Public Document Pack

Wyre Borough Council
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Please ask for : Democratic Services
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Audit Committee Agenda

Audit Committee meeting on Tuesday, 20 September 2016 at 6.00 pm in the Civic Centre, Poulton-le-Fylde

1. Apologies for absence

2. Declarations of interest

Members will disclose any pecuniary and any other significant interests they may have in relation to the matters under consideration.

3. Confirmation of minutes (Pages 1 - 2)

To approve as a correct record Minutes of the last meeting of the Audit Committee held on 28 June 2016.

4. Statement of Accounts 2015/16 (post audit) (Pages 3 - 4)

Report of the Head of Finance.

5. Management Representation Letter 2015/16 (Pages 5 - 12)

Letter signed by the Chairman of Audit Committee and the Head of Finance (s.151 Officer).

6. Report to those charged with Governance (ISA 260) 2015/16 (Pages 13 - 34)

Report to be presented by the Council’s External Auditors - KPMG

7. Annual Review of Financial Regulations and Financial Procedure Rules (Pages 35 - 150)

Report of the Head of Finance.

8. Annual Review of Internal Audit Charter (Pages 151 - 166)

Report of the Head of Finance.

9. Annual Review of the Risk Management Policy (Pages 167 - 176)

Report of the Head of Finance

10. Date and time of next meeting

Tuesday 8 November 2016 at 6pm, in Committee Room 1.

Audit Committee Minutes

Minutes of the meeting of the Audit Committee of Wyre Borough Council held on Tuesday 28 June, 2016 at the Civic Centre, Poulton-le-Fylde.

Audit Committee members present:

Councillor Ballard
Councillor Balmain
Councillor Fail
Councillor Greenhough
Councillor Holden
Councillor Ingham
Councillor McKay
Councillor Moon
Councillor A Turner
Councillor Wilson

Apologies: Councillors' Amos, E Anderton, Barrowclough and Collinson. H Rawding – Head of Finance at Wyre Council.

Officers present:

P Davies – Corporate Director of Resources
P Harrison – Financial Services Manager
C James – Financial Services Manager
C Leary – Democratic Services Officer

Non-members present: None

Members of the public present: None

AUDIT. 13 Welcome and Apologies of Absence

The Chairman welcomed everyone to the meeting of the Audit Committee.

Apologies as detailed above.

AUDIT. 14 Declarations of Interest

None.

AUDIT. 15 Confirmation of minutes

The minutes of the Audit Committee meeting held on Tuesday 24 May 2016, were confirmed as a correct record.

AUDIT. 16 Statement of Accounts, Capital Financing and Revenue Outturn 2015/16

The Corporate Director of Resources presented the report and referred to the Appendices numbered 1 to 4b explaining their relevance and the Executive Summary included within the Statement of Accounts, as part of the Narrative Report.

As in previous years, in order to assist with the interpretation of the report and to demonstrate robust Member scrutiny prior to approval, a set of Questions and Answers were provided to Members at the meeting, which highlighted key issues. (Those questions and answers are enclosed).

Members raised questions and made comments at the appropriate time, as the Statement of Accounts was considered, supported by the questions and answers document.

The Corporate Director of Resources thanked the Finance Team and all officers across the Council, who had helped to produce the accounts, for their enthusiasm and commitment.

She added that the timescales were already fairly tight and over the coming years would become even more challenging, requiring the 2017/18 published accounts to be audited and approved by 31 July 2018.

RESOLVED

(1) That the Accounting Policies selected and applied by the Council, as required by International Accounting Standard No. 8; Accounting Policies, Changes in Accounting Estimates and Errors, which were set out as Note 1 to the Financial Statement, be approved.
(2) That following the robust member scrutiny and discussion, the Council's Statement of Accounts 2015/16, be approved, subject to audit.
(3) That the major variations in expenditure and income, the proposed slippage and the resulting impact on the level of the Council's reserves and balances at 31 March 2016, be noted.

AUDIT. 17 Date and Time of Next Meeting

RESOLVED that the next meeting of the Audit Committee is held on Tuesday 20 September at 6pm in Committee Room 1.

The meeting started at 6pm and finished at 7.34pm

Date of Publication: Friday 1 July 2016

arm/rg/aud/mi/280616

Report of:	Meeting	Date	Item No.
Head of Finance	Audit Committee	20 September 2016	4

STATEMENT OF ACCOUNTS 2015/16 (Post Audit)

1. Purpose of Report

1.1 To approve the Council's published Statement of Accounts, following the completion of the audit, for the financial year 2015/16.

2. Outcomes

2.1 Evidence that the Council produces accounts in accordance with relevant standards and timetables, supported by comprehensive working papers and promotes external accountability.

2.2 Compliance with the requirements of the Accounts and Audit Regulations.

3. Recommendation

3.1 Members are requested to approve the Council's Statement of Accounts 2015/16.

4. Background

4.1 The Accounts and Audit Regulations 2015 require the Council's responsible financial officer to certify that the accounts 'present a true and fair view of the financial position' for the 2015/16 financial year by the 30 June 2016. The Council is then formally required to approve and publish the Statement of Accounts no later than 30 September 2016. Following approval, the Statement of Accounts must be signed and dated by the member presiding at the meeting at which approval is given.

4.2 The Audit Committee approved the unaudited accounts for the 2015/16 financial year at their meeting on the 28 June 2016.

5. Key Issues and Proposals

5.1 Issues raised as a result of the audit have now been reflected in a revised Statement of Accounts that will be published by the Council no later than 30 September 2016 and can be accessed via the web site using the following link http://www.wyre.gov.uk/a_to_z/service/87/statement_of_accounts

5.2 Details of the issues raised can be seen in the External Auditor's Report to those charged with governance (ISA 260) 2015/16, which is considered later on the agenda.

IMPLICATIONS	
Finance	There are no immediate financial implications arising from this report. The final outturn position has been incorporated within the Medium Term Financial Plan 2016/17 to 2019/20 which aims to provide detailed proposals for corporately managing the Council's resources in the years ahead and is subject to continuous monitoring to ensure its effectiveness.
Legal	The approval of the recommendation will help ensure that the statutory requirements have been complied with.

OTHER RISKS/IMPLICATIONS: CHECKLIST

If there are significant implications arising from this report on any issues marked with a ✓ below, the report author will have consulted with the appropriate specialist officers on those implications and addressed them in the body of the report. There are no significant implications arising directly from this report, for those issues marked with a x.

Implications	**✓ / x**
Community Safety	x
Equality and Diversity	x
Sustainability	x
Health and Safety	x

Risks/Implications	**✓ / x**
Asset Management	x
Climate Change	x
Data Protection	x

Report Author	Telephone No.	Email	Date
Clare James	01253 887370	Clare.james@wyre.gov.uk	15.08.2016

List of Background Papers:		
Name of Document	Date	Where available for inspection

LIST OF APPENDICES

arm/audit/cr/16/2009 Clare James1

INVESTORS IN PEOPLE | Gold

wyre council

Together we make a difference...

Item 5

KPMG LLP
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Direct Line: 01253 887308
Our Ref: CJ/LJM

Date **20 September 2016**

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Wyre Borough Council ("the Authority"), for the year ended 31 March 2016, for the purpose of expressing an opinion:

i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority's expenditure and income for the year then ended; and

ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

These financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:

   i. give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority's expenditure and income for the year then ended;

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Web: wyre.gov.uk | Email: mailroom@wyre.gov.uk | Tel/text: 01253 891000
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ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.

3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.

4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole.

Information provided

5. The Authority has provided you with:

   - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
   - additional information that you have requested from the Authority for the purpose of the audit; and
   - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

7. The Authority confirms the following:

   i) The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

   Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

   ii) The Authority has disclosed to you all information in relation to:

   a) There have been no instances of fraud or suspected fraud that the Authority is aware of and that affect the Authority and involve:
      - management;
      - employees who have significant roles in internal control; or
      - others where the fraud could have a material effect on the financial statements; and

b) allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

9. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10. There are no:

    (a) Other liabilities that are required to be recognised and no other contingent assets or contingent liabilities that are required to be disclosed in the financial statements in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, including liabilities or contingent liabilities arising from illegal or possible illegal acts; or
    (b) Other environmental matters that may have an impact on the financial statements."

11. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

12. The Authority confirms that:

    a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view.
    b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority to continue as a going concern.

13. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its

knowledge of the business and are in accordance with the requirements of IAS 19 (revised) Employee Benefits.

The Authority further confirms that:

a) all significant retirement benefits, including any arrangements that are:
    - statutory, contractual or implicit in the employer's actions;
    - arise in the UK and the Republic of Ireland or overseas;
    - funded or unfunded; and
    - approved or unapproved,

have been identified and properly accounted for; and

b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Audit Committee on 20 September 2016.

Yours faithfully,

Cllr Lesley McKay
Chairman of the Audit Committee

C James
Head Of Finance (s.151 Officer)

Appendix to the Authority Representation Letter of Wyre Borough Council: Definitions

Financial Statements

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period;
- A Balance Sheet as at the end of the period;
- A Movement in Reserves Statement for the period;
- A Cash Flow Statement for the period; and
- Notes, comprising a summary of significant accounting policies and other explanatory information.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

> "Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor."

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

a) was available when financial statements for those periods were authorised for issue; and
b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related Party and Related Party Transaction

Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

a) A person or a close member of that person's family is related to a reporting entity if that person:
   i. has control or joint control over the reporting entity;
   ii. has significant influence over the reporting entity; or
   iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
b) An entity is related to a reporting entity if any of the following conditions applies:
   i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
   ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
   iii. Both entities are joint ventures of the same third party.

iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
vi. The entity is controlled, or jointly controlled by a person identified in (a).
vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

a) a government that has control, joint control or significant influence over the reporting entity; and
b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Related party transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

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Report to those charged with governance (ISA 260) 2015/16

Wyre Borough Council

Final

20 September 2016

Contents

The contacts at KPMG in connection with this report are:

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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 issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andy Smith, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 6948981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

Section one

Introduction

This document summarises:

- **The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for the Authority; and**
- **Our assessment of the Authority's arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- Our audit work at Wyre Borough Council ('the Authority') in relation to the Authority's 2015/16 financial statements; and
- The work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2015/16*, presented to you in March 2016, set out the four stages of our financial statements audit process.

Planning | **Control Evaluation** | **Substantive Procedures** | **Completion**

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during June and July 2016.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM Conclusion

Our External Audit Plan 2015/16 explained our risk-based approach to VFM work. We have now completed the work to support our 2015/16 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- Considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Authority.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix 2.

Acknowledgements

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

Headlines

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

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This table summarises the headline messages. Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	We are pleased to report that our audit has identified no audit adjustments. We have agreed a small number of presentational changes to the Statement of Accounts with Finance. In addition, we are currently considering the need for additional narrative disclosures on the future uncertainties associated with the UK's decision to leave the European Union, and the potential impact on financial matters reported in the current year and in future periods. We will continue to update the Audit Committee on these disclosure requirements, as the likely impacts of departure from the EU become clearer.
Key financial statements audit risks	We review risks to the financial statements on an ongoing basis. We identified the following key financial statements audit risk in our 15/16 External audit plan issued in March 2016. — Coast Protection Scheme We have worked with officers throughout the year to discuss this key risk and our detailed findings are reported in section 3 of this report. There are no matters of any significance arising as a result of our audit work in this key risk area.
Accounts production and audit process	We noted the continued high quality of the accounts and the supporting working papers during this year's audit. This should be considered in the context of a slightly earlier final audit visit in comparison with previous periods, as the Authority prepares for tighter audit and accounts completion deadlines in future periods. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. The Authority has implemented the recommendation made in our ISA 260 Report 2014/15 relating to the financial statements. The Authority has good processes in place for the production of the accounts and good quality supporting working papers.

Headlines (cont.)

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

This table summarises the headline messages. The remainder of this report provides further details on each area.

Completion	At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas: — Completion of General IT Controls audit work, covering the financial ledger and council tax/NNDR systems, to provide assurance access and other general controls in place over these systems have operated effectively during 2015/16, which in turn provides assurance over the completeness and accuracy of the outputs from these systems, upon which we rely for audit evidence. This work will be completed by one of our specialist IT auditors on 30th and 31st of August. — Consideration of additional narrative disclosures within the 2015/16 Statement of Accounts on the future uncertainties associated with the UK's decision to leave the European Union, and the potential impact on financial matters reported in the current year and in future periods. — Review of the final Statement of Accounts to confirm compliance with the 2015/16 CIPFA Code of Practice and consistency with our understanding of the Council. — Final checking of the financial statements and associated notes for consistency with the Narrative Report and arithmetic accuracy. Before we can issue our opinion we require a signed management representation letter. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.
VFM conclusion and risk areas	We did not identify any significant VFM risks in our External audit plan 2015/16 issued in March 2016. Further, our review of relevant information sources as part of our VfM risk assessment work did not identify any significant risks to our VfM conclusion. This risk assessment included review of VfM profiles produced by PSAA, papers of the Council and Audit Committee meetings during and since the 2015/16 financial year, Internal Audit reports for 2015/16, the Council's current strategic risk register and the work of external agencies and inspectorates. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2016.

Proposed opinion and audit differences

We have not identified any issues in the course of the audit that are considered to be material.

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Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee on 20 September 2016.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix 4 for more information on materiality) level for this year's audit was set at £1.1 million. Audit differences below £55k are not considered significant.

We did not identify any material misstatements. Consequently, there have been no changes made to the balance on the General Fund 'pre-audit' Statement of Accounts.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). We understand that the Authority will be addressing these where significant.

Annual governance statement

We have reviewed the Annual Governance Statement and confirmed that:

- It complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Significant risks and key areas of audit focus

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

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In our External Audit Plan 2015/16, presented to you in March 2016, we identified the significant risks affecting the Authority's 2015/16 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Authority.

Significant audit risk	Issue	Findings
Cost Protection Scheme	The Authority is the administrating body for a significant £63.2m coast protection scheme at Rossall. The scheme is fully grant funded from the Environment Agency. The Authority's capital programme (considered by Cabinet in February 2016) shows that £14.1m has been budgeted for the scheme in 2015/16 and £24.6m in 2016/17. This is 74% and 91% of the Authority's total capital programme in each year respectively. The scheme therefore involves significant transactions for the Authority, and such schemes are often complex, time consuming and at risk of significant year on year slippage.	The revised estimate for the Rossall work was set at £14.1m. Advance spend of £854k resulted in a variance at year end. We have reviewed the accounting treatment of the grant receipts and associated capital additions to the scheme, to ensure these are in line with the CIPFA Code of Practice. We have completed sample testing of capital additions associated with the scheme to ensure that they have been accounted for correctly and that the associated expenditure does relate to the Rossall work. The spend in year is shown within assets under construction on the fixed assets note in the financial statements. This is the correct accounting treatment for the asset at this stage. Funding is received in advance for this scheme based on estimated spend. The unspent capital grant at year end is included within capital grants received in advance. There are no audit misstatements or control deficiencies to report in relation to this significant audit risk.

Significant risks and key areas of audit focus (cont.)

In our *External Audit Plan 2015/16* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Areas of significant risk	Summary of findings
Management override of controls Audit areas affected — All areas.	Our audit methodology incorporates the risk of management override as a default significant risk. Management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit. In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual. The authority processed just over 300 journal entries to the ledger during the accounts closing period, with an average value per overall journal entry of £383k. We have noted during our audit that there is a control risk regarding the lack of segregation of duties in the processing of journal entries within the ledger. 'Control risk' refers to the risk that a controls put in place by the Authority will not detect a misstatement arising from either fraud or error. Users of the ledger system are able to raise and post journals to the ledger without recourse to secondary review prior to the journal being posted. This process has been established due to the small size of the Finance team, and the presence of compensating controls in the form of retrospective senior management review of budget monitoring information. This provides assurance that controls are in place to detect material inappropriate or erroneous journal entries, and our testing did not identify any errors or issues in this regard. We have confirmed as part of our audit that budget monitoring information is consistent with the data produced from the general ledger. All control accounts are fully reconciled to the balance per the general ledger on a monthly basis, which provides a further control to identify any erroneous adjustments to the ledger during the month. We have considered the risk of material misstatement around journal entries to be high as a result of the control matters described above, which has impacted on our audit approach to journals including the materiality threshold applied for testing and the testing of journals throughout the year rather than simply those posted during the accounts closing period. There are no matters arising from this work that we need to bring to your attention.
Fraud risk of revenue recognition Audit areas affected — None.	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. In our External Audit Plan 2015/16 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue. This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

KPMG

Significant risks and key areas of audit focus (cont.)

In our External Audit Plan 2015/16, presented to you in March 2016, we identified four additional areas of audit focus. These are not considered as significant risks but areas of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings for each area of audit focus.

Other areas of audit focus	Issue	Findings
Pension costs and liabilities	This is an historic area of audit focus. The Authority had a net pension liability of £33.2m as at 31 March 2016. The movements in this deficit are impacted by estimations made by the Authority's external actuarial specialists, Mercer.	We have reviewed and challenged the actuarial assumptions applied to the Authority's pension deficit as at 31 March 2016 using KPMG's own actuarial specialists. We have agreed all movements to the Council's pension deficit to the actuarial report provider by Mercer, and performed testing over the Payroll inputs to those actuarial calculations, provided by the Council. We have not identified any audit differences or presentational adjustments as a result of our work in this area.
Staff costs	Staff costs represent a significant proportion of the Authority's expenditure base. The disaggregated nature of pay expenditure transactions and the number of changes to Payroll data that take place during the year indicates that staff costs should be given specific audit focus.	We have tested the controls around changes to Payroll data, which impact directly on staff costs recognised in the financial statements, to confirm they have been operating effectively during 2015/16. We did not identify any control deficiencies as a result of this work. We have not identified any audit differences or presentational adjustments as a result of our work in this area
Non-pay expenditure	Non-pay expenditure is an area of audit focus because it is highly material to the users of the Accounts, and contains areas of management judgement in respect of, for example, accrued expenditure.	We have performed testing over controls in place around the approval of non-pay expenditure, to gain assurance that items of expenditure have been approved appropriately, and matched to valid purchase orders where applicable. We have also conducted a substantive analytical review of non-pay expenditure by service (net cost of service). We have not identified any audit differences or presentational adjustments as a result of our work in this area.
Valuation of tangible fixed assets	There is an inherent uncertainty regarding the valuation of tangible fixed assets due to fluctuations and movements in the market value of the Authority's non-current assets.	We have reviewed the cyclical revaluation exercise completed by the Authority as at 31 March 2016, including analysis and assessing the assumptions made and the approach taken by the Estates valuation specialist. We have confirmed that the valuation movements recognised within the Statement of Accounts are consistent with the findings of the Authority's valuation specialist and that these have been disclosed appropriately.

Accounts production and audit process

The Authority has a well established and strong accounts production process. This operated well in 2015/16, and the standard of accounts and supporting working papers was high.

Officers dealt promptly and efficiently with audit queries and the audit process was completed within the planned timescales.

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Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority continues to maintain a strong financial reporting process and produce statements of accounts to a good standard. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 27 June 2016. The Authority have made a small number of presentational changes to the accounts presented for audit, however there have been no changes which we consider to be fundamental.
Quality of supporting working papers	We issued our *Accounts Audit Protocol* including our required working papers for the audit in June 2016. The quality of working papers provided was high and fully met the standards specified in our *Accounts Audit Protocol*.
Response to audit queries	Officers resolved all audit queries in a timely manner.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendation made in last year's ISA 260 report.

The Authority has implemented the recommendation in our ISA 260 Report 2014/15.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

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Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Wyre Borough Council for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Wyre Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 3 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Chief Financial Officer for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

— Significant difficulties encountered during the audit;

— Significant matters arising from the audit that were discussed, or subject to correspondence with management;

— Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and

— Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2015/16 financial statements.

VFM Conclusion

Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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Background

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

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

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Authority.

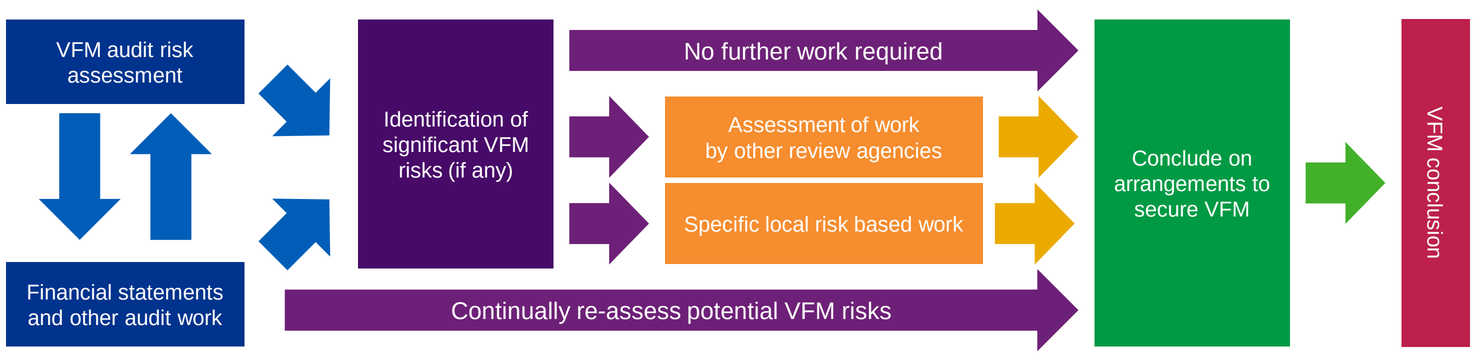
Conclusion

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Overall criterion

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

Informed decision making	Sustainable resource deployment	Working with partners and third parties
✓	✓	✓
Met	**Met**	**Met**



Document Classification: KPMG Confidential

Appendices

Appendix 1: Key issues and recommendations

Appendix 2: Audit differences

Appendix 3: Declaration of independence and objectivity

Appendix 4: Materiality and reporting of audit differences

Appendix 5: KPMG Audit Quality Framework

Appendix 1

Key issues and recommendations

This appendix sets out the recommendations arising from our 2015/16 audit work.

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We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations					
❶	***Priority one***: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷	***Priority two***: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸	***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	❸	**Full completion and signature of Heads of Service Declaration of Interest forms** We noted during our testing of related party transactions disclosed in 2015/16 that one Declaration of Interest form was signed but not correctly completed by the relevant Head of Service. If the Authority fails to maintain a complete and up-to-date record of officer interests, there is a risk that it will not be sighted on the identity of its related parties, and by corollary the transactions that the Authority undertakes with these related parties (if any). This impacts both on the completeness and accuracy of the Authority's related party transaction disclosure in the Statement of Accounts, but also on its ability to manage conflicts of interest effectively. **Recommendation** We recommend that all Declaration of Interest forms are updated by all key officers and members at least annually, and signed by the relevant individual to evidence that the document is a complete and accurate record of their financial and other interests.	**Management response** A completed form will be obtained from the relevant officer by the 19th September and the s.151 officer will in future sign off all Related Party Transaction forms to ensure a satisfactory record is kept. **Responsible officer and due date** Section 151 Officer 19 September 2016

Appendix 2

Audit differences

This appendix sets out the audit differences.

The financial statements have been amended for all of the errors identified through the audit process.

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We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Uncorrected audit differences

We are pleased to report that there are no uncorrected audit differences.

Corrected audit differences

We are pleased to report that there were no audit differences which were required to be corrected by management as a result of our audit.

Other matters

A number of minor amendments focused on presentational improvements have also been made to the draft Statement of Accounts.

Declaration of independence and objectivity

The Code of Audit Practice requires us to exercise our professional judgement and act independently of both Public Sector Audit Appointments Ltd and the Authority.

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Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

'Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired.'

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK&I) 260 Communication of *Audit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

— Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.

— The related safeguards that are in place.

— The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Declaration of independence and objectivity (cont.)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of Wyre Borough Council for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Wyre Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Materiality and reporting of audit differences

For 2015/16 our materiality is £1.1 million for the Authority's accounts.

We have reported all audit differences over £55,000.

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Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2015/16, presented to you in March 2016.

Materiality for the Authority's accounts was set at £1.1 million which equates to around 1.9% percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

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

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

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £55,000 for the Authority.

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

KPMG Audit quality framework

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.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

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

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Andy Smith, as the Engagement Lead, sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly technically enabled audit. 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.

Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

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 who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

— A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

— All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's Code of Audit Practice.

— A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

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KPMG Audit quality framework (cont.)

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.

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Commitment to technical excellence and quality service delivery: Our professionals bring you up-the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviours in the performance of effective and efficient audits. The key behaviours that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- Timely Engagement Lead and manager involvement;
- Critical assessment of audit evidence;
- Exercise of professional judgment and professional scepticism;
- Ongoing mentoring and on the job coaching, supervision and review;
- Appropriately supported and documented conclusions;
- If relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- Clear reporting of significant findings;
- Insightful, open and honest two-way communication with those charged with governance; and
- Client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

Public Sector Audit Appointments Ltd publishes information on the quality of work provided by us (and all other firms) for audits undertaken on behalf of them (http://www.psaa.co.uk/audit-quality/principal-audits/kpmg-audit-quality/).

The latest Annual Regulatory Compliance and Quality Report showed that we are meeting the overall audit quality and regulatory compliance requirements.

kpmg.com/uk

arm/audit/cr/2009kpmg

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Report of:	Meeting	Date	Item no.
Head of Finance (s151 Officer)	Audit Committee	20 September 2016	7

ANNUAL REVIEW OF FINANCIAL REGULATIONS AND FINANCIAL PROCEDURE RULES

1. Purpose of report

1.1 To review the Financial Regulations and Financial Procedure Rules.

2. Outcomes

2.1 Evidence that the Council has arrangements in place to maintain a sound system of internal control.

3. Recommendations

3.1 Members are asked to note the proposed changes in paragraph 5.1 of this report and approve the updated Financial Regulations and Financial Procedure Rules set out as track-changed in Appendix 1 which can be viewed, with all the reports for this meeting, on the Council's website.

4. Background

4.1 The Financial Regulations and Financial Procedure Rules were subject to a major review and updated in accordance with best practice and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) prior to being agreed by the Standards Committee at their meeting on the 14 October 2004 and the Council meeting on 11 November.

4.2 The last annual review was completed at the Audit Committee meeting of the 22 September 2015.

4.3 The Financial Regulations and Financial Procedure Rules form part of the Council's governance structure and help to demonstrate that arrangements are in place to maintain a sound system of internal control.

5. Key Issues and proposals

5.1 A number of amendments are proposed, namely:

- Updated post titles and responsible officers (Part 4.06/3);
- Inclusion of the wording 'in conjunction with the Democratic Services and Scrutiny Manager' to reflect the responsibility that the post has assisting the Monitoring Officer for maintaining an up-to-date Constitution (Part 4.06.01/3);
- Updated the responsible officer for the production of the annual performance report to the Policy and Performance Officer (Para B5);
- Changed the year of the Audit and Account Regulations to reflect the most recent update in 2015 (Part 4.06.01/8 & Part 4.06.02/5);
- Inclusion of the wording 'The Fylde Coast' to accurately reflect the title of the Fylde Coast Housing Strategy (Part 4.06.03/1);
- Updated post title to the Service Director Performance and Innovation (Part 4.06/3/1);
- Updated to reflect the wording set out in the Audit and Account Regulations 2015 in relation to the importance of an internal audit function (Part 4.06.04/4);
- Inclusion of the wording 'with a further two officers with an agreed limit of £10,000' to reflect that other financial limits have been agreed other than the standard £100 and £1,000 limits (Part 4.06/8);
- Updated the 'Framework for Partnership Working' to ensure it accurately reflects the current arrangements in place. Changes include the update to the Council's vision, removal of two engagement networks; namely the Disability Partnership and Wyre Together and addition of the Wyre and Fylde Community Network (Part 4.06.06/16);
- Removal of the section 'Partnering Contracts' as the wording features in 'Procurement through Partnering Guidelines' earlier on in the document (Part 4.06.06/17-18);
- The regular update of European Union procurement thresholds from 1 January 2016 to 31 December 2018 (Part 4.06.07/4);
- Removal of the wording 'from the 10 December 2012 commencement date' to accurately reflect that the framework is still in place (Part 4.06.07/5); and.
- Replaced the word 'Corporate' to 'Service' to accurately reflect the tiles of the new Service Directors (Part 4.06.07/27).

Financial and legal implications	
Finance	None arising directly from the report.
Legal	The adoption of clear and up to date advice should ensure legal probity and good governance of the Council.

Other risks / implications: checklist

If there are significant implications arising from this report on any issues marked with a ✓ below, the report author will have consulted with the appropriate specialist officers on those implications and addressed them in the body of the report. There are no significant implications arising directly from this report, for those issues marked with an x.

risks/implications	✓ / x
community safety	x
equality and diversity	x
sustainability	x
health and safety	x

risks/implications	✓ / x
asset management	x
climate change	x
data protection	x

report author	telephone no.	email	date
Joanne Billington	01253 887372	joanne.billington@wyre.gov.uk	24.08.16

List of background papers:		
name of document	date	where available for inspection

List of appendices

Appendix 1: Proposed changes to Financial Regulations and Financial Procedures Rules (shown as track-changes)

arm/audit/cr/16/2008jb1

Financial Regulations and Financial Procedure Rules

Contents

APPENDIX F - CONTRACT PROCEDURES

Introduction

1.1 The authority's governance structure is laid down in its constitution, which sets out how the council operates, how decisions are made and the procedures that need to be followed.

1.2 Financial regulations form part of the constitution and provide the framework for managing the authority's financial affairs. They apply to every member and officer of the authority and anyone acting on its behalf.

1.3 The regulations identify the financial responsibilities of the full council, and overview and scrutiny members, the Head of Paid Service, the Monitoring Officer, the Finance Director and other Chief Officers. Executive Members and Chief Officers should maintain a written record where decision making has been delegated to members of their staff, including seconded staff. Where decisions have been delegated or devolved to other responsible officers, references to the Chief Officer in the regulations should be read as referring to them.

1.4 With regard to the above generic references, for the purpose of these regulations the following specific titles apply to Wyre Borough Council:

(a) "Executive" – Cabinet;

(b) "overview and scrutiny members" – members of the Overview and Scrutiny Committee;

(c) "Head of Paid Service" – Chief Executive;

(d) "Monitoring Officer" – ~~Corporate Director of People and Places~~Head of Business Support (Monitoring Officer) or Senior Solicitor (Deputy Monitoring Officer);

(e) "Finance Director" – ~~Corporate Director of Resources~~Head of Finance (S151 Officer) or the Chief Accountant acting in that capacity;

(f) "Chief Officers" – Chief Executive, ~~Corporate~~ Service Directors and Heads of Service.

(g) "Corporate Property Officer" – Head of Built Environment.

(h) "Head of Internal Audit" – Head of Governance.

1.5 All members and staff have a general responsibility for taking reasonable action to provide for the security of the assets under their control, and for ensuring that the use of these resources is legal, is properly authorised and demonstrates value for money.

1.6 The Finance Director is responsible for maintaining a continuous review of the financial regulations and submitting any additions or changes necessary to the audit committee for approval. The Finance Director is also responsible for reporting, where appropriate, breaches of the financial regulations to the Audit Committee and/or to the executive members.

1.7 The authority's detailed financial procedures, setting out how the regulations will be implemented, are published on the intranet, and will be updated by the Finance Director as necessary.

1.8 Chief Officers are responsible for ensuring that all staff in their service units are aware of the existence and content of the authority's financial regulations and other regulatory documents and that they comply with them.

1.9 The Finance Director is responsible for issuing advice and guidance to underpin the financial regulations that members, officers and others acting on behalf of the authority are required to follow. Such advice and guidance will have the same force as these regulations.

Key Responsibilities of Chief Officers

2.1 Throughout this document the key responsibilities of individual Chief Officers are identified. The following lists key responsibilities which give a broad outline of the nature of the control framework and the accountabilities of Chief Officers within it.

2.2 It is the responsibility of Chief Officers to consult with the Finance Director and seek approval on any matter liable to materially affect the authority's finances, before any commitments are incurred.

2.3 To promote the financial management standards set by the Finance Director in their service areas and to monitor adherence to the standards and practices, liaising as necessary with the Finance Director.

2.4 To promote sound financial practices in relation to the standards, performance and development of staff in their service areas.

2.5 To adhere to the accounting policies and guidelines approved by the Finance Director.

2.6 To comply with accounting guidance provided by the Finance Director and to supply the Finance Director with information when required.

2.7 To maintain budgetary control within their departments, in adherence with the principles outlined in Appendix B, and to ensure that all income and expenditure are properly recorded and accounted for.

2.8 To ensure that spending remains within the service's overall cash limit, and that individual budget heads are not overspent, by monitoring the budget and taking appropriate corrective action where significant variations from the approved budget are forecast.

2.9 To work within budget limits and to utilise resources allocated, and further allocate resources, in the most efficient, effective and economic way.

2.10 To identify opportunities to minimise or eliminate resource requirements or consumption without having a detrimental effect on service delivery.

2.11 To ensure that resources are used only for the purposes for which they were intended.

2.12 To notify the Finance Director immediately of any loss, liability or damage that may lead to a claim against the authority, together with any information or explanation required by the Finance Director or the authority's insurers.

2.13 To ensure that there are regular reviews of risk within their service units.

2.14 To manage processes to check that established controls are being adhered to and to evaluate their effectiveness, in order to be confident in the proper use of resources, achievement of objectives and management of risks.

2.15 To ensure that loans are not made to third parties and that interests are not acquired in companies, joint ventures or other enterprises without the approval of the full council, following consultation with the Finance Director and the legal services team.

2.16 To consult with the Finance Director before changing any existing system or introducing new systems.

2.17 To ensure appointments are made in accordance with the regulations of the authority and approved establishments, grades and scales of pay and that adequate budget provision is available.

2.18 To maintain a register of all contracts entered into with external bodies in accordance with procedures specified by the Finance Director.

2.19 To ensure that the approval of the executive is obtained before any negotiations are concluded to work for third parties.

Financial Regulation A

Financial Management

Introduction

A.1 Financial management covers all financial accountabilities in relation to the running of the authority, including the policy framework and budget.

The Full Council

A.2 The full council is responsible for adopting the authority's constitution and for approving the policy framework and budget within which the executive operates. The framework is set out in its constitution. The full council is also responsible for monitoring compliance with the agreed policy and related executive decisions.

A.3 The full council is responsible for approving procedures for recording and reporting decisions taken. This includes those key decisions delegated by and decisions taken by the council and its committees. These delegations and details of who has responsibility for which decisions are set out in the constitution.

The Executive

A.4 The Executive is responsible for proposing the policy framework and budget to the full council, and for discharging executive functions in accordance with the policy framework and budget.

A.5 Executive decisions can be delegated to a committee of the executive, an individual executive member, an officer or a joint committee.

A.6 The Executive is responsible for establishing protocols to ensure that individual executive members consult with relevant officers before taking a decision within his or her delegated authority. In doing so, the individual member must take account of legal and financial liabilities and other risk management issues that may arise from the decision.

Committees of the Council

Overview and Scrutiny Committee

A.7 The Overview and Scrutiny Committee are responsible for scrutinising executive decisions before or after they have been implemented and for holding the executive to account. The Overview and Scrutiny Committee are also responsible for making recommendations on future policy options and for reviewing the general policy and service delivery of the authority.

Employment and Appeals Committee

A.8 The Employment and Appeals Committee is charged with exercising a range of miscellaneous powers on behalf of the Council, including employee appeals and superannuation matters.

Standards Committee

A.9 The Standards Committee is established by the full council and is responsible for promoting and maintaining high standards of conduct amongst councillors. In particular, it is responsible for advising the Council on the adoption and revision of the members' code of conduct, and for monitoring the operation of the code.

Audit Committee

A10 The Audit Committee is the member level forum to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

Other Regulatory Committees

A.11 Planning and conservation, and licensing are not executive functions but are exercised through the Planning Applications Committee and the Licensing Committee.

The Statutory Officers

Head of Paid Service

A.12 The Head of Paid Service is responsible for the corporate and overall strategic management of the authority as a whole (including overall management responsibility for all staff). He or she must report to and provide information for the Executive, the full council, Overview and Scrutiny Committee and other committees. He or she is responsible for establishing a framework for management direction, style and standards and for monitoring the performance of the organisation. The Head of Paid Service is also responsible, together with the Monitoring Officer, for the system of record keeping in relation to all the full council's decisions (see below).

Monitoring Officer

A.13 The Monitoring Officer is responsible for promoting and maintaining high standards of ethical conduct and therefore provides support to the standards committee. The Monitoring Officer is also responsible for reporting any actual or potential breaches of the law or maladministration to the full council and/or to the Executive, and for ensuring that procedures for recording and reporting key decisions are operating effectively.

A.14 The Monitoring Officer must ensure that executive decisions and the reasons for them are made public. He or she must also ensure that council members are aware of decisions made by the Executive and of those made by officers who have delegated executive responsibility.

A.15 The Monitoring Officer is responsible for advising all councillors and officers about who has authority to take a particular decision.

A.16 The Monitoring Officer is responsible for advising the Executive or full council about whether a decision is likely to be considered contrary or not wholly in accordance with the policy framework.

A.17 The Monitoring Officer (together with the Finance Director) is responsible for advising the executive or full council about whether a decision is likely to be considered contrary or not wholly in accordance with the budget. Actions that may be 'contrary to the budget' include:

- initiating a new policy;
- committing expenditure in future years to above the budget level;
- incurring interdepartmental transfers above virement limits; and
- causing the total expenditure financed from council tax, grants and corporately held reserves to increase, or to increase by more than a specified amount.

A.18 The Monitoring Officer in conjunction with the Democratic Services and Scrutiny Manager is responsible for maintaining an up-to-date constitution.

Finance Director

A.19 The Finance Director has statutory duties in relation to the financial administration and stewardship of the authority. This statutory responsibility cannot be overridden. The statutory duties arise from:

- Section 151 of the Local Government Act 1972.
- The Local Government Finance Act 1988.
- The Local Government and Housing Act 1989.
- The Accounts and Audit Regulations 2011.
- Local Government Act 2003.

A.20 The Finance Director is responsible for:

- the proper administration of the authority's financial affairs;
- setting and monitoring compliance with financial management standards;
- advising on the corporate financial position and on the key financial controls necessary to secure sound financial management;
- providing financial information;
- preparing the revenue budget and capital programme; and
- treasury management.

A.21 Section 114 of the Local Government Finance Act 1988 requires the ~~Director of~~ Finance Director to report to the full council, Executive and external auditor if the authority or one of its officers:

- has made, or is about to make, a decision which involves incurring unlawful expenditure;
- has taken, or is about to take, an unlawful action which has resulted or would result in a loss or deficiency to the authority; or
- is about to make an unlawful entry in the authority's accounts.

Section 114 of the 1988 Act also requires:

- the Finance Director to nominate a properly qualified member of staff to deputise should he or she be unable to perform the duties under section 114 personally;

- the authority to provide the Finance Director with sufficient staff, accommodation and other resources – including legal advice where this is necessary – to carry out their duties under section 114.

Chief Officers

A.22 Chief Officers are responsible for ensuring that executive members are advised of the financial implications of all proposals and that the financial implications have been agreed by the Finance Director.

A.23 It is the responsibility of Chief Officers to consult with the Finance Director and seek approval on any matter liable to materially affect the authority's finances, before any commitments are incurred.

Other Financial Accountabilities

Virement

A.24 The Audit Committee is responsible for agreeing procedures for virement of expenditure between budget headings.

A.25 Chief Officers are responsible for agreeing in-year virements within delegated limits, in consultation with the Finance Director where required. They must notify the Finance Director of all virements.

Treatment of Year-End Balances

A.26 The Audit Committee is responsible for agreeing procedures for carrying forward under and over-spendings on budget headings, provided that such carry forwards do not constitute an alteration to the policy and budget framework.

Accounting Policies

A.27 The Finance Director is responsible for selecting accounting policies in accordance with best professional practice and ensuring that they are applied consistently.

Accounting Records and Returns

A.28 The Finance Director is responsible for determining the accounting procedures and records for the authority, and must be consulted on and approve proposals for change.

Financial Systems

A.29 The Finance Director is responsible for approving all the financial systems in operation within the authority and must be consulted on and approve any proposals for change.

The Annual Statement of Accounts

A.30 The Finance Director is responsible for ensuring that the annual statement of accounts is prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom. The Audit Committee is responsible for approving the annual statement of accounts.

Financial Regulation B

Financial Planning

Introduction

B.1 The full council is responsible for agreeing the authority's policy framework and budget, which will be proposed by the Executive. In terms of financial planning, the key elements are:

- the business plan;
- the revenue budget; and
- the capital programme.

Policy Framework

B.2 The policy framework includes the following statutory plans and strategies:

- business plan;
- revenue budget;
- capital programme;
- treasury management policy statement and strategy;
- Community Safety Partnership - Strategic Assessment; and
- plans and strategies which together support the business plan.

B.3 The full council is also responsible for approving procedures for agreeing variations to approved budgets, plans and strategies forming the policy framework and for determining the circumstances in which a decision will be deemed to be contrary to the budget or policy framework. Decisions should be referred to the full council by the Monitoring Officer.

B.4 The Executive is responsible for taking in-year decisions on resources and priorities in order to deliver the budget policy framework within the financial limits set by the council.

Preparation of the Annual Report

B.5 The ~~Transformation Officer~~Policy and Performance Officer is responsible for producing an annual report which identifies how the Council has performed against its priorities.

Budgeting

Budget Format

B.6 The general format of the budget will be approved by the full council and proposed by the Executive on the advice of the Finance Director. The draft budget should include allocation to different services and projects, proposed taxation levels and contingency funds.

Budget Preparation

B.7 The Finance Director is responsible for ensuring that a revenue budget is prepared on an annual basis and a three-year medium-term financial plan for consideration by the Executive, before submission to the full council. The full council may amend the budget or ask the Executive to reconsider it before approving it.

B.8 The Executive is responsible for issuing guidance on the general content of the budget in consultation with the Finance Director as soon as possible following approval by the full council.

B.9 It is the responsibility of Chief Officers to ensure that budget estimates reflecting agreed service plans are submitted to the Executive and that these estimates are prepared in line with guidance issued by the Executive.

Budget Monitoring and Control

B.10 The Finance Director is responsible for providing appropriate financial information to enable budgets to be monitored effectively. He or she must ensure that expenditure and income is monitored and controlled against budget allocations and report to the Executive on the overall position on a regular basis.

B.11 It is the responsibility of Chief Officers to control income and expenditure within their area and to monitor performance, taking account of financial information provided by the Finance Director. They should report on variances within their own areas. They should also take any action necessary to avoid exceeding their budget allocation and alert the Finance Director to any problems.

Resource Allocation

B.12 The Finance Director is responsible for developing and maintaining a resource allocation process that ensures due consideration of the full council's policy framework.

Preparation of the Capital Programme

B.13 The Finance Director is responsible for ensuring that a capital programme is prepared on an annual basis for consideration by the Executive before submission to the full council.

Guidelines

B.14 Guidelines on budget preparation are issued to members and Chief Officers by the Finance Director following agreement with the Executive. The guidelines will take account of:

- legal requirements;
- medium-term planning prospects;
- the business plan;
- available resources;
- spending pressures;
- other relevant government guidelines;

- other internal policy documents; and
- cross-cutting issues (where relevant).

Maintenance of Reserves

B.15 It is the responsibility of the Finance Director to advise the Executive and/or the full council on prudent levels of reserves for the authority.

Financial Regulation C

Risk Management and Control of Resources

Introduction

C.1 It is essential that robust, integrated systems are developed and maintained for identifying and evaluating all significant strategic and operational risks to the authority. This should include the proactive participation of all those associated with planning and delivering services.

Risk Management

C.2 The Audit Committee is responsible for approving the authority's risk management policy and for reviewing the effectiveness of risk management. The Executive is responsible for ensuring that proper insurance exists where appropriate.

C.3 The Finance Director is responsible for preparing the authority's risk management policy, for promoting it throughout the authority and for advising the Executive on proper insurance cover where appropriate.

Internal Control

C.4 Internal control refers to the systems of control devised by management to help ensure the authority's objectives are achieved in a manner that promotes economical, efficient and effective use of resources and that the authority's assets and interests are safeguarded.

C.5 The Finance Director is responsible for advising on effective systems of internal control. These arrangements need to ensure compliance with all applicable statutes and regulations, and other relevant statements of best practice. They should ensure that public funds are properly safeguarded and used economically, efficiently, and in accordance with the statutory and other authorities that govern their use.

C.6 It is the responsibility of Chief Officers to establish sound arrangements for planning, appraising, authorising and controlling their operations in order to achieve continuous improvement, economy, efficiency and effectiveness and for achieving their financial performance targets.

Audit Requirements

C.7 The Accounts and Audit Regulations 2015~~1~~ require every local authority to maintain an adequate and effective system of internal audit. The responsibility for Internal Audit is delegated to the Finance Director.

C.8 The Audit Commission is responsible for appointing external auditors to each local authority. The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Commissions' statutory Code of Audit Practice.

C.9 The authority may, from time to time, be subject to audit, inspection or investigation by external bodies such as HM Revenue and Customs, who have statutory rights of access.

Preventing Fraud and Corruption

C.10 The Finance Director is responsible for the development and maintenance of effective counter fraud and corruption arrangements.

Assets

C.11 Chief Officers should ensure that records and assets are properly maintained and securely held. They should also ensure that contingency plans for the security of assets and continuity of service in the event of disaster or system failure are in place.

Treasury Management

C.12 The authority has adopted CIPFA's Code of Practice for Treasury Management in Local Authorities and to demonstrate compliance, a review of the Treasury Management Policy Statement, Treasury Management Practices, Treasury Management and Annual Investment Strategy and Minimum Revenue Provision Policy Statement is agreed annually by the Executive. The Council approves the formulation of the plan or strategy for the control of the authority's borrowing, investments or capital expenditure and for the determination of the authority's minimum revenue provision. The Finance Director has delegated responsibility for implementing and monitoring the statement.

C.13 The authority has nominated the Overview and Scrutiny Committee as being responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies.

C.14 All money in the hands of the authority is controlled by the officer designated for the purposes of section 151 of the Local Government Act 1972, referred to in the code as the Finance Director.

C.15 The Finance Director is responsible for reporting to the Executive and subsequently the full council, a proposed Treasury Management and Annual Investment Strategy for the coming financial year and the Minimum Revenue Provision Policy Statement at or before the start of each financial year.

C.16 All executive decisions on borrowing, investment or financing shall be delegated to the Finance Director, who is required to act in accordance with CIPFA's Code of Practice for Treasury Management in Local Authorities and if a CIPFA member, CIPFAs Standard of Professional Practice on Treasury Management.

C.17 The authority delegated responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Executive who will receive from the Finance Director and consider as a minimum:

- a Treasury Management and Annual Investment Strategy before the commencement of the new financial year;
- a mid-year review;

- an annual report on treasury management activity before the 30 September after the year end to which it relates; and
- the outcome of debt rescheduling undertaken reported as soon as possible after completion of the exercise.

Staffing

C.18 The full council is responsible for the manner in which the discharge of the Council's functions is co-ordinated, and for determining how officer support for executive and non-executive roles within the authority will be organised.

C.19 The Head of Paid Service is responsible for the overall management of staff. He or she is also responsible for ensuring that there is proper use of the agreed systems for determining the remuneration of a job.

C.20 Chief Officers are responsible for controlling total staff numbers by:

- advising the Executive on the budget necessary in any given year to cover estimated staffing levels;
- reviewing and amending the structure and staffing levels, within approved budget provision, and fixing commencing salaries or wages for such appointments and promotions as appropriate, in consultation with the officer responsible for strategic human resource issues; and
- the proper use of appointment procedures.

Financial Regulation D

Financial Systems and Procedures

Introduction

D.1 Sound systems and procedures are essential to an effective framework of accountability and control.

General

D.2 The Finance Director is responsible for the operation of the authority's accounting systems, the form of accounts and the supporting financial records. Any changes made by Chief Officers to the existing financial systems or the establishment of new systems must be approved by the Finance Director. However, Chief Officers are responsible for the proper operation of financial processes in their own departments.

D.3 Any changes to agreed procedures by Chief Officers to meet their own specific service needs should be agreed in advance with the Finance Director.

D.4 Chief Officers should ensure that their staff receive relevant financial training that has been approved by the Finance Director.

D.5 Chief Officers must ensure that, where appropriate, computer and other systems are registered in accordance with data protection legislation. Chief Officers must ensure that staff are aware of their responsibilities under freedom of information legislation.

Income and Expenditure

D.6 It is the responsibility of Chief Officers to ensure that a proper scheme of delegation has been established within their area and is operating effectively. The scheme of delegation should identify staff authorised to act on the Chief Officer's behalf, or on behalf of the Executive, in respect of payments, income collection and placing orders, together with the limits of their authority. The Audit Committee is responsible for approving procedures for writing off debts as part of the overall control framework of accountability and control.

Payments to Employees and Members

D.7 The Finance Director is responsible for all payments of salaries and wages to all staff, including payments for overtime, and for payment of allowances to members.

Taxation

D.8 The Finance Director is responsible for advising Chief Officers, in the light of guidance issued by appropriate bodies and relevant legislation as it applies, on all taxation issues that affect the authority.

D.9 The Finance Director is responsible for maintaining the authority's tax records, making all tax payments, receiving tax credits and submitting tax returns by their due date as appropriate.

Trading Accounts/Business Units

D.10 It is the responsibility of the Finance Director to advise on the establishment and operation of trading accounts.

Financial Regulation E

External Arrangements

Introduction

E.1 The local authority provides a distinctive leadership role for the community and brings together the contributions of the various stakeholders. It must also act to achieve the promotion or improvement of the economic, social or environmental well-being of its area.

Partnerships

E.2 The Executive is responsible for approving delegations, including frameworks for partnerships. The Executive is the focus for forming partnerships with other local public, private, voluntary and community sector organisations to address local needs.

E.3 The Executive can delegate functions, including those relating to partnerships, to officers. These are set out in the scheme of delegation that forms part of the authority's constitution. Where functions are delegated, the Executive remains accountable for them to the full council.

E.4 The Monitoring Officer is responsible for promoting and maintaining the same high standards of conduct with regard to partnerships as those that apply throughout the authority.

E.5 The Finance Director must ensure that the accounting arrangements to be adopted relating to partnerships and joint ventures are satisfactory. He or she must also consider the overall corporate governance arrangements and legal issues when arranging contracts with external bodies. Chief Officers must ensure that the risks have been fully appraised before agreements are entered into with external bodies.

E.6 Chief Officers are responsible for ensuring that appropriate approvals are obtained before any negotiations are concluded in relation to work with external bodies.

External Funding

E.7 The Finance Director is responsible for ensuring that all funding notified by external bodies is received and properly recorded in the authority's accounts.

Work For Third Parties

E.8 The Executive is responsible for approving the contractual arrangements for any work for third parties or external bodies.

Financial Procedure Rules Appendix A
Financial Management

Financial Management Standards

Why are these Important?

1.01 All staff and members have a duty to abide by the highest standards of probity in dealing with financial issues. This is facilitated by ensuring everyone is clear about the standards to which they are working and the controls that are in place to ensure that these standards are met.

Key Controls

1.02 The key controls and control objectives for financial management standards are:

(a) their promotion throughout the authority; and

(b) a monitoring system to review compliance with financial standards, and regular comparisons of performance indicators and benchmark standards that are reported to the Executive and full council.

Responsibilities of the Finance Director

1.03 To ensure the proper administration of the financial affairs of the authority.

1.04 To set the financial management standards and to monitor compliance with them.

1.05 To ensure proper professional practices are adhered to and to act as head of profession in relation to the standards, performance and development of finance staff throughout the authority.

1.06 To advise on the key strategic controls necessary to secure sound financial management.

1.07 To ensure that financial information is available to enable accurate and timely monitoring and reporting of comparisons of national and local financial performance indicators.

Responsibilities of Chief Officers

1.08 To promote the financial management standards set by the Finance Director in their departments and to monitor adherence to the standards and practices, liaising as necessary with the Finance Director.

1.09 To promote sound financial practices in relation to the standards, performance and development of staff in their departments.

Managing Expenditure

Scheme Of Virement (Revenue Expenditure)

Why is this Important?

1.10 The scheme of virement is intended to enable the Executive, Chief Officers and their staff to manage budgets with a degree of flexibility within the overall policy framework determined by the full council, and therefore to optimise the use of resources.

Key Controls

1.11 Key controls for the scheme of virement are:

(a) It is administered by the Finance Director within guidelines set by the Audit Committee. Any variation from this scheme requires the approval of the Audit Committee;

(b) The overall budget is agreed by the Executive and approved by the full council. Chief Officers and budget managers are therefore authorised to incur expenditure in accordance with the estimates that make up the budget. The rules below cover virement; that is, switching resources between approved estimates or heads of expenditure;

(c) Virement does not create additional overall budget liability. Chief Officers are expected to exercise their discretion in managing their budgets responsibly and prudently. They should not support recurring expenditure from one-off sources of savings or additional income, or create future commitments, including full-year effects of decisions made part way through a year, without the prior approval of the Finance Director. Chief Officers must plan to fund such commitments from within their own budgets; and

(d) Any virement affecting an employee subjective budget head can only proceed with the authorisation of the Finance Director.

Responsibilities of the Finance Director

1.12 To monitor and record all virements, consulting with the Resources Portfolio Holder where virements in excess of £20,000 are proposed and seeking approval of the Executive for values in excess of £50,000.

Responsibilities of Chief Officers

1.13 A Chief Officer may exercise virement on budgets under his or her control for amounts up to £5,000 on any one budget head during the year, and up to £20,000 following approval of the Finance Director under arrangements agreed by the Audit Committee and subject to the conditions in paragraphs 1.15 to 1.17 below.

1.14 Amounts greater than £20,000 also require the approval of the relevant Portfolio Holder, and must specify the proposed expenditure and the source of funding, and must explain the implications in the current and future financial year.

1.15 Virements between budgets of different accountable executive members and between budgets managed by different Chief Officers for values >£5,000 will require the consent of all parties.

1.16 A virement that is likely to impact on the level of service activity of another Chief Officer should be implemented only after agreement with the relevant Chief Officer.

1.17 No virement relating to a specific financial year should be made after 31 March in that year.

1.18 Where an approved budget is a lump-sum budget or contingency intended for allocation during the year, its allocation will not be treated as a virement.

Treatment of Year-End Balances (Revenue and Capital)

Why is this Important?

1.19 The authority's scheme of virement includes the authority's treatment of year-end balances. It is administered by the Finance Director within guidelines set by the Audit Committee. Any variation from this scheme requires the approval of the Audit Committee.

1.20 The rules below cover arrangements for the transfer of resources between accounting years, ie a carry-forward. For the purposes of this scheme, a budget heading is a specific cost centre and subjective code combination, or, as a minimum, is at an equivalent level to the standard service subdivision as defined by CIPFA in its Service Expenditure Analysis.

Key Controls

1.21 Appropriate accounting procedures are in operation to ensure that carried-forward totals are correct.

Responsibilities of the Finance Director

1.22 To administer the scheme of carry-forward within the guidelines approved by the Audit Committee.

1.23 To report all over-spendings and under-spendings on service estimates carried forward to the Audit Committee.

Responsibilities of Chief Officers

1.24 Net underspendings on service estimates under the control of the Chief Officer may be carried forward, subject to the approval of the Finance Director. The source of underspending or additional income and the proposed application of those resources must be reported to the Audit Committee.

Accounting Policies

Why are these Important?

1.25 The Finance Director is responsible for the preparation of the authority's statement of accounts, in accordance with proper practices as set out in the format required by the Code of Practice on Local Authority Accounting in the United Kingdom for each financial year ending 31 March.

Key Controls

1.26 The key controls for accounting policies are:

(a) systems of internal control are in place that ensure that financial transactions are lawful;

(b) suitable accounting policies are selected and applied consistently;

(c) proper accounting records are maintained; and

(d) financial statements are prepared which present a true and fair view of the financial position of the authority and its expenditure and income.

Responsibilities of the Finance Director

1.27 To select suitable accounting policies and to ensure that they are applied consistently. The accounting policies are set out in the statement of accounts, which is prepared at 31 March each year, and cover such items as:

(a) Accruals of income and expenditure;
(b) Provisions;
(c) Reserves;
(d) Government grants and contributions;
(e) Retirement benefits;
(f) VAT;
(g) Overheads and support services;
(h) Intangible fixed assets;
(i) Tangible fixed assets;
(j) Charges to revenue for fixed assets;
(k) Revenue expenditure funded from capital under statute;
(l) Leases;
(m) Financial liabilities;
(n) Financial assets;
(o) Stocks and work in progress; and
(p) Interests in companies and other entities.

Responsibilities of Chief Officers

1.28 To adhere to the accounting policies and guidelines approved by the Finance Director.

Accounting Records And Returns

Why are these Important?

1.29 Maintaining proper accounting records is one of the ways in which the authority discharges its responsibility for stewardship of public resources. The authority has a statutory responsibility to prepare its annual accounts to present a true and fair view of its operations during the year. These are subject to external audit. This audit provides assurance that the accounts are prepared properly, that proper accounting practices have been followed and that quality arrangements have been made for securing economy, efficiency and effectiveness in the use of the authority's resources.

Key Controls

1.30 The key controls for accounting records and returns are:

(a) all executive members, finance staff and budget managers operate within the required accounting standards and timetables;

(b) all the authority's transactions, material commitments and contracts and other essential accounting information are recorded completely, accurately and on a timely basis;

(c) procedures are in place to enable accounting records to be reconstituted in the event of systems failure;

(d) reconciliation procedures are carried out to ensure transactions are correctly recorded; and

(e) prime documents are retained in accordance with legislative and other requirements.

Responsibilities of the Finance Director

1.31 To determine the accounting procedures and records to be kept for the authority.

1.32 To arrange for the compilation of all accounts and accounting records.

1.33 Wherever practicable, to comply with the principle of separation of duties when allocating accounting duties.

1.34 To make proper arrangements for the audit of the authority's accounts in accordance with the Accounts and Audit Regulations ~~2011~~2015.

1.35 To ensure that all claims for funds including grants are made by the due date.

1.36 To prepare and publish the audited accounts of the authority for each financial year, in accordance with the statutory timetable and ensure that the statement of accounts is approved by the audit committee by the statutory date.

1.37 To administer the authority's arrangements for under-spendings to be carried forward to the following financial year.

1.38 To ensure the proper retention of financial documents in accordance with the requirements set out in the authority's document retention schedule.

Responsibilities of Chief Officers

1.39 To consult and obtain the approval of the Finance Director before making any changes to accounting records and procedures.

1.40 To comply with the principles outlined in paragraph 1.33 when allocating accounting duties.

1.41 To maintain adequate records to provide a management trail leading from the source of income/expenditure through to the accounting statements.

1.42 To supply information required to enable the statement of accounts to be completed in accordance with guidelines issued by the Finance Director.

The Annual Statement of Accounts

Why is this Important?

1.43 The authority has a statutory responsibility to prepare its own accounts to present a true and fair view of its operations during the year. The Audit Committee is responsible for approving the statutory annual statement of accounts.

Key Controls

1.44 The key controls for the annual statement of accounts are:

(a) the authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of these affairs. In this authority, that officer is the Finance Director.

(b) the authority's statement of accounts must be prepared in accordance with proper practices as set out in the Code of Practice on Local Authority Accounting in the United Kingdom

Responsibilities of the Finance Director

1.45 To select suitable accounting policies and to apply them consistently.

1.46 To make judgements and estimates that are reasonable and prudent.

1.47 To comply with the Code of Practice on Local Authority Accounting in the United Kingdom.

1.48 To keep proper accounting records that are up to date.

1.49 To sign and date the statement of accounts, stating that it presents a true and fair view of the financial position of the authority at the accounting date and its income and expenditure for the relevant year.

1.50 To draw up the timetable for final accounts preparation and to advise staff and external auditors accordingly.

Responsibilities of Chief Officers

1.51 To comply with accounting guidance provided by the Finance Director and to supply the Finance Director with information when required.

Financial Procedure Rules Appendix B
Financial Planning

Performance Plans

Why are these Important?

2.01 Each local authority has a responsibility to publish various performance plans, including the Council's Business Plan, ~~the~~ The Fylde Coast Housing Strategy and the Community Safety Partnership – Strategic Assessment. The purpose of performance plans is to explain overall priorities and objectives, current performance, and proposals for further improvement. Performance plans form part of the authority's programme of engaging with the public.

Key Controls

2.02 The key controls for performance plans are:

(a) to ensure that all relevant plans are produced and that they are consistent;

(b) to produce plans in accordance with statutory requirements;

(c) to meet the timetables set;

(d) to ensure that all performance information is accurate, complete and up to date; and

(e) to provide improvement targets which are meaningful, realistic and challenging.

Responsibilities of the Finance Director

2.03 To advise and supply the financial information that needs to be included in performance plans in accordance with statutory requirements and agreed timetables.

2.04 To contribute to the development of corporate and service targets and performance information.

Responsibilities of the ~~Transformation Manager~~Service Director Performance and Innovation

2.05 To ensure that systems are in place to measure activity and collect accurate information for use as performance indicators, identifying measurable impact, outputs and outcomes.

2.06 To ensure that performance information is monitored frequently to allow corrective action to be taken if targets are not likely to be met.

Responsibilities of Chief Officers

2.07 To contribute to the development of performance plans in line with statutory requirements.

2.08 To contribute to the development and monitoring of corporate and service targets and objectives and performance information.

Budgeting

Format of the Budget

Why is this Important?

2.09 The format of the budget influences the level of detail to which financial control and management will be exercised. The format shapes how the rules around virement operate, the operation of cash limits and sets the level at which funds may be reallocated within budgets.

Key Controls

2.10 The key controls for the budget format are:

(a) the format complies with all legal requirements and proper accounting practices; and

(b) the format reflects accountability for service delivery.

Responsibilities of the Finance Director

2.11 To advise the Executive on the format of the budget that is approved by the full council.

Responsibilities of Chief Officers

2.12 To comply with accounting guidance provided by the Finance Director.

Revenue Budget Preparation, Monitoring and Control

Why is this Important?

2.13 Budget management ensures that once the budget has been approved by the full council, resources allocated are used for their intended purposes and are properly accounted for. Budgetary control is a continuous process, enabling the authority to review and adjust its budget targets during the financial year. It also provides the mechanism that calls to account managers responsible for defined elements of the budget.

2.14 By continuously identifying and explaining variances against budgetary targets, the authority can identify changes in trends and resource requirements at the earliest opportunity. The authority itself operates within an annual cash limit, approved when setting the overall budget. To ensure that the authority in total does not overspend, each service is required to manage its own expenditure within the cash-limited budget allocated to it.

2.15 For the purposes of budgetary control by managers, a budget will normally be the planned income and expenditure for a service area or cost centre. However, budgetary control may take place at a more detailed level if this is required.

Key Controls

2.16 The key controls for managing and controlling the revenue budget are:

(a) budget managers should be responsible only for income and expenditure that they can influence;

(b) there is a nominated budget manager for each cost centre heading;

(c) budget managers accept accountability for their budgets and the level of service to be delivered and understand their financial responsibilities;

(d) budget managers follow an approved certification process for all expenditure;

(e) income and expenditure are properly recorded and accounted for; and

(f) performance levels/levels of service are monitored in conjunction with the budget and necessary action is taken to align service outputs and budget.

Responsibilities of the Finance Director

2.17 To establish an appropriate framework of budgetary management and control that ensures that:

(a) budget management is exercised within annual cash limits unless the full council agrees otherwise;

(b) each Chief Officer has available timely information on receipts and payments on each budget which is sufficiently detailed to enable managers to fulfil their budgetary responsibilities;

(c) expenditure is committed only against an approved budget head;

(d) all officers responsible for committing expenditure comply with relevant guidance, and the financial regulations;

(e) each cost centre has a single named manager, determined by the relevant Chief Officer. As a general principle, budget responsibility should be aligned as closely as possible to the decision-making processes that commits expenditure; and

(f) significant variances from approved budgets are investigated and reported by budget managers regularly.

2.18 To administer the authority's scheme of virement.

2.19 To submit reports to the Executive and to the full council, in consultation with the relevant Chief Officer, where a Chief Officer is unable to balance expenditure and resources within existing approved budgets under his or her control.

2.20 To prepare and submit reports on the authority's projected income and expenditure compared with the budget on a regular basis.

Responsibilities of Chief Officers

2.21 To maintain budgetary control within their departments, in adherence to the principles in 2.17, and to ensure that all income and expenditure are properly recorded and accounted for.

2.22 To ensure that an accountable budget manager is identified for each item of income and expenditure under the control of the Chief Officer (grouped together in a series of cost centres). As a general principle, budget responsibility should be aligned as closely as possible to the decision-making that commits expenditure.

2.23 To ensure that spending remains within the service's overall cash limit, and that individual budget heads are not overspent, by monitoring the budget and taking appropriate corrective action where significant variations from the approved budget are forecast.

2.24 To ensure that a monitoring process is in place to review performance levels/levels of service in conjunction with the budget and is operating effectively.

2.25 To provide information to the Finance Director to enable reports on the service's projected expenditure compared with its budget to be made to the Executive.

2.26 To ensure prior approval by the full council or Executive (as appropriate) for new proposals, of whatever amount, that:

(a) create financial commitments in future years;

(b) change existing policies, initiate new policies or cease existing policies; and

(c) materially extend or reduce the authority's services.

2.27 To ensure compliance with the scheme of virement.

2.28 To agree with the relevant Chief Officer where it appears that a budget proposal, including a virement proposal, may impact materially on another service area or chief officer's level of service activity.

Budgets and Medium-Term Planning

Why is this Important?

2.29 The authority is a complex organisation responsible for delivering a wide variety of services. It needs to plan effectively and to develop systems to enable scarce resources to be allocated in accordance with carefully weighed priorities. The budget is the financial expression of the authority's plans and policies.

2.30 The revenue budget must be constructed so as to ensure that resource allocation properly reflects the service plans and priorities of the full council. Budgets (spending plans) are needed so that the authority can plan, authorise, monitor and control the way money is allocated and spent. It is illegal for an authority to budget for a deficit.

2.31 Medium-term planning involves a planning cycle which incorporates the current and three future years. As each year passes, another future year will be added to the medium-term plan. This ensures that the authority is always preparing for events in advance.

Key Controls

2.32 The key controls for budgets and medium-term planning are:

(a) specific budget approval for all expenditure;

(b) budget managers are consulted in the preparation of the budgets for which they will be held responsible and accept accountability within delegations set by the executive for their budgets and the level of service to be delivered; and

(c) a monitoring process is in place to review regularly the effectiveness and operation of budget preparation and to ensure that any corrective action is taken.

Responsibilities of the Finance Director

2.33 To prepare and submit reports on budget prospects for the Executive, including resource constraints set by the Government. Reports should take account of medium-term prospects, where appropriate.

2.34 To determine the detailed form of revenue estimates and the methods for their preparation, consistent with the budget approved by the full council, and after consultation with the Executive and Chief Officers.

2.35 To prepare and submit reports to the Executive on the aggregate spending plans of service units and on the resources available to fund them, identifying, where appropriate, the implications for the level of council tax to be levied.

2.36 To advise on the medium-term implications of spending decisions.

2.37 To encourage the best use of resources and value for money by working with Chief Officers to identify opportunities to improve economy, efficiency and effectiveness, and by encouraging good practice in conducting financial appraisals of development or savings options, and in developing financial aspects of service planning.

2.38 To advise the full council on executive proposals in accordance with his or her responsibilities under section 151 of the Local Government Act 1972.

Responsibilities of Chief Officers

2.39 To prepare estimates of income and expenditure, in consultation with the Finance Director, to be submitted to the Executive.

2.40 To prepare budgets that are consistent with any relevant cash limits, with the authority's annual budget cycle and with guidelines issued by the Finance Director following agreement with the Executive. The format should be prescribed by the Finance Director.

2.41 To integrate financial and budget plans into service planning, so that budget plans can be supported by financial and non-financial performance measures.

2.42 In consultation with the Finance Director and in accordance with the laid-down guidance and timetable, to prepare detailed draft revenue and capital budgets for consideration by the appropriate committee.

2.43 When drawing up draft budget requirements, to have regard to:

(a) spending patterns and pressures revealed through the budget monitoring process;

(b) legal requirements;

(c) policy requirements as defined by the full council in the approved policy framework; and

(d) initiatives already under way.

Resource Allocation

Why is this Important?

2.44 A mismatch often exists between available resources and required resources. A common scenario is that available resources are not adequate to fulfil need/desire. It is therefore imperative that needs/desires are carefully prioritised and that resources are fairly allocated, in order to fulfil all legal responsibilities. Resources may include staff, money, equipment, goods and materials.

Key Controls

2.45 The key controls for resource allocation are:

(a) resources are acquired in accordance with the law and using an approved authorisation process;

(b) resources are used only for the purpose intended, to achieve the approved policies and objectives, and are properly accounted for;

(c) resources are securely held for use when required; and

(d) resources are used with the minimum level of waste, inefficiency or loss for other reasons.

Responsibilities of the Finance Director

2.46 To advise on methods available for the funding of resources, such as grants from central government and borrowing requirements.

2.47 To assist in the allocation of resources to budget managers.

Responsibilities of Chief Officers

2.48 To work within budget limits and to utilise resources allocated, and further allocate resources, in the most efficient, effective and economic way.

2.49 To identify opportunities to minimise or eliminate resource requirements or consumption without having a detrimental effect on service delivery.

Capital Programmes

Why are these Important?

2.50 Capital expenditure involves acquiring or enhancing fixed assets with a long-term value to the authority, such as land, buildings, and major items of plant, equipment or vehicles. Capital assets shape the way services are delivered in the long term and create financial commitments for the future in the form of financing costs and revenue running costs.

2.51 Capital expenditure should form part of an investment strategy and should be carefully prioritised in order to maximise the benefit of scarce resources.

Key Controls

2.52 The key controls for capital programmes are:

(a) a scheme and estimate, including project plan, progress targets and associated revenue expenditure is prepared for each capital project, for approval by the Executive;

(b) specific approval by the full council for the programme of capital expenditure;

(c) expenditure on capital schemes is subject to the approval of the relevant Portfolio Holder prior to scheme commencement;

(d) proposals for improvements and alterations to buildings must be approved by the Corporate Property Officer;

(e) schedules for individual schemes within the overall budget approved by the full council must be submitted to the relevant Portfolio Holder for approval (for example, refurbishment of playgrounds);

(f) the development and implementation of asset management plans;

(g) accountability for each proposal is accepted by a named manager; and

(h) monitoring of progress in conjunction with expenditure and comparison with approved budget.

Responsibilities of the Finance Director

2.53 To prepare capital estimates jointly with Chief Officers and the Head of Paid Service and to report them to the Executive for approval. The Executive will make recommendations on the capital estimates and on any associated financing requirements to the full council.

2.54 To prepare and submit reports to the Executive on the projected income, expenditure and resources compared with the approved estimates.

2.55 To issue guidance concerning capital schemes and controls, for example, on project appraisal techniques. The definition of 'capital' will be determined by the Finance Director, having regard to government regulations and accounting requirements.

2.56 To obtain authorisation from the Executive for individual schemes where the estimated expenditure exceeds the capital programme provision by more than a specified amount.

Responsibilities of Chief Officers

2.57 To comply with guidance concerning capital schemes and controls issued by the Finance Director.

2.58 To ensure that where appropriate all capital projects are supported by a business case.

2.59 To prepare regular reports reviewing the capital programme provisions for their services including a quarterly return of estimated final costs of schemes in the current years approved capital programme for submission to the Executive as part of the performance management framework.

2.60 To ensure that adequate records are maintained for all capital contracts.

2.61 To proceed with projects only when there is adequate provision in the capital programme and with the agreement of the relevant Portfolio Holder.

2.62 To prepare and submit reports, jointly with the Finance Director, to the Executive, of any material variation in contract costs whereby the quotation or tender to be accepted exceeds the provision in the capital programme by more than the approved limit of 10%.

2.63 To prepare and submit reports, jointly with the Finance Director, to the Executive, on completion of all contracts where the final expenditure exceeds the approved budget and/or contract sum by either 10% or £20,000 whichever is the lesser.

2.64 To ensure that credit arrangements, such as leasing agreements, are not entered into without the prior approval of the Finance Director and, if applicable, approval of the scheme through the capital programme.

Maintenance of Reserves

Why is this Important?

2.65 The local authority must decide the level of general reserves it wishes to maintain before it can decide the level of council tax. Reserves are maintained as a matter of prudence. They enable the authority to provide for unexpected events and thereby protect it from overspending, should such events occur. Reserves for specific purposes may also be maintained, such as the purchase or renewal of IT equipment.

Key Controls

2.66 To maintain reserves in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom and agreed accounting policies.

2.67 For each reserve established, the purpose, usage and basis of transactions should be clearly identified.

2.68 Authorisation and expenditure from reserves by the appropriate Chief Officer in consultation with the Finance Director.

Responsibilities of the Finance Director

2.69 To advise the Executive and/or the full council on prudent levels of reserves for the authority, and to take account of the advice of the External Auditor in this matter.

Responsibilities of Chief Officers

2.70 To ensure that resources are used only for the purposes for which they were intended.

Financial Procedure Rules Appendix C
Risk Management and Control of Resources

Risk Management

Why is this Important?

3.01 All organisations, whether private or public sector, face risks to people, property and continued operations. Risk is the chance or possibility of loss, damage, injury or failure to achieve objectives caused by an unwanted or uncertain action or event. Risk management is the planned and systematic approach to the identification, evaluation and control of risk. Its objectives are to secure the assets of the organisation and to ensure the continued financial and organisational well-being of the organisation. In essence it is, therefore, an integral part of good business practice. Risk management is concerned with evaluating the measures an organisation already has in place to manage identified risks and then recommending the action the organisation needs to take to control these risks effectively.

3.02 It is the overall responsibility of the audit committee to approve the authority's Risk Management Policy, and to promote a culture of risk management awareness throughout the authority.

Key Controls

3.03 The key controls for risk management are:

(a) procedures are in place to identify, assess, prevent or contain material known risks, and these procedures are operating effectively throughout the authority;

(b) a monitoring process is in place to review regularly the effectiveness of risk reduction strategies and the operation of these controls. The risk management process should be conducted on a continuing basis;

(c) managers know that they are responsible for managing relevant risks and are provided with relevant information on risk management initiatives;

(d) provision is made for losses that might result from the risks that remain;

(e) procedures are in place to investigate insurance claims within required timescales;

(f) acceptable levels of risk are determined and insured against where appropriate; and

(g) the authority has identified business continuity plans for implementation in the event of disaster that results in significant loss or damage to its resources.

Responsibilities of the Finance Director

3.04 To prepare and promote the authority's Risk Management Policy.

3.05 To develop risk management controls in conjunction with other Chief Officers.

3.06 To include all appropriate employees of the authority in a suitable fidelity guarantee insurance.

3.07 To effect corporate insurance cover, through external insurance and internal funding, and to negotiate all claims in consultation with other officers, where necessary.

Responsibilities of Chief Officers

3.08 To notify the Finance Director immediately of any loss, liability or damage that may lead to a claim against the authority, together with any information or explanation required by the Finance Director or the authority's insurers.

3.09 To take responsibility for risk management, having regard to advice from the Finance Director and other specialist officers (e.g. crime prevention, fire prevention, health and safety and the Audit and Risk Management Section).

3.10 To ensure that there are regular reviews of risk within their service units.

3.11 To notify the Finance Director promptly of all new risks, properties or vehicles that require insurance and of any alterations affecting existing insurances.

3.12 To consult the Finance Director and the Senior Solicitor on the terms of any indemnity that the authority is requested to give.

3.13 To ensure that employees, or anyone covered by the authority's insurances, do not admit liability or make any offer to pay compensation that may prejudice the assessment of liability in respect of any insurance claim.

Internal Controls

Why are these Important?

3.14 The authority is complex and beyond the direct control of individuals. It therefore requires internal controls to manage and monitor progress towards strategic objectives.

3.15 The authority has statutory obligations, and, therefore, requires internal controls to identify, meet and monitor compliance with these obligations.

3.16 The authority faces a wide range of financial, administrative and commercial risks, both from internal and external factors, which threaten the achievement of its objectives. Internal controls are necessary to manage these risks.

3.17 The system of internal controls is established in order to provide measurable achievement of:

(a) efficient and effective operations;

(b) reliable financial information and reporting;

(c) compliance with laws and regulations; and

(d) risk management.

Key Controls

3.18 The key controls and control objectives for internal control systems are:

(a) key controls should be reviewed on a regular basis and the authority should make a formal statement annually to the effect that it is satisfied that the systems of internal control are operating effectively;

(b) managerial control systems, including defining policies, setting objectives and plans, monitoring financial and other performance and taking appropriate anticipatory and remedial action. The key objective of these systems is to promote ownership of the control environment by defining roles and responsibilities;

(c) financial and operational control systems and procedures, which include physical safeguards for assets, segregation of duties, authorisation and approval procedures and information systems; and

(d) an effective internal audit function that is properly resourced. It should operate in accordance with the principles contained in the Auditing Practices Board's auditing guideline Guidance for Internal Auditors, CIPFA's Public Sector Internal Audit Standards and Local Government Application Note and with any other statutory obligations and regulations.

Responsibilities of the Finance Director

3.19 To assist the authority to put in place an appropriate control environment and effective internal controls which provide reasonable assurance of effective and efficient operations, financial stewardship, probity and compliance with laws and regulations.

Responsibilities of Chief Officers

3.20 To manage processes to check that established controls are being adhered to and to evaluate their effectiveness, in order to be confident in the proper use of resources, achievement of objectives and management of risks.

3.21 To review existing controls in the light of changes affecting the authority and to establish and implement new ones in line with guidance from the Finance Director. Chief Officers should also be responsible for removing controls that are unnecessary or not cost or risk effective – for example, because of duplication.

3.22 To ensure staff have a clear understanding of the consequences of lack of control.

Audit Requirements

Internal Audit

Why is this Important?

3.23 The requirement for an internal audit function for local authorities is implied by section 151 of the Local Government Act 1972, which requires that authorities "make arrangements for the proper administration of their financial affairs". The Accounts and Audit Regulations ~~2011~~ 2015 require that a "~~relevant body shall 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".~~relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance".

3.24 Accordingly, internal audit is an independent appraisal function established by the authority for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.

Key Controls

3.25 The key controls for internal audit are:

(a) that it is independent in its planning and operation;

(b) the Head of Internal Audit has direct access to the Head of Paid Service, all levels of management and directly to elected members; and

(c) the internal auditors comply with the auditing practices in the Public Sector Internal Audit Standards and CIPFA'S Local Government Application Note for the United Kingdom Public Sector Internal Audit.

Responsibilities of the Finance Director

3.26 To ensure that internal auditors have the authority to:

(a) access authority premises at reasonable times;

(b) access all assets, records, documents, correspondence and control systems;

(c) receive any information and explanation considered necessary concerning any matter under consideration;

(d) require any employee of the authority to account for cash, stores or any other authority asset under his or her control;

(e) access records belonging to third parties, such as contractors and organisations for which the authority acts as the accountable body, when required; and

(f) directly access the Head of Paid Service, the Executive, the Audit Committee and Standards Committee as and when necessary.

3.27 To approve the strategic and annual audit plans prepared by the Head of Internal Audit, which take account of the characteristics and relative risks of the activities involved.

3.28 To ensure that effective procedures are in place to investigate promptly any fraud or irregularity.

Responsibilities of Chief Officers

3.29 To ensure that internal auditors are given access at all reasonable times to premises, personnel, documents and assets that the auditors consider necessary for the purposes of their work.

3.30 To ensure that auditors are provided with any information and explanations that they seek in the course of their work.

3.31 To consider and respond promptly to findings in audit reports.

3.32 To ensure that any agreed actions arising from audit findings are carried out in a timely and efficient fashion.

3.33 To notify the Finance Director immediately of any suspected fraud, theft, irregularity, improper use or misappropriation of the authority's property or resources. Pending investigation and reporting, the Chief Officer should take all necessary steps to prevent further loss and to secure records and documentation against removal or alteration.

3.34 To ensure that new systems for maintaining financial records, or records of assets, or changes to such systems, are discussed with and agreed by the Head of Internal Audit prior to implementation.

External Audit

Why is this Important?

3.35 The work of the Audit Commission and its appointed auditors is carried out in accordance with the provisions of the Audit Commission Act 1998 and the Code of Audit Practice 2010 (the Code). Responsibility for the conduct of the audit remains, at all times, that of the appointed auditor.

3.36 The Code prescribes the way in which auditors of local government bodies, as defined in Schedule 2 of the Audit Commission Act 1998, appointed by the Audit Commission should carry out their functions under the Act.

3.37 Auditors' principal objectives are to review and report on, to the extent required by the relevant legislation and the requirements of this Code: (a) the audited body's financial statements and (b) whether the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Key Controls

3.38 External auditors are appointed by the Audit Commission normally for a minimum period of five years. The Audit Commission prepares a code of audit practice, which external auditors follow when carrying out their audits.

Responsibilities of the Finance Director

3.39 To ensure that external auditors are given access at all reasonable times to premises, personnel, documents and assets that the external auditors consider necessary for the purposes of their work.

3.40 To ensure there is effective liaison between external and internal audit.

3.41 To work with the external auditor and advise the full council, Executive, the Audit Committee and Chief Officers on their responsibilities in relation to external audit.

Responsibilities of Chief Officers

3.42 To ensure that external auditors are given access at all reasonable times to premises, personnel, documents and assets which the external auditors consider necessary for the purposes of their work.

3.43 To ensure that all records and systems are up to date and available for inspection.

Preventing Fraud and Corruption

Why is this Important?

3.44 The authority will not tolerate fraud and corruption in the administration of its responsibilities, whether from inside or outside the authority.

3.45 The authority's expectation of propriety and accountability is that members and staff at all levels will lead by example in ensuring adherence to legal requirements, rules, procedures and practices.

3.46 The authority also expects that individuals and organisations (e.g. suppliers, contractors, service providers) with whom it comes into contact will act towards the authority with integrity and without thought or actions involving fraud and corruption.

Key Controls

3.47 The key controls regarding the prevention of financial irregularities are that:

(a) the authority has an effective Anti-Fraud, Bribery and Corruption Policy and maintains a culture that will not tolerate fraud, bribery or corruption;

(b) all members and staff act with integrity and lead by example;

(c) senior managers are required to deal swiftly and firmly with those who defraud or attempt to defraud the authority or who are corrupt;

(d) high standards of conduct are promoted amongst members by the Standards Committee;

(e) the maintenance of a register of gifts, hospitality and interests in which any hospitality or gifts accepted or provided must be recorded;

(f) whistle blowing procedures are in place and operate effectively; and

(g) legislation including Money Laundering and the Public Interest Disclosure Act 1998 is adhered to.

Responsibilities of the Finance Director

3.48 To develop and maintain effective counter fraud, bribery and corruption arrangements.

3.49 To maintain adequate and effective internal control arrangements.

3.50 To ensure that all suspected irregularities are reported to the Head of Internal Audit, the Head of Paid Service, the Monitoring Officer and the Audit Committee.

Responsibilities of Chief Officers

3.51 To ensure that all suspected irregularities are reported to the Finance Director.

3.52 To instigate the authority's disciplinary procedures where the outcome of an audit investigation indicates improper behaviour.

3.53 To ensure that where financial impropriety is discovered, the Finance Director is informed, and where sufficient evidence exists to believe that a criminal offence may have been committed, the police are called in to determine with the Crown Prosecution Service whether any prosecution will take place.

3.54 To ensure compliance with the 'Employee Code of Conduct' and maintain a register of both financial and non-financial interests declared by employees which they consider could bring them into conflict with the Authority's interests.

3.55 To ensure that gifts and hospitality received and provided by employees is recorded in accordance with the employee 'Code of Conduct'.

Assets

Security

Why is this Important?

3.56 The authority holds assets in the form of property, vehicles, equipment, furniture and other items worth many millions of pounds. It is important that assets are safeguarded and used efficiently in service delivery, and that there are arrangements for the security of both assets and information required for service operations. An up-to-date asset register is a prerequisite for proper fixed asset accounting and sound asset management.

Key Controls

3.57 The key controls for the security of resources such as land, buildings, fixed plant machinery, equipment, software and information are:

(a) resources are used only for the purposes of the authority and are properly accounted for;

(b) resources are available for use when required;

(c) resources no longer required are disposed of in accordance with the law and the regulations of the authority so as to maximise benefits;

(d) an asset register is maintained for the authority, assets are recorded when they are acquired by the authority and this record is updated as changes occur with respect to the location and condition of the asset;

(e) all staff are aware of their responsibilities with regard to safeguarding the authority's assets and information, including the requirements of the Data Protection Act and software copyright legislation; and

(f) all staff are aware of their responsibilities with regard to safeguarding the security of the authority's computer systems, including maintaining restricted access to the information held on them and compliance with the authority's Computer Use Policy.

Responsibilities of the Finance Director

3.58 To ensure that an asset register is maintained in accordance with good practice. The function of the asset register is to provide the authority with information about fixed assets so that they are:

- safeguarded;
- used efficiently and effectively; and
- adequately maintained.

An inventory of IT equipment is also maintained although not formally included within the asset register for accounting purposes.

3.59 To receive the information required for accounting, costing and financial records from each chief officer.

3.60 To ensure that assets are valued in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

Responsibilities of Chief Officers

3.61 The Corporate Property Officer shall maintain a property database for all land and property currently owned or used by the authority. Any use of land or property should be supported by documentation identifying terms, responsibilities and duration of use.

3.62 To ensure that lessees and other occupiers of council land and property are not allowed to take possession or enter the land or property until a lease or agreement, in a form approved by the Corporate Property Officer in consultation with the Legal Services Team, has been completed.

3.63 To ensure the proper security of all buildings and other assets under their control.

3.64 Where land or buildings are surplus to requirements, a recommendation for sale should be the subject of a joint report by the Corporate Property Officer and the Finance Director.

3.65 To pass title deeds to the Legal Services Team who are responsible for custody of all title deeds.

3.66 To ensure that no authority asset is subject to personal use by an employee without proper authority.

3.67 To ensure the safe custody of vehicles, equipment, furniture, stock, stores and other property belonging to the authority.

3.68 To ensure that the Council maintains a register of moveable assets in accordance with arrangements defined by the Finance Director.

3.69 To ensure that assets are identified, their location recorded and that they are appropriately marked and insured.

3.70 To consult the Finance Director in any case where security is thought to be defective or where it is considered that special security arrangements may be needed.

3.71 To ensure cash holdings on premises are kept to a minimum.

3.72 To ensure that keys to safes and similar receptacles are kept secure at all times; loss of any such keys must be reported to the Finance Director as soon as possible.

3.73 To record all disposal or part exchange of assets that should normally be by competitive tender or public auction, unless, following consultation with the Finance Director, the Executive agrees otherwise.

3.74 To arrange for the valuation of assets for accounting purposes to meet requirements specified by the Finance Director.

3.75 To ensure that all employees are aware that they have a personal responsibility with regard to the protection and confidentiality of information, whether held in manual or computerised records. Information may be sensitive or privileged, or may possess some intrinsic value, and its disclosure or loss could result in a cost to the authority in some way.

Inventories

3.76 To maintain inventories and record an adequate description of equipment, plant and machinery. All assets, excluding IT equipment and office furniture, with either a purchase price (if known) or an approximate replacement value of over £350 should be notified to the Head of Internal Audit for insurance purposes.

3.77 To carry out an annual check of all items on the inventory in order to verify location, review condition and to take action in relation to surpluses or deficiencies, annotating the inventory accordingly. Attractive and portable items such as computers, cameras and video recorders should be identified with security markings as belonging to the authority.

3.78 To make sure that property is only used in the course of the authority's business, unless the Chief Officer concerned has given permission otherwise.

3.79 To make arrangements for the care and custody of stocks and stores in the department.

3.80 To ensure stocks are maintained at reasonable levels and are subject to a regular independent physical check. All discrepancies should be investigated and pursued to a satisfactory conclusion.

3.81 To investigate and remove from the authority's records (i.e. write off) discrepancies below the predetermined limit of £200, immediately notifying the Finance Director.

3.82 Procedures for disposal of redundant stocks and equipment should be by competitive quotations or auction, unless, an alternative approach has been agreed with the Finance Director.

3.83 To seek approval from the Finance Director to the write-off of redundant stocks and equipment in excess of the predetermined sum of £200.

Intellectual Property

Why is this Important?

3.84 Intellectual property is a generic term that includes inventions and writing. If these are created by the employee during the course of employment, then, as a general rule, they belong to the employer, not the employee. Various acts of Parliament cover different types of intellectual property.

3.85 Certain activities undertaken within the authority may give rise to items that may be patentable, for example, software development. These items are collectively known as intellectual property.

Key Controls

3.86 In the event that the authority decides to become involved in the commercial exploitation of inventions, the matter should proceed in accordance with the authority's approved intellectual property procedures.

Responsibilities of the Finance Director

3.87 To develop and disseminate good practice through the authority's intellectual property procedures.

Responsibilities of Chief Officers

3.88 To ensure that controls are in place to ensure that staff do not carry out private work in council time and that staff are aware of an employer's rights with regard to intellectual property.

Asset Disposal

Why is this Important?

3.89 It would be uneconomic and inefficient for the cost of assets to outweigh their benefits. Obsolete, non-repairable or unnecessary resources should be disposed of in accordance with the law and the authority's procedure rules.

Key Controls

3.90 Assets for disposal are identified and are disposed of at the most appropriate time, and only when it is in the best interests of the authority, and best price is obtained, bearing in mind other factors, such as environmental issues. For items of significant value, disposal should be by competitive tender or public auction.

3.91 Procedures protect staff involved in the disposal from accusations of personal gain.

Responsibilities of the Finance Director

3.92 To issue guidance regarding best practice for disposal of assets.

3.93 To ensure appropriate accounting entries are made to remove the value of disposed assets from the authority's records and to include the sale proceeds if appropriate.

Responsibilities of Chief Officers

3.94 To seek advice from purchasing advisors on the disposal of surplus or obsolete materials, stores or equipment. Advice from the Legal Services Team should be sought for any land disposals.

3.95 To ensure that income received for the disposal of an asset is properly banked and coded.

Treasury Management

Why is this Important?

3.96 Many millions of pounds pass through the authority's books each year. This led to the establishment of codes of practice. The guidance states that the investment priorities for local authorities must be firstly, the security of the investment and secondly, the liquidity of the asset. Only when these two priorities have been satisfied should the local authority seek to maximise the return on investment.

Key Controls

3.97 That the authority's borrowings and investments comply with the CIPFA Code of Practice on Treasury Management and with the authority's Treasury Management Policy Statement.

Responsibilities of Finance Director – Treasury Management and Banking

3.98 To arrange the borrowing and investments of the authority in such a manner as to comply with the CIPFA Code of Practice on Treasury Management and the authority's Treasury Management Policy Statement.

3.99 To report the following, as a minimum, in relation to treasury management activities to the Executive:

- a Treasury Management and Annual Investment Strategy before the commencement of the new financial year;
- a mid year review;
- an annual report on treasury management activity before the 30 September after the year end to which it relates; and
- the outcome of debt rescheduling undertaken reported as soon as possible after completion of the exercise.

3.100 To operate such bank accounts as are considered necessary – opening or closing any bank account shall require the approval of the Finance Director.

Responsibilities of Chief Officers – Treasury Management and Banking

3.101 To follow the instructions on banking issued by the Finance Director.

Responsibilities of Finance Director – Investments and Borrowing

3.102 To ensure that all investments of money are made in the name of the authority or in the name of nominees approved by the full council.

3.103 To ensure that all securities that are the property of the authority or its nominees and the title deeds of all property in the authority's ownership are held in the custody of the appropriate Chief Officer.

3.104 To effect all borrowings in the name of the authority.

3.105 To act as the authority's registrar of stocks, bonds and mortgages and to maintain records of all borrowing of money by the authority.

Responsibilities of Chief Officers – Investments and Borrowing

3.106 To ensure that loans are not made to third parties and that interests are not acquired in companies, joint ventures or other enterprises without the approval of the full council, following consultation with the Finance Director.

Responsibilities of Chief Officers – Trust Funds and Funds Held for Third Parties

3.107 To arrange for all trust funds to be held, wherever possible, in the name of the authority. All officers acting as trustees by virtue of their official position shall deposit securities, etc. relating to the trust with the Finance Director, unless the deed otherwise provides.

3.108 To arrange, where funds are held on behalf of third parties, for their secure administration, approved by the Finance Director, and to maintain written records of all transactions.

3.109 To ensure that trust funds are operated within any relevant legislation and the specific requirements for each trust.

Responsibilities of the Finance Director – Imprest Accounts

3.110 To provide employees of the authority with cash or bank imprest accounts to meet minor expenditure on behalf of the authority and to prescribe rules for operating these accounts. Minor items of expenditure should not exceed the prescribed amount of £50.

3.111 To determine the petty cash limit and to maintain a record of all transactions and petty cash advances made, and periodically to review the arrangements for the safe custody and control of these advances.

3.112 To reimburse imprest holders as often as necessary to restore the imprests, but normally not more than monthly.

Responsibilities of Chief Officers – Imprest Accounts

3.113 To ensure that employees operating an imprest account:

(a) obtain and retain vouchers to support each payment from the imprest account. Where appropriate, an official receipted VAT invoice must be obtained;

(b) make adequate arrangements for the safe custody of the imprest account;

(c) produce upon demand by the Finance Director cash and all vouchers to the total value of the imprest amount;

(d) record transactions promptly;

(e) reconcile and balance the imprest account at least monthly; reconciliation sheets to be signed and retained by the imprest account holder;

(f) provide the Finance Director with a certificate of the value of the imprest account held at 31 March each year;

(g) ensure that the float is never used to cash personal cheques or to make personal loans and that the only payments into the account are the reimbursement of the float and change relating to purchases where an advance has been made; and

(h) on leaving the authority's employment or otherwise ceasing to be entitled to hold an imprest advance, an employee shall account to the Finance Director for the amount advanced to him or her.

Staffing

Why is this Important?

3.114 In order to provide the highest level of service, it is crucial that the authority recruits and retains high calibre, knowledgeable staff, qualified to an appropriate level.

Key Controls

3.115 The key controls for staffing are:

(a) ensuring that staffing requirements and budget allocation are matched;

(b) procedures are in place for forecasting staffing requirements and cost;

(c) controls are implemented that ensure that staff time is used efficiently and to the benefit of the authority; and

(d) checks are undertaken prior to employing new staff to ensure that they are appropriately qualified, experienced and trustworthy.

Responsibilities of the Finance Director

3.116 To ensure that budget provision exists for all existing and new employees.

3.117 To act as an advisor to Chief Officers on areas such as National Insurance and pension contributions, as appropriate.

Responsibilities of Chief Officers

3.118 To ensure that the staffing budget is an accurate forecast of staffing levels and is equated to an appropriate revenue budget provision (including on-costs and overheads).

3.119 To monitor staff activity to ensure adequate control over such costs as sickness, overtime, training and temporary staff.

3.120 To ensure that the staffing budget is not exceeded without due authority and that it is managed to enable the agreed level of service to be provided.

3.121 To ensure that the Finance Director is immediately informed if the staffing budget is likely to be materially over or under-spent.

Financial Procedure Rules Appendix D
Financial Systems And Procedures

General

Why is this Important?

4.01 The Council has many systems and procedures relating to the control of the authority's assets, including purchasing, costing and management systems and is increasingly reliant on computers for financial management information. The information must therefore be accurate and the systems and procedures sound and well administered. They should contain controls to ensure that transactions are properly processed and errors detected promptly.

4.02 The Finance Director has both a professional and a statutory responsibility to ensure that the authority's financial systems are sound and should therefore be notified of any new developments or changes.

Key Controls

4.03 The key controls for systems and procedures are:

(a) basic data exists to enable the authority's objectives, targets, budgets and plans to be formulated;

(b) performance is communicated to the appropriate managers on an accurate, complete and timely basis;

(c) early warning is provided of deviations from target, plans and budgets that require management attention; and

(d) operating systems and procedures are secure.

Responsibilities of the Finance Director

4.04 To make arrangements for the proper administration of the authority's financial affairs, including to:

(a) issue advice, guidance and procedures for officers and others acting on the authority's behalf;

(b) determine the accounting systems, form of accounts and supporting financial records;

(c) establish arrangements for audit of the authority's financial affairs;

(d) approve any new financial systems to be introduced; and

(e) approve any changes to be made to existing financial systems.

Responsibilities of Chief Officers

4.05 To ensure that accounting records are properly maintained and held securely.

4.06 To ensure that vouchers and documents with financial implications are not destroyed, except in accordance with arrangements approved by the Finance Director.

4.07 To ensure that a complete management trail, allowing financial transactions to be traced from the accounting records to the original document, and vice versa, is maintained.

4.08 To incorporate appropriate controls to ensure that, where relevant:

(a) all input is genuine, complete, accurate, timely and not previously processed;

(b) all processing is carried out in an accurate, complete and timely manner; and

(c) output from the system is complete, accurate and timely.

4.09 To ensure that the organisational structure provides for an appropriate segregation of duties to provide adequate internal controls and to minimise the risk of fraud or other malpractice.

4.10 To ensure there is a documented and tested disaster recovery plan to allow information system processing to resume quickly in the event of an interruption.

4.11 To ensure that systems are documented and staff trained in their operation.

4.12 To consult with the Finance Director before changing any existing system or introducing new systems.

4.13 To establish a scheme of delegation identifying officers authorised to act upon the Chief Officer's behalf in respect of payments, income collection and placing orders, and showing the limits of their authority.

4.14 To supply lists of authorised officers, with specimen signatures and delegated limits, to the Finance Director, together with any subsequent variations.

4.15 To ensure that effective contingency arrangements, including back-up procedures, exist for computer systems. Wherever possible, back-up information should be securely retained in a fireproof location, preferably off site or at an alternative location within the building.

4.16 To ensure that, where appropriate, computer systems are registered in accordance with data protection legislation and that staff are aware of their responsibilities under the legislation.

4.17 To ensure that relevant standards and guidelines for computer systems are observed.

4.18 To ensure that computer equipment and software are protected from loss and damage through theft, vandalism, etc.

4.19 To comply with the copyright, designs and patents legislation and, in particular, to ensure that:

(a) only software legally acquired and installed by the authority is used on its computers;

(b) staff are aware of legislative provisions; and

(c) in developing systems, due regard is given to the issue of intellectual property rights.

Income and Expenditure

Income

Why is this Important?

4.20 Income can be a vulnerable asset and effective income collection systems are necessary to ensure that all income due is identified, collected, receipted and banked properly. It is preferable to obtain income in advance of supplying goods or services as this improves the authority's cash flow and also avoids the time and cost of administering debts.

Key Controls

4.21 The key controls for income are:

(a) all income due to the authority is identified and charged correctly, in accordance with an approved charging policy, which is regularly reviewed;

(b) all income is collected from the correct person, at the right time, using the correct procedures and the appropriate stationery;

(c) all money received by an employee on behalf of the authority is paid without delay to the Finance Director or, as he or she directs, to the authority's bank account, and properly recorded. The responsibility for cash collection should be separated from that:

- for identifying the amount due; and
- for reconciling the amount due to the amount received.

(d) effective action is taken to pursue non-payment within defined timescales;

(e) formal approval for debt write-off is obtained;

(f) appropriate write-off action is taken within defined timescales;

(g) appropriate accounting adjustments are made following write-off action;

(h) all appropriate income documents are retained and stored for the defined period in accordance with the document retention schedule; and

(i) money collected and deposited is reconciled to the bank account by a person who is not involved in the collection or banking process.

Responsibilities of the Finance Director

4.22 To agree arrangements for the collection of all income due to the authority and to approve the procedures, systems and documentation for its collection.

4.23 To approve the form of all receipt forms, books or tickets and similar items and to satisfy himself or herself regarding the arrangements for their control.

4.24 To establish and initiate appropriate recovery procedures, including legal action where necessary, for debts that are not paid promptly.

4.25 To record and approve the write-off of bad debts without limit and to report these to the relevant executive member in cases where:

a) the debt has been remitted by the Magistrates under the provisions of regulation 48(3) of the Council Tax (Administrative and Enforcement) Regulations, 1992, or

b) the debt is the subject of an insolvency/bankruptcy and the Council has submitted a relevant claim covering the outstanding debt.

4.26 To record and approve the write-off of bad debts not covered by 4.25 and to report these to the relevant executive member.

4.27 To ensure that appropriate accounting adjustments are made following write-off action.

Responsibilities of Chief Officers

4.28 To establish a charging policy for the supply of goods or services, including the appropriate charging of VAT, and to review it regularly, in line with corporate policies.

4.29 To separate the responsibility for identifying amounts due and the responsibility for collection, as far as is practicable.

4.30 To issue official receipts or to maintain other documentation for income collection.

4.31 To hold securely receipts, tickets and other records of income for the appropriate period.

4.32 To lock away all income to safeguard against loss or theft, and to ensure the security of cash handling.

4.33 To ensure that income is paid fully and promptly into the appropriate authority bank account in the form in which it is received. Appropriate details should be recorded on paying-in slips to provide an audit trail. Money collected and deposited must be reconciled to the bank account on a regular basis.

4.34 To ensure income is not used to cash personal cheques or other payments.

4.35 To supply the Finance Director with details relating to work done, goods supplied, services rendered or other amounts due, to enable the Finance Director to record correctly the sums due to the authority and to ensure accounts are sent out promptly.

4.36 Chief Officers should use established performance management systems to monitor recovery of income and flag up areas of concern to the Finance Director. Chief Officers have a responsibility to assist the Finance Director in collecting debts that they have originated**,** by providing any further information requested by the debtor, and in pursuing the matter on the authority's behalf. Only up to approved levels of cash can be held on the premises.

4.37 To recommend to the Finance Director all debts to be written off and to keep a record of all sums written off up to the approved limit. Once raised, no bona fide debt may be cancelled, except by full payment or by its formal writing off. A credit note to replace a debt can only be issued to correct a factual inaccuracy or administrative error in the calculation and/or billing of the original debt.

4.38 To obtain the approval of the Finance Director when seeking to write off debts and the approval of the relevant executive member where required.

4.39 To notify the Finance Director of outstanding income relating to the previous financial year as soon as possible after 31 March in line with the timetable determined by the Finance Director.

Ordering and Paying for Work, Goods and Services

Why is this Important?

4.40 Public money should be spent with demonstrable probity and in accordance with the authority's policies. Authorities have a statutory duty to achieve best value in part through economy and efficiency. The authority's procedures should help to ensure that services obtain value for money from their purchasing arrangements.

General

4.41 Every officer and member of the authority has a responsibility to declare any links or personal interests that they may have with purchasers, suppliers and/or contractors if they are engaged in contractual or purchasing decisions on behalf of the authority, in accordance with appropriate codes of conduct.

4.42 Official orders must be in a form approved by the Finance Director. Official orders must be issued for all work, goods or services to be supplied to the authority, except for supplies of utilities, periodic payments such as rent or business rates, petty cash purchases or other exceptions specified by the Finance Director.

4.43 Each order must conform to the guidelines on central purchasing and the standardisation of supplies and materials. Standard terms and conditions must not be varied without the prior approval of the Finance Director.

4.44 Apart from petty cash the normal method of payment from the authority shall be by electronic transfer (BACS) or cheque or other instrument or approved method, drawn on the authority's bank account by the Finance Director. The use of direct debit shall require the prior agreement of the Finance Director.

4.45 Official orders must not be raised for any personal or private purchases, nor must personal or private use be made of authority contracts.

Key Controls

4.46 The key controls for ordering and paying for work, goods and services are:

(a) all goods and services are ordered only by appropriate persons and are correctly recorded;

(b) all goods and services shall be ordered in accordance with the authority's contract procedure rules;

(c) goods and services received are checked to ensure they are in accordance with the order;

(d) payments are not made unless goods have been received by the authority to the correct price, quantity and quality standards;

(e) all payments are made to the correct person, for the correct amount and are properly recorded, regardless of the payment method;

(f) all appropriate evidence of the transaction and payment documents are retained and stored for the defined period, in accordance with t corporate retention schedules;

(g) all expenditure, including VAT, is accurately recorded against the right budget and any exceptions are corrected; and

(h) in addition, the effect of e-business/e-commerce and electronic purchasing requires that processes are in place to maintain the security and integrity of data for transacting business electronically.

Responsibilities of the Finance Director

4.47 To ensure that all the authority's financial systems and procedures are sound and properly administered.

4.48 To approve any changes to existing financial systems and to approve any new systems before they are introduced.

4.49 To approve the form of official orders and associated terms and conditions.

4.50 To make payments from the authority's funds on the Chief Officer's authorisation that the expenditure has been duly incurred in accordance with financial regulations.

4.51 To make payments, whether or not provision exists within the estimates, where the payment is specifically required by statute or is made under a court order.

4.52 To make payments to contractors on the certificate of the appropriate Chief Officer, which must include details of the value of work, retention money, amounts previously certified and amounts now certified.

4.53 To make payments by the most economical means.

Responsibilities of Chief Officers

4.54 To ensure that official orders have a unique reference number and are used for all goods and services, other than the exceptions specified in 4.42.

4.55 To ensure that orders are only used for goods and services provided to the Council. Individuals must not use official orders to obtain goods or services for their private use.

4.56 To ensure that only those staff authorised by him or her approve / authorise orders and to maintain an up-to-date list of such authorised staff, including specimen signatures identifying, where applicable, the limits of their authority.

4.57 To ensure that goods and services are checked on receipt to verify that they are in accordance with the order. This check should, where possible, be carried out by a different officer from the person who authorised the order. Appropriate entries should then be made in inventories or stores records.

4.58 To ensure that payment is not made unless a proper VAT invoice has been received, checked, coded and certified for payment, confirming:

(a) receipt of goods or services;

(b) that the invoice has not previously been paid;

(c) that expenditure has been properly incurred and is within budget provision;

(d) that prices and arithmetic are correct and accord with quotations, tenders, contracts or catalogue prices;

(e) correct accounting treatment of tax;

(f) that the invoice is correctly coded;

(g) that discounts have been taken where available; and

(h) that appropriate entries will be made in accounting records.

4.59 To ensure that two authorised members of staff are involved in the ordering and receiving process unless the value of the order is below the specified limit of £100. (A higher limit of £1,000 has been agreed for certain officers and confirmed with Internal Audit with a further two officers with an agreed limit of £10,000).~~).~~

4.60 To ensure that the department maintains and reviews periodically a list of staff approved to authorise invoices. Names of authorising officers together with specimen signatures and details of the limits of their authority, where applicable, shall be forwarded to the Finance Director.

4.61 To ensure that payments are not made on a photocopied or faxed invoice, statement or other document other than the formal invoice. Any instances of these being rendered should be reported to Head of Internal Audit.

4.62 To ensure that the department obtains value for money by taking appropriate steps to obtain competitive prices for goods and services of the appropriate quality, which are in line with value for money principles.

4.63 To utilise the contract procedures established by the Council in putting purchases, where appropriate, out to competitive quotation or tender.

4.64 To ensure that employees are aware of the Council's code of conduct for local government employees.

4.65 To notify the Finance Director of outstanding expenditure relating to the previous financial year as soon as possible after 31 March in line with the timetable determined by the Finance Director.

4.66 With regard to contracts for construction and alterations to buildings and for civil engineering works, to document and agree with the Finance Director the systems and procedures to be adopted in relation to financial aspects, including certification of interim and final payments, checking, recording and authorising payments, the system for monitoring and controlling capital schemes and the procedures for validation of subcontractors' tax status.

4.67 To notify the Finance Director immediately of any expenditure to be incurred as a result of statute/court order where there is no budgetary provision.

4.68 To ensure that all appropriate payment records are retained and stored for the defined period, in accordance with the document retention schedule.

4.69 To ensure that staff who have been issued with either Procurement or Business Cards comply with the rules contained within the Employee Agreement and sign the Acknowledgement Form indicating their acceptance of the conditions.

Payments to Employees and Members

Why is this Important?

4.70 Staff costs are the largest item of expenditure for most authority services. It is therefore important that payments are accurate, timely, made only where they are due for services to the authority and that payments accord with individuals' conditions of employment. It is also important that all payments are accurately and completely recorded and accounted for and that members' allowances are authorised in accordance with the scheme adopted by the full council.

Key Controls

4.71 The key controls for payments to employees and members are:

(a) proper authorisation procedures are in place and that there is adherence to corporate timetables in relation to:

- starters;
- leavers;
- variations; and
- enhancements.

and that payments are made on the basis of timesheets or claims;

(b) frequent reconciliation of payroll expenditure against approved budget and bank account;

(c) all appropriate payroll documents are retained and stored for the defined period in accordance with the document retention schedule; and

(d) that HMRC regulations are complied with.

Responsibilities of the Finance Director

4.72 To arrange and control secure and reliable payment of salaries, wages, compensation or other emoluments to existing and former employees, in accordance with procedures prescribed by him or her, on the due date.

4.73 To record and make arrangements for the accurate and timely payment of tax, superannuation and other deductions.

4.74 To make arrangements for payment of all travel and subsistence claims or financial loss allowance.

4.75 To make arrangements for paying members travel or other allowances upon receiving the prescribed form, duly completed and authorised.

4.76 To provide secure payment of salaries and wages by the most economical means.

4.77 To ensure that there are adequate arrangements for administering superannuation matters on a day-to-day basis.

4.78 To ensure that the payroll provider is provided with signatures of officers authorised to sign timesheets and claims.

4.79 To ensure that all appropriate payroll documents are retained and stored for the defined period in accordance with the document retention schedule.

Responsibilities of Chief Officers

4.80 To ensure appointments are made in accordance with the regulations of the authority and approved establishments, grades and scale of pay and that adequate budget provision is available.

4.81 To notify the Finance Director of all appointments, terminations or variations which may affect the pay or pension of an employee or former employee, in the form and to the timescale required.

4.82 To ensure that adequate and effective systems and procedures are operated, so that:

- payments are only authorised to bona fide employees;
- payments are only made where there is a valid entitlement;
- conditions and contracts of employment are correctly applied; and
- employees' names listed on the payroll are checked at regular intervals to verify accuracy and completeness.

4.83 To send an up-to-date list of the names of officers authorised to sign records to the Finance Director, together with specimen signatures.

4.84 To ensure that payroll transactions are processed only through the payroll system. Chief Officers should give careful consideration to the employment status of individuals employed on a self-employed consultant or subcontract basis. HMRC applies a tight definition for employee status, and in cases of doubt, advice should be sought.

4.85 To certify travel and subsistence claims and other allowances. Certification is taken to mean that journeys were authorised and expenses properly and necessarily incurred, and that allowances are properly payable by the authority, ensuring that cost-effective use of travel arrangements is achieved.

4.86 To ensure that the Finance Director is notified of the details of any employee benefits in kind, to enable full and complete reporting within the income tax self-assessment system.

Responsibilities of Members

4.87 To submit claims for members' travel and subsistence allowances within two months of the date on which the entitlement to the allowance arises is carried out.

Taxation

Why is this Important?

4.88 Like all organisations, the authority is responsible for ensuring its tax affairs are in order. Tax issues are often very complex and the penalties for incorrectly accounting for tax are severe. It is therefore very important for all officers to be aware of their role.

Key Controls

4.89 The key controls for taxation are:

(a) budget managers are provided with relevant information and kept up to date on tax issues;

(b) budget managers are instructed on required record keeping;

(c) all taxable transactions are identified, properly carried out and accounted for within stipulated timescales;

(d) records are maintained in accordance with instructions; and

(e) returns are made to the appropriate authorities within the stipulated timescale.

Responsibilities of the Finance Director

4.90 To complete a monthly return of VAT inputs and outputs to HMRC.

4.91 To provide details to HMRC regarding the construction industry tax deduction scheme.

4.92 To provide up-to-date guidance for authority employees on taxation issues.

4.93 To maintain and monitor the Council's partial exemption position.

4.94 To provide up-to-date guidance for authority employees on taxation issues.

4.95 To complete all HMRC returns regarding PAYE.

Responsibilities of Chief Officers

4.96 To ensure (in conjunction with the Finance Director) that the correct VAT liability is attached to all income due and that all VAT recoverable on purchases complies with HMRC regulations.

4.97 To ensure that, where construction and maintenance works are undertaken, the contractor fulfils the necessary construction industry tax deduction requirements.

4.98 To ensure that all persons employed by the authority are added to the authority's payroll and tax deducted from any payments, except where the individuals are bona fide self-employed or are employed by a recognised staff agency.

4.99 To follow guidance on taxation issued by the Finance Director.

Financial Procedure Rules Appendix E
External Arrangements

Partnerships

Why are these Important?

5.01 Partnerships are likely to play a key role in delivering community strategies and in helping to promote and improve the well-being of the area. Local authorities are working in partnership with others – public agencies, private companies, community groups and voluntary organisations. Local authorities still deliver some services, but their distinctive leadership role is to bring together the contributions of the various stakeholders. They therefore need to deliver a shared vision of services based on user wishes.

5.02 Local authorities will mobilise investment, bid for funds, champion the needs of their areas and harness the energies of local people and community organisations. Local authorities will be measured by what they achieve in partnership with others.

General

5.03 The main reasons for entering into a partnership are:

(a) the desire to find new ways to share risk;

(b) the ability to access new resources;

(c) to provide new and better ways of delivering services; and

(d) to forge new relationships.

5.04 A partner is defined as either:

(a) an organisation (private or public) undertaking, part funding or participating as a beneficiary in a project; or

(b) a body whose nature or status give it a right or obligation to support the project.

5.05 Partners participate in projects by:

(a) acting as a project deliverer or sponsor, solely or in association with others;

(b) acting as a project funder or part funder; and

(c) being the beneficiary group of the activity undertaken in a project.

5.06 Partners have common responsibilities:

(a) to be willing to take on a role in the broader programme appropriate to the skills and resources of the partner organisation;

(b) to act in good faith at all times and in the best interests of the partnership's aims and objectives;

(c) to be open about any conflict of interests that might arise;

(d) to encourage joint working and promote the sharing of information, resources and skills between public, private and community sectors;

(e) to hold confidentially any information received as a result of partnership activities or duties that is of a confidential or commercially sensitive nature; and

(f) to act wherever possible as ambassadors for the project.

Key Controls

5.07 The key controls for authority partners are:

(a) if appropriate, to be aware of their responsibilities under the authority's financial regulations and financial procedure rules;

(b) to ensure that risk management processes are in place to identify and assess all known risks;

(c) to ensure that project appraisal processes are in place to assess the viability of the project in terms of resources, staffing and expertise;

(d) to agree and accept formally the roles and responsibilities of each of the partners involved in the project before the project commences; and

(e) to communicate regularly with other partners throughout the project so that problems can be identified and shared to achieve their successful resolution.

Responsibilities of the Finance Director

5.08 To advise on effective controls that will ensure that resources are not wasted.

5.09 To advise on the key elements of funding a project. They include:

(a) a scheme appraisal for financial viability in both the current and future years;

(b) risk appraisal and management;

(c) resourcing, including taxation issues;

(d) audit, security and control requirements; and

(e) insurance and procurement issues.

5.10 To ensure that the accounting arrangements are satisfactory.

Responsibilities of Chief Officers

5.11 To maintain a register of all contracts entered into with external bodies in accordance with procedures specified by the Finance Director.

5.12 To ensure that, before entering into agreements with external bodies, a risk management appraisal has been prepared for the Finance Director.

5.13 To ensure that such agreements and arrangements do not impact adversely upon the services provided by the authority.

5.14 To consider potential liabilities that could be imposed on the Council.

5.15 To ensure that all agreements and arrangements are properly documented.

5.16 To provide appropriate information to the Finance Director to enable a note to be entered into the authority's statement of accounts concerning material items.

External Funding

Why is this Important?

5.17 External funding is potentially a very important source of income, but funding conditions need to be carefully considered to ensure that they are compatible with the aims and objectives of the authority. Local authorities are increasingly encouraged to provide seamless service delivery through working closely with other agencies and private service providers. Grants from external agencies such as the National Lottery and European and UK Funding provide additional resources to enable the authority to deliver services to the local community. However, in some instances, although the scope for external funding has increased, such funding is linked to tight specifications and may not be flexible enough to link to the authority's overall plan.

Key Controls

5.18 The key controls for external funding are:

(a) to ensure that key conditions of funding and any statutory requirements are complied with and that the responsibilities of the accountable body are clearly understood;

(b) to ensure that funds are acquired only to meet the priorities approved in the policy framework by the full council; and

(c) to ensure that any match-funding requirements are given due consideration prior to entering into long-term agreements and that future revenue budgets reflect these requirements.

Responsibilities of the Finance Director

5.19 To ensure that all funding notified by external bodies is received and properly recorded in the authority's accounts.

5.20 To ensure that the match-funding requirements are considered prior to entering into the agreements and that future revenue budgets reflect these requirements.

5.21 To ensure that audit requirements are met.

Responsibilities of Chief Officers

5.22 To ensure that all claims for funds are made by the due date.

5.23 To ensure that the project progresses in accordance with the agreed project plan and that all expenditure is properly incurred and recorded.

Work for Third Parties

Why is this Important?

5.24 Current legislation enables the authority to provide a range of services to other bodies. Such work may enable a unit to maintain economies of scale and existing expertise. Arrangements should be in place to ensure that any risks associated with this work is minimised and that such work is intra vires.

Key Controls

5.25 The key controls for working with third parties are:

(a) to ensure that proposals are costed properly in accordance with guidance provided by the Finance Director;

(b) to ensure that contracts are drawn up using guidance provided by the Finance Director and that the formal approvals process is adhered to; and

(c) to issue guidance with regard to the financial aspects of third party contracts and the maintenance of the contract register.

Responsibilities of Finance Director

5.26 To issue guidance with regard to the financial aspects of third party contracts.

Responsibilities of Chief Officers

5.27 To ensure that the approval of the Executive is obtained before any negotiations are concluded to work for third parties.

5.28 To maintain a register of all contracts entered into with third parties in accordance with procedures specified by the Finance Director.

5.29 To ensure that appropriate insurance arrangements are made.

5.30 To ensure that the authority is not put at risk from any bad debts.

5.31 To ensure that no contract is subsidised by the authority.

5.32 To ensure that, wherever possible, payment is received in advance of the delivery of the service.

5.33 To ensure that the team has the appropriate expertise to undertake the contract.

5.34 To ensure that such contracts do not impact adversely upon the services provided for the authority.

5.35 To ensure that all contracts are properly documented.

5.36 To provide appropriate information to the Finance Director to enable a note to be entered into the statement of accounts.

Procurement through Partnering Guidelines

With Best Value procurement increasing the focus on competitive purchasing practices in the public sector, contracting is becoming increasingly sophisticated and the aim of partnering is to secure maximum benefits for local authorities.

Partnering is one of the more advanced contract management techniques which embraces joint management, process measurement and improvement tools to achieve enhanced contract performance and improved customer service.

Advanced models of partnering include strategic alliances and facilities management arrangements – from both long-term supply relationships of strategic importance to customer service delivery.

In partnering arrangements, suppliers and contractors are selected using a multi-criteria selection process based on functional and performance-based specifications. Partners are also selected on reputation, their own ability to control and improve business processes, their understanding of the vision, mission, values and objectives of the Authority and for their ability to become part of a team. In these contracts innovative payment arrangements can result from a greater appreciation of Value for Money and understanding of supply / demand economics.

One of the important elements of partnering is that partners share the benefits and the risks in equal measure. For example, cost savings could be shared, as could profit, and both parties will share common objectives focused on achieving the desired outcome, and will have equal access to, and openly share, information and knowledge.

Through 'Re-thinking Construction' (the Egan Report) the Government are keen for local authorities to explore new ways of working and part of that agenda is to try and get away from the adversarial nature of some contracts through working in partnership with the private sector.

Partnering is more likely to be appropriate for large complex projects or where service delivery suits an open, joint management arrangement. It is not, therefore, suitable in all situations. Partnering should be adopted in situations where strategic gains in cost and quality can be delivered and where service requirements are complicated or continuously developing.

Partnering strengthens relationships with contractors and suppliers, and is arranged through normal contracting processes in accordance with established procurement procedures. Active contract management techniques are employed to ensure the contract requirements are delivered. The contract should be re-tendered periodically to ensure open competition and best value for money.

The Partnering Process

CONTRACT PLANNING

PLANNING

- identify customer needs
- assess risks and issues
- consider partnering and remuneration options
- consider procurement plan/strategy

↓

CONTRACT INFORMATION

TENDERING

- establish selection criteria
- issue public tender inviting partnering proposals
- evaluate proposals and remuneration models

↓

PARTNERSHIP WORKSHOP

- set common objectives
- develop issue resolution process
- establish joint management structure
- establish action plans

↓

CONTRACT MANAGEMENT

THE CONTRACT

- include deliverables/outputs
- develop performance criteria
- incorporate performance measures
- prepare contract management plan

↓

IMPROVEMENT

- monitor performance
- measure customer satisfaction
- plan-do-check-act
- active contract management

↓

CONTRACT RENEWAL

- evaluate contract
- re-tender to ensure open competition
- re-award contract

Planning

Partnering should be considered for contracts that are critical, strategically important or require an innovative approach. Preparing a procurement plan is particularly important for strategic, innovative or complex projects or where the contract value is high (e.g. likely to exceed £1 million). This plan should provide a checklist of key issues and set out the specific services that are critical to core business activities.

The Council needs to clearly define customer needs (which of course are dynamic) and this information should be incorporated into the tender specification and used throughout the lifecycle of the contract, and particularly to monitor the contractor's performance.

Consideration should also be given to intellectual property ownership, payment mechanisms and associated incentives, which will form an important element of the partnering arrangement.

In establishing a partnering contract the risks and human resource issues, such as employment status and possible union involvement, should be considered. The financial and legal responsibilities of all parties should also be identified at the planning stage and a contract management plan should be developed.

Tendering

The partnering selection process follows normal tendering guidelines and results in a formal contract.

As part of the tendering process, an appropriately skilled selection team should be used to develop performance based selection criteria (which may include the extent to which risk is proposed to be shared) to be used during evaluation. Partnering proposals and remuneration models should then be evaluated against the predetermined selection criteria and contracting objectives.

The selection team should conduct a due diligence process to ensure the recommended tenderer has the capacity, including financial viability, to fulfil the contractual obligations.

Partnering Workshop

The purpose of the partnering workshop is to establish a sense of joint mission and set common objectives and guidelines for the further development of the relationship.

Issue resolution processes, joint management structures and action plans are developed during partnering workshops.

It is important that the people who have the greatest influence in making the relationship work, not just senior management, attend the workshops.

Senior managers should attend if they play an active role in work processes, or if their presence is considered necessary to demonstrate commitment.

The Contract

Partnering relationships are commercial contracts that require performance measures. Rigorous contract management and performance reviews are required to ensure contract obligations are delivered.

Most partnering relationships are also outlined in a non-binding Partnering Charter (see Appendix 1) which formally details the mission and objectives of the partners and demonstrates the commitment of the key people involved.

Improvement

Continuous improvement in partnering involves a team approach to determine whether work processes are meeting the needs of customers, and where necessary, to improve them.

Performance measures are established and regularly monitored, and combined with customer satisfaction measures, provide valuable data for continuous improvement.

Joint process improvement teams should be established to investigate problems or pursue improvement opportunities.

These teams should be trained in the partnering philosophy, team development, conflict resolution, the Plan-Do-Check-Act improvement cycle, and quality improvement techniques.

Contract Renewal

The rules of transparent and fair competition, accountability and probity must also be observed in the renewal of partnering contracts.

When a formal partnering contract expires it should be evaluated against the contract objectives and then publicly tendered again to ensure open competition.

This tendering process will encourage competitive tenders and allow innovative offers to be received. This will result in the best value for money solution when the contract is re-awarded.

Principles of Partnering

Partnering relationships should be established according to the following principles and everybody involved in the partnering arrangement needs to understand and accept these principles.

Commitment

Partnering requires considerable effort, innovation and patience. The sharing of financial information or “open book” accounting would be fundamental to this commitment.

Common Objectives

Partners must identify, understand and support each other’s objectives. Partners work together to translate their individual objectives into common objectives, and strive to achieve the same goals.

Open and Honest Communication and Trust

Partnering establishes principles and systems for the timely and accurate exchange of information to develop trust and efficient management. Business relationships could suffer through the guarding of information and poor responsiveness.

Ethical Behaviour

High ethical standards are fundamental to partnering and the conduct of all parties must be totally transparent and ultimately accountable.

Teamwork

A team approach (and there is no reason why end users cannot be represented on the team) is essential in partnering and lays the foundations for continuous improvement. Teamwork builds trust and keeps the relationship successful. It is also a good means of resolving problems.

Partnering Tips

The introduction of partnering into a public authority should be carefully planned, with the following issues considered:

- Partnering is about value for money, exploring new ideas and sharing risk and reward.
- Partnering works best within an environment that understands quality management, customer focus, process improvement, participative leadership, and team practices.
- Partnering should be endorsed as corporate policy.
- Partnering should be phased in slowly to allow a cultural transition to take place.

Successful partnering arrangements have considered the following:

Education

Partnering requires a new way of thinking within a public authority. Suppliers and contractors should be seen as an extension of the public authority and treated as members of the team, informing and educating those involved is critical.

Personalities

The key personnel involved in partnering are critical to the success of the relationship. These relationships need to be developed; changes to these personnel can impact on the effectiveness of the arrangement and need to be managed.

Resolution Procedures

It is essential that partnering arrangements include effective and clearly defined conflict resolution procedures that work.

Win-Win Outcomes

Effective partnering is built on a continuing recognition that the arrangement results in win-win outcomes for all parties.

Customers

Do not lose sight of the fact that we provide services for our customers. A suitable mechanism needs to be put into place:

- to evaluate services from their perspective;
- to take account of their views;
- to involve them as appropriate in service development proposals;
- to show them that we care.

10 Basic Questions about Partnering Answered

1. What is a Partnering Arrangement?

The legal definition of a partnership is that of two or more parties coming together, usually (but not always) to exploit a commercial opportunity. Partnerships can be project based, time based or open-ended. One of the important elements to a partnership is that the partners share both the benefits and the risks in equal measure.

2. Why Partner?

Partnerships can produce economies of scale, encourage greater capital investment, capture specialist skills and knowledge and produce better operational management.

3. Are they likely to affect me?

Recognising the Value for Money regime you should always be trying to think of other means of provision that improve on existing arrangements, and potential partnerships should be considered. Partnerships in the true sense of the definition are unlikely to be significant in number, however the potential for altering the way we work and our attitude to contractors as outlined in this paper are likely to have a far more significant impact.

4. Don't the current rules prevent partnership arrangements?

The Council's Financial Regulations and Financial Procedure Rules have been reviewed in the light of the requirement to demonstrate Value for Money and developments in partnership arrangements. It is quite possible to enter into partnership arrangements by utilising the current Rules.

5. This document talks about partnerships and continuing competition. Aren't the two opposites?

No. Whilst partnership contracts will probably be for longer periods than more conventional contracts, they will not be infinite. Renewed competition from time to time has the benefit of testing value for money, as well as preventing complacency and too cosy a relationship developing.

6. How do I get started?

You should above all have a vision for the service concerned, and this could be informed by the outcome of the fundamental performance review. A market analysis is the usual starting point (indeed the market players will almost certainly want to know whether there is to be an in-house competitor). A combination of any or all of the following would be classed as a market analysis:

- an advertisement in appropriate trade journals could invite proposals (this may also have the effect of stimulating a market where currently it is weak);
- questionnaires could be sent to selected suppliers to ask how they could add value through partnership arrangements;

- other local authorities (UK and world-wide) could be asked for their approach;
- compile a 'scrapbook' of successful partnership arrangements with suppliers.

Neutrality and lack of bias is important, and you should be careful that any subsequent specification does not reflect one supplier's product.

At this stage no decision has been made to procure therefore the public procurement rules do not yet apply. But once you have made that decision you must follow the rules as set out in the Contract Procedures and the EU's public procurement rules.

7. Is there anything wrong with talking to the private sector?

Fundamental performance reviews will in any event require you to talk to and learn from the private sector. These discussions may help form a view that a partnership may be beneficial to the delivery of a particular service. You should however be even-handed in your approach and document all discussions.

The private sector is aware of the Government's initiatives on partnerships and you may well have already received approaches. There is some truth in the suggestion that some private sector companies see partnerships as a means of obtaining work without the rigours of competition. That is not the case.

8. Is there such a thing as a free lunch?

No. It is extremely unlikely that you will be approached through purely altruistic motives and you should bear that in mind at all times. Whilst these need not be rejected out of hand, you should ask yourself whether to proceed would affect your long term strategy or lock you into some arrangement from which you could not extricate yourself, or only at a cost. For example the offer of free software may limit or close off future choices. The receipt of anything free may induce a false feeling of loyalty and influence future decisions or strategies.

The personal receipt of any such offers is of course covered by the Council's Codes of Conduct and Financial Regulations.

If the private sector approaches you, you must carefully weigh the proposal against your overall strategy. If further consideration of the proposal would benefit that strategy, then do so. You should always warn any person making an approach that if the Council was to proceed then it would more than likely result in a procurement exercise. Thus they should not reveal anything which later may be interpreted as a breach of confidence (or indeed copyright). Acting without bias is important and it is always wise to document what has happened. If you are concerned that your position is becoming compromised you should discuss the issue with your line manager.

9. How will partnering differ from traditional contracts?

The whole thrust of partnering is that it requires a change of culture away from more traditional attitudes of "them and us". In addition partnerships may well embrace issues like Open Book Accounting, Continuous Improvement, Price Benchmarking and Annual Performance Reviews (service and product reviews; customer satisfaction; etc).

10. What if I choose the wrong partner?

A rigorous procurement process should enable you, with clear evaluation criteria to select a suitable partner. There may be occasions when the partnership does not work out or the costs far outweigh the benefits. Whilst mechanisms can be built into contracts to reduce the likelihood of this occurrence, they can never provide complete protection. Means by which differences can be resolved quickly and amicably (by an independent arbitrator if necessary) should be agreed from the outset.

wyre council

Appendix 1 – Partnering Charter

Most partnering relationships are outlined in a non-binding partnering charter document. The purpose of the charter is to detail the mission and objectives of the arrangement and to demonstrate the commitment of the key people involved. The following is a typical example of a partnering charter.

PARTNERING CHARTER

Our Mission Statement

To complete the project on time, within budget, to specified standards and to the satisfaction of all key stakeholders

Common Objectives

- Shared goals
- Complete on time
- Complete on or below budget
- Fair return to the Contractors
- No adverse effects on the environment or to public amenities
- Enhance reputations
- Customer satisfaction
- Work together in the future
- No disputes
- Safe construction
- Good Working Relationships
- Minimal disruption

Supported By

(Note: The 'Partnering Charter' will be different for every partnership arrangement. The above Charter, taken from a construction project partnership, is one example only.)

Partnership Assessment

Effective partnerships can make all the difference but can be time and resource intensive, and without a clear focus resources can be spread too thinly and their impact dissipated. Government expectations are high and there needs to be a continuing drive for efficiency and effectiveness in partnership working.

The key features of a successful partnership are:

Action Focus

- Shared values and agreed long-term vision of what it wants to achieve.
- Effective use of input and feedback from local community and businesses.
- Makes a positive impact, adding value and ensuring it is not working in isolation.

Efficiency

- Structure is conducive to decision-making with members reflecting the views of the organisations they represent.
- Resources matched to aims, objectives and plans.
- Effective administrative support and communications.

Inclusivity

- Membership reflects the purpose of the partnership.
- Ensures that all partners have the capacity to be fully engaged in the partnership.
- Works democratically with accountability to stakeholders and decisions open to scrutiny.

Learning and Development

- Learns from best practice, stakeholders and consultations.
- Makes use of a range of skills and expertise of partnership members.
- Adapts to a changing environment.

Performance Management

- Process includes clear milestones, outcomes, performance indicators and delivery dates.
- Partners deliver what they have signed up to and share information to support planning and management.
- Partners resources used effectively to meet the aims of the partnership.

Framework for Partnership Working

Introduction

Working in partnership with other organisations to deliver both individual and jointly agreed outcomes is now a core requirement in delivering effective public services. Due to recent legislation and other policy initiatives local authorities are increasingly expected to initiate, lead and engage in partnership working.

Partnerships are considered to be a more effective way to tackle highly resistant and complex problems. A partnership approach ensures co-ordinated action by agencies across a range of service and policy areas.

Partnerships also ensure that businesses, the voluntary sector and the community get involved, thus enabling them to identify problems and root causes, contribute their unique skills and perspectives, and play a part in developing consensus and ownership. It can also be a more efficient and effective use of scarce resources.

Purpose of the Framework for Partnership Working

The purpose of this framework is to provide a checklist for officers of Wyre Borough Council who are considering involving the Council in either a partnership body or a partnering contract.

Every partnership body and partnering contract will have its own characteristics and it is not possible to cover every eventuality. The general information set out below, and use of the relevant checklist should, however, provide a good basis for serving to make the partnership work and to achieving the benefits of working in partnership.

Partnership Working and the Council's Business Plan

The Council's Business Plan sets out its vision and priorities for a ~~three~~four-year period, highlighting the issues upon which we have decided to focus and the key actions that we commit to undertake in order to ensure that our vision is realised. Our vision is '~~Wyre, a place of which people are proud~~Together we make a Difference'.

The Council ~~has recently launched a new approach to neighbourhood engagement and locality planning and~~ is keen to 'work collectively with ward councillors, parish and town councils, community groups and other partner organisations to identify local issues and priorities'. In addition to parish councils the Borough has a network of community and residents forums which meet regularly and which ward members attend. The engagement network includes:

- ✓ The Health and Wellbeing partnership;
- ✓ The Community Safety Partnership;
- ~~✓ The Disability Partnership;~~
- ✓ The Pensioners Forum;
- ✓ ~~Wyre Together – representing the voluntary, community and faith sector;~~ Wyre and Fylde Community Network
- ✓ The Youth Council;
- ✓ The Children's Trust;
- ✓ Wyred Up – representing local business interests;
- ✓ Parish and Town Councils;

- ✓ Residents Groups;
- ✓ Friends Groups;
- ✓ Police and Community Together (PACTs); and
- ✓ Chambers of Trade.

The Council's Business Plan clearly identifies the importance of partnership working in achieving objectives across a wide range of areas of work and it is important that we understand how effective these arrangements are.

What is a Partnership Arrangement?

There is no authoritative definition of partnership arrangements in this context but the Council has adopted the following general definition of partnership working: 'Those agreed methods of working together as an integrated and co-ordinated team to achieve common objectives and shared benefits'.

Types of partnership that will be subject to this framework include:

Charities and Trusts

Increasingly, local authorities have been setting up bodies with charitable status to provide services that had previously been provided directly by the local authority, in areas such as housing, leisure and social services.

Sometimes it can be advantageous for Councils to be involved in setting up companies for specific purposes. Such partnerships become a body corporate in their own right having their own legal status. These can be companies limited by shares or guarantee, where the partner's liability for any company debt is limited to the guarantee they made when the company was formed - normally a notional amount. They are usually not-for-profit bodies with income being ploughed back into the partnership activities. They can enter into contracts on their own, buy and sell assets, sue and be sued and distribute assets on dissolution.

Such partnerships are regulated by the Companies Act 1985, although similar arrangements can be made using Industrial and Provident Societies, which would be a company under the control of the Registrar of Friendly Societies and therefore outside mainstream Company Law.

~~Partnering Contracts~~

~~Partnering is one of the more advanced contract management techniques, which embraces joint management process measurement and improvement tools to achieve enhanced contract performance and improved customer service.~~

~~One of the important elements of partnering is that partners share the benefits and the risks in equal measure. For example, cost savings could be shared, as could profit, and both parties will share common objectives focused on achieving the desired outcome, and will have equal access to, and openly share, information and knowledge.~~

~~Through 'Re-thinking Construction' (the Egan Report) the Government are keen for local authorities to explore new ways of working and part of that agenda is to try and get away from the adversarial nature of some contracts through working in partnership with the private sector.~~

~~The types of partnership outlined above, whilst not exhaustive, cover the main areas of partnership working, although it should be noted that other collaborative working is promoted by the Council as a necessary and beneficial element of providing efficient and effective services.~~

Why Enter Into a Partnership?

Partnerships play a key role in the delivery of community strategies and in helping to promote and improve the well being of the Borough. The Council will continue to deliver services, but recognises its distinctive leadership role in bringing together the contributions of its various stakeholders, including public sector agencies; private companies; community groups and voluntary organisations. Partnership working helps the Council to deliver a shared vision of services based on user wishes.

The main reasons for entering into a partnership are:

Co-Ordination

Systematic and regular communication between partners helps to avoid duplicating each other's work or inadvertently working against each other. It also helps partners find new ways to share risk and benefits and allows agencies to plan further ahead more confidently.

Creating More for Less

By pooling resources partners can achieve economies of scale and look at ways of accessing additional resources.

Tackling Complex Problems

By bringing a broader range of perspectives, knowledge, information, strengths and skills to bear partners can provide new and better ways of delivering services and implementing actions to tackle complex or multi-dimensional problems.

Building Consensus

Partners can work together to find mutually acceptable solutions and proposals, thereby building relationships and developing joint ownership and commitment. Partners can also deal with differences of interest within a partnership in a co-ordinated and constructive way, rather than working against each other.

What is Involved in Setting Up a Partnership Arrangement?

Council's Interests

In developing any partnership body or partnering contract, it is necessary to fulfil the following two basic requirements:

- ensure that the essential elements of good management are present, that the process is well controlled and that the new arrangements for service delivery result in demonstrable service improvement; and
- that any risks associated with the proposed new arrangement for service delivery have been assessed and procedures put in place to effectively manage those risks.

Partner Relationships

A partnership body and/or a partnering contract will involve a relationship between parties which is designed to serve shared objectives based on:

- a shared understanding of those objectives, and the aspirations of the parties;
- a non-confrontational relationship based on trust and openness, but nevertheless the need for formal arrangements to be established;
- a recognition of the diverse skills and expertise of the parties facilitating development and innovation;
- a recognition of the need to share the benefits resulting from joint working;
- a sharing of information; and
- the need to work closely towards the resolution of disputes that may arise, to avoid wherever possible recourse to more formal procedures.

Legal and Financial Relationships

Partnership bodies and partnering contracts involve complex legal and financial relationships. It is, therefore, essential that the Finance Director and the Senior Solicitor are contacted at the outset whenever consideration is being given to involving the Council in either of these types of relationship.

Advice and support on effective controls to ensure that resources are not wasted and on the key elements for funding and managing the project will be provided by the Finance Director and the Senior Solicitor. This may include:

- a scheme appraisal for financial viability in the current and future years, in line with the Council's Medium Term Financial Plan;
- risk appraisal and risk management;
- resourcing implications and taxation issues;
- audit, security and control requirements;
- budgetary and accounting arrangements;
- insurance and procurement issues;
- application of Financial Regulations including contract procedures;
- consideration of potential liabilities that could be imposed on the Council; and
- arrangements for reporting partnership issues to Members and for consulting with current and potential partners.

Other Professional/Specialist Advice

Depending upon the particular partnership arrangements being entered into, it will be advisable to involve other relevant professionals/specialists. The officer instigating the partnership arrangement should, at the earliest opportunity and in discussion with colleagues throughout the Council, identify what other professional/specialist advice, such as advice from Legal or Human Resources, needs to be taken and make the necessary arrangements.

Approval by the Executive

A report should be presented to the Executive for approval for the partnership arrangement to be entered into. The report should take into account the professional/specialist advice, as referred to above, and set out the aims and objectives of the partnership. The report should also, nominate the Council's lead officer in respect of the partnership and set out the arrangements and frequency for reporting to Members on the performance of the partnership against its stated objectives. In this respect, annual reporting of the partnership's activities should be regarded as the minimum frequency.

Where any partnership arrangements are entered into, actions should also be taken to ensure that all partner organisations, including the Council, are fully aware of the arrangements for communication and sharing of information.

Financial Procedure Rules Appendix F Contract Procedures

Guide to Quotations and Tenders

Table of Contents

Introduction

This guide aims to explain in simple terms the procedures for obtaining quotations and competitive tenders from suppliers for the provision of Council works, goods and services.

The Council's constitution incorporates Financial Regulations and Financial Procedure Rules that provide a framework for managing the Authority's financial affairs. They apply to every Member and Officer of the Authority and anyone acting on its behalf.

Should you require further information or wish to comment on the content of this guide please contact the Head of Internal Audit.

How the Council Buys

The Financial Regulations detail the procedure to be followed, based upon the total estimated value of the contract:

- Up to £10,000: works, goods and services (with the exception of public utility services i.e. gas, electric, and periodical payments) procured using an official order. Officers are responsible for ensuring that value for money is achieved and wherever possible, at least three written quotations should be obtained, if possible ensuring that at least one of these is a local supplier
- Over £10,000 and up to £100,000: at least three written quotations must be obtained. In order to ensure the receipt of 3 quotations officers may consider inviting a greater number of suppliers to quote. If it is not possible to obtain three quotations (including local suppliers where possible) the spending Officer must consider whether it is appropriate to proceed with the procurement; and
- Exceeding £100,000: a competitive tendering exercise is undertaken, involving a minimum of three suppliers and ideally no more than six.

European or Lottery Funding

Where a contract is let that involves another source of funding eg, European, lottery etc alternative procurement rules may apply. European procurement rules use lower thresholds. Should you require further advice on the threshold amounts please contact the Council's Procurement Officer.

Exemptions to the Contract Procedures

Exemptions to the contract procedures are permitted where, in the opinion of the spending Officer, the procurement falls into one of the following categories:

- If a framework agreement is available that necessitates the Council not having to go out to tender and the goods, works and services will still provide the Council with best value for money;
- The goods, works or services are of a specialised nature carried out by only one or a limited number of firms with no reasonably satisfactory alternatives available;
- There is no genuine competition for the goods, works or services being procured.
- The procurement involves the purchase of proprietary or patented goods or services obtainable from one firm or; are sold at a fixed price;

- The goods, works or services constitute an extension or variation of an existing contract, or are required urgently, or the goods/materials, works or services consist of repairs to, or the supply of parts for, existing proprietary plant or equipment;
- Tenders are invited on behalf of any consortium or collaboration, of which the Council is a member, in accordance with any method adopted by that body. Where however, a Council officer invites tenders on behalf of the consortium the receipt, opening and acceptance of tenders must comply with the Council's Financial Regulations and Financial Procedure Rules or any overriding National or European Union legislation;
- Exceptions may apply regarding the appointment of consultants, including architects, engineers, quantity surveyors, solicitors, barristers and other people providing professional services;
- The contract relates to insurance, banking or loan arrangements;
- The goods are purchased by auction;
- The contract relates to the buying or selling of land and buildings or interest in land and buildings negotiated on behalf of the Council by a professional valuer;
- The goods, works or services are of a sensitive nature (such as security) where publication of the tender documents would constitute a security breach and undermine the effectiveness of the final product; Procuring a partner and developing partnership arrangements – see Appendix E 'External arrangements'.

The appropriate Portfolio Holder must authorise **ANY** exemption to the contract procedures, with the report identifying the reasons justifying the exemption and demonstrating compliance with EU procurement rules.

Going out to procure

Before going out to procure your goods, works or services, a Spending Officer should consider the options available. A useful flowchart has been prepared at Appendix 1, which will help you to determine what options you have for proceeding with the purchase of goods, works and/or services.

Supplier Portal – the CHEST

When going out to purchase goods, works or services, the supplier portal the CHEST is the Council's system of choice when sending out ITQ and ITT documentation for values exceeding £10,000.

The CHEST has been created for business to find out about Council contracting opportunities.
The Portal enables all suppliers to register their capability on to a single regional web-site where they are asked to register 'once only'.

Failure to advertise on the Chest for works, goods or services exceeding £10,000 makes the quotation or procurement exercise invalid.

Contract Finder

There is a new government portal and all contracts over £25,000 must be published here within 24 hours of it being placed on the CHEST. The same applies when awarding the contract. It is now mandatory that all contracts over the value of £25,000 are advertised on 'contracts finder" in addition to the CHEST.

Emergency Procedures

An exemption to the contract procedures is permitted where in the opinion of the Head of Paid Service and, after consulting with the relevant executive member, circumstances warrant immediate action. The action taken must be reported to the next meeting of the Executive.

Advertising of Contracts (Non European or Lottery Funded Contracts)

All contracts to be tendered must be advertised on the CHEST, the Council's website and in the OJEU (Official Journal of the European Union) if appropriate. There is no longer a requirement to advertise in a trade journal or newspaper. The European Journal does not charge for the service and covers a wide audience. All contracts with a total value that exceeds EC procurement thresholds must be awarded in accordance with EC Procurement Rules relating to public authorities. Thresholds are updated every two years with the next update due January ~~2016~~2018. Thresholds (net of VAT) from 1 January ~~2014~~ 2016 are as follows:-

Supplies	Services	Works
~~£172,514~~ £164,176	~~£172,514~~ £164,176	~~£4,322,012~~ £4,104,394

Please see http://www.ojec.com for more detailed information.

Deadlines for Responding to Advertisements

Deadlines must be included within advertisements in calendar days. For contracts not requiring OJEU adverts, the Council's minimum tender return time is 14 days from date of issue. However more time is usually allowed, depending upon the complexity of the contract up to a maximum of 28 days. For information regarding OJEU adverts please visit the web site detailed above.

Pre Tender Requirements

Before tendering for a contract estimated to exceed £100,000, a detailed specification shall be prepared. The specification is a description of the services, supplies or works that the Council wants and what the supplier/contractor is expected to tender against and provide. It will incorporate performance targets or criteria for acceptance of the services, supplies or works and be included in the invitation to tender documentation. It must be agreed with the tenderer awarded the contract and form the major part of the formal contract agreed between the Council and the supplier.

Approved Supplier Lists

The Council's Contract Procedure Rules require that at least three suitable suppliers or contractors be invited to tender for each Council contract. To ensure fairness, companies to be invited to tender should be based on a combination of random selection to test the market, and previous tendering history. If four firms are invited to tender, for example, two may have carried out work of a similar nature to a good standard, and two should be chosen arbitrarily from the approved list of contractors.

There is currently only one such framework agreement in place, for property repairs and maintenance, which is subject to review every 3 years. ~~from the 10 December 2012 commencement date.~~

How the Tendering Process Works

If either Construction Line or an Approved List is not being used then all tendering requirements must be advertised to ensure that the process is competitive and secures good value for money. There are three main methods of tendering through advertisement:-

- Open Competitive Tendering - This is a one-stage process, where all interested providers responding to an advertisement may submit a tender. The advertisement will state where interested parties may obtain tender documents and the last date that tenders must be received. Whilst this method ensures absolute fairness, because no firm is excluded from the process, there is a significant risk that the number of responses received will be either insufficient or excessive. It may also be difficult to accommodate an adequate financial and technical appraisal within the time constraints of the tendering process. The open procedure is included at Appendix 2.
- Restricted Tendering (or selective tendering) -This is a two-stage process in which potential contractors expressing an interest in bidding for a specific contract are evaluated first. A shortlist is then drawn up from the evaluation exercise for the sole purpose of inviting bids, which must be approved by the executive. The public notice must set out details of the proposed contract and how potential contractors can obtain the necessary documentation to be able to express an interest in being shortlisted. This restricted process should only be used when the value is over the EU threshold. An outline of the restricted procedure is included at Appendix 2.
- Competitive Tendering – A selection is made of those who respond to the advertisement and the contracting authority enters into dialogue with potential bidders, to develop one or more suitable solutions for its requirements and on which chosen bidders will be invited to tender subsequently the contracting authority may open negotiations with the tenderers to seek improved offers. The executive must approve the outcome of this procedure. An outline of the competitive procedure is included at Appendix 2.

The ‘award’ stage considers the merits of the eligible tenders and which is the most economically advantageous. When evaluating tenders at ‘award’ stage the criteria used must be linked to the subject matter of the contract.

Invitation and Submission

Instructions must be issued to those companies invited to submit a quotation or a tender, asking them to complete and return the required documents by a specified date and time. These documents, which should be placed either in the Procurement area of the website or on the CHEST for the tenderer to download and complete, will usually contain the following information:

- Letter of invitation and instructions about the process;
- Pricing document and/or form of tender;
- Specification and/or schedule of rates;
- Contract conditions or conditions of purchase;
- Any relevant supporting information (maps etc); and

- Where bids are to be evaluated on the basis of Quality and Price, the tender documentation must also specify the criteria for evaluation. This is a requirement of the public procurement rules and sub criteria or weighting rules which have not previously been brought to the tenderers attention cannot be used.

An Invitation To Quote (ITQ) template is available on the Procurement page of the intranet and must be used when obtaining a quote.

It is important that firms are given sufficient time to adequately research and compile their bids. This includes enough time to seek accurate estimates from their subcontractors. The Council's minimum time for the return of priced tenders is 14 days from date of issue, although best practice suggests a maximum of 28 days.

The specified time to submit tenders/quotations may be extended in exceptional circumstances provided that all suppliers involved in the process are notified of the revised date and time and no potential supplier is disadvantaged by the deadline extension.

Sealed bids will be held securely until the specified date and time for opening.

Whistleblowing and Contractors

The Council is committed to the highest possible standards of openness, probity and accountability. In line with that commitment we encourage contractors and others with serious concerns about any aspect of the Council's work to come forward and voice their concerns.
The Council has a whistleblowing policy that applies to all contractors working for the Council (including employees working in any partnership on behalf of the Council) and suppliers providing goods and/or services under a contract with the Council. The policy is distributed with all tender documents.

Tenders received via the Chest

Tenders cannot be viewed on the CHEST until they have been verified and released by an elected member. For values <£10,000 where written quotations are received, the documentation should be retained.

Evaluation of Tenders and Quotations

Whilst written quotations will generally be evaluated on the basis of price only, a record must be made of the evaluation process undertaken.

An evaluation must be made of tenders submitted, comparing the tender sum against the estimate for the works, goods or services prepared in advance of the firms being invited to tender. Where errors or discrepancies are found that may affect the tender sum, the tenderer may be notified and afforded an opportunity to confirm the submitted sum without amendment or withdraw their bid.
Tenders suggesting alternative approaches to that specified in the tender documentation may only be considered if submitted in a separate sealed envelope in addition to a tender that is fully compliant with the tender documentation originally issued. The instructions to tenderers must stipulate whether qualified or alternative tenders may be submitted for evaluation.

Not all contracts awarded by the Council are evaluated on the basis of price only. Consideration should be given to those which offer the best value for money having regard to both price and quality factors. This is sometimes referred to as the "most economically advantageous tender" (MEAT) and provides for the contract to be awarded to the company best able to meet the Council's specification.

To ensure fairness the quality criteria (or award criteria) and evaluation method must be clearly defined in the tender documentation. Award criteria will vary depending on the type of contract. Some examples of criteria included are:-

- Technical suitability;
- Financial viability and stability;
- Quality systems;
- Customer care and after sales service;
- Experience and past performance;
- Aesthetic and functional characteristics; and
- Delivery date and other management factors.

A suggested mechanism for evaluating bids is included on the procurement page of the Intranet. Unjustifiably low priced tenders should be investigated rigorously to ensure that they meet the required quality standards and, if necessary, explanations sought from the supplier concerned.

Where the quality/price matrix has not been previously agreed by the executive, then the matter must be referred to them for consideration and formal contract award. In addition, approval of the executive must also be sought where the recommended tender exceeds the pre-tender estimate by more than 10%, with explanations given as to the robustness of the original estimate.

Post Tender/Quotation Negotiation

After the receipt of tenders, officers may need to contact tenderers to clarify technical and contractual information as part of the evaluation process. Any such communication must be confidential and all correspondence must be via the CHEST.

Having selected the preferred supplier, negotiations may commence in order to secure better value for money with the final agreed price being included in the Pricing Schedule of the Contract.

Standstill Period

The successful bidder should be notified promptly following acceptance of the tender or quotation with an alcatel letter. A copy is available on the procurement page of the Intranet.

All unsuccessful bidders should be notified promptly with an alcatel letter which must include the scores of the successful bidder against the individual unsuccessful bidders scores and a summary of reasons for the scores. The letter must also include a list of bid prices and bidders, although the names of the firms submitting bids should not be matched to the prices. A suggested letter is available on the procurement page of the Intranet.
The Council cannot award a contract until the minimum standstill period of 11 days including the date of issue has been completed.

If you receive a request for a debrief from any of the unsuccessful bidders during the standstill period, they must be seen within the standstill period. If this is not possible, then the standstill period MUST be extended for a debrief to take place.

After the debrief, if the unsuccessful bidder is asked to provide further evidence by the Council or the unsuccessful bidder requests the council to provide additional information, then the standstill period MUST be extended to allow this to happen.

Once this period has been completed and there has been no legal challenges by any of the unsuccessful bidders an award letter can be issued to the successful bidder. A suggested letter is available on the procurement page of the Intranet.
A further letter should be issued to the unsuccessful bidders notifying them that the standstill has been completed and an award letter has been issued. A suggested letter is available on the procurement page of the Intranet. By doing this, if the Council receives a legal challenge from an unsuccessful bidder, it reduces the time limit from 6 months to 30 days from the day after the date when the Council has awarded the successful bidder the contract.

If one or more of the unsuccessful bidders challenge the award after the standstill period has been completed then seek advice from the Council's Procurement Officer or Legal Team.

Contract Award - Quotations

Where, in exceptional circumstances, the recommended bid is not the lowest quotation received, award of the contract must be authorised by the relevant Corporate Director, having considered the reasons for other than the lowest tender being accepted.

Mandatory Checks

Corrupt Practices

In every written contract a clause must be inserted to secure that the Council is entitled to cancel the contract and to recover from the contractor the amount of any loss resulting from such cancellation, if the contractor has offered or given or agreed to give to any person any gift or consideration of any kind as an inducement or reward for doing or not doing anything relating to the contract or any other contract with the Council or for favouring or not favouring any person in relation to such contract, or similar acts have been done by any person employed by the contractor or acting on their behalf, or the contractor or any person employed by them or acting on their behalf has committed any offence under the Prevention of the Corruption Acts 1889 to 1916, or any amendment of them or shall have given any fee or reward, the receipt of which is an offence under the Local Government Act, 1972.

Breach Of Contract Procedure Rules

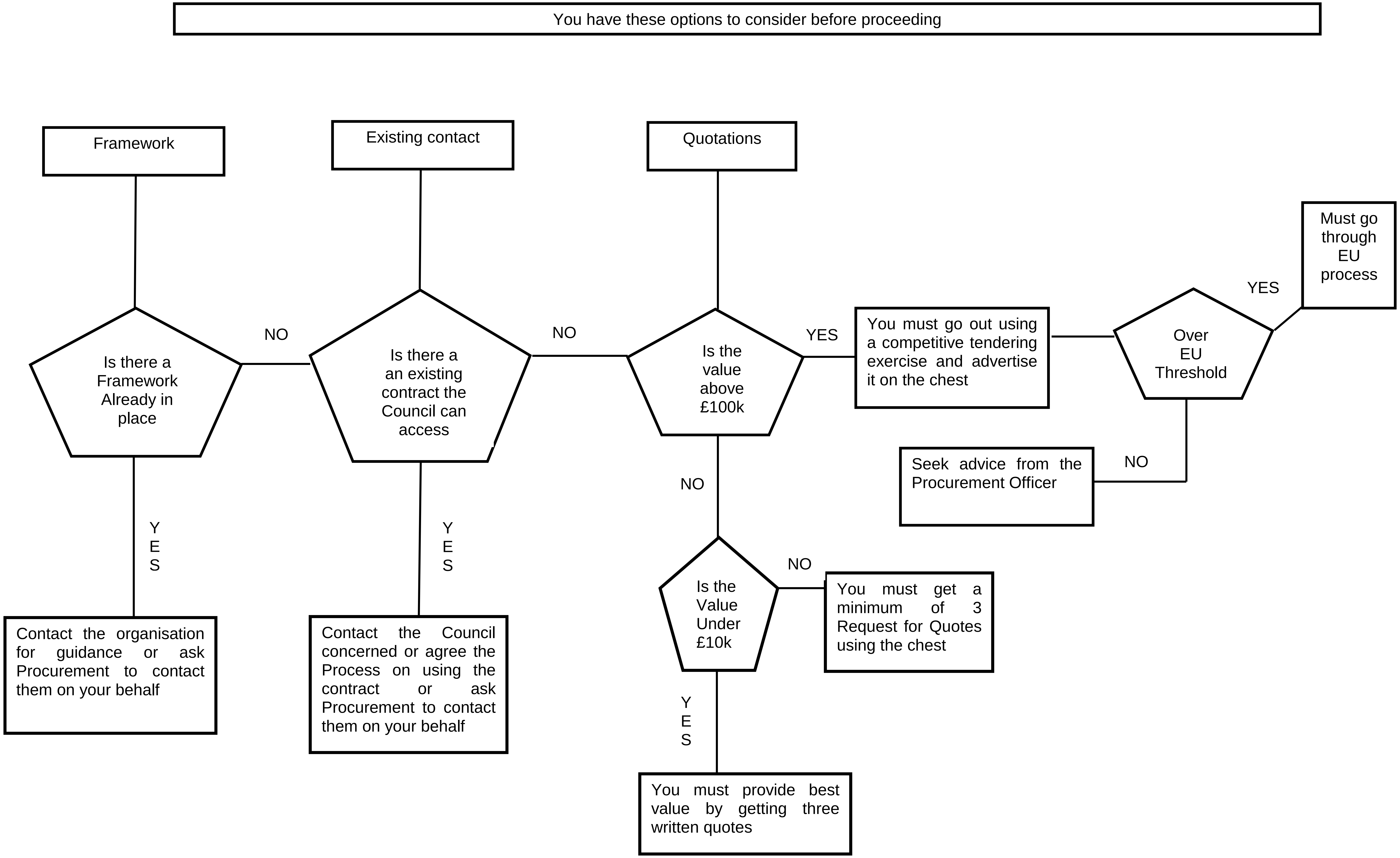
In the event of a significant or deliberate breach of these Rules, the Finance Director shall report details to the next meeting of the Executive with any proposals for remedial action.

Contracts Register

As a result of the transparency code, local authority must publish details of all contracts with a value greater than £5.000. The Council has set up a contract register that contains contracts for the last three years. This register is required in addition to the CHEST as it contains additional information to ensure that we meet the Transparency Code requirements. This is mandatory for any spend over £5,000 and if you are not going through the CHEST for your procurement exercise, then you will need to either advise the Procurement Officer or Legal of the details of the contract. The contract register is updated on a monthly basis and is published on the website.

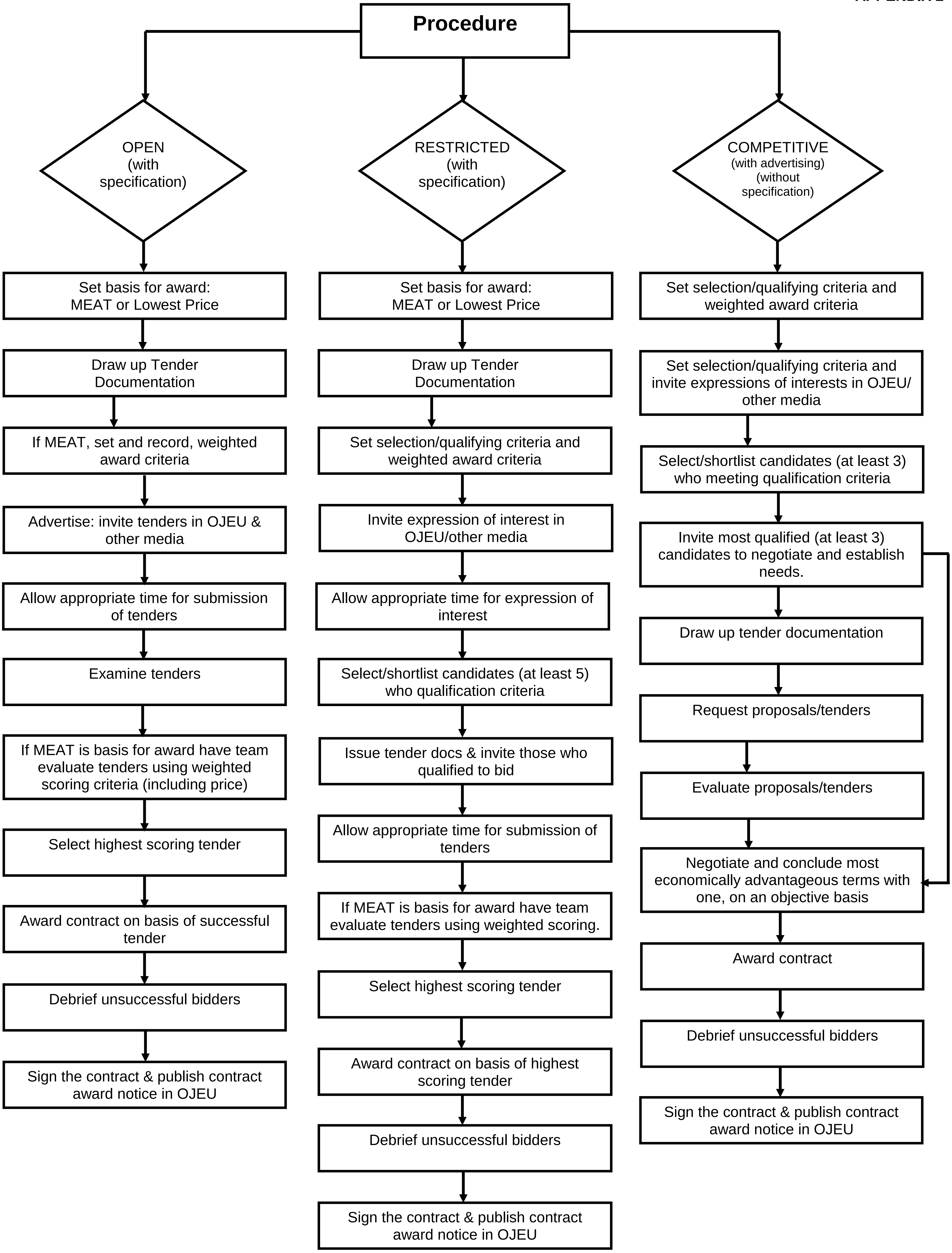
PROCUREMENT FLOWCHART

APPENDIX 1



OPEN/RESTRICTED PROCEDURE

APPENDIX 2



Financial Procedure Rules Appendix F Contract Procedures

Guide to Contract Management and Control

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Introduction

This guide aims to explain in simple terms the procedures for managing contracts with suppliers for the provision of Council works, goods and services.

The Council's constitution incorporates Financial Regulations and Financial Procedure Rules that provide a framework for managing the Authority's financial affairs. They apply to every Member and Officer of the Authority and anyone acting on its behalf.

Should you require further information or wish to comment on the content of this guide please contact the Head of Internal Audit.

Currency of Contract

Once award of the contract has been formally accepted the Spending Officer will notify the successful firm and arrange for the works to commence. All contracts over £100,000 must be in writing and agreed by the Legal Team, but this does not prevent permission being given for works to commence prior to the completion of the written contract. In such circumstances, the Senior Solicitor will issue, or authorise the issue of, a Letter of Intent to the contractor giving permission to begin work. The letter can be downloaded from the Procurement page of the Intranet.
Before allowing the works to commence the Spending Officer must be satisfied that the contractor has sufficient insurance cover and that this is effective throughout the contract period. Under normal conditions the contractor will be obliged to provide insurance for the works and injury or damage to persons and property. Please contact the Council's Insurance Officer if further guidance is required.

In most forms of contract it will be the contractor's responsibility to draw up a programme showing the anticipated duration of the work. The Spending Officer should ensure that this master programme is produced and that it is updated as work progresses.

The Spending Officer must attend site meetings to discuss progress with contractors. These meetings should be minuted for future reference and include reference to authorised variations and to any particular difficulties being experienced which may effect progress and the final cost.

Responsibility for co-ordinating operations as well as information rests with the Spending Officer. Any deficiencies in co-ordination will manifest themselves in delays and discontent amongst the parties concerned. Regular attendance at site meetings should enable the Spending Officer to spot any problems that require immediate investigation to ensure that the contractor acts promptly to prevent any reoccurrence or deterioration.

Difficulties that occur during the contract period are often attributable to poor or confused communications. An essential control is a proper system for the rapid transmission of information between parties. Efficient and effective responses to situations must be made with a minimum of delay or disruption.

Quality control during construction is achieved by ensuring that the work is carried out in accordance with the specification and drawings and to the required standards. Variation orders may be issued to correct any errors made in the design stage or to correct any unforeseen problems arising during the contract period. This may involve amendments to construction drawings, measurements, progress charts and contract programmes.

Valuations of Work Done and Interim Payments

Payments will be made to the contractor on the basis of valuations of work compiled by the contractor of the aggregate value of work completed to date. The contractor will normally submit monthly valuations together with supporting documentation to the Spending Officer for substantiation and payment. Checks must be made to establish the accuracy of the valuation and these evidenced by signature.

Payments are normally made to contractors on a monthly basis and in accordance with the specific conditions detailed in the contract document. Each payment will be certified by a designated officer and show the total valuation to date, less retention and previous payments, and any adjustments for materials on site.

Before payment is made, details must be recorded in a contract payments register, or other appropriate document, as a means of identifying potential contract management problems at an early stage. It is important that payments are made to contractors on time and in accordance with the periods outlined in the contract document. Interest can be claimed on late payment in accordance with the Late Payment of Commercial Debt legislation (1998).

Control of Contract Variations

It would be unrealistic not to expect the need for some amendments to be made to the original design and specifications of the project. In the interests of proper financial management it is very important, however, that such amendments are adequately controlled.

The Spending Officer must monitor variations closely to ensure that, wherever possible, approval of the executive is sought at an early stage so that the contract is not unduly delayed.

It is impractical to expect the Spending Officer to seek formal approval for every proposed change, as any delay while approval is being sought could easily cause additional extra costs that far outweigh the value of the original changes. The Spending Officer may therefore implement changes that collectively are not expected to increase costs by more than the financial values specified in the Council's Financial Regulations and Financial Procedure Rules, without the need to seek the specific approval of the executive. The Spending Officer is required to prepare and submit reports, jointly with the Finance Director, to the Executive on completion of all contracts where the final expenditure exceeds the approved contract sum by either 10% or £20,000 whichever is the lesser.

It is stressed that the financial value is the total of all variations as numerous variations, although relatively small in value individually, can collectively exceed this sum.

The Spending Officer must actively monitor the scheme, seeking explanations and considering options available in order that where possible the estimated final cost of the contract remains within the initial budget and contract period. Failure to monitor effectively may result in the Spending Officer being unaware of changes and the cost involved until the scheme is complete.

Variation orders are the means by which the Spending Officer instructs the contractor to carry out work either differently or in addition to the work specified in the contract document. In some forms of contract variation orders may be referred to as architect's instructions or contract administrator's instructions. A variation order is contractually required where there are additions, omissions, substitutions, alterations or any other changes to any parts of the works that are necessary for the completion of the contract.

Variation orders must be in the form of written instructions to the contractor and the likely cost of each variation assessed prior to the issue of the instruction. In cases where this would cause serious disruption to the contract, or where immediate action is necessary to prevent danger or damage, the instruction can be issued without prior costing, but must be costed within 7 working days of the issue date.

All standard forms of contract explain how variations are to be valued. Basically if the work is of a similar nature then the rates in the bill of quantities should be used. If not, a rate should be fixed by the contract administrator in agreement with the contractor. Alternatively, the contractor may be ordered to carry out the work on a day work basis, where it is not possible to value the work on an ordinary pricing basis.

Contract Claims and Extensions of Time

Circumstances may occur where contractors, through no fault of their own, incur additional costs that are not recoverable through the normal administration of the contract. In accordance with the appropriate contract conditions, contractors will seek reimbursement of such costs by submitting a claim for loss and/or expense.

The circumstances giving rise to claims will vary and it is impossible to compile rules to meet all eventualities, but the general principle is that contractors are entitled to any additional costs they have actually incurred due to the action, or inaction of Council officers responsible for the contract.

Engineering and building forms of contract make it clear that it is the contractor’s duty to give prompt notification, in writing, of his/her intention to make a claim. Notification from the contractor must include adequate explanation and evidence in support of the claim and refer to relevant contract clauses in the contract conditions.

The most common forms of claim are for prolongation and disruption, and the costs associated with these are notoriously complex to substantiate. It is not unusual however, for claims to be exaggerated, and so it is incumbent upon the contract administrator to establish the accuracy of any claim through well-maintained documentation, and to be satisfied that the principles on which the claim is based are reasonable.

Most contractors will plan to carry out the works in such a way as to finish before the prescribed date for completion. When circumstances beyond their control occur, contractors may apply for an extension of time to avoid the imposition of Liquidated Damages. (See calculation of liquidated /ascertained damages later in the guidance).

Contract conditions indicate a number of situations that may entitle the contractor to apply for an extension of time and emphasise the duty of the contractor to submit a claim promptly. This is to prevent contractors, who are getting close to the original completion date, from submitting a claim in respect of a situation occurring many months earlier. The clauses do not however preclude the contractor from seeking an extension of time long after the event occurred.

In practice, if the time for completion has been exceeded there are three possible situations:

- No extension of time is granted and liquidated damages can be deducted for the whole of the over-run period;

- Extensions of time are granted for only part of the over-run period and liquidated damages are deductible for that period not covered by an extension of time; or

- Extensions of time are granted that fully cover the extra period and no deduction of liquidated damages can be made.

Upon receipt of a request for an extension to the contract, the period of delay must be assessed and if an extension of time is substantiated the contractor must be notified promptly, and in any event prior to the issue of the final certificate for payment.

To safeguard the council's right to deduct liquidated damages if the contract is over-running, the Spending Officer must certify in writing that the contractor ought reasonably to have completed the works within the contract period. Liquidated damages should be recovered from the contractor where the terms of the contract have not been duly performed; any decision not to recover damages should be recorded giving reasons.

Within seven days of the expiry of the contract date for completion or as extended, the responsible Spending Officer must issue a formal certificate of non-completion in accordance with the relevant contract conditions.

Calculation and Recovery of Liquidated Damages

Every contract that is estimated to exceed £100,000 must make provision for liquidated damages to be recovered from the contractor where they have failed to complete the work within the time specified in the contract, or as extended. Liquidated damages are intended to reimburse the Council for any additional costs incurred as a result of the delay.

The Spending Officer for the contract must determine the amount of liquidated damages specified in the written contract. In accordance with the relevant contract conditions, liquidated damages must be a "genuine predetermined estimate" of the losses likely to be incurred due to delays in completing the contract.

It is important that a separate calculation is made for each individual contract and is not merely an amount extracted from a similar contract, as this may result in the amount of liquidated damages being challenged as a penalty, and therefore, not enforceable.

It is essential that details of the calculation of liquidated damages are retained to demonstrate that it is a genuine estimate of loss associated with the contract. Further guidance should be sought from the Senior Solicitor.
In accordance with the relevant contract conditions, the Spending officer will only be able to obtain payment for liquidated damages if the following events have occurred:

- Extensions of time due to the contractor have not been awarded within the time scales stipulated in the relevant contract conditions;

- The contractor has been formally notified of the Council's intention to deduct damages; or

- The contract administrator has certified, through the issue of a "Notice of Failure to Complete" that in his opinion the works should have been completed by the due date. Note :- that under JCT Contract for minor building works this certificate is not necessary and liquidated damages can be deducted as soon as the contractor exceeds the stated completion date.

In certain situations the Spending Officer may consider it beneficial to waive liquidated damages rather than to risk the submission of a claim from the contractor that could potentially be for a higher value. In such instances, it must be clearly demonstrated why it is in the best interest of the Council, not to apply damages.

Contract Cost Control and Monitoring

The Spending Officer for each contract must ensure that suitable procedures are in place for the effective monitoring of progress and cost, with the objective of ensuring that the contract is completed within the approved contract sum and that any unavoidable costs are identified quickly.

To achieve this a financial statement, assessing the probable final cost must be prepared by the Spending Officer every time a contract payment is made. This statement should take into account all known factors including variations and any adjustment of prime cost and provisional sums, and progress towards completion. The financial statement attached at Appendix 1 is recommended for this purpose.

The Spending Officer must seek explanation for any significant differences between the previous financial statement and take appropriate action should it be likely that the approved contract sum or expected date for completion will be exceeded.

The Spending Officer is required to prepare and submit reports, jointly with the finance director, to the Executive on completion of all contracts where the final expenditure exceeds the approved contract sum by either 10% or £20,000 whichever is the lesser.

In addition the Spending Officer must prepare regular reports reviewing the capital programme provisions for their service, and a quarterly return of the estimated final costs of schemes in the approved capital programme. This must be submitted to the Executive as part of the performance management framework.

Certificate of Practical or Substantial Completion

On completion of the works the contract administrator must issue a Certificate of Practical or Substantial Completion. This certifies the date when, in his/her opinion, the works reached practical completion.

Appendix 1 – Suggested Project Financial Statement

PROJECT:		**DATE**
Report : No 3 (week 12)	**Omissions £**	**Additions £**
Contract Sum		418,495.00
Contingencies / claims	25,000	
Prime Cost Sums	53,900	39,962.30
Provisional Sums	49,050	17,362.85
Variations		67,855.67
Anticipated Variations		5,000.00
Sub Total	127,950	548,675.82
Less omissions		127,950.00
Estimated Final Cost		**420,725.82**
Progress :-		
Date of Commencement	17 April 2015	
Date of Anticipated Completion	5 February 2016	
Duration	42 weeks	
% of contract period complete	**85%**	
Valuations		
Gross Valuation No 3	£340,000	
% of estimated final cost	**81%**	

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Guide to Contract Completion and Review

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Introduction

This guide aims to explain in simple terms the procedures for completion and review of contracts with suppliers for the provision of Council works, goods and services.

The Council's constitution incorporates Financial Regulations and Financial Procedure Rules that provide a framework for managing the Authority's financial affairs. They apply to every Member and Officer of the Authority and anyone acting on its behalf.

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Taking Possession of the Completed Work

In the run up to completion, the Spending Officer for the contract must ensure that appropriate arrangements are made for the formal hand over of the completed works. The requirements for taking over and maintaining the completed work should have been specified in the tender and contract documents and will usually involve functional testing and inspection of the various aspects of the services, supplies or works incorporated within the contract specification.

The Spending Officer should ensure that unacceptable defects are dealt with before determining that a state of practical completion can be certified. A Certificate of Practical or Substantial Completion must be issued promptly once tests have been completed and the Spending Officer is satisfied that in accordance with the terms of the contract, the works are substantially completed.

Defects Liability Period and Inspections

For construction and engineering works the contractor is responsible for making good any defects that become apparent during the defects liability period (or maintenance period). This period runs from the date of practical completion (or substantial completion), as shown on the completion certificate, for a period as stipulated in the contract documentation, normally six or twelve months, depending on the standard form of contract used.

At the time the practical completion certificate is issued a list of outstanding works (the snagging list) will be provided to the contractor and remedial work completed as soon as possible within the specified maintenance period. These defects must be put right at the contractor's expense if, in the opinion of the contract administrator, they are due to the neglect or failure of the contractor to comply with their contractual obligations.

Inspections of the satisfactory completion of any work on the 'snagging list' must take place near the end of the defects liability period, but within the period stated in the contract documents, so that the contractor may be held responsible for rectifying defects for which they are liable. The Spending Officer is entitled to withhold payment to cover the cost of any work outstanding at the end of the defects liability period. They may also arrange for the defects to be completed by other means and the costs recovered from the defaulting contractor.

In order to safeguard against default by the contractor, either in completing the works or in carrying out the remedial measures, sums are retained from interim payments made to the contractor. The normal procedure is:

- A fixed percentage (eg 5%) is deducted from each valuation until a maximum limit is reached (e.g. 3% of the contract sum);
- Retention remains at this maximum limit until substantial achievement of the works is achieved;
- Upon substantial completion of the works, half of the retention money is released; and
- Upon issue of the maintenance certificate confirming that all outstanding defects have been rectified, the balance is contractually due for release.

The final retention sum should only be released once all defects have been rectified and the Spending Officer has agreed the contractor's final account.

Contractor's Final Account

At the end of, or during, the maintenance/defects liability period the contractor will produce their final account. Controls in place throughout the contract should have ensured the continuous measurement and valuation of the works from the outset. Such controls will ensure that full documentation is available for examination to support the final account. Subject to the co-operation of the contractor, this should make the agreement and payment of the final account no more than a formality, since the majority of items will have been verified during the contract period.

The checking and agreement of the final account can, however, become a very time consuming task and may not be completed until well after the end of the defects liability period. Traditional problem areas, such as claims, should have been considered and settled during the period of the contract, although there may be occasions when alternative arrangements have to be initiated in order to reach a financial settlement with the contractor concerned.

In these circumstances, the Spending Officer should report on the position regarding settlement of the final account and any claims and details of the estimated final costs. In accordance with Financial Regulations and Financial Procedure Rules, the Spending Officer is required to prepare a quarterly return of estimated final costs of schemes for submission to the Executive as part of the performance management framework.

The Spending Officer should ensure that every effort is made to satisfactorily conclude settlement within the period stated in the contract or otherwise within a reasonable period thereafter. Although pressure should not be applied to settle at any price, neither is it in the Council's best interest to allow settlement of the final account to drift on for many years.

Final Cost Report and Internal Audit Examination

Once the contractor's final accounts and any claims have been settled the Spending Officer must submit a report to the executive where the final expenditure exceeds the approved contract sum by more than 10% or £20,000, whichever is the lesser. This report should provide a cost appraisal of the final expenditure and explanations for any increases over the original contract sum approved.

There is no requirement for the contractor's final accounts to be audited in detail prior to the release of the respective final payment. Internal Audit shall, however, examine final accounts to the extent that they consider necessary and are entitled to receive such information and explanations as required in order to be satisfied as to their accuracy.

Learning from Experience

Following completion of the project, it will be necessary to undertake a thorough and formal post completion review. This is important since the success of future contracts could be improved by the results of constructive analysis of performance on completed schemes.

Such a review is often overlooked but should be seen as an essential component for achieving good value for money from the contract process. The Spending Officer should ensure that a review is undertaken as soon as practically possible following completion of a project. There should be three distinct elements to the review:

- The provision of sufficient information by the Contractor to allow the Council to get the optimum from the facilities, works or services;

- The identification of any problems encountered during the contract and possible solutions to prevent them happening again, to ensure that lessons are learnt for future contracts (resulting in improved economy, effectiveness, and efficiency); and

- A review of the control procedures and whether the completed contract was successful in achieving the objectives and performance expected as detailed in the original contract specification.

Performance of the Contractor

A review should also be undertaken of the performance of the contractor to assist in the future selection of tenderers. Appraisal forms designed for this purpose are provided as appendices; Appendix 1 for contractors and Appendix 2 for consultants.

Appendix 1 – Post Contract Appraisal Form (Contractor)

Contractor: ______________________________

Project: ______________________________

Date of Practical Completion: ______________________________

<table>
<tr><th>Details</th><th colspan="2">Good</th><th>Satisfactory</th><th>Poor</th></tr>
<tr><td>1. Site organisation</td><td colspan="2"></td><td></td><td></td></tr>
<tr><td>2. Head Office organisation</td><td colspan="2"></td><td></td><td></td></tr>
<tr><td>3. Relationship between client/ contractor</td><td colspan="2"></td><td></td><td></td></tr>
<tr><td>4. Quality of Workmanship</td><td colspan="2"></td><td></td><td></td></tr>
<tr><td>5. Contractor’s compliance with Health and Safety standards</td><td colspan="2"></td><td></td><td></td></tr>
<tr><td>6. Control of sub-contractors</td><td colspan="2"></td><td></td><td></td></tr>
<tr><th></th><th>Yes</th><th>No</th><th colspan="2">Comments</th></tr>
<tr><td>7. Did contractor have any difficulty in providing adequate labour or plant?</td><td></td><td></td><td colspan="2"></td></tr>
<tr><td>8. Did the contractor sub-contract a large proportion of the work?</td><td></td><td></td><td colspan="2"></td></tr>
<tr><td>9. Were the works completed on time, taking into account any extensions granted?</td><td></td><td></td><td colspan="2"></td></tr>
<tr><td>10. Did the contractor complete any remedial works without being unduly pressed?</td><td></td><td></td><td colspan="2"></td></tr>
<tr><td>11. Did the contractor make unreasonable claims?</td><td></td><td></td><td colspan="2"></td></tr>
<tr><td>12. Were contractual claims settled satisfactorily?</td><td></td><td></td><td colspan="2"></td></tr>
<tr><td>13. Were the final accounts settled satisfactorily?</td><td></td><td></td><td colspan="2"></td></tr>
<tr><td>14. Did the contractor re-programme or reschedule works efficiently where problems were encountered or where extensions of time were granted?</td><td></td><td></td><td colspan="2"></td></tr>
<tr><td>15. Would you employ this contractor again?</td><td></td><td></td><td colspan="2"></td></tr>
<tr><td>16. Any further comments</td><td colspan="4"></td></tr>
</table>

Signature of Spending Officer: ______________________________

Date: ______________________________

Appendix 2 – Post Contract Appraisal Form (Consultant)

Consultant: ____

Project: ____

Date of Practical Completion: ______________________________________

Details	Good	Satisfactory	Poor
1. Organisation			
2. Quality of pre-contract service			
3. Quality of post contract service			
4. Financial Control			
5. Co-operation with client/project sponsor			
6. Co-ordination with other consultants, relevant persons and bodies			

	Yes	No	Comments
7. Were services generally completed on programme in both pre and post contract stages?			
8. If no, were the circumstances outside the consultant's control?			
9. Were any parts of the commission sub-let?			
10. Did the consultancy employ adequate staff of the required quality?			
11. Did the partners supervise the project adequately?			
12. Were any unreasonable claims for additional fees, or requests for extensions to the programme submitted?			
13. Would you engage this consultant again?			
14. Any further comments			

Signature of Spending Officer: ______________________________________

Date: ____

Financial Procedure Rules Appendix F
Contract Procedures

Guide to the Engagement and Use of Consultants

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Introduction

This guide aims to explain in simple terms the procedures for engaging and using consultants for the provision of Council works, goods and services where the value of the contract exceeds £10,000.

The Council's constitution incorporates Financial Regulations and Financial Procedure Rules that provide a framework for managing the Authority's financial affairs. They apply to every Member and Officer of the Authority and anyone acting on its behalf.

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The key stages relating to the engagement of consultants can be subdivided into five distinct phases;

- Planning the engagement;
- Selection of consultants;
- Contract award;
- Managing the engagement; and
- Reviewing performance.

Guidance on each of these stages is set out below.

Planning the Engagement

The use of consultants can be an efficient and cost effective way of supplementing the Council's capacity to achieve service objectives. Their use, however, can be expensive compared to properly planned use of our own staff and should only be used in the following circumstances, where:

- Specialist skills are required that are not available in house; or through existing Council arrangements;
- Council staff who could undertake the works are already fully committed in the time scale required; and
- An independent opinion, advice or investigation is necessary.

Occasionally the Council needs to obtain advice regarding the feasibility of works of a specialist nature. In such cases specialist consultation is permitted as an initial step, but this should be done without any guarantee of extending the appointment to cover any consequentially approved project.

When considering the engagement of consultants the Spending Officer must justify the engagement, ensuring that budgetary provision exists and that a comprehensive brief has been developed.

In all cases it is essential that a clear and well thought out brief for the engagement is drawn up. In particular the brief should include the following items:

- The purpose of the project together with any necessary background information;
- The scope and content of the project;
- The required timing of the project and an assessment of the consequences of failure to meet time targets; and
- The expected budgetary constraints.

The brief should really be able to be broken down into evaluation criteria for use in monitoring the consultant's performance. For relatively straightforward or repetitive projects an adequate brief may be drawn up in a single step, but for larger, more complex projects the brief as finally agreed, may be the product of an evolutionary process.

Selection of Consultants

The competitive process relating to consultants must follow the principles for appointing contractors, with the condition that in circumstances requiring flexibility, or a specialism, the Spending Officer may need to refer to wording regarding exemptions to the Contract Procedure Rules.

The engagement value, used to determine the correct method of procurement, shall be defined as the total fees payable plus an estimate of the total expenses reimbursable to the consultant.

If a consultant applies to be included on an Approved List then at least two satisfactory written references should be obtained to confirm that the consultant has demonstrated an ability to carry out work of a similar nature to that required. Further guidance on Approved Lists is contained within the Guide to Quotations and Tenders.

It is increasingly common for tenders not to be evaluated on price alone, as the cheapest price may not represent the best value. The Council's Contract Procedures provide for contracts being awarded on a value for money basis, or the "most economically advantageous tender" (MEAT).

A suggested mechanism for evaluating bids on both quality and price is attached as Appendix 1, but whatever evaluation model is used, it is vital that tender documents clearly state the criteria upon which the assessment is to be made; to ensure the process is transparent, documented and complies with public procurement rules.

Contract Award

All engagements must be made in writing in accordance with the Council's Contract Procedure Rules, and as set out in the Guide to Quotations and Tenders, and a record of the engagement notice or letter placed on the engagement file. If required clarification should be sought as to the consultant's previous employment via their CV or via Human Resources.

The Council's Scheme of Delegation to Officers gives authority to all ~~Corporate~~ Service Directors "to engage specialist or consultant services where necessary if within an approved cost or estimate or provided that the cost does not exceed the limit, over which ~~Corporate~~ Service Directors may not agree to transfer expenditure from one estimate to another".

It is good practice for a meeting to take place shortly after the engagement has been made to 'fine tune' the brief and to ensure that both parties are clear as to the arrangement. The Spending Officer must minute the meeting and document any revision to the initial brief. Significant changes to the brief should not be necessary unless the brief was poorly defined in the first instance. In such circumstances the Spending Officer would be open to criticism that the revised brief bears little resemblance to that for which tenders were initially invited, thus distorting the process.

It shall be a condition for the engagement of any consultant for the supervision of a Council contract, that the consultant is compliant with the Council's Financial Regulations and

Financial Procedure Rules. In this regard, the Spending Officer is required to ensure that the consultant is supplied with, or has access to, these documents.

Managing the Engagement

Throughout the engagement the Spending Officer must ensure that monitoring arrangements provide assurance that the performance of the consultant is as expected, in accordance with the levels and standards of the service specified in the conditions of appointment. A record must be made of the performance review and this placed on the engagement file.

All deviations from the original brief shall be documented along with a mutually agreed course of action for resolving the problems within an appropriate and defined time scale. Any financial effects should, where possible, be agreed in advance. If such action fails to rectify the situation within the specified time scale then the Spending Officer should notify the executive of the circumstances.

On no account must the Spending Officer allow an engagement to drift away from the defined requirements of the engagement brief over a protracted period of time, as problems are best addressed when they arise.

In any event, the Spending Officer must submit a report to the executive where the final cost of the engagement appears to exceed the approved contract sum by either 10% or £20,000 whichever is the lesser.

In all cases where an engagement brief is revised, a copy must be supplied to the consultant for their records and it made clear in writing that the new brief supersedes the old, to avoid any confusion.

Reviewing Performance

On completion of the engagement it is essential that the Spending Officer undertakes a final review to compare the work produced or service provided against the defined objectives. If any objectives have failed to be achieved, the reason for the failure must be documented together with any corrective action that needs to be taken.

In every case the Spending Officer shall, as soon as possible, complete and retain on the engagement file, a 'Consultant Post Contract Performance Appraisal Form' see Appendix 2.

Appendix 1 - Quality/Price Mechanism for the Selection of Consultants

The following model is suggested, which sets out a quality and price mechanism for the appointment of consultants including architects, engineers, surveyors and project managers. The procedures demonstrate how quality is taken into account during the tender process and justifies any decision for accepting a bid other than the lowest.

The principal features of the quality/price mechanism are as follows.

A quality/price mechanism should be established before bids are invited and tender documentation designed to ensure that the mechanism can be applied to responses received. In accordance with public procurement rules, the tender documentation must specify the criteria for evaluation. A quality/price ratio agreed at the outset represents the percentage weightings given to quality and price. The more complex the project, and hence the greater degree of innovation likely to be required from the consultants, the higher the ratio should be. In considering a quality/price mechanism, however, it should be recognised that some projects may not require such detailed assessment.
The quality/price mechanism should be agreed by the tender evaluation panel.

In assessing the quality after tenders have been received, each member of the panel should compile their own marks with an average being taken for assessment purposes. Relevant documents should be signed and retained for future reference.

Indicative ratios suggested for various types of projects are:

Type of Project	Indicative Ratio Quality/Price
Feasibility studies and investigations	85/15
Innovative projects	80/20
Complex projects	70/30
Straightforward projects	50/50
Repeat projects	20/80

Quality criteria should be grouped under four main headings and weighted. Recommended headings and suggested weighting ranges are;

Quality Criteria	Suggested Weighting Ranges*
Practice or Company	20 – 30%
Project organisation	15 – 25%
Key project personnel	30 – 40%
Project execution	20 – 30%

* Weightings will total 100%

A quality threshold should be established and suppliers should be informed of this minimum requirement in advance (e.g. a minimum total score of 65 points out of 100 in respect of the quality criteria stated above). Tenderers must achieve this minimum score before prices are considered.

Submitted tenders are assessed for quality by marking each of the four criteria out of 100, multiplying each mark by the respective weighting percentage and then adding them together to give a total quality score out of 100. Consultants passing the quality threshold (ideally two or three) are interviewed, their quality scores reviewed and their prices examined. In assessing the price, the lowest compliant bid scores 100 and the others score 100 minus the percentage figure above the lowest price.

Example

Three prices are received and scored as follows:-

Company	Price	Score	Calculation
Consultant A	£1500	100	Lowest = 100
Consultant B	£1750	83.3	100 – ((250/1500) x 100)
Consultant C	£1900	73.3	100 – ((400/1500) x 100)

Or if lowest price is £10/hour and the next is £12.50/hour; the scores are 100 and 75 respectively.

The final quality/price assessment is achieved by multiplying the quality and price scores by the respective weightings set by the quality/price ratio and adding them together to give a total score out of 100 (e.g. if the ratio is set at 70/30 and the quality score is 80 and price is 75, the total score is (80 x 70%) + (75 x 30%) = 78.50. On this basis the highest scoring consultant should be awarded the contract.

Appendix 2 – Post Contract Appraisal Form (Consultant)

Consultant: ____

Project: ____

Date of Practical Completion: ______________________________________

<table>
<tr><th>Details</th><th colspan="2">Good</th><th>Satisfactory</th><th>Poor</th></tr>
<tr><td>1. Organisation</td><td colspan="2"></td><td></td><td></td></tr>
<tr><td>2. Quality of pre-contract service</td><td colspan="2"></td><td></td><td></td></tr>
<tr><td>3. Quality of post contract service</td><td colspan="2"></td><td></td><td></td></tr>
<tr><td>4. Financial Control</td><td colspan="2"></td><td></td><td></td></tr>
<tr><td>5. Co-operation with client/project sponsor</td><td colspan="2"></td><td></td><td></td></tr>
<tr><td>6. Co-ordination with other consultants, relevant persons and bodies</td><td colspan="2"></td><td></td><td></td></tr>
<tr><th></th><th>Yes</th><th>No</th><th colspan="2">Comments</th></tr>
<tr><td>7. Were services generally completed on programme in both pre and post contract stages?</td><td></td><td></td><td colspan="2"></td></tr>
<tr><td>8. If no, were the circumstances outside the consultant’s control?</td><td></td><td></td><td colspan="2"></td></tr>
<tr><td>9. Were any parts of the commission sub-let?</td><td></td><td></td><td colspan="2"></td></tr>
<tr><td>10. Did the consultancy employ adequate staff of the required quality?</td><td></td><td></td><td colspan="2"></td></tr>
<tr><td>11. Did the partners supervise the project adequately?</td><td></td><td></td><td colspan="2"></td></tr>
<tr><td>12. Were any unreasonable claims for additional fees, or requests for extensions to the programme submitted?</td><td></td><td></td><td colspan="2"></td></tr>
<tr><td>13. Would you engage this consultant again?</td><td></td><td></td><td colspan="2"></td></tr>
<tr><td>14. Any further comments</td><td colspan="4"></td></tr>
</table>

Signature of Spending Officer: ______________________________________

Date: ____

Report of:	Meeting	Date	Item no.
Head of Finance (s151 Officer)	Audit Committee	20 September 2016	8

ANNUAL REVIEW OF INTERNAL AUDIT CHARTER

1. Purpose of report

1.1 Agreement of the Internal Audit Charter for the Audit and Risk Management Section ensuring compliance with the Public Sector Internal Audit Standards (PSIAS) and The Chartered Institute of Public Finance and Accountancy (CIPFA) Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards.

2. Outcomes

2.1 Compliance with the PSIAS and the checklist contained within CIPFA's Application Note constituting 'proper practices' as defined in the Accounts and Audit Regulations 2015.

3. Recommendations

3.1 That the Audit Committee agrees the Internal Audit Charter and Code of Ethics attached at Appendices 1 and 2.

4. Background

4.1 Specific requirements detailed in the Accounts and Audit Regulations 2015 require a relevant body to 'undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards or guidance. From 1 April 2013 the standards and guidance were defined in the PSIAS and CIPFA's Application Note which provides guidance on the specific requirements for local government internal audit organsiations.

4.2 The Application Note documents a number of specific local government requirements, including the requirement to complete an extensive checklist for assessing compliance with the PSIAS. One of the mandatory requirements within the checklist is to have an Internal Audit Charter in place.

5. Key Issues and proposals

5.1 The Internal Audit Charter and Code of Ethics are included for approval at Appendices 1 and 2.

Financial and legal implications	
Finance	None arising directly from the report.
Legal	This will ensure good governance and probity.

Other risks / implications: checklist

If there are significant implications arising from this report on any issues marked with a ✓ below, the report author will have consulted with the appropriate specialist officers on those implications and addressed them in the body of the report. There are no significant implications arising directly from this report, for those issues marked with a x.

risks/implications	✓ / x
community safety	x
equality and diversity	x
sustainability	x
health and safety	x

risks/implications	✓ / x
asset management	x
climate change	x
data protection	x

report author	telephone no.	email	date
Joanne Billington	01253 887372	joanne.billington@wyre.gov.uk	24.08.16

List of background papers:		
name of document	date	where available for inspection

List of appendices

Appendix 1 – Internal Audit Charter

Appendix 2 – PSIAS Code of Ethics

arm/audit/cr/16/2009jb2

Internal Audit Charter – September 2016

Introduction

This Charter sets out the purpose, authority and responsibility of the internal audit activity at Wyre Council and provides a Code of Ethics which stipulates the conduct of Internal Auditors within the Audit and Risk Management Section.

It is important that this audit charter is publicised within the Council and that the role of the Audit and Risk Management Section is understood. The Head of Governance is responsible for reviewing the Audit Charter and presenting it to the Head of Finance/s.151 Officer (Senior Management) and the Audit Committee (The Board) at least annually for review and approval.

Definition of Internal Audit

The PSIAS defines internal auditing as *"an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."*

Mission of Internal Audit

This Audit Charter sets out what the internal audit service aspires to accomplish; which is 'To enhance and protect organisation value by providing risk-based and objective assurance, advice and insight'. The core principles listed in the PSIAS, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, all principles should be present and operating effectively. Failure to achieve any of the principles would imply that an internal audit function was not as effective as it could be in achieving internal audit's mission. There are 10 core principles, namely:

- Demonstrates integrity;
- Demonstrates competence and due professional care;
- Is objective and free from undue influence (independent);
- Aligns with the strategies, objectives, and risks of the organisation;

- Is appropriately positioned and adequately resourced;
- Demonstrates quality and continuous improvement;
- Communicates effectively;
- Provides risk-based assurance;
- Is insightful, proactive, and future-focused; and
- Promotes organisational improvement.

Key Organisational Roles and Relationships

The PSIAS require that the internal audit charter defines the terms ‘Board’ and Senior Management’ in relation to the work of internal audit. For the purpose of internal audit work at Wyre Council, the ‘Board’ is taken to refer to the Audit Committee and ‘Senior Management’ is taken to refer to the Head of Finance/s.151 Officer. The PSIAS also refer to the ‘Chief Audit Executive’ which at Wyre refers to the Head of Governance (Head of Internal Audit).

The Council has adopted CIPFA’s Statement on the Role of the Chief Financial Officer in Local Government and the associated Statement on the Role of the Head of Internal Audit in Public Service Organsiations. These statements set out principles and standards for the Head of Finance/s.151 Officer and the Head of Governance to act in a mutually supportive way in fulfilling their statutory and professional responsibilities.

The Head of Governance reports to the Head of Finance/s.151 Officer who is a member of the Council’s Corporate Management Team along with the Chief Executive and the Service Directors.

Internal Audit supports the Chief Executive, as Head of Paid Service, in providing high level assurances related to the Council’s strategy and governance arrangements and will use the Annual Governance Statement to notify him of any significant issues.

Internal Audit supports the Monitoring Officer in discharging her responsibilities in maintaining high standards of governance, conduct and ethical behaviour.

The Audit and Risk Management Section derives its authority from the Financial Regulations and Financial Procedure Rules, contained within the Council’s Constitution.

Responsibilities

The internal audit service is a review activity that does not relieve management of its responsibility for ensuring that effective systems of control are in place. The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the Council’s objectives. Management shall accept and implement internal audit findings and recommendations, or accept the risk resulting from taking no action.

The Audit and Risk Management Section assist the Council in discharging its corporate governance requirements and ensure that the Council's assets and activities have the necessary insurance cover. The Head of Governance is responsible for:

- Developing an annual audit plan in the context of the strategic direction and based on an understand of the Councils key risks;
- Managing the provision of a complete professional internal audit service that is compliant with the PSIAS and CIPFA's Application Note;
- Providing an annual internal audit opinion to the Audit Committee, based on the outcomes of internal audit work conducted throughout the year;
- Assisting officers and members of the authority in the effective discharge of their responsibilities;
- Examining, evaluating and reporting on the adequacy of internal controls as a contribution to the efficient, effective and economic use of resources;
- Ensuring the Council's assets and interests are accounted for and safeguarded against loss;
- Maintaining a level of independence and integrity to permit the proper performance of the internal audit function;
- Maintaining an effective working relationship with the External Auditor (KPMG);
- Attending Audit Committee meetings, contributing to Audit Committee Agendas and advising the Committee on any scope or resource limitations;
- Assessing all matters of potential fraud or irregularity in line with the requirements of the Council's counter fraud policies; and
- Assisting the Audit Committee in achieving effectiveness in the delivery of their terms of reference.

In carrying out their role, staff within the Audit and Risk Management Section will comply with the auditing standards as defined in the PSIAS, the Accounts and Audit Regulations 2015 and any other relevant professional guidelines issued by the Institute of Internal Auditors.

In accordance with the Accounts and Audit Regulations 2015, an annual review of the effectiveness of the system of internal control must be carried out. This will be conducted using the checklist within CIPFA's Application Note which will be presented to the Audit Committee in May. The outcome of the exercise will form part of the Annual Governance Statement. Completing an exercise of this nature also allows greater reliance to be placed on the overall opinion on the effectiveness of the control environment within the Annual Audit Report.

Limitations of Internal Audit Responsibilities

In seeking to discharge the responsibilities of Internal Audit set out above, it should be noted that Internal Audit is not responsible for the following, which are the proper responsibility of management:

- Controlling the risks of the organisation;
- Establishing and maintaining systems of internal control;
- Determining operational polices or procedures; and
- Preventing or detecting fraud and irregularity.

Scope of Internal Audit Work

The scope of internal audit covers all of the Council's governance arrangements, procedures for ensuring the effective management of all significant risks and ensuring regularity in all its financial areas, including value for money.

It allows for unrestricted coverage of the authority's activities and unrestricted access to all records, personnel, property and assets deemed necessary in the course of an audit. Such access shall be granted on demand and is not subject to advance notice. There are no limitations placed upon the scope of internal audit work. Internal audit has the right to require and receive explanations from all employees or Council members concerning any matter under consideration.

The scope of internal audit work extends to services provided through partnership arrangements. The Head of Governance at Wyre Council should decide, in consultation with all parties, whether internal audit staff should conduct the work to derive the required assurance or rely on the assurances provided by others. In line with the PSIAS, the Audit Committee will be advised of any consultancy work requested and performed.

If the Head of Governance or those charged with governance consider that the level of internal audit resources in any way limits the scope of internal audit work, or prejudices the ability of internal audit to deliver a service consistent with the definition of internal audit, they should advise the Audit Committee immediately.

Internal audits are not limited to financial systems or records, but extend to all the activities of the Council as this reflects the control environment and the governance arrangements in place. The Audit and Risk Management Section will undertake the following activities as and when required:

- Review controls within existing systems and those under development and give advice and assistance when required;
- Promote good governance arrangements and monitor progress made against governance actions;

- Review compliance with Financial Regulations and Financial Procedure Rules;
- Review compliance with the Council's Constitution;
- Undertake transaction testing to provide assurance as to the accuracy of processing;
- Perform Computer Audit and Contract Audit;
- Proactive and reactive management of the Council's insurance portfolio, linked to risk;
- Investigation of suspected fraud, bribery and corruption (not including Benefit Fraud Investigation work);
- Embedding risk management;
- Value for money studies; and
- Verification of performance information and published national and local indicators.

Strategy and Planning

The Head of Governance will prepare a risk-based annual audit plan taking into account the Council's Business Plan, Service Plans, the Medium Term Financial Plan, Strategic and Operational Risk Registers and discussions with the Council's Corporate Management Team and the External Auditor (KMPG). The audit plan will outline the assignments to be carried out and the broad resources required for delivery. The Audit Committee will approve the plan in advance of the financial year.

To reflect any changing priorities or emerging risks, the plan will be constantly reviewed with a provision for contingencies being included accordingly. Progress in relation to the plan will be reported to the Audit Committee on a six monthly basis.

Resourcing and Staffing

Internal Audit will be suitably resourced in order to achieve its overall mission and will aim to maintain a suitable mix of experienced and qualified staff. To assist Wyre Council in meeting these requirements, the internal audit service is supplemented by the use of two external audit providers, Lancashire Audit Service (LAS) who are part of Lancashire County Council and also Mazars. Both organsiations are required to comply with PSIAS.

Individual training needs are established and agreed through the Council's Performance Appraisal process along with the most cost effective way of meeting those needs. As a professional service, staff are expected to actively participate in formal Continuing Professional Development (CPD) schemes.

Once a year, the Audit Committee will have the opportunity to attend two scheduled private discussions, one with the Council's External Auditors (KPMG) and the other with the Head of Governance. Following on from these discussions, feedback on the Head of Governance's performance is provided by the Chairman of the Audit

Committee to the Service Director Performance and Innovation prior to the Head of Governances annual performance appraisal taking place.

Reporting Lines and Audit Reports

Although the Head of Governance reports to the Service Director Performance and Innovation, the internal audit activity is organisationally independent in its planning and operation and as such has unrestricted access to the following:

- Chief Executive;
- S.151 Officer;
- Monitoring Officer;
- Chairman of the Audit Committee;
- Chairman of the Standards Committee;
- Members of the Council; and
- All Council employees.

Functionally, the work of Internal Audit is reported to Service Directors, Heads of Service, Audit Committee and the External Auditor by means of specific reports, and also in summary form to Audit Committee via six monthly monitoring and activity reports.

The Head of Governance and the Chairman of the Audit Committee have mutual direct access to each other and will liaise as they consider appropriate.

The majority of internal audit reviews will result in the production of a formal report. As part of Internal Audit's Quality Assurance and Improvement Programme, a 4:4:2 timescale is applied when conducting audit work and drafting and finalising audit reports. The timescales apply as follows;

- 4 weeks from the commencement of the audit fieldwork, a draft report will be issued;
- 4 weeks from the issue of a draft report, a response and completed action plan will be received; and
- 2 weeks from receiving the response and action plan, the report will be issued as a 'final' version.

The reports are distributed as follows;

- Managers receive a final copy of the report with an agreed action plan, following confirmation of the draft report's factual accuracy. The action plan details responsibilities for action, the timetable and priorities. Whilst management are responsible for the implementation of agreed actions, follow-up work will be performed by Internal Audit whereby a sample of Level 1-3 recommendations are reviewed to ensure actions are being progressed. The Audit Committee will be advised of any delays or failure to implement agreed actions.

- The appropriate Service Director, the Audit Committee and the Council's External Auditor (KPMG) receive copies of the final reports. A copy is also published on the Council's intranet.

- The Audit Committee receives six monthly updates on audit work performed and an executive summary of findings / recommendations made, highlighting any key issues arising from this work.

- At each meeting, the Committee have the opportunity to discuss any of the audit reports that have been issued since the previous meeting. Officers may be asked to attend the Audit Committee meeting to address any questions raised by the members.

Quality Assurance and Improvement Programme (QAIP)

The PSIAS requires that the Chief Audit Executive (at Wyre this is the Head of Governance) develops and maintains a Quality Assurance and Improvement Programme (QAIP). A QAIP is designed to enable an evaluation, checking that internal audits activity conforms with the 'Definition of Internal Auditing', the PSIAS and whether Internal Auditors apply the Code of Ethics. The QAIP also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The QAIP must include both internal and external assessments and any improvement plans resulting from the QAIP must be monitored accordingly. The following activities make up the QAIP at Wyre:

Internal Assessment

- 6 monthly progress review of internal audit activity;
- 6 monthly performance appraisals for all audit staff;
- Completion of CIPFA's Application note checklist to assess the Effectiveness of Internal Audit;
- Quality inspections of all audit work by the Head of Governance;
- Annual certification confirming compliance with the Code of Ethics contained within the Audit Charter; and
- Annual feedback from the Chairman of the Audit Committee on the Chief Audit Executive's performance.

External Assessment

- The use of Lancashire County Council's Internal Audit Service and Mazars to provide independent assurance that controls are adequate and effective in service areas managed by the Chief Audit Executive;
- Annual review and validation of the Annual Governance Statement; and
- The External Auditor has an annual opportunity to raise any issues concerning Internal Audit activity with the Audit Committee.
- In compliance with the PSIAS, external assessments are to be carried out at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. Wyre Council has decided that the preferred method would be through the self-assessment contained with CIPFA's Application Note, with an independent validation from a peer review (organised through the Lancashire District Audit Group Meetings). Results will be reported annually to the Audit Committee. The independent assessment and validation of the Lancashire Districts will commence in November 2016, with Wyre's assessment being scheduled for March 2018.

Independence and Objectivity

Internal Audit operates independently within the Council to ensure it is able to appraise and give an impartial opinion on the Council's governance arrangements, risks and internal control systems.

To ensure this independence, internal audit operates within a framework that allows unrestricted access to all council officers, senior management and elected members. As such all internal audit staff have the right to access all premises, records and documentation held by the Council, its officers and Elected Members and to seek explanation as they see necessary to discharge their duties. This position is supported by the Accounts and Audit Regulations 2015.

The Head of Governance is responsible for identifying and managing any threats to objectivity. In addition, objectivity and independence is further enhanced by the partnership arrangements in place between the Council and Lancashire Audit Services (LAS) and Mazars. They are also used to avoid any conflicts of interests that may arise if Internal Audit have undertaken any non-audit activities or have been involved in the system or policy setting.

Relationships with Elected Members, Officers, External Audit and Other Agencies

To ensure good working relationships are established, the Audit and Risk Management Section comply with the 'protocol for officer / member relations' which forms part of the Council's Constitution and involves:

- Working in a spirit of mutual respect and co-operation;
- Maintaining impartiality;

- Being politically neutral;
- Respecting confidentiality;
- Observing the protocols with regards to access to information; and
- Trying to resolve any issues informally and in a spirit of understanding.

The Audit and Risk Management Section will co-operate with External Audit and other review agents to:

- Ensure that duplication of work is minimised;
- Consider joint delivery;
- Determine the level of assurance that can be obtained from their work; and
- Review the reliance that can be placed on that assurance as part of the Head of Governance's overall opinion on the control environment included in the Internal Audit Annual Report.

Due Professional Care and Audit Ethics

All Audit and Risk Management staff have an ethical responsibility to work with due professional care. Due professional care is the care and skill that prudent and competent internal auditors will apply in performing their duties; working with competence and diligence, using knowledge and judgement based on experience, training and ability.

Care will be appropriate to the objectives, complexity, nature and materiality of the audit being performed. The auditor will consider various data analysis techniques and be alert to significant risks that may affect the organisation.

The PSIAS contain a Code of Ethics which is mandatory for all internal auditors in the public sector. In addition, internal auditors are also required to comply with the relevant requirements of their own professional bodies and the organisation in which they are employed. Internal Audit at Wyre Council has adopted the PSIAS Code of Ethics.

Fraud, Bribery and Corruption

Managing the risk of fraud, bribery and corruption is vital to the success of the Council in achieving its corporate objectives. The Audit and Risk Management Section will assist management in the effective discharge of this duty. Audit procedures alone, even when performed with due care and professionalism cannot guarantee that a system is 100% risk free, nor that all incidents of fraud, bribery and corruption will be detected and investigated.

The Audit and Risk Management Section is not solely responsible for the prevention or detection of fraud, bribery and corruption. It will, however, remain alert to risk and exposures both internal and external to the organisation. Close involvement with the national anti-fraud agencies and participation in the National Fraud Initiative will assist this process.

Any evidence or suspicion of an irregularity regarding Council funds, property or any other asset or interest should be reported immediately using the Whistleblowing Policy. The Council is committed to the highest possible standards of openness, probity and accountability, and encourages all its elected members, employees, partners and contractors to voice their concerns without fear of reprisal.

The Audit and Risk Management Section will lead or assist in the development, maintenance and delivery of training associated with the effectiveness of policies that contribute towards sound corporate governance, as detailed in the Council's Annual Governance Statement e.g. Whistle Blowing Policy, Anti-Fraud, Bribery and Corruption Policy, Officer's Gifts, Hospitality and Interests and the Money Laundering Policy.

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Appendix 2

Public Sector Internal Audit Standards – Code of Ethics

Introduction

The PSIAS contain a Code of Ethics (the Code) which is mandatory for all internal auditors in the public sector. In addition, internal auditors are also required to comply with the relevant requirements of their own professional bodies and the organisation in which they are employed.

Purpose

The purpose of these ethics is to promote an ethical, professional culture in internal auditing. Internal auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life. Namely;

- Selflessness
- Integrity
- Objectivity
- Accountability
- Openness
- Honesty
- Leadership

The Head of Governance at Wyre Council will ensure that auditors are regularly reminded of their ethical responsibilities as part of the performance appraisal process. Auditors will be asked to declare annually any personal interests and certify that they understand and will comply with the requirements of the Code.

Applicability and Enforcement

The Code applies to both individuals and entities that provide internal auditing services including Lancashire Audit Service and Mazars. For members of the Institute of Internal Auditors (IIA), breaches of the Code shall be evaluated and administered according to the IIA Disciplinary Procedures. Disciplinary procedures of other professional bodies, e.g CIPFA and employing organisations may also apply to breaches of the Code.

Fundamental Principles

Internal auditors are expected to apply and uphold the following four principles:

1. Integrity

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

Internal Auditors:
- Shall perform their work with honesty, diligence and responsibility;
- Shall observe the law and make disclosure as required by the law and their professions;
- Shall not knowingly be part of any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation; and
- Shall respect and contribute to the legitimate and ethical objectives of the organisation.

2. Objectivity

Internal Auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal Auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

Internal Auditors:
- Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation;
- Shall not accept anything that may impair or be presumed to impair their professional judgement; and
- Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. Confidentiality

Internal Auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Internal Auditors:
- Shall be prudent in the use and protection of information acquired in the course of their duties; and
- Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

4. Competency

Internal Auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

Internal Auditors:

- Shall engage only in those services for which they have the necessary knowledge, skills and experience;
- Shall perform internal auditing services in accordance with the Public Sector Internal Audit Standards; and
- Shall continually improve their proficiency and effectiveness and quality of their services.

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Report of:	Meeting	Date	Item no.
Head of Finance (s151 Officer)	Audit Committee	20 September 2016	9

ANNUAL REVIEW OF THE RISK MANAGEMENT POLICY

1. Purpose of report

1.1 To review the Council's Risk Management Policy.

2. Outcomes

2.1 Evidence that the Council manages its significant business risks and recognises that effective risk management is integral to the Council's corporate governance arrangements.

3. Recommendations

3.1 Members are asked to approve the Risk Management Policy document attached as Appendix 1.

4. Background

4.1 The aim of the Risk Management Policy is to establish and operate an effective system not only to minimise risk but also to enable continuous improvement at every level of the organisation. Risk Management is the planned and systematic approach to the identification, evaluation, and control of risk. Risk management must be integrated into the culture of the organisation and this will include mandate, leadership and commitment. It should be a continuous process that supports the development and implementation of the strategy of an organisation and methodically addresses all the risks associated with all the activities of the Council.

4.2 The Risk Management Policy is a key document, which identifies the Council's approach to risk management, and demonstrates how it is embedded across the Council. The adoption of this policy will help the Council to demonstrate its commitment to a policy of managing risk wherever it may arise.

4.3 The Audit Committee are required to review the Risk Management Policy on an annual basis with the last review being completed in September 2015.

5. Key Issues and proposals

5.1 The updates Risk Management Policy is attached as Appendix 1.

Financial and legal implications	
Finance	None arising directly from the report.
Legal	Effective audit and risk management assist in good governance and probity of Council actions.

Other risks / implications: checklist

If there are significant implications arising from this report on any issues marked with a ✓ below, the report author will have consulted with the appropriate specialist officers on those implications and addressed them in the body of the report. There are no significant implications arising directly from this report, for those issues marked with a x.

risks/implications	✓ / x
community safety	x
equality and diversity	x
sustainability	x
health and safety	x

risks/implications	✓ / x
asset management	x
climate change	x
data protection	x

report author	telephone no.	email	date
Joanne Billington	01253 887372	joanne.billington@wyre.gov.uk	24.08.16

List of background papers:		
name of document	date	where available for inspection

List of appendices

Appendix 1 – Risk Management Policy

arm/audit/cr/16/2009jb3

Risk Management Policy

September 2016

1.0 Introduction

1.1 Risk is part of all our lives. As an organsiation, we need to take risks to grow and develop. Risk Management involves understanding, analysing and addressing risks to make sure the organsiation achieves its objectives. Successful risk management can make a Council more flexible and responsive to new pressures and external demands. It allows an organisation to deliver services better services and to meet the needs and expectations of its community in what is a fast changing and dynamic environment.

1.2 The aim of the Risk Management Policy is to establish and operate an effective system not only to minimise risk but also to enable continuous improvement at every level of the organisation. The adoption of this policy will help the Council to demonstrate its commitment to a policy of managing risk wherever it may.

1.3 The Council is committed to developing a robust approach to risk management and will take reasonable steps to ensure that it;

- Provides services of the highest quality and standards possible;
- Provides a safe environment and facilities for staff and visitors;
- Provides reasonable and safe working arrangements for staff e.g. hours and workloads;
- Provides staff with adequate training and equipment to perform their duties;
- Encourages and enables staff to improve their performance both individually and collectively; and
- Is not financially or operationally compromised or disrupted.

1.4 In making this commitment the Council aims to;

- Identify activities that may cause loss, or cause the Council to fail to deliver its objectives;
- Measure the impact of potential loss on the Council, its property, staff and customers;

- Take reasonable steps to avoid, reduce and/or control the impact of potential loss;
- Make efforts to share or transfer risk wherever possible;
- Foster a culture of risk awareness that is reflected in all aspects of its work;
- Develop a culture that encourages open reporting and learning from adverse events; and
- Demonstrate continuous improvement, spreading learning across the Council and meeting the changing needs of the community.

1.5 The policy applies to the Council's elected Members and its Committees, the Corporate Management Team, staff and all working groups and partnerships. The responsibilities of these groups and the individuals within them, for the implementation of a control assurance programme and the effective management of risk is detailed below.

2.0 Risk Evaluation

2.1 The Council uses Zurich Municipal's STORM methodology (Strategic and Tactical Organisational Risk Management); a structured, systematic methodology that identifies, evaluates, prioritises and manages opportunities and risk at strategic and operational levels.

2.2 The Council's risk registers are held within spreadsheets and are accessible via the Council's Intranet. The registers document the key risks and who is responsible for them. They also record the action plans created to help mitigate these risks.

2.3 Risk assessment is a formal requirement in the Council's decision-making process. Prior to the submission of any committee report the report author must identify any risks associated with putting into place the recommendations or the risks associated with not doing so. Reports are considered by the Corporate Management Team and the cascade of information via team briefings ensures that the Head of Governance is aware of all decisions and can ensure that any associated risks are captured on risk registers.

2.4 The risk evaluation method details the level of risk that the Council considers acceptable based on likelihood and impact, and ascribes management action to reduce significant risks.

3.0 Responsibilities

Members

3.1 Members are ultimately responsible for risk management because risks threaten the achievement of policy objectives. Failure to deliver services efficiently and high-level incidents and scandals often result in the public questioning the competency of those in charge. It often transpires that such failures and scandals could have been avoided if proper governance procedures had been operating effectively. Members must understand the strategic risks that the Council faces and decide how these risks should be managed. They should not seek to avoid or delegate this overall responsibility, as it is key to their stewardship responsibilities.

3.2 Members must ensure that risk awareness and management are part of the culture of the Authority and as a minimum;

- ♦ Exercise leadership and take a "top down" approach;
- ♦ Support and monitor the Risk Management process;
- ♦ Request assurance as to the quality of data that supports the decision making process; and
- ♦ Form an opinion as to the adequacy of the risk assessment that has been performed.

3.3 The Accounts and Audit Regulations 2015 require the publication of an Annual Governance Statement with the Council's financial statements. This includes a review of the effectiveness of internal controls and documents the Council's approach to risk management. This statement of assurance is a broad reflection of the whole governance of the Authority, identifying the measures that are needed to improve the control environment and is signed by the Leader of the Council and the Chief Executive.

Senior Officers

3.4 The Chief Executive acts as the figurehead for implementing the risk management process by making a clear, public and personal commitment to making it work and by signing the Annual Governance Statement.

3.5 Implementation of the risk management process has been delegated to the Head of Governance who works closely with the Senior Auditor and the Corporate Management Team to ensure risk action plans are implemented. Should the Head of Governance feel action is inadequate, then this would be reported to the Audit Committee for resolution.

3.6 The Council's Corporate Management Team meets annually to review the Council's strategic risks as identified on the Council's strategic risk register, and identify any new risks that may prevent the Council from achieving its long-term corporate objectives.

3.7 Service Directors and Heads of Service have responsibility for risk management within their own area of operations. They are best placed to understand the risks that are specific to their officers' day-to-day duties.

3.8 Service Directors and Heads of Service will;

- ♦ Fulfil their statutory and organisational obligations for the management of risk within the workplace;
- ♦ Ensure that regular risk assessments are undertaken within their teams as directed by the Head of Governance;

- Foster a culture of risk awareness in their teams;
- Ensure that staff have access to the relevant policies, procedures and guidelines to facilitate safe practice and to minimise risk; and
- Identify staff risk management awareness and other training for professional and personal development.

Employees

3.9 The Council's employees have a duty to: -

- Consider the risks involved in what they do;
- Be risk aware and observant, and bring potential risks to the attention of their line managers or to the Head of Governance, or report them through the Council's formal accident/incident reporting mechanism;
- Help to devise and implement processes to minimise risks to an agreed and acceptable level; and
- Update risk action plans via the Council's risk register spreadsheets.

Head of Governance

3.10 The Council's Head of Governance has a duty to: -

- Develop the Risk Management Policy and keep it up to date;
- Co-ordinate risk management and internal control activities;
- Compile risk information and prepare reports for Audit Committee;
- Develop a risk based internal audit plan;
- Audit the risk process across the organsiation;
- Receive and provide assurance on the management of risk; and
- Report on the efficiency and effectiveness of internal controls.

4.0 Risk Registers

4.1 The Audit and Risk Management Section will maintain both strategic and operational risk registers and record all significant risks. The registers are held in spreadsheets which can be viewed on the Council's intranet and will be used to monitor risk movements.

- The strategic risk register will be reviewed **annually** by the Corporate Management Team via a risk workshop, and action plans will be updated **every six months**.

- The operational risk register will be reviewed **annually** via Heads of Service and action plans will be updated **every six months**.

- Amendments to risk scores (likelihood x impact) can only be actioned by the Audit and Risk Management Section after evidence of increased or improved control, or another viable explanation has been recorded e.g. the activity ceases altogether.

4.2 To ensure that the risk registers are comprehensive and accurately reflect the levels of risk within the Authority, all relevant and available sources of information will be used in their compilation and review, namely:-

- The Council's Annual Governance Statement;
- Internal Audit Reports;
- External Audit Reports;
- Risk Assessments;
- Incident / Accident reports;
- Insurance Claims and advice from the Council's Insurers;
- Complaints; and
- Any relevant articles from risk management publications.

5.0 STORM Methodology

5.1 The process has five main steps to follow; Risk Identification, Risk Analysis, Prioritisation, Risk Management and Monitoring.

- *Risk Identification*; Uses the table of risk categories to help identify all risks associated with the action or direction the Council takes.

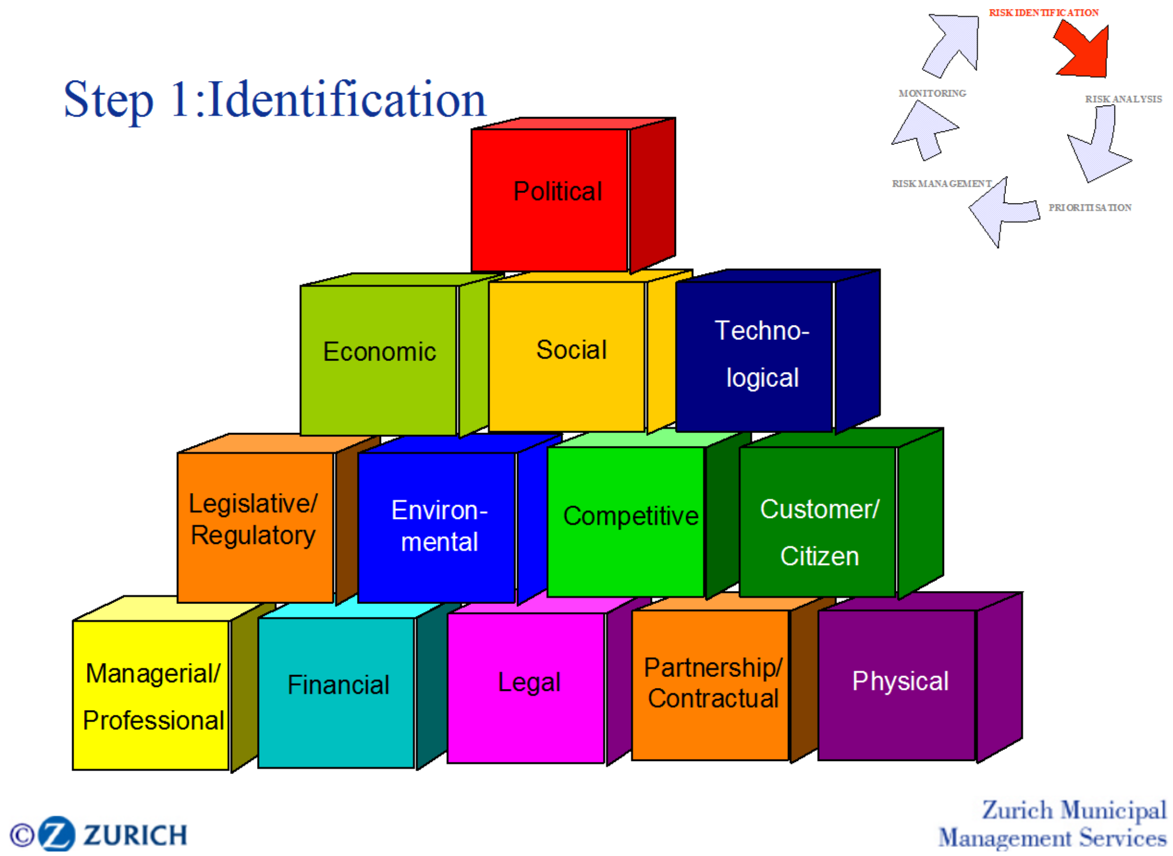
- *Risk Analysis;* The vulnerability, trigger and consequences are highlighted.

- *Prioritisation*; This scores the likelihood and impact or severity of the risk. The risk is then plotted on a graph called the Risk Profile. Action must be taken to control any risks that have been identified and profiled above the Council's risk appetite.

- *Action Planning;* To manage "downwards" either the likelihood, the impact or both.

- *Monitoring;* The Audit Committee will monitor the progress of the strategic risk register plans via reports provided to their November meeting.

5.2 Categories of risk to consider when using the STORM process to identify risk are illustrated in the diagram below.



5.3 The quality of data must also be considered when evaluating risk. Data can be collected and used in any of the above areas. However if a decision is to be based on that data, or performance measured or judged on it, then the source must be assured. The key elements of quality data are listed as follows.

- Accuracy
- Reliability
- Relevance
- Validated
- Timely, and
- Complete.

6.0 Risk Management Standards

6.1 Despite the publication of ISO 31000, the global risk management standard, the Institute of Risk Management (IRM) has decided to retain its support for the original risk management standard. This historic standard was formulated in 2002 by The Association of Insurance and Risk Managers in Industry and Commerce (AIRMIC), the Institute of Risk Management (IRM) and the Public Risk Management Association (ALARM). It is still being referred to as it is a simple and accessible guide that outlines a practical and systematic approach to the management of risk.

6.2 The standard is not prescriptive i.e. a box ticking exercise or a certifiable process. The standard represents best practice against which organisations can measure themselves. The Council has reviewed its risk management policy against this standard.

7.0 Summary

7.1 The adoption of this policy and the ongoing efforts to embed sound risk management principles into the Council’s ‘fabric’ will improve the way in which services are delivered. A solid, well-documented and comprehensive approach to risk management and its adoption into the decision making process is good practice, essential to good management and strengthens the Council’s governance framework.

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