

ANNUAL REPORT OF AUDIT COMMITTEE 2008/09 – CHAIRMAN, COUNCILLOR MALCOLM THOMAS

1 INTRODUCTION

I am pleased to present my Annual Report to Council on the work of the Audit Committee during 2008/09.

The Terms of Reference of the Committee is set out in Part 3, Section 8 of the Council's Constitution, which briefly comprises:

- Reviewing all matters relating to the work of Internal and External Audit;
- Monitoring arrangements for discharging the Council's responsibilities for efficient and effective financial and operational resource management;
- Approval of the Annual Statement of Accounts;
- Monitoring Council's risk management and corporate governance arrangements including overseeing the production of the authority's Statement on Internal Control and Corporate Governance;
- Consideration of matters referred by the Monitoring Officer in accordance with the Overview and Scrutiny Procedure;
- Consideration and approval of any amendments to the Council's Financial Regulations and Contract Procedure Rules and the monitoring and review of the operation of the Constitution, proposing any amendments to Council;
- Liaison with the Independent Remuneration Panel on the Members' Allowances Scheme, and;
- Review of any issues referred to the Committee by the Chief Executive, Corporate Director or any other Council body.

OVERVIEW OF AUDIT COMMITTEE RESPONSIBILITIES:

2 AUDIT AND ASSURANCE WORK

Council Investments in Icelandic Banks

The single most momentous issue considered by the Committee this year was clearly that presented by the collapse of the Icelandic banking system in October 2008. A special meeting of the Committee was held on 17 November 2008 to consider the Head of Financial Service's (HoFS) detailed report into the situation and to receive a presentation by the Council's treasury management consultants, Butlers.

The Committee examined these submissions in some detail to seek assurance that:

- Approved policies and procedures had been followed in placing the investments with the Icelandic Banks; and
- Everything possible was being done both to secure recovery of the money invested and to protect the Council against the possibility of similar future failures.

As the matter was so significant, and given its timing in relation to the budget process, the HoFS had arranged for formal updates to be included in the budget reports on every Cabinet agenda until March 2009 (in addition to the usual quarterly monitoring reports). This would ensure that all Members were informed of developments and the implications can be taken account of in the budget and planning process.

Having received explanations and assurances from the Head of Financial Services and Butlers, the Committee resolved that:

- A report be requested regarding any future changes in investment policy; and
- An update report be requested from Cabinet to each meeting of Full Council regarding the Icelandic investments situation.

Reports into the Icelandic Banking collapse are due to be issued soon by both the Parliamentary Select Committee (DCLG) and the Audit Commission. Given this, the ongoing financial climate and the Council's budgetary position, the Audit Committee will be seeking assurance in the forthcoming year that the associated risks continue to be managed effectively.

Internal Audit

Audit Committee approved the Internal Audit Strategic and Business Plan 2008/09 to 2010/11 which sets out the strategy for the delivery and development of the Internal Audit function and how it will contribute to the achievement of the Council's organisational objectives and priorities, over the three year period.

In line with, and complementing, the strategy, Audit Committee also approved the *Internal Audit Annual Plan 2008/09* which sets out the elements of work to be delivered in providing assurance to support the annual opinion on the Council's internal control environment. The plan also sets out the Internal Audit resources to be devoted to other areas of work of an advisory/support nature aimed at helping the Council's ongoing improvement programme.

A key objective of the Internal Audit Strategy has been to further develop the focus of Internal Audit work and assurance on high risk areas. In 2008/09 this was reflected in an Annual Internal Audit Plan that set out broad areas of activity, providing greater flexibility in the subsequent selection of audits undertaken during the year. In practice, this has been demonstrated by Internal Audit undertaking significant pieces of assurance work in such diverse area as the Fair Pay project, cleansing enforcement, procurement and contract management, planning for floods, and cycling and walking strategies.

The results and effectiveness of the approach will be considered by the Audit Committee when reviewing Internal Audit's Plans for 2009/10 and the Internal Audit Manager's Annual Report.

Throughout the year, the Audit Committee has monitored the work of Internal Audit against the approved Annual Audit Plan and has received Internal Audit reports providing a specific opinion on the level of assurance that can be given on the system/arrangements reviewed. The assurance opinions used and their general meaning are set out in the table below:

Level of assurance	Definition
Substantial	The Authority can place high levels of reliance on the arrangements/controls. Best practice is demonstrated in some or all areas.
Reasonable	The Authority can place reasonable (i.e. sufficient) reliance on the arrangements/controls. Only relatively minor control weaknesses exist.
Limited	The Authority can place only limited reliance on the arrangements/controls. Significant control issues need to be resolved.
Minimal	The Authority cannot place sufficient reliance on the arrangements/controls. Substantial control weaknesses exist.

Audit Committee formally reviews the position where an audit report has resulted in a 'Limited' or 'Minimal' assurance opinion, and monitors progress made to implement agreed corrective action until such time a reasonable level of assurance can be achieved.

Audit Committee has also reviewed the results of other areas of audit work including advice, support work and special investigations. During 2008/09 Internal Audit has been involved in four investigations and has provided support and management in a number of corporate projects, developments and initiatives, most notably the mapping and evaluation of key partnerships and the review of Williamson Park's financial management arrangements.

Additional workload arising from initiatives and investigations inevitably has an impact on the level of resources devoted to assurance work. The Internal Audit Plan has been managed, in conjunction with the Committee, to ensure that acceptable levels of assurance are provided as to the effectiveness of the Council's internal control and governance arrangements. The end product of this is the Internal Audit Manager's Annual Report and Assurance Statement which will be submitted to the June 2009 meeting of the Committee.

External Audit

In April 2008, the Audit Committee reviewed the Annual Audit and Inspection Letter produced by the Audit Commission. Drawing on the annual audit of the Council and other inspections carried out in the previous year, the report set out the Audit Commission's assessment of how well the Council had progressed in the previous year (Direction of Travel report) and how well it has managed its finances (the Use of Resources scores).

The report highlighted some very positive messages for the Council including:

- The recent corporate assessment resulting in the Council being rated as "Good";
- The majority of Council services having improved with 63 per cent of national best value performance indicators (BVPs) improving during the previous year, although the percentage of PIs where the Council was in the top performing quartile had fallen from 42 per cent to 29 per cent;
- Re-organisation of City Council Direct Services (CCDS) having resulted in significant improvements in waste management and cleanliness;

- The Council's investment in improving the cleanliness of the local environment having been reflected in a substantial rise in public satisfaction;
- The Council delivering on its priority to make services more accessible to citizens with two new customer service centres opening in Lancaster and Morecambe town halls and the main switchboard being incorporated into Customer Services;
- The Council's contribution to wider community outcomes being increasingly effective and good progress being made with physical and economic regeneration programmes;
- The City Council and its partners having helped to significantly reduce crime over the past year and were on target to meet their national target for reducing overall crime by 15 per cent by 2008.

The report also identified some key challenges and actions for the Council, including:

- Continuing to focus on those services which the Council considers a priority, in order to improve performance;
- Progressing the VFM improvement agenda and showing demonstrable outcomes from the changes implemented during 2006/07;
- Putting in place effective arrangements to achieve Level 2 of the Local Government Equality Standard;
- Developing resourced action plans to address future workforce development issues;
- Ensuring that the Council has effective arrangements in place to meet the challenge and requirements of the new performance assessment framework under the Comprehensive Area Assessment;
- Working with partners to develop a strategic and operational approach to the reduction of health inequalities in the Lancaster area;
- Reviewing the revisions to the use of resources key lines of enquiry and ensure that the City Council can demonstrate compliance against these new and revised requirements for 2008.

The Audit Commission issued an unqualified opinion on the Council's 2006/07 accounts and again awarded the Council an overall Use of Resources score of 3 out of 4 (Performing Well – consistently above minimum requirements) derived from their assessment of the following areas:

- Financial reporting including the preparation of the accounts of the Council and the way these are presented to the public (3 out of 4);
- Financial management including how financial management is integrated with strategy to support Council priorities (3 out of 4);
- Financial standing including the strength of the Council's financial position (3 out of 4);
- Internal Control including how effectively the Council maintains proper stewardship and control of its finances (3 out of 4), and;

- Value for money including an assessment of how well the Council balances the costs and quality of its services (2 out of 4).

This year has seen the transition from the Council's external audit being provided by the Audit Commission to the Council's newly appointed providers, KPMG LLP. The statutory audit of the Council's accounts for 2007/08 was undertaken by KPMG LLP.

Progress made on plans to address the key challenges and actions identified, together with the need to embed and further develop the Council's approach to value for money will be formally reported to Audit Committee in the next Annual Audit and Inspection Letter.

3 CORPORATE GOVERNANCE & RISK MANAGEMENT

Local Code of Corporate Governance and Annual Governance Statement

In 2007/08 the Audit Committee approved a *Local Code of Corporate Governance* complying with legislative requirements. The legislation also requires the Council to publish an annual *Governance Statement* alongside the financial statements. The first of these annual statements was approved by the Audit Committee in June 2008.

The Statement reflects the importance and contribution of recognised systems of internal control including effective policy and decision making arrangements; strong corporate values and standards of conduct, and established and developing arrangements covering corporate governance, risk and financial management and the economic, efficient and effective use of resources.

The maintenance and review of the effectiveness of these systems of internal control and governance is a continuous process which is informed throughout the year by:-

- The work of internal audit and senior managers of the Council, who have responsibility for maintaining effective systems of internal control;
- Comments made by the Council's external auditors and other review agencies and inspectorates, and;
- The role of the Audit and Overview and Scrutiny Committees and that of the Budget and Performance Panel.

A Management Group, comprising the Corporate Director (Finance & Performance), the Head of Financial Services (s151 Officer), the Head of Legal and HR (the Monitoring Officer) and the Internal Audit Manager, carries out an annual review of the Council's framework.

Last June, the Audit Committee considered the overall arrangements for the review and evaluation of evidence in support of the 2007/08 Statement, concluding that the Council has internal control and corporate governance arrangements in place that accord with proper practice and are working effectively.

Risk Management

Risk management plays an integral part in the sound governance of the Council and significant progress has been made in the Council's arrangements since they were first introduced in 2005.

As in previous years, the Risk Management Policy and Strategy has been updated to reflect developments and improvements made in risk management arrangements within the Council. The changes, approved by Audit Committee, also provide new and revised risk management reporting lines and responsibilities that integrate into the Council's existing performance management framework, providing improved governance and performance management at all levels.

The Council has in the past been assessed by the external auditor as having an under-developed approach to risk management and governance in its significant partnerships. A piece of work begun in 2007/08 on this subject working has resulted in the adoption of a Partnership Evaluation Toolkit that is now being rolled out within the Council. It is anticipated that this initiative will raise standards appreciably and address the comments made by the external auditor.

The Audit Committee has continued to receive regular reports on the effectiveness of the Risk Management Strategy. This involves Audit Committee reviewing progress made in monitoring and mitigating significant risks, which have included those associated with the Luneside East development and the making of Planning decisions.

Constitutional Matters

Audit Committee have considered a number of proposals for amendments to the Council's Constitution, including:

- Recommending to Council the circumstances under which Cabinet Members who sit on the Planning and Highways Regulatory Committee should not be involved in items directly related to those which have been previously considered by Cabinet;
- Reaffirming the process for appointing Members to Cabinet Liaison Groups.
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In January 2009, the Audit Committee considered a wide-ranging report on "Democratic Renewal, Phase 2", the roots of which lay in an Audit Commission review of Democratic Renewal originally carried out in 2003 and included opportunities arising through the Local Government and Public Involvement in Health Act 2007.

The Committee requested further investigation and reporting in a number of areas, including:

- Processes for amending and updating the Constitution, the Urgent Business procedure and Special Urgency;
- Constitutional amendments that would be required to reflect the changes made regarding byelaws;
- The extension of 'electronic decision making' methods;
- The streamlining of Committee meetings, reducing the length of Committee meetings and considering the timing of meetings;
- The scheme of delegation to officers.

The Committee also recommended to the Council Business Committee that:

- A change in procedure rules be made to state that petitions should be passed to Overview and Scrutiny Committee to consider and carry out any inquiry work, as appropriate, before reporting back to Cabinet or the relevant decision-making body
- They consider introducing further restrictions on questions from Councillors at Full Council meetings

Other Matters

Following on from a request made in 2007/08, the Audit Committee received a presentation from the Local Government Ombudsman in April 2008 and considered a summary of those complaints for which the City Council had received a decision from the Local Government Ombudsman in 2006/07. The Ombudsman's Annual Letter for 2007/08 was subsequently considered by the Committee in September 2008. The Committee accepted these reports and resolved that the Ombudsman be invited to make a presentation to officers on how complaints are investigated and/or to discuss complaint handling in general.

4 CONCLUSION

As all Members will be aware, Lancaster City Council's continued improvements and achievements were recognised by the Audit Commission in 2007 when the Council was re-categorised as a '**good**' authority under CPA – the second highest category. The organisation and operation of the Audit Committee is assessed as part of the annual Use of Resources Assessment which feeds into the overall corporate assessment, and has consistently received a high rating. I am certain that the work of the Audit Committee, other elected Members and Council officers in providing effective systems of corporate governance and internal control have continued to make an important contribution to the standing and achievements of the Council. I would like to record my thanks for their continued support and hard work.

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