Public Document Pack



Audit Committee Agenda

Wyre Borough Council
Date of Publication: 27 February 2017
Please ask for : Democratic Services

Tel: 01253 887444

Audit Committee meeting on Tuesday, 7 March 2017 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 - 6)

To approve as a correct record Minutes of the last meeting of the Audit Committee held on 8 November 2016.

4. Review of Audit Committee's Terms of Reference (Pages 7 - 10)

Report of the Head of Finance (Section 151 Officer).

5. Annual Internal Audit Plan 2017/18 (Pages 11 - 14)

Report of the Head of Finance (Section 151 Officer).

6. **Risk Management Update** (Pages 15 - 34)

Report of the Head of Finance (Section 151 Officer).

7. Certification of Claims and Return Annual Report 2015/16 (Pages 35 - 38)

Letter from the Council's External Auditors – KPMG.

8. **External Audit Plan 2016/17** (Pages 39 - 56)

Report of the Council's External Auditors - KPMG

9. Periodic Private Discussion with Chief Internal Auditor

10. Time and date of next meeting

Tuesday 13 June 2017 at 6pm, in the Council Chamber.

Agenda Item 3



Audit Committee Minutes

Minutes of the meeting of the Audit Committee of Wyre Borough Council held on Tuesday 8 November, 2016 at the Civic Centre, Poulton-le-Fylde.

Audit Committee members present:

Councillor R Amos
Councillor E Anderton
Councillor Ballard
Councillor Balmain
Councillor Collinson
Councillor Fail
Councillor Wilson
Councillor Wilson

Councillor Greenhough

Apologies: Councillor Barrowclough and M Grimshaw, Senior Solicitor.

Officers present:

C James – Head of Finance (Section 151 Officer)

J Billington – Head of Governance

K McLellan – Senior Auditor

C Leary - Democratic Services Officer

Non-members present: A Smith – Director at KPMG, External Auditors, Councillor I Amos and R Saunders – Democratic Services and Scrutiny Manager.

Members of the public present: None.

Audit. 27 Declarations of Interest

None.

Audit. 28 Confirmation of Minutes

The minutes of the Audit Committee meeting held on Tuesday 20 September 2016 were confirmed as a correct record.

Audit, 29 Annual Review of Audit Committee's Performance

The Head of Finance (Section 151 Officer) submitted a report on the annual review of the Committee's performance.

The Head of Governance explained how the annual review process was carried out and highlighted the issues identified and the comments included in the self-assessment form, attached as Appendix 1 of the report, which she and the Head

Page 1

of Finance had completed. She highlighted, in particular, the proposed actions on Audit Committee periodic reports to Council (paragraph 2) and (paragraph 19), on how members of the committee added value to the organisation.

RESOLVED:

- (1) That the report of the Head of Finance (Section 151 Officer) and the comments made by the Head of Governance be noted.
- (2) That the responses and comments made in the completed selfassessment of good practice form, attached as Appendix 1 of the report, be endorsed, and the following proposed actions be approved:-
 - (a) That Audit Committee attendance figures would no longer be included in the future periodic reports to full council, but that the position would be reviewed annually.
 - (b) That the Head of Governance would arrange one-to-one meetings with members of the Audit Committee in early January 2017, to explore the issues identified in the questionnaires in more detail, to help identify any gaps in the knowledge and skills of Members, with a view to developing a training and development action plan.

Audit. 30 Internal Audit And Risk Management – Progress Report

The Head of Finance (Section 151 Officer) submitted a progress report on Internal Audit and Risk Management activity.

The Senior Auditor introduced the report, informing members on progress on the delivery of the Internal Audit Work Plan (Appendix 1), the Risk Management Progress Report (Appendix 2) and the update as the Action Plan as the Annual Governance Statement for 2015/16 (Appendix 3).

Members were taken through audit work performed from May to October 2016 set out in Appendix 1. It was confirmed that all terms of references and final reports were on the intranet. The Senior Auditor said in response to questions that although the audit of compliance with the Anti-Social Behaviour Crime and Policing Act had identified a number of areas where improvements were needed, there were already some controls in place and the overall opinion of current practice was "fair".

Further to the information on risk management set out in Appendix 2, when the Corporate Management Team had undertaken its six monthly review of strategic risks on 20 October, it had added just one new risk to the register – relating to the possible impact on Wyre Services of the County Council's funding crisis.

The Head of Governance confirmed that there were no anticipated significant financial implications arising from the action plan.

RESOLVED: That the Internal Audit and Risk Management Progress Reports be noted.

Audit. 31 ANNUAL REVIEW OF COUNCIL'S COUNTER FRAUD POLICIES – ANTI FRAUD, CORRUPTION AND BRIBERY, WHISTLE BLOWING, ANTI MONEY LAUNDERING AND GIFTS AND HOSPITALITY AND REGISTERING INTERESTS

The Head of Finance (Section 151 Officer) submitted a report on the Annual Review Of Council's Counter Fraud Policies – Anti Fraud, Corruption and Bribery, Whistle Blowing, Anti Money Laundering And Gifts And Hospitality and Registering Interests.

The Head of Governance highlighted the proposed amendments to the policies listed in Section 5 of the report.

KPMG confirmed that their role would be to raise recommendations and bring any significant concerns to the Audit Committees attention.

RESOLVED:

- That the revised versions of the following policy documents including the amendments set out in paragraphs 5.1 to 5.6 of the report of the Head of Finance, be approved: Anti-Fraud, Corruption and Bribery Policy, Whistleblowing Policy, Anti-Money Laundering Policy; Gifts and Hospitality and Registering Interests Policy, all of which could be viewed by Councillors and officers, on the Council's intranet.
- That in future, when each policy review reports were to be considered by the Audit Committee, a link to the relevant report would be sent separately to Members when the Audit Committee Agenda was published, for ease of access on the internet.

Audit. 32 Compliance With The Regulation Of Investigatory Powers Act 2000 (RIPA)

The Senior Solicitor submitted a report outlining the authority's use of RIPA since it had last been considered at the Audit Committee in November 2015, to enable the committee to perform the required annual review of the Council's Policy.

The Head of Governance informed Members that there had been no Council RIPA investigations since the last report. She informed Members that The Office of Surveillance Commissioners, which was responsible for overseeing the use of covert surveillance by local authorities, had carried out their last three yearly inspection on 4 November 2015. Following the inspection, the Inspector had issued a report which had concluded that the Council's policy and guidance regime was of a good standard and that the training carried out by the officers was appropriate. The only recommendation from the Inspector was that the Council expand the paragraph in the Council's policy relating to the use of social network sites and the internet, in particular, to explain how such use might meet the criteria for authorisation as a covert human intelligence source or as directed surveillance.

Members observed that the flowchart, referred to in paragraph 5.7 of the report was not attached. The Head of Governance said she would email this out to members following the meeting. (*This was sent out on Monday 14 November 2016*).

RESOLVED:

- That the fact that there had been no authorisations granted for directed surveillance, or covert human intelligence source under the Regulation of Investigatory Powers Act 2000 since November 2015, be noted.
- 2. That the revised RIPA policy attached as Appendix A to the report of the Senior Solicitor, which reflected the recommendations made by the Office of Surveillance Commissioners, following an inspection of the Council's policy, procedures and operations on 4 November 2015, be approved.

Audit. 33 Annual Audit Letter 2015/16

The Head of Finance (Section 151 Officer) submitted a copy of the Annual Audit Letter 2015/16 prepared by the Council's external auditors KPMG.

The Council's External Auditor (KPMG) introduced the report and summarised key findings from the 2015/16 audit of Wyre Council.

The report reiterated that the Authority had proper arrangements in place for securing financial resilience and challenging how it secured economy, efficiency and effectiveness.

The External Auditor explained that their final fee for the 2015/16 audit of the Authority was £48,662 excluding VAT, this being a reduction of around 25% on the fee for 2014/15, and in line with the planned fee for 2015/16. Under the terms of their engagement with Public Sector Audit Appointments, they undertook prescribed work in order to certify the Authority's housing benefit grant claim. He explained that this certification work was still ongoing and the final fee will be confirmed when they report on the outcome of that work in January 2017.

RESOLVED: that the Annual Audit Letter for 2015/16 from the External Auditor's (KPMG), be accepted and published on the Council's website.

Audit. 34 External Auditor Appointment for 2017/18

The Head of Finance (Section 151 Officer) submitted a letter dated 22 September 2016, received from the Public Sector Audit Appointments Chief Officer, which confirmed that KPMG LLP had been appointed to audit the Council's accounts for 2017/18, as an extension of the current arrangement. The letter also referred to the implementation of changes to the process for the appointment of auditors from 2018/19.

The Head of Finance explained, in broad terms, the two options that would be available to the Council. Essentially, the Council could either choose to participate in a national scheme, to be administered on a regional basis, under which one of the four largest auditing firms undertaking public sector work in the UK would be allocated to act as Wyre's external auditor for a specified period. Alternatively, the Council could undertake its own procurement process, possibly with a selected group of other Council's. The first option would be much simpler and should provide a consistent approach, economies of scale, and, hopefully, cost savings, but would not allow the Council to choose its preferred auditor. The second option would allow more flexibility, but would be much more resource intensive and potentially more risky. At the moment, the first option seemed to be

the preferred approach for Wyre. A report will be submitted to Council in January setting out the councils options.

RESOLVED:

- 1. That the confirmation of auditor appointment for 2017/18 letter be noted.
- 2. That the intention of the Head of Finance to submit a report to the council meeting on the 19 January, on the future method of appointing the Council's External Auditor, be noted.

Audit. 35 Proposed Work Programme and Scales of Fees 2017/18

The Head of Finance (Section 151 Officer) submitted a consultation document on the proposed work programme and scales of fees for 2017/18, for local government bodies.

RESOLVED: that the proposed work programme and scale of fees for 2017/18, be noted.

Audit. 36 Date and Time of Next Meeting

Audit Committee Meeting, Tuesday 7 March 2017 at 6pm in Committee Room 1.

The meeting started at 6pm and finished at 7.04pm

Date of Publication: Tuesday 22 November 2016

arm/rg/aud/mi/081116





Report of:	Meeting	Date	Item no.
Head of Finance (Section 151 Officer)	Audit Committee	7 March 2017	4

Review of Audit Committee's Terms of Reference

1. Purpose of report

1.1 The periodic consideration of the terms of reference of the Audit Committee in accordance with best practice guidance.

2. Outcomes

2.1 The annual review of the Audit Committee terms of reference.

3. Recommendations

- 3.1 That the Audit Committee considers the previously agreed terms of reference attached at Appendix 1 and agree that they accurately reflect the role of the committee.
- **3.2** That the terms of reference be recommended to full Council for approval.

4. Background

- 4.1 The 'Delivering Good Governance in Local Government' 2016 guidance note recommends that local authorities review their governance arrangements against a number of key principles and report on their effectiveness in an Annual Governance Statement. The guidance also states that an Audit Committee is a key component of the authority's governance framework, with their purpose being to provide 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 process.
- 4.2 Although Audit committees are currently not mandatory in local government, most authorities now have them. In response to guidance issued by CIPFA and recognising that Audit Committees are a key component of an authority's governance framework, the Council agreed the establishment of an Audit Committee at their meeting on 8 December 2005.
- 4.3 In 2013, CIPFA re-issued their practical guidance for Audit Committees and provided local authorities with a suggested term of reference setting out the purpose and the core functions required. The terms of reference state that 'The purpose of an Audit Committee is to provide those charged with governance independent assurance on the adequacy of the risk Page 7

management framework, the internal control environment and the integrity of the financial reporting and annual governance processes'.

5. Key Issues and proposals

- At the last meeting of the Audit Committee, members considered the annual review of the committee's performance against the 'self-assessment of good practice' which is documented in CIPFA's 'Audit Committees Practical Guidance for Local Authorities'. The self-assessment requires that an annual review of the Audit Committees' terms of reference be completed.
- 5.2 The current terms of reference are included for consideration at Appendix 1. There have been no changes to the terms of reference since the last review in March 2016.

Financial and legal implications		
Finance	None arising directly from the report.	
Legal	Any changes to the terms of reference would be subject to confirmation by full Council.	

Other risks / implications: checklist

If there are significant implications arising from this report on any issues marked with a \checkmark 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	х
equality and diversity	х
sustainability	х
health and safety	х

risks/implications	√/x
asset management	х
climate change	х
data protection	X

report author	telephone no.	email	date
Joanne Billington	01253 887372	Joanne.billington@wyre.gov.uk	21 February 2017

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

List of appendices

Appendix 1 – Audit Committee Terms - Terms of Reference

Audit Committee - Terms of Reference

7.01 Purpose

Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high level resource to support good governance and strong public financial management.

The purpose of an audit committee is to provide 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.

The Audit Committee will have regard to relevant government guidance, the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) and any other relevant body and members shall receive training appropriate for this role.

Core Functions

The Council will appoint an Audit Committee independent from both the Executive and the Overview and Scrutiny function and will have the following core functions:

- To be satisfied that the Council's Annual Governance Statement properly reflects the risk environment, any actions required to improve it and demonstrates how governance supports the achievement of the authority's objectives;
- In relation to the council's internal audit functions, the Audit Committee will
 oversee its independence, objectivity, performance and professionalism, support
 the effectiveness of the internal audit process and promote the effective use of
 internal audit. This will involve consideration of the annual audit plan, the receipt
 of regular reports detailing progress against the plan and the annual report;
- To review the risk profile of the organsiation and consider the effectiveness of the council's risk management arrangements. This will involve monitoring the progress of embedding risk management, reviewing the council's risk registers and other assurances provided, ensuring that action is being taken where necessary to mitigate such risks;
- To monitor the effectiveness of the control environment, including arrangements for ensuring value for money and for managing the council's exposure to the risks of fraud and corruption. This will involve maintaining and making changes where needed to the council's counter fraud polices;
- To consider the reports and recommendations of external audit, including the auditor's report to those charged with governance (ISA 260) on issues arising from the audit of the accounts;

- To review the financial statements, external auditor's opinion and reports to members and to monitor management action in response to issues raised by External Audit;
- To support effective relationships between internal and external audit, inspection agencies and other relevant bodies and encourage the active promotion of the value of the audit process;
- To undertake the annual review of the council's use of the Regulation of Investigatory Powers Act 2000 (RIPA), ensuring compliance with the Code of Practice; and
- To maintain and make changes to the council's Financial Regulations and Financial Procedure Rules (without reference to full council).

arm/audit/cr/17/0703jb2



Report of:	Meeting	Date	Item no.
Head of Finance (Section 151 Officer)	Audit Committee	7 March 2017	5

1. Purpose of report

1.1 To review the Annual Internal Audit Plan for the 2017/18 financial year.

2. Outcomes

2.1 An approved audit plan which takes account of the characteristics and relative risks of the Councils activities.

3. Recommendations

3.1 Members are asked to approve the Annual Audit Plan attached at Appendix 1.

4. Background

- 4.1 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 2015 require that a "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".
- 4.2 Accordingly, internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve effectiveness of risk management, control and governance processes.
- 4.3 The agreement of an annual audit plan will assist the Authority to put in place an appropriate control environment and effective controls which provide reasonable assurance of effective and efficient operations, financial stewardship, probity and compliance with laws and regulations.

5. Key Issues and proposals

5.1 The Annual Audit Plan for the 2017/18 financial year is attached at Appendix 1

Financial and legal implications		
Finance	Key financial system audits are subject to a full system based audit every two years, with the exception of VAT which is completed every 3 years.	
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 \checkmark 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	х
equality and diversity	х
sustainability	х
health and safety	х

risks/implications	√/x
asset management	х
climate change	х
data protection	х

report author	telephone no.	email	date
Joanne Billington	01253 887372	Joanne.billington@wyre.gov.uk	21 February 2017

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

List of appendices

Appendix 1 – Annual Audit Plan 2017/18

arm/audit/cr/17/0703jb3

Annual Audit Plan - 2017 / 18

Category of Audit	Total Days	Head of Governance	In House Days	Lancashire County Council Days	Mazars Days
General / Meetings / Training / Non-Chargeable					
Management	7	1	1	3	2
Audit Committee (Preparation of report / attendance at meetings)	20	15	5		
Research and Reading	13	10	3		
North West Audit Group Meetings	3	3			
Corporate Meetings / Senior Leadership Team Meetings / Team Briefs	28	20	8		
Annual / Quarterly Planning of Audit Work	2	2			
Training and Development (courses / seminars)	5	2	3		
Annual Governance Statement (preparation / monitoring)	5	5			
General Audit Advice and Liaison	20	5	15		
Conporate Culture					
F∰ical Governance Survey	10	10			
Maintaining Gifts and Hospitality Register / Promotion	1.5	1.5			
Compliance with delegated responsibilities	10.5	0.5	10		
Audit Contingencies					
Contingency for Investigations / Whistleblowing	20	10	10		
IT Audits					
yet to be confirmed	20.5	0.5			20
Financial Systems Audits					
Debtors, Creditors and Budgetary Control	20.5	0.5		20	
VAT	10.5	0.5		10	
Treasury Management	5.5	0.5			5
Cross Organisational Work					
Follow-up work from 2016/17 audit plan	5.5	0.5		5	
Transparency Code / Publication Scheme	10.5	0.5	10		
Procurement – Public Contracts Regulations 2015	10.5	0.5	10		
Council complaints procedure	10.5	0.5	10		
IR35 - off payroll engagement	10.5	0.5	10		

Operational Audit Work					
Marine Hall / Thornton Little Theatre / TIC's / Fleetwood Market	10.5	0.5	10		
New Pay and Display Cash Machines	5.5	0.5			5
Information Governance Work					
General Data Protection Regulations (GDPR)	10.5	0.5	10		
Information Sharing Agreements	10.5	0.5	10		
Compliance to Information Asset Registers	10.5	0.5	10		
Strategic Work (driven from risk register)					
Business Plan Project Management	10.5	0.5	10		
Asset Management	10.5	0.5	10		
Other Areas of Work / Project Work					
Risk Management (Facilitation of workshops and quarterly monitoring)	12	2	10		
Population of service risk registers	30	10	20		
Developing CRM for following-up audit recommendation	15	5	10		
Developing Information Asset Registers	30	10	20		
PSIAS Review - Moderation and preparation for assessment in March 2018	20	20			
Other Head of Governance Responsibilities	70	70			
unter Fraud work (NFI, Development / Awareness and Monitoring)	15	10	5		
GRAND TOTAL	510	220	220	38	32

4

<u>NOTES</u>

This plan is influenced by information contained within the Council's Strategic Risk Register, Business Plan and the Council's Annual Governance Statement. Key financial systems are now subject to a full system based audit every two years.

Lancashire Audit Services and Mazars will provide a combined total of 70 audit days and this will be supplemented by in-house audit skills.



Report of:	Meeting	Date	Item no.
Head of Finance (s151 Officer)	Audit Committee	7 March 2017	6

Risk Management Update

1. Purpose of report

1.1 To approve the amended Council's Risk Management Policy and review progress in relation to strategic risk management activity.

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. In addition, effective leadership of audit and governance issues allows the Council to demonstrate that arrangements are in place to maintain a sound system of internal control.

3. Recommendations

3.1 Members are asked to approve the amended Risk Management Policy attached at Appendix 1 and the annual Strategic Risk Management Review at Appendix 2.

4. Background

- 4.1 In accordance with their terms of reference the Audit Committee will review the risk profile of the organsiation and consider the effectiveness of the Council's risk management arrangements. This involves monitoring the risk progress of embedding risk management, reviewing the Council's risk registers and ensuring that actions are being taken where necessary to mitigate such risks.
- 4.2 The Audit Committee are also required to review the Risk Management Policy on an annual basis with the last review being completed in September 2015. At the last Strategic Risk Management workshop, a decision was made to monitor the strategic risk management action plans more frequently, moving from six monthly to quarterly monitoring. This does not reflect any increase in risk but rather a general view that more frequent reviews will help to focus attention on key risk areas and allow increased oversight at an earlier stage to maintain progress.

5. Key Issues and proposals

- 5.1 The Risk Management Policy attached at Appendix 1 has been amended to reflect that the strategic risk register's actions plans will now be monitored quarterly.
- **5.2** The Strategic Risk Management Review is attached at Appendix 2.

Financial and legal implications			
Finance	None arising directly from the report.		
Legal	Effective 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 \checkmark 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	х
equality and diversity	х
sustainability	х
health and safety	х

risks/implications	√/x
asset management	x
climate change	х
data protection	х

report author	telephone no.	email	date
Joanne Billington	01253 887372	joanne.billington@wyre.gov.uk	21 February 2017

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

List of appendices

Appendix 1 - amended Risk Management Policy

Appendix 2 - Strategic Risk Management Review

arm/audit/cr/17/0703jb1



Risk Management Policy Amended March 2017

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

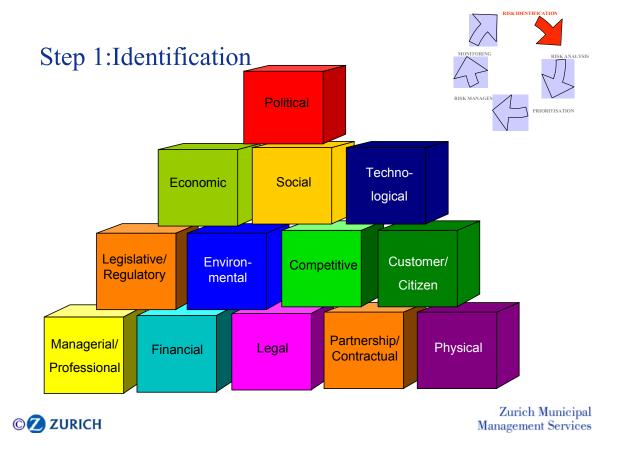
- **4.1** The Audit and Risk Management Section will maintain both strategic and operational risk registers and record all significant risks. The registers are held in spreadsheets which can be viewed on the Council's intranet and will be used to monitor risk movements.
 - The strategic risk register will be reviewed <u>annually</u> by the Corporate Management Team via a risk workshop, and action plans will be updated <u>quarterly.</u>
 - The operational risk register will be reviewed <u>annually</u> via Heads of Service and action plans will be updated <u>every six months</u>.
 - ♦ 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.
 - <u>Risk Identification</u>; Uses the table of risk categories to help identify all risks associated with the action or direction the Council takes.
 - <u>Risk Analysis</u>: 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.
 - <u>Monitoring</u>: 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.



Wyre Council - Audit and Risk Management

STRATEGIC RISK REVIEW

6 February 2017

Report Contents

- 1.0 Introduction
- 2.0 Executive summary
- 3.0 Approval
- 4.0 Monitoring
- 5.0 Directorate operational risk registers

Appendix A - Risk Profile

Appendix B - Risks above the appetite

Appendix C - Risks below the appetite

Appendix D - Risks removed from the register

Report Preparation

Report prepared by: Karen McLellan, Senior Auditor

Telephone: 01253 887325

Report Distribution

This report has been issued to:

- Garry Payne Chief Executive
- Marianne Hesketh Service Director of Performance & Innovation
- Mark Billington Service Director of People & Places
- Mark Broadhurst Service Director of Health & Wellbeing
- Clare James Head of Finance (S151)
- Joanne Billington Head of Governance (Chief Internal Auditor)
- Cllr L McKay Audit Committee Chairman

1. Introduction

- 1.1 On the 6 February 2017 a strategic risk management assessment was facilitated by the Senior Auditor for Wyre Council in accordance with the council's annual risk management process.
- 1.2 This exercise was attended by the Corporate Management Team, Head of Finance, Head of Governance and Councillor McKay in her role as the Chairman of the Audit Committee. The session provided an opportunity to review the existing strategic risk register for Wyre Council and to identify and prioritise any new risks facing the Council in its delivery of its business plan for 2017/18.

2. Executive Summary

- 2.1 The last half yearly review of the strategic risk register was completed in October 2016 by the Corporate Management Team. This exercise allowed any changes since then, both in circumstance and direction, to be identified and reflected in the revised risks.
- 2.2 During the most recent review the group identified 2 new risks and concluded that 1 of the original 9 risks could be removed from the register. (Appendix D describes the risks and the reason for their removal from the register). The 8 risks remaining from the original register were reviewed in terms of likelihood and impact resulting in 4 retaining the same rating and 4 being amended.
- 2.3 A review of the risk appetite was completed resulting in the low likelihood and catastrophic impact risks falling below the risk appetite. There are now 7 risks above the risk appetite and 3 risks below. The completed matrix is shown in Appendix A.
- 2.4 Following the assessment the 7 risks above the risk appetite are as follows:

Risk Number	Description
18	Central government funding is insufficient to provide the current level of service.
23	The efficiency programme is insufficient to meet the funding gap identified in the latest financial projection.

26	The use of council assets is not maximised leading to insufficient funding to deliver capital projects.
38	The Local Plan is delayed due to the lack of response from other statutory consultees.
39	Funding from Lancashire County Council is withdrawn impacting on the delivery of services within Wyre.
40	The delivery of the Council's Business Plan and projects is delayed due to current workloads and staff capacity issues.
41	The current IT infrastructure is not fit for purpose.

- 2.5 The risks above the risk appetite (Appendix B) will now be managed and monitored to ensure that they do not hinder the delivery of the Council's objectives. A risk owner for each of the risks has been identified and it is their responsibility to ensure that an action plan is developed that clearly demonstrates how the risk will be managed.
- 2.6 A number of risks are sitting below the appetite (Appendix C) and it is important that the controls already in place are regularly reviewed to ensure these continue to sufficiently control these risks and no additional action is required to ensure that their likelihood and/ or impact does not alter significantly.

3.0. Approval

3.1 The revised risk register will be reported to the Audit Committee and a copy of the risk register is available to view on the council's intranet.

4.0. Monitoring

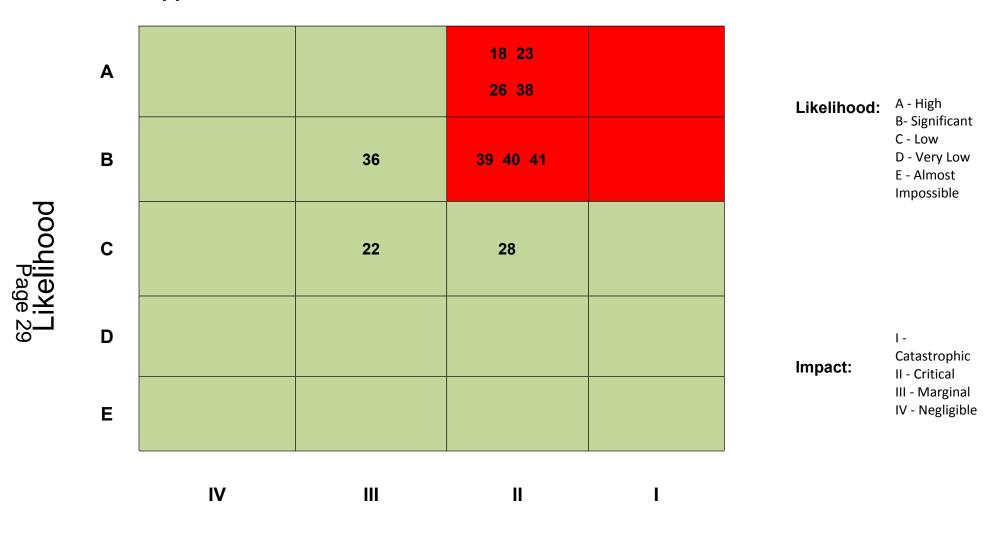
4.1 Reviewing or monitoring of risks is twofold. Firstly the action plans to manage the risks should be regularly monitored and secondly the risks above and below the line should be reviewed in terms of their position on the matrix. Quarterly reviews of the action plans will be completed to

demonstrate that risks above the appetite are being actively managed, with a half yearly review of all risks being completed in October 2017.

5.0. Directorate operational risk registers

5.1 In accordance with the council's risk management processes, a review of the directorate operational risk registers will also be undertaken in March 2017 to review the risks currently recorded on the operational risk registers and to identify and prioritise any new risks facing each directorate in the delivery of their service plans for 2017/18.

Appendix A - Risk Profile



Impact

Appendix B – Strategic risks above the appetite

Risk Number	Risk Score	Risk Description	Vulnerability	Consequence	Risk Owner
18	Critical / High	Central Government funding is insufficient to provide the current level of service.	Funding for the 4 years commencing 2016/17 has been announced but there continues to be a funding gap in 2019/20 of £1.8m and £2.2m in 2020/21.	 Further savings will need to be identified The 4 year business plan may need to be reviewed in accordance with resources available Negative impact on staff resulting from uncertainty about the future 	Clare James
23	Critical / High	The efficiency programme is insufficient to meet the funding gap identified in the latest financial projection.	The council has identified a number of projects that will help to reduce the gap between expenditure and income reflected in the latest MTFP. However, further projects will be required to achieve the level of savings required.	 Additional savings / cuts in services will be required Members trust in the Management Team and the SLT to deliver future savings will be affected The impact of further reductions in government grants will be exacerbated 	Management Team
26	Critical / High	The use of council assets is not	Future capital investment is dependent on capital receipts from the sale of council assets.	Additional savings / cuts in services will be required.	M Hesketh

Risk Number	Risk Score	Risk Description	Vulnerability	Inerability Consequence	
		maximised leading to insufficient funding to deliver capital projects.		 Additional borrowing costs will exacerbate the funding gap Assets will deteriorate and maintenance costs will increase Resident satisfaction levels will reduce 	
38	Critical / High	The Local Plan is delayed due to the lack of responses from other statutory consultees.	The Council is required to publish a Local Plan and timescales have been published.	 Reputational issues will arise Further costs will need to be incurred The Council may be subject to 'special measures' imposed by the DCLG 	Garry Payne
39	Critical / Significant	Funding from Lancashire County Council is withdrawn impacting on the delivery of services within Wyre.	Lancashire County Council have stated that they will not be able to set a legal budget for 2018/19 and have announced that significant savings have to be achieved to reduce their funding gap for 2017/18.	 Services are withdrawn Increased council expenditure to continue with existing services Adverse publicity Reputational damage Increased complaints from service users 	Management Team

Risk Number	Risk Score	Risk Description	Vulnerability	Consequence	Risk Owner
40	Critical / Significant	The delivery of the Councils Business Plan and projects is delayed due to capacity issues and current workload.	The Council has published the updated Business Plan for 2017, which sets out our strategic priorities and projects. However, due to the loss of key individuals and the inability to recruit staff in key service areas, there is a risk that projects will not be delivered.	 Projects are not delivered The Council doesn't move forward Staff under pressure leading to stress and absenteeism Key staff leave Failure to deliver objectives Council criticised Adverse publicity 	Management Team
41	Critical / Significant	The current IT infrastructure is not fit for purpose	The capacity and performance of the current IT infrastructure is insufficient to meet the demand from services reducing operational performance.	 Loss of staff time Delays in the delivery of key services Productivity loss 	M Hesketh

Appendix C - Risks below the appetite

Risk Number	Risk Score	Risk Description	Vulnerability	Consequence
22 D	Marginal / Low	The leisure review does not generate the required rate of return for 2015/16.	The council agreed to spend significant sums redeveloping the Poulton and Thornton leisure centres to meet the needs identified in the public consultation exercise. Whilst professional external advisors have helped to specify the facility mix, the take-up is not guaranteed and the income and expenditure projections may not be achieved.	 Expenditure is higher than expected Projected efficiency savings are not realised Income falls short of the target
Page 33	Critical / Low	The Local Plan is declared unsound delaying its implementation.	The Council is required to adopt a Local Plan which must be tested at an inspection prior to adoption.	 Further costs will need to be incurred Unwanted development will be hard to defend Legislation / guidance may change requiring the exercise to be repeated at significant cost to the taxpayer
36	Marginal / Significant	Decisions by the shadow combined authority have an impact on the Borough and Council capacity	A shadow combined authority has been formed and Wyre Council are not a member of this. Therefore, Wyre will have no influence on the decision making process which could potentially affect the Borough and Council capacity.	 Council priorities are not delivered Unable to influence decisions which may impact on Wyre residents Allocation of resource may not ultimately result in the desired outcome

Appendix D - Risks removed from the register

Risk number	Reason for removing from register	Risk Description	Vulnerability	Consequence
35 Page 34	Following the conclusion of the Greengage support, regular 1 to 1's continue with the Chief Executive and the Service Directors and Head of Finance, contributing to their CPD. The budget has now been set and the new approach is working well, with presentations to the Conservative Group by the Head of Finance and attendance at Cabinet meetings and Full Council by Service Directors.	Three Senior members of the Senior Leadership Team will leave the organisation in 2016/17 resulting in a loss of knowledge and skills and increased expectations on those remaining.	The newly appointed Service Directors are retaining responsibility for their own service areas in addition to becoming members of the Corporate Management Team and responsible for strategic management.	 Loss of knowledge and experience Capacity issues / increased expectations Cultural change for the organisation Ongoing challenges financially Longer lead in to the delivery of efficiency savings The management team will take time to develop effective working arrangements / build relationships.

arm/audit/cr/17/0703jb1





KPMG LLP Audit 1 St Peter's Square Manchester M2 3AE United Kingdom

Tel +44 (0) 161 246 4000 Fax +44 (0) 161 246 4040

Private & confidential

Clare James Head of Finance and Section 151 Officer Wyre Borough Council Civic Centre **Breck Road** Poulton-le-Fylde FY6 7PU

Our ref Let-CP/17/WBC/Grts

Christopher Paisley Contact

0161 246 4934

17 February 2017

Dear Clare

Wyre Borough Council - Certification of claims and returns - annual report 2015/16

Public Sector Audit Appointments requires its external auditors to prepare an annual report on the claims and returns certified for each audited body. This letter is our annual report for the certification work we have undertaken for 2015/16.

In 2015/16 we carried out certification work on only one claim/return, the Housing Benefit Subsidy claim. The certified value of the claim was £32.041 million, and we completed our work and certified the claim on 29th November 2016.

Matters arising

Our certification work on Housing Subsidy Benefit claim included:

- agreeing standard rates, such as for allowances and benefit incomes, to the DWP Circular communicating the value of each rate for the year:
- sample testing of benefit claims to confirm that the entitlement had been correctly calculated and was supported by appropriate evidence;
- undertaking an analytical review of the claim form considering year-on-year variances and key ratios:
- confirming that the subsidy claim had been prepared using the correct benefits system version; and
- completing testing in relation to modified schemes payments, uncashed cheques and verifying the accurate completion of the claim form.

17 February 2017



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

Consequently we have made no recommendations to the Council to improve its claims completion process. There were no recommendations made last year and there are no further matters to report to you regarding our certification work.

Certification work fees

Anranda Laduan

Public Sector Audit Appointments set an indicative fee for our certification work in 2015/16 of £5,580. Our actual fee was the same as the indicative fee, and this compares to the 2014/15 fee for this claim of £5,676.

Yours sincerely

Amanda Latham

Director





Wyre Borough Council - Certification of claims and returns - annual report 2015/16 17 February 2017

This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, 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 Amanda Latham, 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, 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.







External Audit Plan 2016/17

Wyre Borough Council

February 2017





Headlines

Financial Statement Audit



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

Materiality

Materiality for planning purposes has been based on last year's expenditure and set at £1.1 million.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at £55,000.

Significant risks

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

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

Other areas of audit focus

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

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

See pages 3 to 7 for more details.

Value for Money Arrangements work



Our risk assessment is ongoing and we will report VFM significant risks during our audit or Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risk:

Management of Coast Protection Scheme expenditure.

See pages 8 to 12 for more details.

Logistics



Our team is:

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

More details are on page 15.

Our work is completed in four phases from December to September and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 14**.

Our fee for the audit is £48,662 (2015/16: £48,662) see page 13.



Introduction

Background and Statutory responsibilities

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

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

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

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

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

Acknowledgements

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

Financial Statements Audit

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



Value for Money Arrangements Work

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





Financial statements audit planning



Financial Statements Audit Planning

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

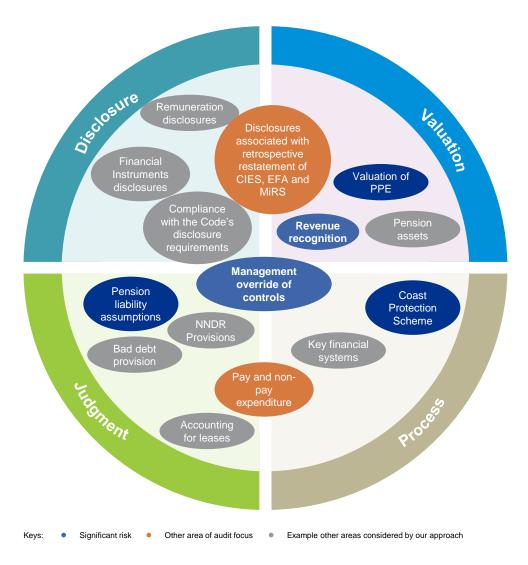
- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

Risk assessment

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

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

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





Financial statements audit planning (cont.)



Significant Audit Risks

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

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

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

The pension liability numbers to be included in the financial statements for 2016/17 will be based on the output of the triengial valuation rolled forward to 31 March 2017. For 2012/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data.

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

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

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

Risk: Coast Protection Scheme - completeness, accuracy and existence of scheme expenditure

The Authority is the administrating body for a significant £63.2m coast protection scheme at Rossall. The scheme is predominantly grant funded by the Environment Agency, with further additional contributions received from Fleetwood Town Council and The Regenda Group, a registered provider of social housing.

The Authority's capital programme (considered by Cabinet in February 2017) shows that £20.7m has been budgeted for the scheme in 2016/17, with £20.6m also budgeted for 2017/18. This is 85% and 92% 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. Further, there is a risk around the recognition of a debtor/creditor balance at year end, where capital expenditure exceeds or falls short of the amount of grant funding received during the year.

Approach: We will review the accounting treatment of the grant receipts and capital additions in relation to the scheme to ensure they are in line with the SORP and any relevant grant conditions. In particular, we will consider the valuation basis for any material assets under construction and capital additions related to the scheme. We will also confirm, with reference to evidence around the stage of construction and associated completion certificates, as well as grant funding documentation, that the debtor/creditor balance recognised at year end is appropriate.

Risk: Valuation of Property, Plant and Equipment

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

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



Financial statements audit planning (cont.)



Other areas of audit focus

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

Disclosures associated with retrospective restatement of CIES, EFA and MiRS

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

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

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

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

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

Approach:

As part of our audit;

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

Pay and non-pay expenditure

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

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

Approach:

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

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



Financial statements audit planning (cont.)



Materiality

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

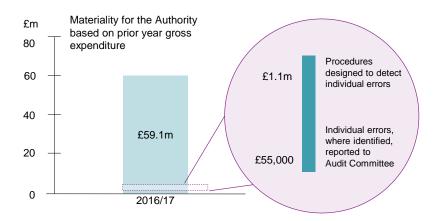
Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

Materiality for planning purposes has been set at £1.1 million, which equates to 1.9% percent of gross expenditure.

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

Reporting to the Audit Committee

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



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

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

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

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

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



Value for money arrangements work

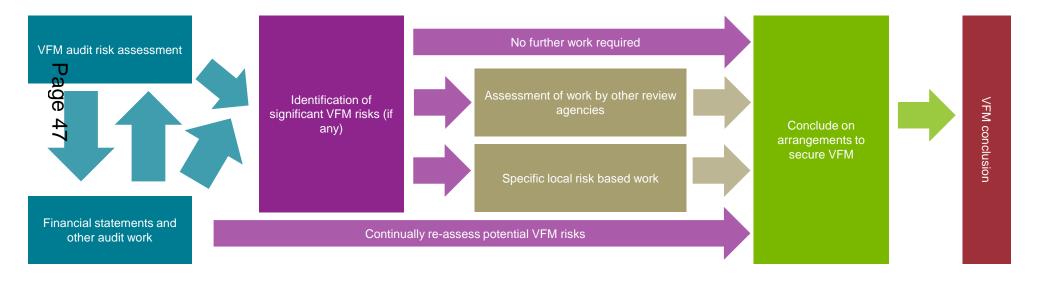


Background to approach to VFM work

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

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

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





Fage 4

Value for money arrangements work (cont.)



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.

Sustainable

resource

Informed decision making

deployment

Proper arrangements:

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

Working with partners and third parties

Proper arrangements:

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

Proper arrangements:

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



Value for money arrangements work (cont.)



			S		

Audit approach

VFM audit risk assessment

We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice*.

In doing so we consider:

- The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks;
- Information from the Public Sector Auditor Appointments Limited VFM profile tool;
- Evidence gained from previous audit work, including the response to that work; and
- The work of other inspectorates and review agencies.

Linkages with financial stamments and other audit work

49

Identification of significant risks There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.

We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.

The Code identifies a matter as significant 'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'

If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:

- Considering the results of work by the Authority, inspectorates and other review agencies; and
- Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and
 effectiveness in its use of resources.



Value for money arrangements work (cont.)



VFM audit stage

Audit approach

Assessment of work by other review agencies

Delivery of local risk based work

Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.

If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:

- Meeting with senior managers across the Authority;
- Review of minutes and internal reports;
- Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.

Consuding on VFM arrangements

At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.

If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.

Reporting

On the following page, we report the results of our initial risk assessment.

We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion.

The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.



Value for money arrangements work Planning



Significant VFM Risks

Those risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

Coast Protection Scheme

Risk

The Authority is the administrating body for a significant £63.2m coast protection scheme at Rossall. The scheme is predominantly grant funded by the Environment Agency, with further additional contributions received from Fleetwood Town Council and The Regenda Group, a registered provider of social housing.

The project represents a significant undertaking for the Authority, which has a pesponsibility to manage the deployment of resources appropriately and in a manner which delivers value for money. There is a risk that if the Authority does not have appropriate arrangements to exercise informed decision making over the deployment of this significant tranche of grant funding, that value for money will not be achieved.

Approach

Our work will review the Authority's arrangements for managing and monitoring the Coast Protection Scheme. This will include:

- Interviewing officers of the Authority to develop our understanding of the systems and processes in place for managing the project;
- Reviewing documentation to confirm that these systems and processes are operating effectively; and
- Reviewing the formal and informal arrangements for reporting on progress to the Cabinet and to the Council.



Other matters

Whole of government accounts (WGA)

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

Elector challenge

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

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

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

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

Our audit team

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

Reporting and communication

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

Independence and Objectivity

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

Audit fee

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

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

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

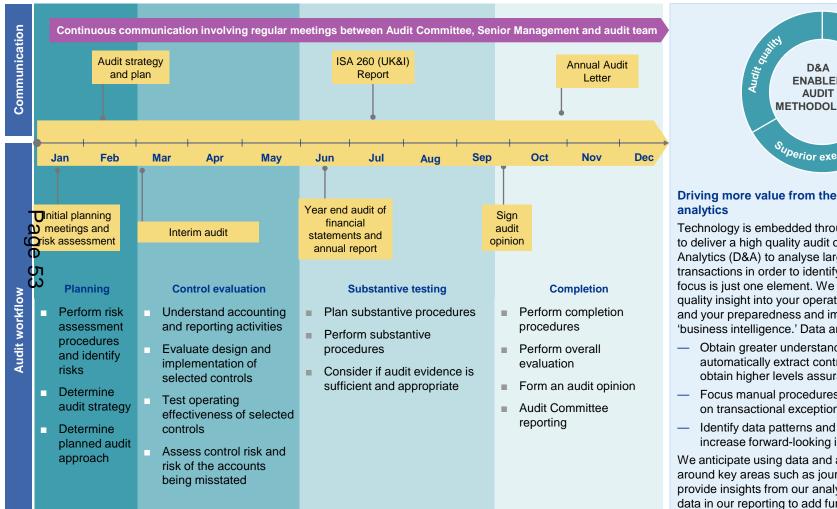
The planned audit fee for 2016/17 is £48,662. This is consistent with the audit fee for 2015/16.

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



Appendix 1: Key elements of our financial statements audit approach







Driving more value from the audit through data and

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

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

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



Appendix 2: Audit team



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

29	
U	

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

Amenda Latham Dir Otor 01 2 473523

amanda.latham@kpmg.co.uk



Chris Paisley		
Manager		
0161 246 4934		

0161 246 4934 christopher.paisley@kpmg.co.uk

Name

Position

Chris Paisley

'I provide quality assurance for the audit work and specifically any technical accounting and risk

I will work closely with Amanda to ensure we add

I will liaise with the Head of Finance and other

Manager

areas.

value.

Directors.'



	Name	Hasnen Anjum	
No.	Position	Assistant Manager	
1		'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'	

Hasnen Anjum
Assistant Manager
0161 246 4325
hasnen.Anjum@kpmg.co.uk



Appendix 3: Independence and objectivity requirements

Independence and objectivity

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

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

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

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

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

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

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

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

Confirmation statement

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







© 2017 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

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. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, 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 [...], 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, 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.