- To comply with auditing standards, the following three types of audit differences will be presented to the Audit Committee:
 - summary of adjusted audit differences
 - summary of unadjusted audit differences
 - summary of disclosure differences (adjusted and unadjusted).
- We will not report audit and disclosure differences that are considered to be trivial.

Overall Materiality



Audit team

Our 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 specialist KPMG staff as necessary.



Trevor Rees
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
Audit Manager

I will direct and help coordinate the audit and will work closely with Trevor to ensure we add value. I will be the main contact for the Section 151 Officer and other Executive Directors.



Shan Prior
Audit Assistant Manager

I will be your day to day contact and will work closely with Iain to deliver a coordinated and efficient audit. I will be the main contact for the Accountancy Service Managers.

Independence confirmation

Our independence and objectivity responsibilities under the Code are summarised in Appendix 3.

We confirm our audit team's independence and objectivity is not impaired.

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.

ISA 260 defines '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, 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.

Audit fees

The audit fee has not changed from that agreed in the high level audit strategy in April 2010.

We proposed our fee for the audit to the Council in 2010. The fee is calculated with reference to a number of factors including your turnover and our assessment of audit risk and control environment.

Element of the audit	Fee 2010/11
Fee for the audit for the year	£110,000
Less: IFRS reimbursement from Audit Commission	£6,117
Net audit fee	£103,883
Certification of claims and returns (estimate)	£20,000

Audit fees (continued)

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

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

Audit fee assumptions

The audit fee is indicative and is based on you meeting our agreed expectations as outlined in Appendix 2. 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 2009/10;
- 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 within your 2010/11 financial statements (note 2010/11 is the first year based on IFRS);
- your financial statements are made available for audit in line with the agreed timescales;
- you will make available the re-stated 2009/10 figures in line with the agreed timescales and ensure they are in line with IFRS requirements;
- 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 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.

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.

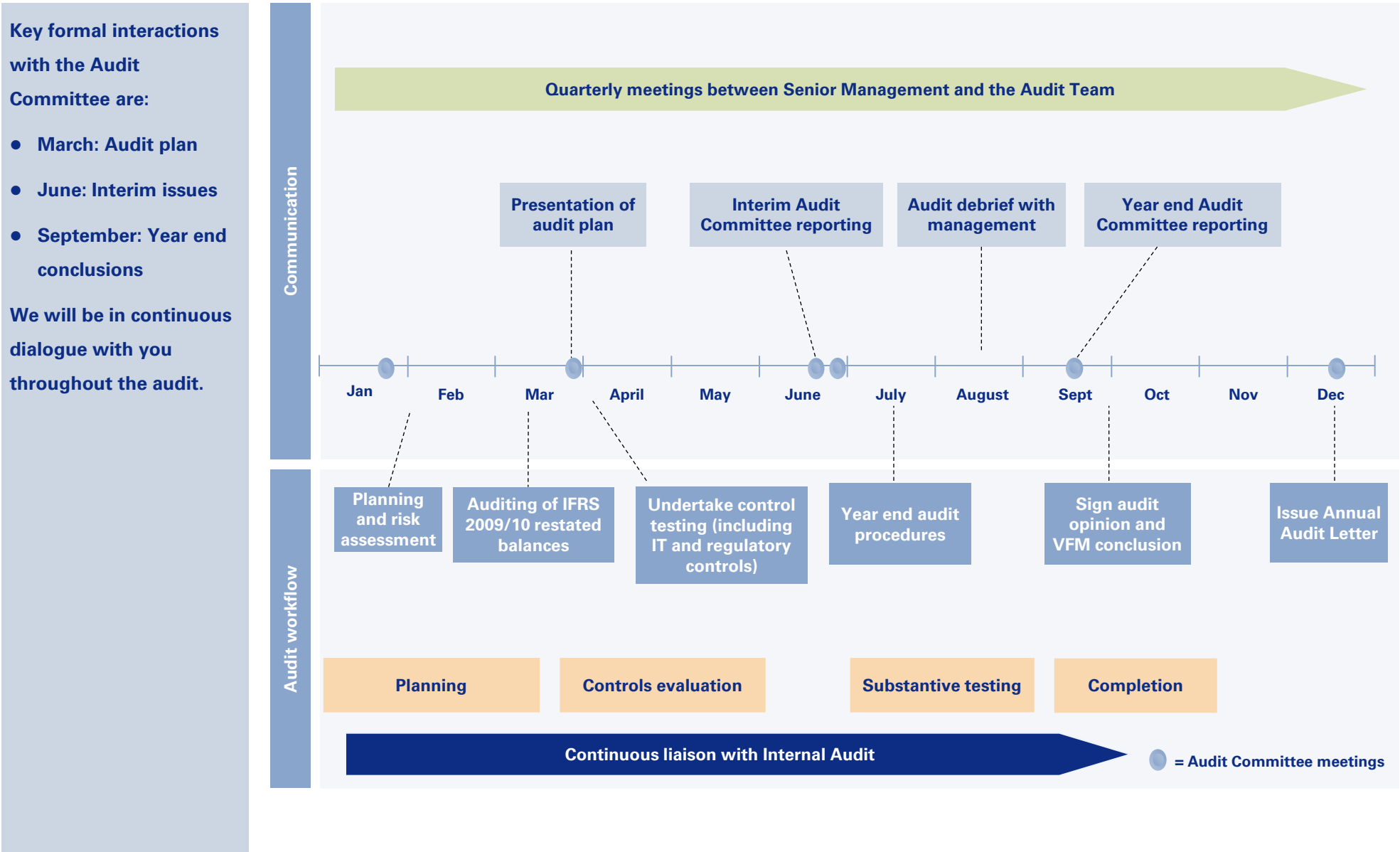
Audit timeline and deliverables

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

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

Deliverable	Purpose	Timing
Planning		
Audit plan	<ul style="list-style-type: none"> Outline audit approach Identify areas of audit focus and planned procedures Confirm plan with Audit Committee 	March 2011
Interim		
Interim report (if necessary)	<ul style="list-style-type: none"> Details and resolution of control and process issues 	June 2011
Year end audit		
Report to those charged with governance (ISA 260)	<ul style="list-style-type: none"> Commentary on Fylde Borough Council financial statements Commentary on Fylde Borough Council value for money arrangements Details the resolution of key audit issues Communication of adjusted and unadjusted audit differences Performance improvement recommendations identified during our audit 	September 2011
Opinion on financial statements	<ul style="list-style-type: none"> Independent auditors' report to the Members of Fylde Borough Council 	September 2011
Annual audit letter	<ul style="list-style-type: none"> Summaries the audit we have performed with key audit issues and outputs 	December 2011
Certification of grants and returns	<ul style="list-style-type: none"> Summary of the results of work on the certification of grant claims and returns. 	January 2012

Audit timeline and deliverables (continued)



Appendix 1: Meeting your expectations

How we will conduct ourselves

Communications

- We will be proactive in developing relationships with your staff where our audit work requires their input.
- We will ensure that all letters and emails are answered within five working days of receipt. All telephone messages received will receive a response within 24 hours, either by the individual concerned or by another member of the audit team.
- We will ensure that all recommendations, and in particular those relating to our performance management work, are included within our Annual Audit Letter only after having been agreed with relevant Directors.
- Iain Leviston will attend Audit Committee meetings and ensure that other relevant KPMG staff are invited as appropriate.
- We have been working with you throughout 2009/10 providing guidance on key issues in the transition to IFRS. We will continue working with the finance team to provide advice and review progress during 2010/11.

Working together

- We will ensure that the Section 151 Officer, Head of Finance and other key members of staff are kept informed of the progress of our audit work throughout the year.
- We will liaise with staff at all levels of the Council to ensure that our work is appropriately planned and completed and where recommendations are made these are agreed with the likely responsible officer.

Cooperating with the Council

- We will continue to coordinate our work with that of internal audit and ensure that we provide appropriate proactive commentary to the finance function on issues that affect the Council's accounts.
- We will respond promptly to requests for comment on aspects of the Council's operations, where appropriate.

Our expectations of your support

Audit Plan

- Brief our staff on key issues affecting the Council.
- Review and agree the draft plan.

Interim Audit

- Facilitate the completion of internal audit's work (particularly on core financial systems) to timetable.
- Ensure that key officers are available for the duration of our audit.
- Respond to and agree our draft reports in good time.

Accounts Audit

- Ensure that a full draft of the accounts is available at least one week prior to the agreed start date of our audit, and that only agreed adjustments are put into the accounts following receipt of this draft.
- Produce the documents listed within our prepared by client request by the agreed start date of our audit.
- Ensure that the mandatory content of the Annual Report is available at the agreed time of our final account audit.

Annual Audit Letter

- Discuss and agree our draft Annual Audit Letter in good time for the Audit Committee.
- Ensure that all action plans are agreed and followed up in due course.

IFRS

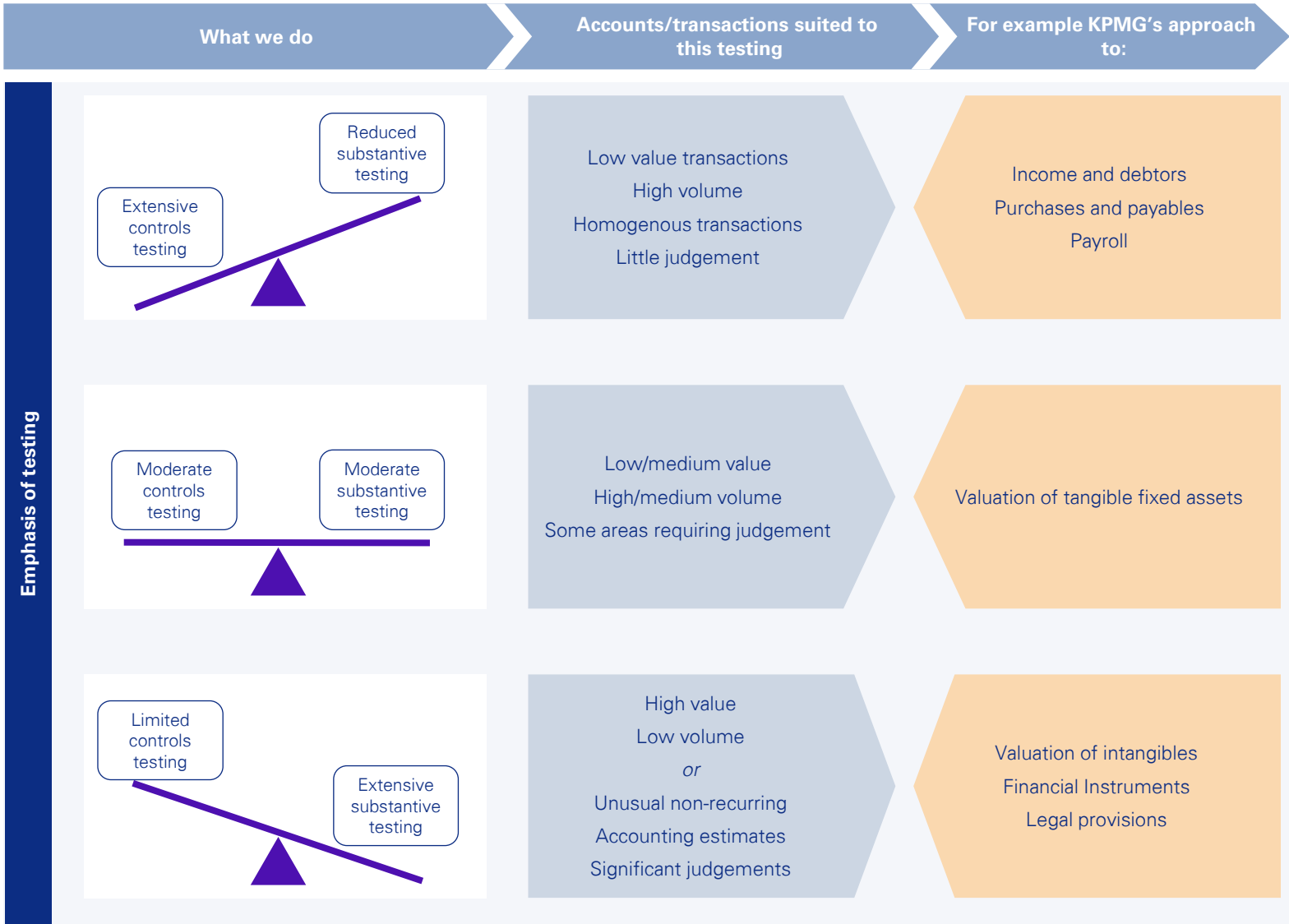
- Ensure a full set of 2009/10 restated figures compliant with IFRS are available to audit in good time prior to the final visit.

Other work

- Agree a key Council contact as a focal point for the study or work.
- Discuss and review our findings so that action plans can be fully completed and implemented.

Appendix 2: Balance of internal controls and substantive testing

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



Note: Assuming controls are found to operate as designed

Appendix 3: Independence and objectivity requirements

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 Council 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.

Appendix 4: Quality assurance and technical capacity

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 below.

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/). The latest report dated October 2010 showed that we performed highly against all the Commission's criteria.

Resolving Accounting and Financial Report Issues and Emerging Issues with the Independent Regulator

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 and the Audit Commission) as well as acting as a sounding board for our auditors.
- A national technical network of public sector audit professionals (that meets on a quarterly 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.



REPORT



REPORT OF	MEETING	DATE	ITEM NO
GOVERNANCE AND PARTNERSHIPS	AUDIT COMMITTEE	31 MARCH 2011	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 quarter to December 2010, there was one authorised operation. In the quarter to March 2011 there have been none at the date of writing.

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. New regulations made last year require councillors to consider a report on the use of RIPA at least quarterly.
6. This is the first 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 2010	1	0	1	Preventing or detecting crime: Benefit fraud
Jan-Mar 2011 ¹	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.

¹ 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	8 February 2011	

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

REPORT



REPORT OF	MEETING	DATE	ITEM NO
INTERNAL AUDIT	AUDIT COMMITTEE	31 MAR 2011	8

INTERNAL AUDIT PLAN 2011-2012

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 2011-12 and briefly describes the methodology used in its production.

Recommendation

The Committee approves the Annual Internal Audit Plan 2011-12.

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 2011 -12. The work planned takes into account:
 - ♦ Internal Audit's objectives
 - ♦ discussions with managers
 - ♦ key issues identified for 2011 -12
 - ♦ 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 were a number of audit reviews that were ongoing at the end of March 2010 and the days to complete these are also included in the current year's plan.

Conclusion

The Audit Plan for the 2011/12 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	31 March 2011	

List of Background Papers		
Name of document	Date	Where available for inspection
Internal Audit Plan 2011-12		All background papers or copies can be obtained from Savile Sykes, Head of Internal Audit on 658413 or email saviles@fylde.gov.uk

Attached documents

1. Internal Audit Plan 2011-12

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 2011/2012

Main Financial Systems	Days	Sub Totals
Cash Collection	23	
Council Tax	25	
Housing /CTax Benefit (inc slippage)	15	
Main Accounting	21	
National Non-Domestic Rates	2	
Payroll (inc slippage)	5	
Sundry Debtors	2	
Treasury Management	18	111
Strategic Risks		
Procurement (via The Chest)	18	
Purchasing (Civica)	20	
Follow Up Work	4	42
Operational Risks		
Car Parking	16	
Cemetery & Crematorium	16	
Cheque Production & Security	12	
CVMU (Fuel Procedures & Payments)	18	
Housing Grants	18	
Follow Up Work	9	
Slippage (Annual Leave & Flexitime, Mayoral Charity, Sandwinning)	11	100
Corporate Governance		
Annual Governance Review	8	
Audit Committee – Review of Effectiveness	2	
Internal Audit – Review of Effectiveness	2	
Follow Up Work	2	
Slippage (Risk Management)	6	20
Computer Audit		
ICT Audit Liaison/Assistance	18	
Follow Up Work	10	28
Anti-Fraud		
Fraud & Corruption Modules	12	
National Fraud Initiative	9	
Prevention of Fraud & Corruption	17	
Follow Up Work	2	40
Other Audit Work		
Authorisation Schedules	5	
Cancelled/Replacement Cheques	12	17
Communication/Consultancy		
General Consultancy/Advice	25	
IA Communication/Liaison	26	51
Reactive Work		
Contingency	65	65
TOTAL AUDIT WORK	474	474

Audit Team

Management & Administration	160	160
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Non-Audit Work

Benefit Fraud/Revs & Bens Service -		
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Monitoring/Liaison	8	
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Controlled Stationery	13	
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Corporate & Democratic Core	13	
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Risk Services - Management	12	
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Other	22	68
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TOTAL DAYS ALLOCATED	702	702
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REPORT



REPORT OF	MEETING	DATE	ITEM NO
INTERNAL AUDIT	AUDIT COMMITTEE	31 MAR 11	9

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. Together these policies create an integrated approach to tackling fraud.

Recommendation

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

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

The Anti-fraud and Corruption Strategy has been amended as indicated below and is attached as an Appendix. All other policies have been refreshed where necessary but not significantly amended and 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 and further modified by at the 30 March 2010 meeting. It has been refreshed to reflect any changes to corporate arrangements 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 and further modified by at the 30 March 2010 meeting. It has been refreshed to reflect any changes to corporate arrangements and in addition, some amendments have been made as follows:

Paragraph/Section	Comment
1.2	Schedule of relevant policies expanded
26.3 / 26.6	Describes arrangements for the preservation of computer evidence
32.4 / 32.5	Bullet points added concerning preservation of computer evidence

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 but there are no significant amendments requiring committee approval.

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.

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.

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	31 March 2011	

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 saviles@fylde.gov.uk
Money Laundering Regulations 2007 Act	2007	

Attached documents

1 Anti-fraud and Corruption Strategy

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-FRAUD & CORRUPTION STRATEGY

GENERAL PROVISIONS

1. CORPORATE GOVERNANCE

1.1 The Council has, and is continuing to develop a corporate governance framework that seeks to manage risk in order to minimise the incidence of fraud, corruption, and other adverse events within the Authority. Much of the corporate governance framework is actually incorporated within the Constitution of the Council and includes all the following elements:

- ♦ Audit Committee
- ♦ Standards Committee
- ♦ Scrutiny Committees
- ♦ Regulatory Committees
- ♦ Standing Orders
- ♦ Financial Regulations
- ♦ Contract Procedure Rules
- ♦ Access to Information Procedure Rules
- ♦ Budget & Policy Framework Procedure Rules
- ♦ Executive Procedure Rules
- ♦ Members & Officers Codes of Conduct
- ♦ Protocol on Member / Officer Relations
- ♦ Members Allowances Scheme

1.2 In addition to the above constitutional provisions, the Council has the following policies and procedures in place:

- ♦ Risk Management Framework
- ♦ Disciplinary Procedure
- ♦ Monitoring Officer Arrangements
- ♦ Registers of Interests
- ♦ Registers of Hospitality, Gifts & Entertainment
- ♦ IT Security Policy
- ♦ Local Code of Conduct in Planning Matters
- ♦ Anti-fraud and Corruption Policy
- ♦ Housing Benefit and Council Tax Benefit Sanction & Prosecution Policy
- ♦ Money Laundering Policy
- ♦ Whistleblowing Policy
- ♦ Gifts and Hospitality Policy
- ♦ Data Protection & Freedom of Information Policies and Procedures

1.3 1.6 The Director of Governance and Partnerships has been designated to champion the Anti-fraud and Corruption Strategy and is tasked with securing strong political and executive support for work to counter fraud and corruption and monitoring the effectiveness of the Council's arrangements.

2. CONTENTS OF THE STRATEGY

2.1 Inevitably however, breaches of the law, policy or formal procedure do occur. This Strategy has therefore been produced to establish the Council's determination to ensure that serious concerns are properly raised and addressed in full compliance with the Public Interest Disclosure Act 1998.

2.2 The Strategy establishes the Council's specific approach towards the prevention, detection, notification and investigation of fraud and corruption and summarises the responsibilities of members, managers and officers in this respect.

2.3 The Strategy covers all allegations of fraud or corruption committed against the Council whether they are perpetrated by members, officers, agency staff, partners, contractors or the general public (benefit fraud)

2.4 The Strategy gives specific advice and guidance to officers of the Council who undertake or have an interest in investigations. It aims to clarify the roles and responsibilities of all interested parties, including the Chief Executive, Monitoring Officer, Section 151 Officer, Directors, Head of Human Resources and external agencies including the Police. In particular, the Strategy seeks to direct and co-ordinate investigations under the direction of:

- ♦ Service Directors (in accordance with Financial Regulations)
- ♦ Head of Human Resources (under the Council's Disciplinary Procedure)
- ♦ Monitoring Officer (in accordance with the Local Government Act 2000).

3. OTHER CORPORATE PROCEDURES

3.1 This Strategy supplements the Council's Whistle Blowing Policy, which encourages officers, members and contractors to disclose any matter which gives them cause for concern and provides guidance on how such matters should be reported. The Strategy is also intended to supplement the Council's Financial Regulations and Disciplinary Procedure, each of which already provide a degree of advice on the conduct of investigations

3.2 Financial Regulations state that (Service Directors) shall notify the Head of Internal Audit immediately of any suspected fraud, theft, irregularity, improper use or misappropriation of the authority's property or resources. Pending investigation and reporting the Service Director should take all necessary steps to prevent further loss and to secure records and documentation against removal or alteration.

3.3 Whenever an alleged irregularity occurs, this Strategy should always be read in conjunction with the Council's Disciplinary Procedure.

3.4 In general, irregularities that do not involve fraud, a breach of Financial Regulations or do not have a direct financial basis will not normally be investigated with assistance from the Internal Audit Team (for example breaches of the Council's policies on leave and sickness absence). These will normally be pursued directly by the respective Service Director under the Disciplinary Procedure.

3.5 Where an irregularity does involve fraud or has a financial basis Internal Audit will normally support the investigation. The Internal Audit investigative work and report is used as the basis of (or in support of) the management / disciplinary case, which remains the responsibility of the Service Director under the arrangements laid down in the Disciplinary Procedure.

4. LEGAL COMPLIANCE

4.1 The drafting of this Strategy also reflects the need to ensure conformity with the following legal developments:

4.2 Regulation of Investigatory Powers Act (RIPA) 2000. Any investigations that involve directed surveillance or the use of covert intelligence sources must take account of RIPA. RIPA was introduced in parallel with the Human Rights Act, which (amongst other things) sought to ensure rights to privacy and a fair trial. RIPA makes lawful certain actions by public authorities provided that they are properly authorised. In particular, RIPA requires that in each case authority must be given by prescribed persons using designated forms. The potential use of directed surveillance and covert intelligence sources is not restricted to Internal Audit investigations but extends to benefit fraud investigations, noise nuisance, planning, anti social behaviour and other areas.

4.3 Local Government Act 2000 and the Standards Committee (England) Regulations 2008. Under this legislation any allegation made against members of the Council should be referred to Standards Committee for consideration and ultimately determination. Any such allegations that are brought to the attention of the Chief Executive, Section 151 Officer, Service Director or Head of Human Resources should be referred directly to the Monitoring Officer.

FRAUD PREVENTION

5. THE ROLE OF MEMBERS

5.1 As elected representatives, all Members of the Council have a duty to the citizens of Fylde to protect the assets of the Council from all forms of abuse. This is done through the formal adoption of the Anti-Fraud & Corruption Policy and by compliance with the national Code of Conduct for Members.

5.2 In addition the Accounts and Audit Regulations 2003 require every local authority to "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices". Members have a duty to provide sufficient resources to ensure that the system of internal audit is "adequate" and "effective".

6. THE ROLE OF THE STATUTORY OFFICERS

6.1 The Council's Monitoring Officer has a statutory responsibility to advise the Council on the legality of its decisions and to ensure that the Council's actions do not give rise to illegality or maladministration. The Monitoring Officer also encourages the promotion and maintenance of high standards of conduct within the council, particularly through the provision of support to the Standards Committee.

6.2 Section 151 of the Local Government Act 1972 places a statutory responsibility on the Council to appoint one of its officers as 'Section 151 Officer' to ensure the proper administration of the Council's financial affairs. To this end, the Section 151 Officer will advise all members and staff regarding financial propriety, probity and

budgetary issues. The Section 151 Officer role is very much supported by the work undertaken by Internal Audit.

7. THE ROLE OF MANAGEMENT

7.1 Management at all levels are responsible for ensuring that their staff are aware of the authority's Constitution, Financial Regulations, Standing Orders, Codes of Conduct (including the related policies, protocols, codes and procedures) and that the requirements of each are being met in their everyday business activities. They are also responsible for ensuring that appropriate procedures are in place to safeguard the resources for which they are responsible.

7.2 Managers are also expected to create an environment in which their staff feel able to approach them with any concerns they may have about suspected irregularities and adhere to the Whistleblowing Policy when applicable.

7.3 It is vital that managers are alert to potential problems in their work areas and that adequate and effective safeguards are in place to prevent financial irregularities. However, Service Directors and their managers should also satisfy themselves that checks are in place at the appropriate levels, so that in the event of a breach any irregularity would be picked up promptly, so minimising any loss to the authority. Internal Audit can provide advice and assistance in this area.

7.4 Special arrangements may apply where employees are responsible for cash handling or are in charge of systems that generate payments. Service Directors and their managers should ensure that adequate and appropriate training is provided for staff and that supervisory checks are carried out from time to time to ensure that proper procedures are being followed.

7.5 The references and qualifications of all proposed new employees should be thoroughly checked prior to a position being offered to establish, as far as possible, the honesty and integrity of potential employees, whether for permanent, temporary or casual posts and agency staff.

8. THE ROLE OF EMPLOYEES

8.1 Employees are responsible for ensuring that they follow the instructions given to them by management particularly in relation to the safekeeping of the assets of the authority. They may be required to disclose information about their personal circumstances in accordance with the authority's Constitution.

8.2 Employees are expected to be alert to the possibility that fraud and corruption may exist in the workplace and are under a duty to share with management any concerns they may have. Employees are protected under the Whistleblowing Policy, where required, regarding any concerns they raise in good faith.

9. THE ROLE OF INTERNAL AUDIT

9.1 The Internal Audit Team plays a preventative role in trying to ensure that systems and procedures are in place to prevent and deter fraud. The Team assists in the investigation of cases of suspected financial irregularity and carries out fraud searching exercises to establish whether irregularities have occurred and to

recommend changes in procedures to prevent further losses to the authority. The Internal Audit Team provides advice and assistance to all Service Directors.

9.2 The responsibility for the detection of financial irregularities rests solely and exclusively with management. Internal Audit will advise and assist management in fulfilling their responsibility for preventing irregularities and will investigate cases where irregularities are thought to have taken place. There may be circumstances of course, where auditors detect fraud as a result of the work that they are undertaking or as a result of specific fraud searching exercises.

10. THE ROLE OF THE BENEFIT FRAUD SERVICE

10.1 The Benefit Fraud Service plays a major role in the deterrence of benefit fraud, for example through the application of the Council's Housing Benefit and Council Tax Benefit Sanction & Prosecution Policy.

10.2 A further objective is the detection of fraud, by investigating allegations of Housing Benefit and Council Tax Benefit fraud. Both pro-active (specific fraud searching exercises) and reactive investigations (upon receipt of a referral) are carried out.

11. THE ROLE OF EXTERNAL AUDIT

11.1 Independent external audit is an essential safeguard of the stewardship of public money. This role is delivered through carrying out of specific reviews that are designed to test (amongst other things) the adequacy of the Council's financial systems and arrangements for preventing and detecting fraud and corruption. It is not the external auditor's function to prevent fraud and irregularity, but the integrity of public funds is at all times a matter of general concern.

11.2 External auditors are always alert to the possibility of fraud and irregularity and will act without due delay if grounds for suspicion come to their notice. The external auditor has a responsibility to review the Council's arrangements in respect of preventing and detecting fraud and irregularities and arrangements designed to limit the opportunity for corrupt practices.

12. THE ROLE OF RISK MANAGEMENT

12.1 A methodology for identifying, assessing and managing fraud risk within the Council has been developed as part of the Risk Management process. This methodology is applied to both the strategic risks of the Council and as part of the routine service and project planning processes.

13. ROLE OF PARTNERS, CONTRACTORS AND SUPPLIERS

13.1 All organisations associated with the Council are expected to take a proactive role in ensuring the occurrence of fraud and corruption is minimised regarding any dealings with the Council. The standards expected are often set out through legal agreements, which specify the requirements of the Council, when setting up partnerships and other contractual arrangements.

13.2 In the interests of good working relationships and continued dealings with the Council, all associated organisations have a duty to be vigilant regarding the possibility of fraud, irregularity and corruption with a view to reporting any suspicions in accordance with the principles stemming from the Council's own policies, procedures and standards.

13.3 The Council's Anti-Fraud & Corruption Policy is commended to the Council's partner organisations where comprehensive arrangements are not in place, with the expectation that it will be applied either wholly or as the basis for their own local version.

14. ROLE OF THE PUBLIC

14.1 Whilst this strategy is primarily aimed at those within or directly associated with the Council, the public has a role to play in that they should be honest in their dealings with the Council and inform appropriate members and/or officers of the Council if they feel that fraud and / or corruption may have occurred.

15. DETERRENCE

15.1 Fraud and corruption are serious offences against the authority and employees may face disciplinary action and / or prosecution, benefit claimants may be subject to a sanction or prosecution, if there is sufficient evidence that they have been involved in these activities. This is designed to deter others from committing offences against the authority.

15.2 There are also other specific ways in which the Council seeks to deter potential wrongdoers from committing or attempting fraudulent or corrupt acts. These include:

- ♦ Publicising that the Council is firmly against fraud and corruption at appropriate opportunities and will take stern action against perpetrators (e.g. dismissal of employees, prosecution of offenders, termination of contracts etc).
- ♦ Acting robustly and decisively when fraud and / or corruption are suspected and, if proven, being committed to viewing cases seriously and taking action as appropriate bearing in mind all relevant factors of each case.
- ♦ Taking action to identify accurately the nature and scale of losses incurred following investigations of fraud and corruption.
- ♦ Always seeking to maximise recoveries for the Council, through agreement, repayment, court action, penalties, insurance etc.
- ♦ Actively monitoring proceedings for the recovery of loss.
- ♦ Referring appropriate investigative cases to the Police if there is sufficient evidence that criminal offences above a nominal level are likely to have occurred.
- ♦ Where appropriate, publicising the results stemming from investigations into suspected cases of fraud and corruption as a deterrent to potential fraudsters.

16. NATIONAL FRAUD INITIATIVE (NFI)

16.1 The National Fraud Initiative (NFI) exercise is organised by the Audit Commission and is usually carried out every 2 years. The Council actively takes part in the initiative as it forms part of a continuous attempt to identify fraud, particularly fraudulent benefit claims. NFI is about matching information contained within the Council's computer systems against information contained within other organisations'

systems, for example, payroll, student awards and pensions, the main aims being to identify fraudulent benefit claims, discounts and concessions, and to detect cases of sub-letting or dual tenancies.

16.2 At Fylde, NFI is co-ordinated by the Internal Audit Team working principally with the Benefit Fraud Service and the Revenues and Benefit Service. The key tasks are:

- ♦ ensuring that data is submitted to the Audit Commission on time in the required format;
- ♦ performing an initial review of the results;
- ♦ liaising with other participating organisations;
- ♦ passing any suspected fraudulent cases to the appropriate officers for investigation.

17. HOUSING BENEFIT MATCHING SERVICE (HBMS)

17.1 This data matching exercise is organised by DWP and is carried out monthly. The Council actively takes part in the initiative as it forms part of a continuous attempt to identify benefit fraud. HBMS involves matching information contained within the Council's Benefits system against data of other benefits.

18. NATIONAL ANTI-FRAUD NETWORK (NAFN)

18.1 Membership of the National Anti-Fraud Network (NAFN) is available to all local authorities in England & Wales and exists to provide individual councils with a variety of fraud intelligence and information sharing services. NAFN also has links with a variety of external agencies that supply information in order to prevent and detect fraud. These include the Credit Industry Fraud Avoidance System (CIFAS), the Police, Immigration Service, Contributions Agency, the University & Colleges Admissions Service (UCAS) and some utility companies.

18.2 NAFN is organised into 5 regional areas, Fylde belonging to the Northern Region. The Council's key contact for the NAFN is the Benefits Fraud Service, due to the nature of the investigations it undertakes.

19. NATIONAL BENEFIT FRAUD HOTLINE

19.1 The National Benefit Fraud Hotline 0800 328 6340 is publicised extensively, including through the Council web site to encourage members of the public to report potential fraudsters, anonymously or otherwise.

20. DEFINING SUCCESS

20.1 The focus of the Anti-fraud & Corruption Strategy must be concentrated on the clear arrangements described above to counter the incidence of fraud and corruption. Success in fraud deterrence, prevention and detection are based upon the anti-fraud framework defined in the CIPFA Fraud Standards:

- ♦ Adopting the right strategy
- ♦ Accurately identifying the risks
- ♦ Creating and maintaining a strong structure

- ♦ Taking action to tackle the problem

Key performance measures have been developed as part of this strategy and are attached as Appendix 1.

REPORTING ALLEGATIONS AND WHISTLEBLOWING

21. NORMAL REPORTING LINES

21.1 Irregularities regarding the general public, officers, or members may come to light in a variety of circumstances. These include:

- ♦ Data-matching (National Fraud Initiative)
- ♦ The results of routine Internal Audit work;
- ♦ Complaints by members of the public or other third parties (e.g. DWP);
- ♦ Whistle-blowing by members of staff;
- ♦ Normal benefit assessment process;
- ♦ Specific fraud searching exercises by both the Internal Audit Team and Benefit Fraud Service;
- ♦ Benefit fraud hotline.

21.2 Any member of staff who discovers circumstances that may involve an irregularity should normally report the matter to their line manager. Thereafter, line managers should immediately inform their Service Director.

21.3 If the suspected irregularity is in respect of financial transactions or in any matter affecting property, cash, stores, remuneration, allowances, purchases or contracts, Service Directors should report the matter to the Head of Internal Audit (in accordance with the Council's Financial Regulations). The Head of Internal Audit will in turn inform the Section 151 Officer who should advise the Chief Executive of all significant cases.

21.4 If the suspected irregularity is in respect of benefit fraud by a member of the public the matter should be reported to the Benefit Fraud Service. If it relates to an Officer it should be reported to the Head of Internal Audit, but if it involves a Member the matter should be passed to the Monitoring Officer.

21.5 In other instances Service Directors should consult the Head of Human Resources as to whether the Disciplinary Procedure should be invoked.

21.6 Service Directors are responsible for managing the discipline of employees in their respective directorates and in most circumstances they will act as the disciplining officer for the purposes of the Disciplinary Procedure (although this may be delegated to other senior officers). Service Directors should nominate another officer to carry out an investigation – the “Investigating Officer”. The Investigating Officer will usually be a manager within the relevant directorate with the power to suspend the suspected employee/s if necessary.

21.7 In order to ensure independence in this process it may be necessary for the Service Director to appoint an Investigating Officer from another directorate to act as the Investigating Officer. The Council will arrange training for all those who may be required to perform either of these roles.

21.8 The Investigating Officer will be advised by the Internal Audit Team. This may involve Internal Audit undertaking much of the investigation work and providing the Investigating Officer with evidence for a formal report.

21.9 In all cases, no one having any part to play in reaching a decision about any matter raised through the reported suspicion will take any part in the conduct of the investigation.

22. ALLEGATIONS AGAINST SENIOR OFFICERS AND MEMBERS

22.1 It may become necessary to investigate allegations made against senior officers or members. In these cases, if the alleged irregularity involves:

- ♦ A Head of Service, the responsible Service Director should be notified directly.
- ♦ A Service Director, the Chief Executive should be notified directly.
- ♦ The Chief Executive, the incident should be reported in the first instance to the Section 151 Officer, who should inform the Leader of the Council.
- ♦ An elected member, the incident should be reported to the Monitoring Officer who should in turn inform the Chief Executive and Leader of the Council. The Monitoring Officer should then inform the Chair of the Standards Committee.
- ♦ The Leader of the Council, the Monitoring Officer should inform the Chief Executive and the Chair of the Standards Committee directly.

22.2 The officers designated below shall perform the functions of disciplining officer and Investigating Officer in the cases of alleged irregularities involving line managers or Service Directors.

Officer Suspected	Disciplining Officer	Investigating Officer
Head of Service	Service Director of the service concerned	Service Director for another service
Service Director	Chief Executive	Deputy Chief Executive

22.3 In respect of alleged irregularities involving the Chief Executive, the allegation shall be considered by an independent person and then in accordance with his/her terms and conditions of employment.

22.4 In respect of alleged irregularities involving an elected member, including the Leader of the Council, the matter shall be dealt with in accordance with the procedures for the time being specified by legislation or official guidance.

INTERNAL INVESTIGATIONS PROCEDURE

23. THE PROCEDURE IN OUTLINE

23.1 The Council's Internal Investigations Procedure largely covers investigations into officers and members of the authority. It is however acknowledged that various forms of investigation are undertaken in other areas of Council business, for example housing and council tax benefits, health & safety, planning, environmental services, and corporate complaints. The procedure is designed to support and supplement the separate arrangements that already exist in these areas.

24. INVESTIGATION – OFFICERS

24.1 Investigations are necessary in order to:

- ♦ Find out the facts before taking any form of action;
- ♦ Apply appropriate sanctions;
- ♦ Eliminate innocent people from unjustified suspicion;
- ♦ Improve systems, procedures and controls;
- ♦ Recover losses;
- ♦ Prevent and deter.

24.2 The first stage of any potential investigation is to establish whether the matter under consideration actually constitutes an irregularity (and if so who should investigate). Any irregularity that involves the use of deception to obtain an unjust or illegal financial advantage may be classed as a fraud.

24.3 Irregularities fall within the following broad categories:

- ♦ **Theft** – the dishonest taking of property belonging to another, with the intention of permanently depriving the owner of its possession. This may also involve the use of deception.
- ♦ **Fraud** – the Fraud Act 2006 introduced a general offence of “fraud” which may be committed in three ways: by making a false representation, by failing to disclose information or by an abuse of position. In each case it is not necessary to prove that an individual has actually gained from their action simply that there was an intention to gain from their behaviour, cause loss or expose the Council to the risk of loss.
- ♦ **Bribery and corruption** – involves the offering and acceptance of a reward, for performing an act, or for failing to perform an act, which leads to gain for the person offering the inducement. This could occur in connection with contracts, consultancy engagements, purchasing and appointment of staff.
- ♦ **False accounting** – falsification, fraudulent amendment or destruction of documents in order to distort the true nature of a transaction.
- ♦ Failure to observe or breaches of:
 - **external regulations** for example Health and Safety Regulations
 - **Constitution of the Council** including Standing Orders, Financial Regulations and Codes of Conduct
 - **Council policies and procedures** especially personnel policies and procedures relating to recruitment & selection, annual leave and sickness absence
 - **directorate procedures**
 - **management instructions**

24.4 Whilst the potential for irregularity is present across the full spectrum of activity in any local authority, certain areas are, by their very nature accepted as being of higher risk than others. These areas include:

- ♦ Cash Handling;

- ♦ Tendering & Award of Contracts;
- ♦ Appointing External Consultants;
- ♦ Appointing Staff;
- ♦ The External, Pecuniary Interests of Members / Officers;
- ♦ Gifts & Hospitality;
- ♦ Claims for Allowances and Expenses;
- ♦ Awarding Licences / Planning Consent / Land Valuations, etc;
- ♦ Purchasing.

24.5 The following paragraphs explain the procedures to be followed in Internal Audit-assisted investigations, however, the principles apply equally to other investigations, including those under the direction of the Head of Human Resources / Disciplinary Procedure.

24.6 Where allegations are reported to the Head of Internal Audit, the Internal Audit Team will undertake a brief initial assessment of the circumstances and will recommend whether to:

- ♦ Take no further action;
- ♦ Refer the matter to the Service Director;
- ♦ Consult with the Head of Human Resources;
- ♦ Initiate a Preliminary Investigation;
- ♦ Other (e.g. some combination of the above).

24.7 If the initial assessment highlights matters of a minor nature, Service Directors may be asked to investigate them within their own directorates with ongoing advice and assistance from Internal Audit as necessary. In these instances, Internal Audit should be kept advised as to progress.

24.8 If the initial assessment highlights more serious matters that Internal Audit considers should not be dealt with exclusively by the Service Director, Internal Audit will support the designated Investigating Officer in the conduct of the investigation as necessary.

24.9 The investigation will normally be carried out by a team comprised of the Investigating Officer together with one or more Internal Auditors, and where appropriate a member of Human Resources or other relevant officers. In any event the Head of Human Resources would normally be consulted regarding potential disciplinary proceedings.

24.10 The appropriate Service Director would normally be informed of an investigation unless the allegation either directly involved or may implicate the said Service Director, or where the Service Director might be a material witness.

24.11 The preliminary investigation must be carried out with the utmost confidentiality and as much relevant information as possible should be gathered before alerting or approaching suspected parties.

24.12 The Investigating Officer should not necessarily restrict their enquiries solely to the specific allegation(s) made. The premise to be followed is that if a person is alleged to have committed an offence in one sphere of their activities, they may well have committed offences in any other area of their responsibilities where the opportunity arose. Therefore the full extent of possible irregularity should be determined.

25. INVESTIGATION – MEMBERS

25.1 The procedure shall be that specified for the time being under prevailing legislation and in any regulations made under the Local Government Act 2000.

26. RECORD KEEPING / EVIDENCE / CONFIDENTIALITY

26.1 When the Head of Internal Audit is notified of a suspected fraud, an entry will be made into the Special Investigation Register. All entries into the Register will be sequentially referenced, so there is a continuous record of all entries. The Register will only be available to the:

- ♦ Chief Executive;
- ♦ Monitoring Officer;
- ♦ Section 151 Officer;
- ♦ Internal Audit;
- ♦ External Auditor.

26.2 When the preliminary investigation work is performed a file should be opened and updated on an ongoing basis as the matter is progressed, incorporating the details / results of the enquiries carried out, including all meetings, interviews and telephone discussions. The file should also contain any records, papers, workings or other forms of evidence that may later form the basis of any report that is deemed necessary.

26.3 It is essential that all available evidence relating to the fraud be preserved without alerting the alleged perpetrator to official suspicions. In all cases procedures followed must ensure full compliance with RIPA and PACE with regard to obtaining and documenting evidence, so that the evidence obtained remains admissible in a court of law.

26.4 The most common forms of evidence and a brief note of how they should be preserved are given below:

- ♦ **Original documents** - Original documents should be obtained and retained. The documents should be handled as little as possible and should be put in a protective folder. Under no circumstances should they be marked in any way. All original documents should be given to the Head of Internal Audit for review and preparation as evidence. A record of all documents should be maintained, detailing how, when and where they were obtained. All copies of original documents or screen images should be formally certified as a true copy with the date of copying.
- ♦ **Desk Search** - If an employee is under suspicion then their desk/work station can be searched. However any such search must be undertaken by two managers lead by the Head of Internal Audit. Under PACE conditions the contents of the desk/work station should be listed and the list should be signed by both officers as being a true record of what was found.
- ♦ **Computer based data** - When potential evidence may be held on a computer or other digital storage device such as a personal organiser, palmtop computer, portable media player or mobile phone, the equipment should be secured by the Head of Internal Audit in accordance with the Good Practice Guide for Computer-

Based Electronic Evidence issued by the Association of Chief Police Officers (ACPO). Under no circumstances should any computer or other digital device thought likely to contain evidence be powered down or access/download be attempted by individuals not appropriately trained.

- ♦ **Video evidence** - There may be CCTV based evidence available. If it is suspected that a camera system may have information of value, the hard copy media should be secured by the Head of Internal Audit in accordance with the Good Practice Guide for Computer-Based Electronic Evidence issued by ACPO. Under no circumstances should any video evidence download be attempted by individuals not appropriately trained.

26.5 Whenever a person is suspended from work they should be asked to remove all personal belongings from their desk/workspace and be informed that the desk/workspace may be examined. Under no circumstances should an employee once suspended be allowed to access their files or computer records, any remote access or phone-in links should be terminated immediately the suspension decision is taken.

26.6 Full security of investigatory records (both manual and computerised) must be maintained at all times. The Chief Executive may authorise disclosure of investigation reports and associated documentation to third parties solely for the purposes of obtaining legal, employment, medical, financial, technical, or other professional advice whatsoever in relation to the case.

26.7 In general terms, all those engaged in investigation work should maintain secrecy and confidentiality throughout. This is because:

- ♦ Allegations / suspicions of fraud may turn out to be unfounded and if secrecy and confidentiality have been maintained this will prevent considerable embarrassment to both the accused officer and the authority.
- ♦ Investigations are of immediate interest to employees, members of the public and the media. Careless talk can generate rumours which quickly obtain wide circulation
- ♦ Where fraud had occurred, breaches of confidentiality could alert the suspect and result in them having an opportunity to cover their tracks or destroy material evidence or otherwise frustrate the investigative process.

27. POLICE INVOLVEMENT

27.1 The police are expert at investigating fraud and referring cases to the Crown Prosecution Service for criminal proceedings. They can also advise on the likely outcome of any intended prosecution. The relevant Service Director will have sole responsibility for requesting police involvement after consultation with the Chief Executive.

27.2 Any such request for police involvement will normally follow a report by the Investigating Officer to management indicating that there is a potential criminal case.

27.3 Where an irregularity is reported to the Police and the suspected perpetrator(s) are known, he/she/they should normally be suspended from duty in order to facilitate the forthcoming investigation.

27.4 If the Police decide that a formal investigation is necessary, the Investigating Team and all other employees will co-operate fully with any subsequent requests or recommendations. All contact with the police following their initial involvement will usually be through the Investigating Officer.

27.5 The Council will normally defer inquiries of their own into matters other than the protection of Council property and the preservation of evidence, until the Police enquiries are complete. The Council will then review the matter in the light of the outcome of the Police enquiries.

27.6 The fact that a Police investigation has not resulted in prosecution should not necessarily prevent the internal investigation proceeding. It should be recognised that the standard of evidence required for a disciplinary offence is on the "balance of probabilities" and is less than that required for a criminal offence which has to be proved "beyond reasonable doubt".

28. SURVEILLANCE

28.1 Any investigations that involve directed surveillance or the use of covert intelligence sources must take account of the Regulation of Investigatory Powers Act 2000 and Council procedures. The potential use of directed surveillance and covert intelligence sources is not restricted to Internal Audit investigations but extends to benefit fraud, noise nuisance, planning, anti social behaviour and other areas.

28.2 The key provisions of RIPA are:

- ♦ Surveillance must be appropriate for the advancement of the investigation.
- ♦ An application for authorisation for directed surveillance must be made in writing.
- ♦ Authorisation must be given in advance by prescribed persons, formally nominated by the authority for this purpose.
- ♦ Authorisations must be given in writing using designated forms and can only be given on one of the grounds specified in the Act as "for the purposes of preventing or detecting crime or of preventing disorder".
- ♦ Where urgent authorisation is requested, it may be given orally by the authorised officer. A written record of the urgent authorisation must be made.
- ♦ Authorised officers have overall responsibility for the management of the investigation and are personally liable for the authorisations that they give.
- ♦ Applications should contain sufficient detail to enable the authorised officer(s) to make an objective assessment. The reasons for granting / not granting authorisation should be noted on the application.
- ♦ The authorised activity must be reasonable, proportionate and necessary.
- ♦ A central record must be maintained of ongoing and completed surveillance operations.
- ♦ Authorisations are valid for a period of 3 months only. Designated renewal forms must be completed / authorised if the surveillance is to continue. The authorising officer must question the validity of any surveillance lasting more than 3 months.
- ♦ Once surveillance ceases to be necessary, designated cancellation forms should be completed / authorised.

28.3 The Authority's formally agreed list of prescribed persons is as follows:

- ♦ Chief Executive
- ♦ Service Directors (in connection with directorate activities)

28.4 The Monitoring Officer has an overall responsibility to oversee the operation of the system of giving authorisations. The Monitoring officer should also be consulted for advice whenever it is unclear whether RIPA applies to a given situation.

28.5 Copies of the forms issued by the above prescribed persons must be passed to the Monitoring Officer to be retained in a central control register as they may be required as evidence at some future date.

28.6 The following standard forms are in use within the authority:

- ♦ RIP1 – Application for Directed Surveillance
- ♦ RIP2 – Renewal Form
- ♦ RIP3 – Review Form
- ♦ RIP4 – Cancellation Form

28.7 Comprehensive information regarding the use of RIPA forms is contained in the Procedural Guidance Notes for staff available on the intranet.

29. INVESTIGATORY INTERVIEWS – OFFICERS

29.1 During the course of an investigation it is often necessary to question the employee under suspicion in order to establish facts. Under the Council's Disciplinary Procedure, such investigatory interviews are normally conducted by the nominated "Investigating Officer", but s/he may be assisted by a member of the Internal Audit Team if Internal Audit is involved in the investigation.

29.2 All interviews must be arranged with prior notice under the terms of the Council's Disciplinary Procedure and must be attended by:

- ♦ the Investigating Officer
- ♦ a representative of Internal Audit, normally a member of the Investigating Team
- ♦ a representative of Human Resources, sometimes a member of the Investigating Team

29.3 The employee may also be accompanied at the investigatory interview but a failure on the part of the interviewee to obtain a suitable companion after the standard period of notice does not provide sufficient reason for the interview not to proceed.

29.4 Interviews should be held in a private, neutral space at a reasonable time of day. Prior to the interview, the interviewing officers will obtain all relevant facts pertinent to the investigation and prepare a structured set of interview notes, setting out the information required and questions to be asked.

29.5 It should be made clear at the outset what the purpose of the investigatory interview is and that the interviewee's representative may not answer questions on his / her behalf.

29.6 A record of the questions asked and detailed records of the responses received must be made. Recording equipment should be used to ensure accuracy and for the avoidance of disputes. Care should be taken in framing the questions and no action that could be construed as duress by the interviewee must take place.

29.7 If the alleged irregularity is of a criminal nature and there is the possibility of criminal charges being laid against an individual, suspect employees should not be interviewed before formal consideration of whether to request police involvement. In most cases, it is preferable for the Police to conduct such interviews.

29.8 If it is the intention to question a person suspected of committing a criminal offence, that person must be formally cautioned before further questioning takes place.

29.9 Interviewees should be provided with two copies of the interview transcript, which they should be asked to sign and date (including any suggested corrections or amendments) and return one copy to Investigating Officer.

30. INVESTIGATORY INTERVIEWS – MEMBERS

30.1 These will be carried out in accordance with prevailing regulations (if any) made under the Local Government Act 2000. If no such regulations are in force, the matter will be dealt with in accordance with any provisions specified by the Standards Board for England.

31. INVESTIGATORY INTERVIEWS – BENEFIT CLAIMANTS

31.1 If a benefit fraud allegation is substantiated and is potentially a prosecution case the interviews will be carried out formally under caution in accordance with PACE.

31.2 If a claimant is also in receipt of other benefits the DWP's Benefit Fraud Service will be contacted to invite them to be involved in the investigatory interview.

32. SUSPENSION

32.1 At the outset or during the course of an investigation it may become necessary to consider suspending the alleged perpetrator(s) from carrying out their normal duties. Under the Council's Disciplinary Procedure, depending on the circumstances of the case the employee may be:

- ♦ Required to remain in their own post on restricted duties.
- ♦ Required to work in any other position within the Council.
- ♦ Suspended from all duties and required to remain away from work.

32.2 The Disciplinary Procedure contains guidance on the circumstances under which suspension is appropriate and the process that must be followed.

32.3 A key concern for the Investigating Officer is to protect the integrity of any unsecured evidence and to prevent any influence the suspect(s) might bring to bear on associates. If this is considered to be a material threat, the Investigating Officer should recommend suspension to the Service Director / Senior Officer concerned (in consultation with the Head of Human Resources).

32.4 Where the suspension requires an employee to remain away from work, the manager should (with possible assistance from Customer Service Attendants or other appropriate officers):

- ♦ Escort the employee to his / her workstation.
- ♦ Allow the employee to remove any personal possessions.
- ♦ Ensure that nothing material to the investigation is removed (e.g. diaries).
- ♦ Prevent access to files or computer records.
- ♦ Require the employee to hand over any keys, identity cards, passes, Council purchasing cards, trade cards, Council laptop, mobile phone etc.
- ♦ Escort the employee from the premises.

32.5 If considered necessary in the circumstances of the investigation, the Service Director should arrange for:

- ♦ Immediate termination any remote access or phone-in links
- ♦ Prompt changing of door access codes to prevent unauthorised entry to Council premises by the suspended employee.

33. INVESTIGATION REPORTING - OFFICERS

33.1 At the end of the preliminary investigation, the Investigating Officer must decide whether there is a case to be answered and, therefore, if it should proceed to a disciplinary hearing. If it is to proceed, s/he must produce a written Preliminary Investigation Report in conjunction with Human Resources.

33.2 If any or all of the investigation is undertaken by the Internal Audit Team, a representative of Internal Audit will also assist with the Preliminary Investigation Report.

33.3 The Preliminary Investigation Report should contain:

- ♦ Background to the case
- ♦ Full details of the investigation process followed;
- ♦ A summary of the evidence obtained;
- ♦ The potential nature of the offences (if any) committed;
- ♦ Recommendations as to Police referral (where appropriate);
- ♦ Recommendation as to the requirement for a disciplinary hearing

33.4 All reports should be factual, impartial and, unless absolutely necessary contain no opinion.

33.5 With regard to whistle blowing considerations under the Public Interest Disclosure Act, in certain circumstances the names of witnesses may be deleted in a report and provided in a separate covering sheet. However although protection is guaranteed to witnesses, they cannot (other than in exceptional circumstances) be guaranteed anonymity as they may be required to give oral evidence at a future hearing, appeal, tribunal or in court.

33.6 The investigation may also reveal weaknesses in systems, procedures or internal control that need to be rectified for the future. At an appropriate stage, a separate Internal Audit Report will be issued to the relevant Service Director detailing such weaknesses together with corresponding recommendations for corrective action.

34. INVESTIGATION REPORTING - MEMBERS

34.1 These will be carried out in accordance with regulations (if any) made under Section 66 of the Local Government Act 2000. If no such regulations are in force, the matter will be dealt with in accordance with any provisions specified by the Standards Board for England.

35. INVESTIGATION REPORTING – BENEFIT CLAIMANTS

35.1 At the conclusion of the benefit fraud investigation a report will be produced, this will be passed to the Housing Benefit Head of Service for the calculation of the overpayment and claim of subsidy, and to the Benefit Fraud Service to review the case.

36. HEARINGS & APPEALS – OFFICERS

36.1 The Council's detailed rules on disciplinary hearings and appeals are contained in the Disciplinary Procedure. Where an investigation has been undertaken (partially or wholly) by the Internal Audit Team, Internal Audit may provide the following services:

- ♦ Advising management on how they might approach a disciplinary case that is based on the results of an Audit or joint Audit / management investigation.
- ♦ Advising management on how to formulate disciplinary charges.
- ♦ Advising management on how to put together a disciplinary package of evidence.
- ♦ Attending the disciplinary interview (and possible appeals) as a witness.

36.2 Internal Audit only provides evidence to a disciplinary hearing and has no other influence on the Disciplinary Panel's decision.

36.3 Where the investigation is into matters of a potentially criminal nature, the Police would normally have been informed at an earlier stage. However, in certain circumstances it may have been decided to proceed with the internal investigation before contacting the Police. Under these circumstances the Investigating Officer should inform the Service Director / Head of Human Resources once it becomes clear that a criminal offence has been committed. They would in turn review the issue of Police referral.

36.4 In any event, after the internal investigation is completed and if the matter proceeds to a Disciplinary hearing, the disciplining officer should ensure that the Service Director / Head of Human Resources are informed of any potentially criminal offence. The issue of Police referral is a matter for the Service Director and/or Head of Human Resources to decide (in conjunction with the Chief Executive).

36.5 It should also be borne in mind that where actual losses have occurred, if an insurance claim is to be pursued the matter must first be reported to the Police and a crime number obtained. This number needs to be inserted on actual claim form.

37. HEARINGS & APPEALS – MEMBERS

37.1 These will be carried out in accordance with regulations (if any) made under the Local Government Act 2000. If no such regulations are in force, the matter will be dealt with in accordance with any provisions specified by the Standards Board for England.

38. HEARINGS & APPEALS – BENEFIT CLAIMANTS

38.1 These will be undertaken in accordance with the Housing Benefit and Council Tax Benefit Sanction & Prosecution Policy.

39. LOSS RECOVERY

39.1 Where actual losses have occurred the relevant Service Director must take action to identify accurately the nature and scale of losses incurred following investigations of fraud and corruption.

39.2 It may be possible to recover them (wholly or in part) via an insurance claim, in which case the Police must first be contacted for a crime number for insertion on the actual claim form.

39.3 The Council's policy for recovering uninsured losses from the perpetrators of fraud is to do so in all cases seeking to maximise recoveries through agreement, repayment, court action and any other available penalties, including applying for monies to be recovered from the Pension Fund and via applications under the Proceeds of Crime (POCA) legislation. All options should be considered and none should be regarded as mutually exclusive.

39.4 Court action to recover losses should normally be undertaken where, having considered all the available evidence, the Head of Governance takes the view that recovery action through the Courts is likely to succeed and it is financially beneficial to proceed, taking into account the costs of legal proceedings.

39.5 Whatever methods are used to recover losses incurred, the relevant Service Director must actively monitor recovery progress as part of standard procedure and as a key measure of performance in relation to this strategy.

39.6 Directions in respect of the recovery of overpaid benefits will proceed in accordance with the Council's Sanction and Prosecution Policy for Housing Benefit and Council Tax Benefits.

40. REVIEW

40.1 The Council has in place a clear network of systems and procedures to assist it in the fight against fraud and corruption and is determined to ensure that these arrangements keep pace with any future developments, in both prevention and detection techniques, regarding fraudulent or corrupt activity that may affect its operation or related responsibilities.

40.2 To this end, the Council will maintain a continuous overview of such arrangements, including this Strategy, through the roles of the Monitoring Officer and Section 151 Officer.

APPENDIX 1

DEFINING SUCCESS – Key performance indicators

Ref	Performance Indicator	Responsibility
ADOPTING THE RIGHT STRATEGY		
1	The Council's anti-fraud policies are reviewed and updated on an annual basis	Head of Internal Audit
2	The Council's Whistleblowing Policy complies with best practice and the British Standard on Whistleblowing	Head of Internal Audit
3	The Administrative Agreement for the Benefit Fraud shared service is actively monitored on an ongoing basis	Head of Internal Audit
ACCURATELY IDENTIFYING RISKS		
4	The Internal Audit and Benefit Fraud Service undertake a range of proactive anti-fraud and corruption work	Head of Internal Audit
5	The Risk Management Strategy takes account of fraud both strategically and operationally within the Council and in respect of significant partnerships and contractual relationships	Risk Management Officer
CREATING AND MAINTAINING A STRONG STRUCTURE		
6	The Internal Investigations Procedure is robustly applied in all cases	Head of Internal Audit
7	All concerns raised through the Whistleblowing process are investigated to establish whether there is a genuine case to answer	Head of Internal Audit/Benefit Fraud Service
8	A safe recruitment strategy is operating to ensure all new employees meet reference, qualification and legal status requirements	HR Contract Liaison Officer
TAKING ACTION TO TACKLE THE PROBLEM		
9	Overall employee awareness levels about the Council's counter fraud culture and arrangements are high	Head of Governance
10	Cases of fraud and corruption against the Council that result in criminal prosecution are widely publicised	Benefit Fraud Service
11	The hotline telephone number is advertised widely across the Council, on the website and on benefit documentation	Benefit Fraud Service
12	The Council participates actively in the biennial National Fraud Initiative and investigates all high risk cases identified	Head of Internal Audit
13	Where a fraud has occurred, management makes suitable changes to systems and procedures in order to minimise the potential for similar frauds	Head of Internal Audit
14	The Benefit Fraud service achieves its defined annual targets for sanctions and overpayments identified	Benefit Fraud Service
15	The Council is effective in recovering any losses incurred by fraud and corruption	Service Directors

REPORT



REPORT OF	MEETING	DATE	ITEM NO
FINANCE	AUDIT COMMITTEE	31 ST MARCH 2011	10

PRUDENTIAL INDICATORS & TREASURY STRATEGY 2010/11 TO 2013/14

Public Item

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

Summary

This report sets out in detail the Prudential Indicators and Treasury Strategy for 2010/11 to 2013/14 as approved by Budget Council on 2nd March 2011.

Recommendation

Audit Committee Members are recommended to note and scrutinise the annual Prudential Indicators and Treasury Strategy for 2010/11 to 2013/14.

Reasons for recommendation

The report has been produced for Audit Committee Members in line with recommendations made by Councillor Buckley (Finance & Resources Portfolio Holder), at Budget Council on 2nd March 2011. The recommendation made requested that Audit Committee Members scrutinised the annual Prudential Indicators and Treasury Strategy.

Alternative options considered and rejected

The alternative option is to produce the Treasury Strategy report based on the Quarter 2 Capital & Revenue forecasts, which may give time to have the report scrutinised by Audit Committee before going to Budget Council. The problem arises in that there is the potential for information to be out of date, and there could therefore be a requirement to go back to Council in the new financial year to get approval for the revised Prudential Indicators to reflect the changing financial position. Full Council approval is required for any Prudential

Indicator changes. This would create more work for finance officers and be an inefficient process.

Cabinet Portfolio

The item falls within the following Cabinet portfolio:

Finance & Resources, Councillor Buckley

Report

1. The Prudential Code

1.1 In order to comply with the Prudential Code, all Local Authority Council's must ensure that:-

- i) Prudential indicators, other than actuals that are taken from information in the local authority's Statement of Accounts, are required to be set and where they are revised, revised through the processes established for the setting and revising of the budget for the local authority. These prudential indicators must be set and where they are revised, revised in accordance with the matters required to be taken into account (paragraphs 10–13 of the 'Code'). These paragraphs just specify what indicators should be included in the Prudential Indicators report to Council.
- ii) The body that sets the budget for the local authority will usually be the full council of that local authority. Whether or not this is the case, the setting and revising of the prudential indicators should follow the same route as the setting and revising of the budget of the local authority.
- iii) The prudential indicators for the forthcoming and following years must be set before the beginning of the forthcoming year. They may be revised at any time, following due process, and must be reviewed, and revised if appropriate, for the current year when the prudential indicators are set for the following year.

1.2 The Prudential Code indicators agreed by Budget Council on 2nd March 2011, are set out in Appendix A (was Appendix G of Budget Report) to this report.

2. The Treasury Management Code of Practice

In order to comply with the Treasury Management Code of Practice all Local Authorities must ensure that:-

- i) The Strategy should be approved by the full Council. This is in accordance with the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 (regulation 4(1)(b) and Schedule 4) (S.I. 2000/2853, as amended by S.I. 2004/1158), which provides that the function of "formulating a plan or strategy for

the control of the authority's...investments..." is the responsibility of the authority's full council, not the executive.

- ii) The CLG (Communities and Local Government) Guidance recommends that an investment Strategy should be prepared and approved before the start of each financial year, forming part of the treasury strategy.
- iii) Paragraph 25.7 of the Financial Regulations for Treasury Management and Banking (page 109 of the Council Constitution) state that "the Council will receive...an annual strategy and plan in advance of the year".

3. The Annual Process & Statutory Requirements

- 3.1 In line with recommendation of the revised CIPFA Code of Practice on Treasury Management, it requires that Members receive mid year reports and scrutinise the Treasury Management Service. This was done by Audit Committee for the 2009/10 to 2012/13 Strategy in November 2010.
- 3.2 The Treasury Management Strategy agreed by Budget Council on 2nd March is set out in Appendix B (Appendix H of budget report) to this report.
- 3.3 The Treasury Management Policy Statement agreed by Budget Council on 2nd March is set out in Appendix C (Appendix I of Budget report) to this report.

4. Timescales – Reality

- 4.1 As stated in Section 1 the Prudential Indicators and Treasury Strategy must be set at the same time or prior to the Council Tax being set by a Council.
- 4.2 A request was made by Councillor Buckley (Finance and Resources Portfolio Holder), if Audit Committee Members could scrutinise the forthcoming annual Prudential Indicators and Treasury Strategy in advance of Budget Council. This is not possible for a number of practical reasons:-
 - a) We would need to include the Executive (Cabinet) budget proposals on capital for Prudential Indicators completion. The Cabinet's budget proposals would have to be done much earlier to enable it to go before Audit Committee first for scrutiny.
 - b) Cabinet's budget proposals can only be set once the finance team have a latest forecast position and Government Grant settlements etc so agreeing an earlier Cabinet budget is logistically very difficult. A situation would therefore arise that more amendments to the Cabinet's budget proposals as the grant figures etc are released (in December/January time) would be required, which would lead to a lot of confusion.
 - c) There is no specific timescale within the 'Code' that requires the forthcoming years of the Prudential Indicators and Treasury Strategy to be scrutinised in advance of Budget Council setting.

5. **Impact Statement**

5.1 Sound financial advice and assistance is vital to deliver the Council's priorities.

6. **Risk Assessment**

6.1 If Budget Council do not receive and approve Prudential Indicators and Treasury Management Strategy for the forthcoming year, Council would fail to comply with the statutory requirements.

6.2 Audit Committee have been appointed by the Council to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies.

6.3 Plans are in place that a mid year Treasury report is scrutinised by Audit Committee Members.

7. **Conclusion**

7.1 Budget Council have approved these Prudential Indicators and Strategy for 2010/11 to 2013/14 and fulfilled statutory requirements. Audit Committee will be presented with the mid year review of these Prudential Indicators and Strategy later in the year.*

*Note:-

A special Audit Committee will be required on 10th November 2011 to ensure the mid year review of the Prudential Indicators and Treasury Strategy takes place. Audit Committee are then required to take the mid year report forward to the next Council meeting which will be on 28th November.

Report Author	Tel	Date	Doc ID
Joanna Scott, S151 Officer	(01772) 906059	7 th March 2011	

List of Background Papers		
Name of document	Date	Where available for inspection
Medium Term Financial Strategy Update, Including General Fund, Capital Programme And Treasury Management For 2010/11 – 2014/15	2 nd March 2011	Budget Council 2 nd March 2011

Attached documents

1. Appendix A – The Prudential Indicators 2010/11 to 2013/14
2. Appendix B – Treasury Management Strategy 2011/12 – 2013/14

3. Appendix C – Treasury Management Policy Statement

IMPLICATIONS	
Finance	Included in the body of the report
Legal	N/A
Community Safety	N/A
Human Rights and Equalities	N/A
Sustainability and Environmental Impact	N/A
Health & Safety and Risk Management	N/A

The Prudential Indicators 2010/11 to 2013/14

1. Introduction

- 1.1 The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce Prudential Indicators. This report updates existing approved indicators and introduces new indicators for 2013/14. Each indicator either summarises the expected capital activity or introduces limits upon the activity.
- 1.2 Within the overall prudential framework, there is an impact on the treasury management activity. As a consequence, the treasury management strategy for 2011/12 to 2013/14 is included as Appendix H to complement the indicators, and this appendix includes the prudential indicators relating to the treasury activity.
- 1.3 The Audit Committee has scrutinised the Council's current Treasury Strategy and Prudential Indicators. Audit Committee will scrutinise the Treasury Strategy and Prudential Indicators contained within this report when the Mid Year Prudential Indicators and Treasury Management Monitoring Report is taken to the Audit Committee in December 2011.

2. Capital Expenditure Plans

- 2.1 The Council's capital expenditure plans are summarised in Appendix F (Capital Programme Quarter 3 2010/11, Updated to reflect Cabinet's budget proposals) and this forms the first of the prudential indicators.
- 2.2 The key risks to the plans are that the level of Government support has been estimated and is therefore subject to change. Similarly, some of the estimates for other sources of funding, such as capital receipts, may also be subject to change over this timescale.

3. The Council's Borrowing Need (the Capital Financing Requirement)

- 3.1 The second prudential indicator shown in Table 1 is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It indicates how much the Council needs to borrow.
- 3.2 The Local Government and Public Involvement in Health Act 2007 require Council to approve an MRP policy in advance of each year. This policy sets out how much the Council will set aside from revenue each year in order to fund capital expenditure. The Council is recommended to approve the following MRP statement:
 - i) For capital expenditure incurred before 1 April 2008 existing practice outlined in the former CLG legislation based on the adjusted CFR (ie. 4% of CFR) applies.

- ii) From 1 April 2008 the MRP policy for all unsupported borrowing (ie. Prudential borrowing) will be based on the estimated asset life in accordance with the Regulations.

Table 1 Capital Financing Requirement (CFR)

	2010/11 Revised £M	2011/12 Estimate £M	2012/13 Estimate £M	2013/14 Estimate £M
Total CFR	6.8	7.0	6.8	6.5

The CFR has increased in 2010/11 and 2011/12 due to the addition of Prudential Borrowing for Fylde Waste fleet vehicles, and increases in 2012/13 onwards due to the Council's 40% contribution towards the Disabled Facilities Grant. Both are detailed in the Capital Programme (Appendix F) The CFR reduces in the following years due to the Minimum Revenue Provision (MRP).

- 3.3 To facilitate the prudent financing of the capital programme, it is expected that capital receipts will be used to finance the Capital Programme as a priority before Prudential Borrowing is used. This ensures that the Council's interest payments and Minimum Revenue Provision (MRP) are kept to a minimum. Hence, the Prudential Borrowing as reported in the Capital Programme Appendix F may differ from the actual financing which is determined at each financial year end when all sources of capital income have been received and applied as financing.

4. Limits to Borrowing Activity

- 4.1 The Council needs to ensure that its total capital borrowing net of any investments does not exceed the CFR. Table 2 below shows that the Council will be able to comply with this requirement.

Table 2 Net External Borrowing

	2010/11 Revised £M	2011/12 Estimate £M	2012/13 Estimate £M	2013/14 Estimate £M
Gross Borrowing	8.3	8.5	8.3	8.0
Borrowing (Revenue)	<u>(1.5)</u>	<u>(1.5)</u>	<u>(1.5)</u>	<u>(1.5)</u>
Gross Borrowing (Capital)	6.8	7.0	6.8	6.5
Investments	<u>(0)</u>	<u>(0)</u>	<u>(0)</u>	<u>(0)</u>
Net Capital Borrowing	<u>6.8</u>	<u>7.0</u>	<u>6.8</u>	<u>6.5</u>
CFR	6.8	7.0	6.8	6.5

4.2 A further two prudential indicators control the overall level of borrowing. These are:

- The Authorised Limit for External Debt
- The Operational Boundary for External Debt

The Council is asked to approve the following Authorised Limit and Operational Boundary in Table 3.

Table 3 Operational Boundary & Authorised Limit for External Debt

	2010/11 Revised £M	2011/12 Estimate £M	2012/13 Estimate £M	2013/14 Estimate £M
CFR	6.8	7.0	6.8	6.5
Short term borrowing (note 1)	1.5	1.5	1.5	1.5
Gross Borrowing	8.3	8.5	8.3	8.0
Other Long Term Liabilities	0	0	0	0
Operational Boundary (note 2)	8.3	8.5	8.3	8.0
Contingency (note 3)	4.4	4.3	4.4	4.6
Authorised Limit (note 4)	12.7	12.8	12.7	12.6

Note 1: Short term borrowing – this is required for short periods in line with fluctuations in the day to day cash flow of the Council.

Note 2: Operational Boundary for External Debt – this is based on the expected maximum external debt during the course of the year. It is not a limit.

Note 3: Contingency for unexpected cash movements, service delivery failure or debt rescheduling.

Note 4: The Authorised Limit for External Debt represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Council. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

5. Affordability Prudential Indicators

5.1 Prudential Indicators are also required to assess the affordability of capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's finances. The Council is asked to approve the following indicators.

- 5.2 Actual and estimates of the Ratio of Financing Costs to Net Revenue Stream – This indicator identifies the trend in the cost of capital (borrowing costs net of investment income) against the net revenue stream, as shown in Table 4.

Table 4 Ratio of Financing Costs to Net Revenue Stream

	2010/11 Revised	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate
Ratio	1.8%	5.5%	5.4%	5.2%

- 5.3 Financing costs are lower in 2010/11 as the ratio includes interest of £40K from HM Customs in respect of VAT claims. As the amount of Prudential Borrowing in the Capital Programme increases, eg. Cremator Replacement and Mercury Abatement Scheme, Ashton Gardens Heritage Restoration and Replacement Vehicles, then the amount of MRP that the Council is required to make (see Section 3.2) also increases.
- 5.4 The ratio reflects the existing approved budget for interest paid and the ratio will increase if new borrowing is undertaken
- 5.5 Estimates of the incremental impact of capital investment decisions on the Council Tax – This indicator identifies the revenue costs and income associated with new schemes (i.e. which require Prudential Borrowing) introduced to the capital programme since the last approved version. Table 5 below includes the Cremator Replacement and Mercury Abatement Scheme, Ashton Gardens Heritage Restoration and Replacement Vehicles all of which require Prudential Borrowing and therefore will have an impact on Council Tax.

Table 5 Incremental Impact of additional Capital Investment borrowing decisions on the Band D Council Tax

	Estimate 2011/12 £	Estimate 2012/13 £	Estimate 2013/14 £
Current cost of borrowing for Capital Expenditure	7.66	7.66	7.66
Change to Council Tax as a result of new prudential borrowing as at Quarter 3 2010/11	13.30	13.84	14.38
Council Tax Band D total cost of borrowing	20.96	21.50	22.04

Treasury Management Strategy 2011/12 – 2013/14

- 1.1 The Treasury Management service is an important part of the overall financial management of the Council's affairs. The prudential indicators in Appendix G consider the affordability and impact of capital expenditure decisions, and set out the Council's overall capital framework. The treasury function considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets the balanced budget requirement. There are specific treasury prudential indicators included in this strategy which require approval.
- 1.2 The Council's treasury activities are regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management – Revised November 2009). This Council adopted the Code of Practice on Treasury Management on 10/04/02, and adopted the revised Code on 25/02/10. The Council also adopted a Treasury Management Policy Statement on 10/04/02. The Treasury Management Policy Statement has been updated to reflect best practice and should be formally adopted, this is attached at Appendix I
- 1.3 A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury function. A further treasury report is produced after the year end to report on actual activity for the year.
- 1.4 This strategy covers:
 - The Council's debt and investment projections
 - The expected movement in interest rates
 - The Council's borrowing and investment strategies
 - Treasury prudential indicators
 - Specific limits on treasury activities
- 1.5 The Council uses Sector as its treasury management consultants. The company provides the following services:
 - Economic and interest rate analysis
 - Debt services
 - Technical support on treasury and capital finance issues
 - Investment advice
 - Credit ratings/market information service

Whilst the advisers provide support to the treasury function, under the CIPFA Code of Practice the final decision on treasury matters remains with the Council.

2. Debt and Investment Projections 2010/11 – 2013/14

- 2.1 Table 1 below shows the expected change in debt and investment balances over the next three years. The figure for debt at 31st March includes £1.5M for short-term

borrowing that is normally required at the end of the year when the Council's cash balances are depleted.

Table 1 Forecast Treasury Position

	2010/11 Estimate £M	2011/12 Estimate £M	2012/13 Estimate £M	2013/14 Estimate £M
Debt at 31 March	8.3	8.5	8.3	8.0
Investments at 31 March	0	0	0	0

- 2.2 Table 2 shows the existing approved budget for interest. The budget for the cost of borrowing (ie. interest payable) for the replacement vehicles is provided for in the overall revenue budget. Interest payable on borrowing is at fixed interest rates. Investment income increases from 2012/13 as investment returns are forecast to gradually improve.

Table 2 Forecast Interest

Revenue Budget	2010/11 Estimate £M	2011/12 Estimate £M	2012/13 Estimate £M	2013/14 Estimate £M
Interest payable on Borrowing	0.1	0.2	0.2	0.2
Investment Income	0.07	0.04	0.08	0.12

3. Expected Movement in Interest Rates (Advice by Sector)

- 3.1 The expected movement in interest rates is shown in Table 3

Table 3 Sector Interest Rate Forecast

Annual Average	Bank Rate	Investment Rates		Borrowing Rates (PWLB*)		
		3 month	1 year	5 year	20 year	50 year
2010/11	0.5	0.7	1.5	2.6	4.6	4.7
2011/12	0.7	0.9	1.8	3.5	5.3	5.3
2012/13	1.7	1.9	2.8	4.0	5.4	5.4
2013/14	3.1	3.3	3.8	4.8	5.6	5.6

* PWLB – Public Work Loans Board

- 3.2 The above rates are provided by the Council's Treasury Advisors, Sector. There is significant uncertainty with economic forecasts. Whilst short-term rates are expected to remain on hold through most of 2011, inflationary concerns are increasing which may lead to an earlier than expected rise in bank rate.

4. Borrowing Strategy

- 4.1 The borrowing strategy is to postpone new borrowing and instead to run down investment balances and borrow short term. This reduces counterparty risk and may be a cheaper option for the Council based on the interest rate forecasts in Table 3.
- 4.2 The Council has a £1M loan that will expire in March 2011. The Loan is likely to be replaced with an equivalent loan in order to finance the historical capital spend of the Council. The advice from Treasury Consultants is to defer the borrowing for as long as possible because the interest rates for borrowing are much higher than the interest rate for investments. Therefore, the timing of new borrowing will depend on the cash position of the Council.
- 4.3 The Council has a requirement to finance £3.4M for capital prudential scheme in 2011/12. Officers are currently reviewing the most appropriate options for financing the prudential borrowing and considering borrowing in context to capital receipts.
- 4.4 Following the Comprehensive Spending Review, the PWLB increased borrowing interest rates by approximately 1%, without changing the debt redemption interest rates. This will make debt rescheduling more problematic in the future.
- 4.5 The Council may consider debt repayment or rescheduling depending on the prevailing interest rates.

5. Investment Strategy

- 5.1 The primary objective of the investment strategy is to safeguard the principal and interest of the Council's investments. A secondary consideration is to ensure adequate liquidity, and the investment return is the third objective. The current investment climate has a risk of counterparty failure. Therefore, the Section 151 Officer has implemented additional treasury instructions which tighten the controls already in place and are over and above the approved investment strategy. The current additional instructions which are in place are detailed below but these may be revised by the Section 151 Officer as and when economic and market conditions change:-

- investments limited to £2M per transaction (except for investments to HM Treasury and other Local Authorities)
- investments restricted to two weeks
- all investments are personally authorised by the Section 151 Officer or the Deputy Section 151 Officer

- 5.2 A counterparty list is maintained in compliance with the counterparty criteria and limits and is set out in Tables 6, 7 and 8. Included within the counterparty criteria are sterling Money Market Funds. These aim to offer a high level of security but there is an inevitable trade off with a lower yield. They provide instant access and the investment can be redeemed immediately.
- 5.3 The revised Code of Practice has introduced benchmarks for security, liquidity, and yield benchmarks. These benchmarks are targets and not limits so may be breached depending on the movement in interest rates. The following benchmarks will be monitored and reported quarterly to the Cabinet Member for Finance & Resources:-
- Security – the Council is introducing a maximum security risk benchmark. This is a percentage based on the historic risk of default of counterparties, and is set at 0.03% based on the Council's minimum long term rating criteria which is a rating of 'A'. This means that the average expectation of default for a one year investment with a counterparty rated 'A' would be 0.08% of the amount invested (eg. For a £1M investment the average loss would be £800).
 - Liquidity – the Council will maintain short term liquid deposits of at least £1m available within a weeks notice and short term borrowing is available on the Money Market as required.
 - Yield – the benchmark for returns on investments is the 7 day LIBID (London InterBank Bid Rate). Actual investment returns are monitored against budget.

6. Treasury Management Prudential Indicators and Limits

- 6.1 There are four treasury prudential indicators. The purpose of these prudential indicators is to manage risk and reduce the impact of an adverse movement in interest rates. The indicators are:
- Upper limit on fixed rate debt (Table 4) – this limit reflects the fact that the Council may wish to have all its borrowings at fixed rates
 - Upper limit on variable rate debt (Table 4) – This limit reflects the potential need to take some variable rate debt if interest rates rise to a point where fixed rate borrowing is not attractive.
 - Limit for Investments over 364 days (Table 4) – These limits are set to reduce the need for an early sale of an investment, and are based on the availability of funds
 - Maturity structure of debt (Table 5) – these are limits to control how much of the Council's debt will mature within a certain time period.
- 6.2 The Council is asked to approve the Prudential Indicators in Tables 4 and 5.

Table 4 Limits on Debt & Investments over 364 days

	2011/12 £M	2012/13 £M	2013/14 £M
Limits on fixed rate debt	8.5	8.3	8.0
Limits on variable rate debt (50% of total debt)	4.2	4.1	4.0
Limit for investments over 364 days (50% of long-term investments)	0	0	0

Table 5 Maturity Structure of Debt 2011/12

	Upper Limit	Lower Limit
Under 12 months	70%	0%
12 months to 2 years	100%	0%
2 years to 5 years	100%	0%
5 years to 10 years	100%	0%
10 years to 20 years	100%	0%
20 years to 30 years	100%	0%
30 years to 40 years	100%	0%
40 years to 50 years	100%	0%
50 years and above	100%	0%

As the strategy is to borrow short term the limit for debt under 12 months has been increased to 70%. This will give Council scope to borrow short term and achieve favourable interest rates.

No lower limit is set in order to allow flexibility when managing the debt portfolio in the current volatile economic conditions.

7. Investment Policy

7.1 The primary principle governing the Council's investment policy is the security of its investments, although the return on the investment is also a key consideration. The Council will also ensure:

- A counterparty list is maintained in compliance with the counterparty criteria and limits and is set out in Table 6. The Council receives credit rating advice from its Treasury advisors as and when ratings change and the Council's list of counterparties is updated immediately. The rating criteria will be applied by using the lowest common denominator method of selecting counterparties and applying limits. This means that the Council will apply the minimum criteria available from across all the rating agencies.

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below and the limits are set out in Tables 7 and 8.
- It has sufficient liquidity in its investments. It will determine the maximum periods for which funds may be prudently committed.

7.2 Specified Investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are low risk assets where the possibility of loss of principal or investment income is small. These would include investments with:

- 1) The UK Government (such as the Debt Management Office)
- 2) A local authority, parish council or community council
- 3) Pooled investment vehicles (eg. money market fund) rated AAA by Standard and Poor's, Moody's or Fitch rating agencies
- 4) A body that has been awarded a high credit rating by a credit rating agency (eg. bank or building society).

The criteria and limits for investing with Specified Investments are set out in Table 7.

7.3 Non-Specified Investments – These investments are any other type of investment not defined as specified above, and investments for a period greater than one year. These include:

- 1) Gilt edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security.
- 2) A body which has been provided with an EU government issued guarantee for wholesale deposits within specific timeframes. Where these guarantees are in place and the government has an AAA sovereign long term rating these institutions will be included within the Council's criteria until such time as the guarantees are withdrawn. Monies will only be deposited within the timeframe of the guarantee.
- 3) A body which is an Eligible Institution for the HM Treasury Credit Guarantee Scheme announced on 13 October 2008 (eg. Royal Bank of Scotland) and with the necessary ratings in Table 6.
- 4) The Council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible

Table 6 Counterparty Criteria

Fitch Ratings				Moody's Ratings			Standard & Poor's Ratings	
Short Term	Long Term	Individual	Support	Short Term	Long Term	Strength	Short Term	Long Term

UK Banks and wholly owned subsidiaries	F1+	AA-	C	3	P-1	Aa3	C	A-1+	AA-
Other UK Banks and wholly owned subsidiaries	F1	A	C	3	n/a	n/a	n/a	A-1	A
EC Member State Banks and Building Societies	F1	A+	C	3	n/a	n/a	n/a	A1	A+
UK Eligible Institutions	F1	A	n/a	n/a	P-1	A2	n/a	A1	A
Other Local Authorities	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Debt Management Office (AAA rating)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Money Market Funds (AAA rating)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Note – In addition, the Council also adheres to the following criteria:-

The Council will only use UK banks or non-UK (EU) banks domiciled in a country which has a minimum sovereign long term rating of AAA.

No more than 20% of inhouse investments will be placed with any one non-UK country at any time.

The placing of residual overnight deposits with the Council's own bank will not count against the above individual limits as there is instant access to these funds.

Table 7 Counterparty Criteria – Specified Investments

Counterparty Criteria Specified Investments	Maximum Exposure £M	Group Exposure £M	Time Limit Months
UK Banks and wholly owned subsidiaries	2	2	12
Other UK Banks and wholly owned subsidiaries	1.5	2.0	12
EU Member State Banks and Building Societies	1.5	2.0	12
Other Local Authorities	5	n/a	12
Debt Management Office (AAA rating)	5	n/a	12
Money Market Funds (AAA rating)	5	n/a	n/a (instant access)

Table 8 Counterparty Criteria – Non Specified Investments

Counterparty Criteria Non Specified Investments	Maximum Exposure £M	Group Exposure £M	Time Limit Years	Note
UK Government Gilts & Treasury Bills	1	n/a	2	
Body with Government Issued Guarantee (EU only)	2	2.5	1	1
Body which is an Eligible Institution	2	2.5	1	2

1) Monies will only be deposited within the timeframe of the Government guarantee, and the sovereign rating of the country providing the guarantee must be rated 'AAA' by Fitch, Moody's, and Standard & Poor's rating agencies.

2) A body which is eligible for the HM Treasury Credit Guarantee Scheme initially announced on 13 October 2008, with the necessary short-term and long-term ratings as required in Table 6.

TREASURY MANAGEMENT POLICY STATEMENT

Background Information:-

1. Fylde Borough Council adopted the following Treasury Management Policy Statement on 01/12/03:-

Fylde Borough Council defines its treasury management activities as:

“The management of the Council’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks.

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.”

2. The Council adopted the following new procedures on 01/03/10:-

“The Council will create and maintain, as the cornerstones for effective treasury management:

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities;
- Suitable treasury management practices, setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The Council will receive reports on its treasury management policies, practices and activities, including as a minimum, an annual strategy and plan in advance of the year and an annual report after the close of the financial year. The Portfolio Holder (Finance & Resources) will receive quarterly reports on the performance and activities of the treasury management function.

The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Portfolio Holder for Finance & Resources, and for the execution and administration of treasury management decisions to the Section 151 Officer, who will act in accordance with the Council's policy statement and treasury management practices and CIPFA's Standard of Professional Practice on Treasury Management.

The Council nominates Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Approval required

Council is now requested to include the following additional narrative within the Financial Procedure Rules:-

The Council will receive a mid year review report on its treasury management policies, practices and activities.

REPORT

REPORT OF	MEETING	DATE	ITEM NO
FINANCE	AUDIT COMMITTEE	31 MARCH 2011	11

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) – PROJECT PROGRESS UPDATE (AS AT FEBRUARY 2011)

Public Item

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

Summary

The purpose of the report is to update Members on the progress made to date in relation to the introduction of a new financial reporting framework, whereby the accounts for local authorities will be prepared under International Financial Reporting Standards (IFRS), with effect from 2010/11 (1/4/2010).

The majority of the preparatory IFRS work has now been completed. Final detailed guidance from CIPFA was received in January 2011.

Recommendations

The Audit Committee is asked to note the progress on the implementation of the IFRS project as at February 2011.

Reasons for recommendation

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

Alternative options considered and rejected

N/A

Cabinet Portfolio

The item falls within the following Cabinet portfolio:
Finance & Resources – Councillor Karen Buckley.

Report

1 Progress to Date

- 1.1 The IFRS project plan is now in excess of 90% complete with the remaining work to be undertaken hopefully within the existing budget provision. Some of the budget allocated for this project was slipped from 2009/10 into 2010/11 and it may be necessary again to slip some budget into 2011/12 in order to complete the project within the target timescales. The main areas of work still to be completed are listed in Table 1 below.

Table 1: Project Tasks Outstanding/Ongoing		Target Timescales
•	Attend CIPFA technical updates	Ongoing
•	Audit of opening Balance Sheet 1/4/09	Ongoing
•	Restatement of 2009/10 accounts in IFRS format	Ongoing
•	Opening IFRS entries to be posted to CIVICA 1/4/2010	Ongoing
•	Completion of 2010/11 Accounts in IFRS format	June 11
•	Audit of 2010/11 Accounts IFRS	Sept 11
•	Post project evaluation	Sept 11
•	Continuous Updates & Training	Ongoing
•	Annual review for IFRS compliance	Ongoing

Appendix A to this report sets out the updated implementation plan and shows more detail of the current position with regard to the project.

- 1.2 Final detailed guidance from CIPFA has now been received. Due to the late receipt of this guidance the final parts of the project, which are mainly in relation to the completion of the 2010/11 statutory accounts, will need to be completed within a relatively short period of time in order to ensure that statutory deadlines are met.
- 1.3 Officers met with KPMG colleagues in early January to review progress to date. A restated Balance Sheet in respect of the year-end positions at 31st March 2009 and 31st March 2010, together with relevant supporting documentation and working papers, were provided to KPMG for consideration and feedback. KPMG have responded positively to the draft documents provided with no queries or issues arising. Further and more detailed audit work on the IFRS figures will be incorporated into the year-end audit process (in July and August 2011).
- 1.4 In addition, an initial discussion took place with KPMG regarding the level of detail required to ensure IFRS compliance in relation to Fixed Asset Componentisation. This has led to the formulation of a Fixed Asset Componentisation policy which is considered in a separate report on this agenda.
- 1.5 Due to the complexities of IFRS, it is more key critical than ever that the property and finance teams work closely together to ensure timely annual accounts production with minimum errors.

- 1.6 The IFRS Project Board continues to meet on a regular basis to ensure the project is running to plan and adequate resources are provided to ensure project success in the required timescale.

2 Work to be undertaken to March 2011

- 2.1 Completion of 2009/10 Statement of Accounts in IFRS format.

Following receipt of the positive feedback from KPMG on the draft re-stated balance sheets and receipt of detailed CIPFA guidance, further progress will be made on delivery of the outstanding tasks as shown in Table 1.

- 2.2 Officers will continue to attend training courses as appropriate. Training by officers will be provided to the Portfolio Holder (Finance & Resources) and Members of Audit Committee at future meetings.

3 Project Risks

- 3.1 Certain clarifications of the CIPFA Guidance is still outstanding on some IFRS issues (for example in relation to financial instruments (i.e. Treasury Management items) and long-term lease arrangements) so this could cause some delay to the delivery dates set out in Table 1. Constant ongoing review of guidance is required and a plan to ensure compliance as appropriate.
- 3.2 Any changes to staff within areas of the council that are affected by IFRS will require consideration to ensure knowledge is retained and transferred as appropriate.
- 3.3 Recent guidance from CIPFA on componentisation indicates a likely increase in the complexity of carrying out valuation of assets and recording of assets in the Fixed Asset Register. This risk has been minimised by the introduction of the Fixed Asset Componentisation Policy which can be found elsewhere on this agenda.

4 Conclusions

- 4.1 The implementation of IFRS will be challenging and will have an impact on how the Council records, analyses and presents financial (and financial-related) information. The delay of the detailed guidance from CIPFA has put pressure on the Council to deliver this project on time.

Report Author	Tel	Date	Doc ID
Joanna Scott, S151 Officer	(01772) 906059	18 th March 2011	

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

Briefing Note - Progress Update IFRS Project	Audit Committee January 2011	Council office or website address
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Attached documents

Appendix A – IFRS Implementation Plan (as at February 2011)

IMPLICATIONS	
Finance	Contained within the body of the report
Legal	N/A
Community Safety	N/A
Human Rights and Equalities	N/A
Sustainability and Environmental Impact	N/A
Health & Safety and Risk Management	N/A

IFRS Implementation Plan - Feb 2011		Deadline	Completed	Person responsible	Review by	Notes
1 Project Management and Reporting						
1.1	Summary papers to Executive team	On-going				Regular Updates
1.2	Keep Audit Committee informed on a quarterly basis	On-going				Quarterly Reporting to continue
2 Access to Guidance						
2.1	Regular updates provided by CIPFA	On-going				Final Guidance received January 2011
2.2	Other Sources	On-going				Being received from various sources
2.3	Identify network groups, discussion forums, etc	On-going				Available guidance/discussion regularly accessed
3 Restatement of opening Balance Sheet						
3.1	Re-state balance sheet as at 31 March 2010	31.12.10	31.12.10	PS / DA	DB	Reviewed by KPMG - no issues arising
4 Staff Benefits Accrued						
4.1	Leave outstanding at 31st March	31.05.10	31.05.10	PS	DB	Reviewed by KPMG - no issues arising
4.2	Flexi Time	31.05.10	31.05.10	PS	DB	Reviewed by KPMG - no issues arising
4.3	Determine financial impact of first year adoption	31.05.10	31.05.10	PS	DB	Reviewed by KPMG - no issues arising
4.4	Draft Notes for the accounts					To be completed following review by KPMG
5 Property Plant and equipment - Revaluations and impairments						
5.1	Analyse all fixed Assets & categorise appropriately	On-going		DA / GS	DB	Full fixed asset review underway
5.2	Apply all revaluations & impairments as required	On-going		DA / GS	DB	
5.3	Determine financing of new refuse vehicle fleet	31.03.11		JS		Impact on General Fund
6 Civica (General ledger) changes						
6.1	Changes to Chart of Accounts (Operating Segments to be established)	30.06.11		DB	P O'D	To be completed following review by KPMG
7 Financial instruments						
7.1	Draft Notes for the accounts	30.06.11		N McL	DB	To be completed following review by KPMG
8 Land and Buildings - componentisation						
8.1	Guidance on componentisation methodology received	31.03.11		DA / GS	DB	Final Guidance received January 2011
8.2	Componentisation applied to land & buildings upon revaluation	On-going		DA / GS	DB	
9 Leases - Land/buildings (FBC as Lessor)						
9.1	Collate lease documentation & review	31.12.10	31.12.10	PS / DA	DB	Completed
9.2	Apply criteria for determination of Finance/Operating Leases	31.12.10	31.12.10	PS / DA	DB	Completed
9.3	Service Concession Arrangement - disclosure requirements	31.12.10	31.12.10	PS / DA	DB	Completed
9.4	Calculate accounting entries required & effect changes	31.12.10	31.12.10	PS / DA	DB	Under Review by KPMG
10 Leases - Land/buildings (FBC as Lessee)						
10.1	Collate lease documentation & review	31.12.10	31.12.10	PS / DA	DB	Completed
10.2	Apply criteria for determination of Finance/operating Lease	31.12.10	31.12.10	PS / DA	DB	Completed
10.3	Calculate accounting entries required & effect changes	31.12.10	31.12.10	PS / DA	DB	Reviewed by KPMG - no issues arising

IFRS Implementation Plan - Feb 2011		Deadline	Completed	Person responsible	Review by	Notes
11 Leases - Plant & Equipment- (FBC as Lessee)						
11.1	Collate lease documentation & review	31.12.10	31.12.10	PS / DA	DB	Completed
11.2	Apply criteria for determination of Finance/operating Lease	31.12.10	31.12.10	PS / DA	DB	Completed
11.3	Calculate accounting entries required & effect changes	31.12.10	31.12.10	PS / DA	DB	Reviewed by KPMG - no issues arising
12 Health check on Accounting Policies						
12.1	Guidance on Accounting Policies UK GAAP/SORP	30.06.11		PS / DA	DB	Final Guidance received January 2011
13 2009-10 Financial Statements restated under IFRS						
13.1	Restatement of Balance Sheet	31.12.10	31.12.10	PS / DA	DB	Reviewed by KPMG - no issues arising
13.2	Restatement of Financial Statements	31.12.10		PS / DA	DB	Final Guidance received January 2011
14 2010-11 Financial Statements produced						
14.1	2010-11 Financial Statements produced under UK GAAP/SORP	30.06.11		PS / DA	DB	Final Guidance received January 2011
14.2	2010-11 Financial Statements produced under IFRS	30.06.11		PS / DA	DB	Final Guidance received January 2011
15 Clean bill of health from Auditors		30.09.11		DB	P O'D	2010/11 statement of accounts signed off

REPORT

REPORT OF	MEETING	DATE	ITEM NO
FINANCE	AUDIT COMMITTEE	31 MARCH 2011	12

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) – APPROVAL OF FIXED ASSET COMPONENTISATION POLICY

Public Item

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

Summary

The Council has a statutory duty to submit the 2010/11 Statement of Accounts under the International Financial Reporting Standards (IFRS) rules, as interpreted by the Code of Practice on local authority accounting in the United Kingdom 2010/11(the Code).

The purpose of this report is to update Members on development and their required approval of a Fixed Asset Componentisation Policy, required for the implementation of IFRS.

Recommendations

The Audit Committee is asked to approve the Fixed Asset Componentisation Policy as shown at Appendix A.

Reasons for recommendation

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

Alternative options considered and rejected

N/A

Cabinet Portfolio

The item falls within the following Cabinet portfolio:
Finance & Resources – Councillor Karen Buckley.

Report

1 Introduction

The Council has a statutory duty to submit the 2010/11 Statement of Accounts under the International Financial Reporting Standards (IFRS) rules, as interpreted by the Code of Practice on local authority accounting in the United Kingdom 2010/11 (the Code).

The purpose of this report is to update Members on the changes to accounting policies (including the development of a Fixed Asset Componentisation Policy) required for the implementation of IFRS.

2 Componentisation of Fixed Assets

2.1 Component Accounting International Accounting Standard (IAS) 16 requires the separate recognition, depreciation and de-recognition of parts of assets (often referred to as 'componentisation'). Essentially this means that for 'larger' assets any 'significant' component (e.g. a flat roof or a lift) which has a different useful life to the remainder of a building (e.g. the bricks & mortar) should be listed as a separate sub-asset or component. Depreciation would then be calculated on the true life of this component and if/when the component is replaced the net value of that component is written off before the capital replacement works. Neither IAS 16 nor the new Code stipulate the value of 'larger' assets subject to component accounting or the definition of a 'significant' component. Rather they require each authority to determine their own criteria.

2.2 What this means for Fylde – the Council needs to determine what it defines as 'larger' assets and what is a 'significant' component. Within the normal revaluation programme from 1st April 2010 any assets which meet the definition will then be subject to component accounting and the Council's valuer will be instructed to assess the components current value and remaining useful life. Officers suggest that the de-minimis value for 'larger' assets should be set at £150k which equates to approximately 1% of the total Property, Plant and Equipment (PPE) value after assuming a significant upward revaluation for St Annes Pool from its current valuation method and the significant component definition be set at 20%.

A policy to meet this requirement – the Fixed Asset Componentisation policy – has been developed by officers in agreement with KPMG, and is shown at Appendix A for consideration and approval.

2.3 Effect on the Accounts – this requirement only comes into effect from 1st April 2010, therefore does not retrospectively affect the 2009/10 accounts. The definitions suggested above would, in line with the Council's current Fixed Asset portfolio, lead 6 assets (which are listed in Appendix B) to be subject to component accounting over the next 5 years, thus keeping the extra work each year for the Council's valuation officer to a minimum.

3 Updating Accounting Policies

- 3.1 There are numerous International Accounting Standards that must be applied by the Council under IFRS which will require changes to the Council's accounting policies and the format of the Statement of Accounts from 2010/11 onwards. The majority of changes are of a technical nature, and will have no overall affect on the Council financial position (i.e. as reported at outturn). Audit Committee members are just requested to note these changes at this point. Where there are significant changes to the Statement of Accounts for 2010/11 the necessary training will be provided to Audit Committee members.

4 Conclusion

- 4.1 The recommendations contained within this report will ensure that the Council complies with its statutory requirements to submit the 2010/11 Statement of Accounts under the IFRS rules.

Report Author	Tel	Date	Doc ID
Joanna Scott, S151 Officer	(01772) 906059	18 th March 2011	

List of Background Papers		
Name of document	Date	Where available for inspection
CIPFA IFRS Guidance Notes	January 2011	Internal document held by Finance office

Attached documents:

IMPLICATIONS	
Finance	Contained within body of the report
Legal	N/A
Community Safety	N/A
Human Rights and Equalities	N/A
Sustainability and Environmental Impact	N/A
Health & Safety and Risk Management	N/A

Fixed Asset Componentisation (under IFRS) Policy for Fylde Borough Council

Introduction

This Policy deals with Componentisation under IFRS, and further valuation principles for dealing with asset valuations.

Componentisation is a method to be used by Finance to ensure:

- Assets are accurately included on the Balance Sheet
- The consumption of economic benefit of these assets is accurately reflected over their individual useful lives through depreciation charges

The job of the valuer is to arrive at fair value. The job of the Finance Team, with assistance from a QS/Building Surveyor is to depreciate significant component costs over different lives and to deduct these costs from the asset value. The remaining asset value of this “host” asset will then be depreciated at its asset life.

The CIPFA guidance (LAAP Bulletin 86) advises that -

1. “The accountant needs to explain the purpose of component accounting to other relevant professionals. This will ensure that items of Property Plant and Equipment (PP&E) that are below the agreed de-minimus thresholds, that have similar useful lives and/or methods of depreciation are not separately, and unnecessarily, recognised for depreciation”.
2. “Authorities need only follow these requirements where **significant** components of **material** items of PP&E (assets) have been identified.”

The Policy –

1. Materiality and Significance

The Council will not apply componentisation to all assets that are subject to depreciation.

Fylde Borough Council will use the value of an individual asset relative to the overall asset portfolio to assess whether an asset is material. Any building element below 1% of the value of the portfolio is not therefore viewed as material.

The current valuation of the Property, Plant and Equipment elements of the Council's Fixed Asset portfolio is £12.2m prior to an anticipated upward revaluation in relation to St Anne's pool of around £3m (Total anticipated valuation therefore is approximately £15m). In line with the materiality level of 1%, the Council will therefore set a valuation level for componentisation of £150,000 on the current value of the portfolio.

The Council will adopt a de-minimus cost equating to 20% of the asset value.
(Note - In terms of significance, the CIPFA advice is that they are not looking for more than 3 to 4 components in addition to the “host” asset)

An example is shown below :

Asset Value	£2m		
Component	Gross Replacement Cost	Original Life	Remaining Life
Windows and Doors	£71,900	30	15
Mechanical and Electrical	£359,500	40	25
Roof	£449,400	30	15
Structure (host)	£719,000	50	50
Lift	£75,000	40	25

2. Individual Componentisation Definitions

The individual components that will be considered separately have been determined to be:

Land

Building Components:

- Structure
- Roof
- Windows & doors
- Mechanical (e.g. Lifts)
- Services & facilities (e.g. electrical, heating infrastructure)

In the event that two components have a similar remaining life then these costs will be depreciated together. For example if the Mechanical Services element of a property has the same remaining life as the Windows & Doors element these will be treated as a single item for depreciation purposes.

3. Triggers for Componentisation

The assets subject to componentisation will be assessed annually to determine whether any of the events that are listed below (the 'triggers for componentisation') have occurred.

1. Enhancement to an existing asset
2. Acquisition of an asset
3. Revaluation / Impairment of an asset

The Council will not revalue everything now, but instead will continue the rolling programme and introduce componentisation within this.

List of Assets subject to Componentisation

Asset	Current Value*
St. Annes Town Hall	£600,000
Kirkham Swimming Pool	£500,000
Cemetery & Crematorium	£428,000
St. Annes Public Offices	£280,000
St. Annes Swimming Pool	£275,000
Snowdon Road Depot	£230,000

* Gross book value at 31.03.10 (prior to re-valuation of St. Annes Pool)

These assets would be subject to component accounting over the next five years in line with the Council's rolling valuation programme.

Audit Committee



Date	Thursday, 27 January 2011
Venue	Town Hall, St. Annes
Committee members	Councillor John Singleton (Chairman) Councillor Linda Nulty (Vice-Chairman) Councillors Ben Aitken, Paul Rigby, Christine Akeroyd, Keith Hyde, Janine Owen, Elizabeth Oades, Louis Rigby
Other Councillors	None
Officers	Joanna Scott, Ian Curtis, Savile Sykes, Andrew Wilsdon, 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 members declared any interests.

2. Confirmation of Minutes

RESOLVED: To approve the minutes of the Audit Committee meeting held on 8 December 2010 as a correct record for signature by the chairman.

3. Substitute members

There were no substitutions.

4. International Financial Reporting Standards (IFRS) Project Progress Update

Joanna Scott (Section 151 Officer) presented a report which briefed the Audit Committee on the project progress made to the end of December 2010 in relation to the introduction of a new financial reporting framework, whereby the accounts for local authorities would be prepared under International Financial Reporting Standards (IFRS), with effect from 2010/11 (1/4/2010).

The majority of the preparatory IFRS work had now been completed. Final detailed guidance from CIPFA was finalised in late December 2010. This had now been received but not in time to inform Members in the report. The completion of the final parts of the project was dependant upon the receipt of this information. She emphasised that all Councils had received the information at this time.

She referred to paragraph 2.3 and informed the Committee that training would be carried out jointly with KPMG probably in April 2011.

She emphasised that the work the implementation of the IFRS was on track despite the challenging nature of the work. The IFRS changes would also create more work for finance because of the detailed way of setting out the accounts.

Councillor Nulty referred to point 5.3 in Appendix A and requested clarification. Mrs Scott stated that the vehicles can be either leased or purchased. Currently it was cheaper to borrow the money to purchase them. When to borrow is in the delegations of the S151 Officer and would make the necessary approved borrowing decisions, based on treasury advisors advice when required over the coming months.

Councillor Owen asked for clarification on point 4 in Appendix A regarding leave outstanding until 31 March. Mrs Scott stated that leave was an employee benefit and by definition in accountancy terms and in line with IFRS requirements had to be detailed in the accounts. She emphasised that the issue was a paper/technical accounting exercise only and had no effect on the accounts.

The Chairman, referred to the target timescales in Table 1 on page 26 of the report some of which had slipped. Mrs Scott stated that some had slipped but that they were still on target for completion.

It was RESOLVED that the Audit Committee notes the progress on the implementation of the IFRS project and the report for the next meeting to include completion dates for the project tasks as shown in table 1.

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

5. Strategic Risk 2010-2011

Andrew Wilsdon, Insurance & Risk Management Officer, presented a report which summarised the work undertaken in completing the Strategic Risk Actions contained in the 2010-2011 Risk Register. He referred to the action relating to the ICT infrastructure in the table on page 9 of the report and informed members that Lancashire County Council (LCC) was currently in talks with British Telecom regarding ICT so discussion with LCC on the issue had ceased until those talks had been completed. The officers were investigating alternatives with other partners on the ICT issue should the outcome of talks with LCC prove to be not viable. With regard to Capacity Issues and shared services opportunities in the table, Preston City Council and LCC were both being considered as partners.

It was RESOLVED that the progress made on completing the Strategic Risk Actions for 2010-2011 be noted.

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

6. Internal Audit Interim Report

Savile Sykes (Head of Internal Audit) presented the report which summarised the work undertaken by internal audit from April to December 2010 and performance information for the same period.

Councillor Owen referred to Performance Indicator Results in Table 6 and requested clarification regarding indicator IA7 concerning prompt implementation of agreed actions

and the comments about the use of the performance management system referred to in paragraph 6.2.

Mr Sykes stated the issue was that some users were not routinely updating actions on the system as they were completed. He could not report on this indicator as there was no available data but would retain it in the report for the next meeting.

Councillor Rigby requested the reasons why the Development Control Audit was a time consuming task. Mr Sykes stated that there were numerous issues many of which were complex which took time to evaluate. A detailed action plan and now been agreed. He commented on an issue regarding the payment of money through the planning portal. The amounts of money paid could not be linked to specific applications. However, the issue was part of the action plan and had been partly addressed. It would be revisited at follow up to establish whether it had been finally resolved.

Councillor Oades asked why the asset management review had extended 12 days over the plan. Mr Sykes informed Members that the area was unfamiliar to the team and it needed to be extensively researched which was the main reason. Another problem was that management had asked that the work be postponed to allow staff involved to concentrate on other work which had priority. When the audit team resumed the asset management work in September, circumstances had changed so work had to start again.

Councillor Nulty requested that the outcomes of the sandwinning review be explained. Mr Sykes informed the Committee that there were two high priorities in relation to the issue. Firstly the formal agreement had expired. Management had scheduled meetings with the contractor and LCC with the broad intention of continuing with the present arrangements. Also the operator's insurance certificates had to be obtained by the responsible manager. These had been requested.

Mr Sykes also commented on other high priority actions agreed that had been completed. One of these related to the production of mandatory certificates for Houses in Multiple Occupation.

Councillor Oades asked the reason why Reactive Work was 6 days over the plan. Mr Sykes stated that managers and other stakeholders request his team to carry out numerous unplanned tasks for which contingency time is allowed in the plan, but this can be exceeded. He referred to the report which indicated some examples of the project, consultancy and advice work undertaken.

After further discussion it was RESOLVED that

- (i) managers provide Internal Audit with timely information, in particular concerning the completion of agreed actions;
- (ii) the Action Plan for Development Control be circulated to all Audit Committee Members;
- (iii) training be provided to all Audit Committee members regarding intranet use, especially for viewing all non conformance with agreed actions and measures/target dates for resolution;
- (iv) Management Team be reminded that audit reviews within the audit plan must be undertaken at the times and dates agreed and that very good reasons must be given to the Audit Committee where this is not the case, in particular where audits are to be postponed;
- (v) High priority risks identified should have revised completion dates where completion dates have been missed.

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

7. Corporate Governance Improvement Plan

Ian Curtis (Head of Governance and Monitoring Officer) presented an interim report regarding the Annual Governance Statement and monitoring the progress in fulfilling the Corporate Governance Improvement Plan. He drew Members' attention to Action 6 relating to AGS 4 in the Improvement Plan attached to the report and stated that the words 'In progress and on target' should replace the action in the report. Also that the word 'scheduled' in the last sentence in the comment relating to AGS 6 be replaced by the word 'delivered'.

Councillor Owen asked why the Data Protection Policy review would not be completed until December 2011. Mr Curtis explained that the need for the policy to be reviewed had to be balanced with other pressing work.

The Chairman referred to AGS 5 regarding Information governance arrangements and the intended completion date of January 2010. Mr Curtis stated that the plan was in the draft stage and the overall action was still in progress and on target. With regard to a question by the Chairman on AGS 6, procurement arrangements, Mr Curtis informed Members that the single procurement route had been adopted and had mostly been achieved.

It was RESOLVED that the Committee notes the latest position with regard to each of the issues included on the Annual Governance Statement and monitoring the progress in fulfilling the Corporate Governance Improvement Plan and an updated report be submitted to the March meeting.

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

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