

AUDIT COMMITTEE

6.00 P.M.

18TH JUNE 2014

PRESENT: Councillors Malcolm Thomas (Chairman), Jon Barry, Geoff Knight, Richard Newman-Thompson, Elizabeth Scott, David Whitaker and Peter Williamson

Officers in Attendance:

Nadine Muschamp	Chief Officer (Resources) and Section 151 Officer
Derek Whiteway	Internal Audit Manager
Jane Glenton	Democratic Support Officer

Also in Attendance:

Richard Lee	Manager, KPMG LLP (UK) (for Minute Nos. 5 (part) to 10 only)
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1 APPOINTMENT OF VICE-CHAIRMAN

The Chairman requested nominations for the position of Vice-Chairman.

It was proposed by Councillor Williamson and seconded by Councillor Scott:

“That Councillor Knight be Vice-Chairman of the Audit Committee for the Municipal Year 2014/15.”

There were no further nominations and the Chairman declared Councillor Knight to be nominated.

Resolved:

That Councillor Knight be Vice-Chairman of the Audit Committee for the Municipal Year 2014/15.

2 MINUTES

The Minutes of the meeting held on 22nd January 2014 were signed by the Chairman as a correct record.

3 ITEMS OF URGENT BUSINESS AUTHORISED BY THE CHAIRMAN

There were no items of urgent business.

4 DECLARATIONS OF INTEREST

There were no declarations of interest.

The Chairman advised that, with the agreement of Members, the following item of business would be brought to the beginning of the meeting to allow Richard Lee of

KPMG LLP (UK) to join the meeting.

Richard Lee of KPMG LLP (UK) arrived midway through the following item.

5 FINANCIAL REGULATIONS AND AUDIT COMMITTEE'S TERMS OF REFERENCE

The Committee received the report of the Chief Officer (Resources) to advise of a proposed change in approach regarding responsibility for the Council's Financial Regulations to reflect the Accounts and Audit (England) Regulations 2011, and to seek authority for proposed revised Terms of Reference for the Committee to be referred to full Council for approval.

It was reported that the Contract Procedure Rules (CPRs) had been approved by the Committee on 23rd January 2013, and the Financial Regulations were in need of review and update. Many references were outdated and there was a need to update them and tie them in with other ongoing reviews of the Constitution, in particular, the Scheme of Delegation.

Members were informed that the Council had adopted an associated set of Financial Procedures in support of the Financial Regulations and CPRs, which formed part of the Constitution. In addition, there was a wide range of separate financial policies and guides, and it was important that these were drawn together.

The following structure, which reflected the requirements of the Accounts and Audit Regulations (England) 2011, was proposed:

Level	Document(s)	Status	Ownership and Approval
1	Financial Regulations	Organisational rules. High level statement of responsibilities for financial administration. Part of the Council's Constitution	Chief Officer (Resources) responsible for reviewing, updating and promoting the Regulations. Changes to be reported to Audit Committee for endorsement.
2	Standing Financial Instructions & Guidance	More detailed rules, procedural instructions and guidance in support of the Regulations	Responsibility for maintenance, approval and promotion rests with the Chief Officer (Resources)

Members' support was sought to the proposal and the drafting of a new set of Financial Regulations to be implemented on this basis. A target date of 30th September 2014 was proposed, and that the new draft Financial Regulations be submitted for the Committee to consider at its meeting on 17th September 2014. Alongside this, all documents and information contributing to the Level 2 Standing Financial Instructions and Guidance would be reviewed with a view to having a complete framework in place by 31st March 2015.

In regard to the Regulations, it was reported that Members' responsibilities needed to be

reflected in revised wording of the Committee's Terms of Reference. A number of proposed changes reflected the requirements of the Public Services Internal Audit Standards (PSIAS), which had come into effect on 1st April 2013.

Members were informed that, resulting from the Local Audit and Accountability Act 2014 and its abolition of the Audit Commission, local authorities would have more direct responsibility for appointing their internal auditor. These changes would come into effect within the next two years. This would entail further changes to the Audit Committee's Terms of Reference, as the Council's delegated body to audit matters.

Resolved unanimously:

- (1) That the proposals for the future responsibility for drafting, maintaining and approving of Financial Regulations and associated instructions and guidance be approved in principle.
- (2) That the proposed revised Terms of Reference for the Audit Committee be referred to full Council for approval.

6 EXTERNAL AUDIT CERTIFICATION OF GRANTS AND RETURNS

Richard Lee, Manager, KPMG LLP (UK), the Authority's external auditors, guided Members through the Certification of Grants and Returns 2012/13, which summarised the results of work on the certification of the Council's 2012/13 grant claims and returns.

It was reported that the Council had good arrangements in place for preparing its grants and returns, and for supporting KPMG's certification work.

Members were advised that unqualified certificates had been issued for two of the three grants and returns. A qualification had been necessary for the Housing and Council Tax Benefit claim, due to a minor issue concerning the Council's compliance, which could not be resolved through adjustment.

It was reported that the Audit Commission had changed its fee regime for certifying grants and returns in 2012/13, and had set an indicative fee for the Council, which was consistent with the fee outlined in KPMG's annual fee letter 2012/13.

Resolved:

That the report be noted.

7 EXTERNAL AUDIT PLAN 2013/14

Richard Lee, Manager, KPMG LLP (UK), the Authority's external auditors, guided Members through the External Audit Plan 2013/14 prepared by KPMG.

It was reported that the Plan outlined how KPMG would deliver its audit work on the financial statements audit work for the Authority, their approach to value for money (VFM) work for 2013/14, and proposed deliverables, timescales and fees for their work.

Details were outlined to Members regarding three areas of audit focus, which had been identified in relation to Lancaster Market, Luneside East and the Local Government

Pension Scheme (LGPS).

Resolved:

That the External Audit Plan 2013/14 be accepted.

8 EXTERNAL AUDIT FEE LETTER 2014/15

The Committee received KPMG's External Audit Fee Letter 2014/15, confirming the audit work and fee that was proposed for the 2014/15 financial year.

Richard Lee, Manager, KPMG LLP (UK) reported that the audit planning process for 2014/15, including the risk assessment, would continue as the year progressed, and fees would be reviewed and updated as necessary.

It was reported that the Department for Work and Pensions (DWP) had asked the Audit Commission to prepare auditor guidance for the certification of housing benefit subsidy for 2014/15. The housing benefit subsidy claim would continue to be certified under the Audit Commission's arrangements. It was expected that arrangements for 2015/16 onwards would be made on the same basis by an independent private company to be set up by the Local Government Association (LGA), which would take on transitional responsibility for the management of the Audit Commission's audit contracts following closure of the Audit Commission in March 2015.

Resolved:

That the indicative External Audit Fee be approved.

9 INTERNAL AUDIT ANNUAL REPORT AND ASSURANCE STATEMENT 2013/14

The Committee received the report of the Internal Audit Manager to inform of the extent and outcome of Internal Audit work during the 2013/14 financial year and to present an annual Statement of Assurance regarding the Council's framework of governance, risk management and control.

It was reported that the 2013/14 Internal Annual Audit Plan had been approved by the Audit Committee at its meeting on 24th April 2013 and subsequent adjustments had been made. The annual outturn position against the 2013/14 Annual Plan was summarised in the report. Overall, 19 more days than originally planned had been delivered on the core programme assurance audit work.

Members were advised that a new area of work had been added to the Plan during the year, which related to work on 'Corporate Service Reviews', reflecting the increasing financial pressures on the Council. The number of days actually delivered in this area of work (37) had been less than envisaged.

It was reported that the Internal Audit Team had provided the Lake District National Park Authority (LDNPA) with part of its internal audit service for 2013/14, amounting to 26 days of work. It was also noted that there had been little call for formal investigative work elsewhere in the Plan and no other major variances in the workload. The general contingency of 40 days had been sufficient to cover any changes.

Compliance with Professional Standards

It was reported that internal audit in local government was required to operate in accordance with 'proper practices' as set out in the *Public Sector Internal Audit Standards (PSIAS)* and the *Local Government Application Note (LGAN)*. The PSIAS required the Internal Audit Manager to maintain a *Quality Assurance and Improvement Programme (QAIP)*, including periodical internal and external assessments of compliance with the Standards. Standard 1322 of the PSIAS required the Council to consider disclosing any significant deviations in its Annual Governance Statement.

Members were informed that Committee had approved a revised Internal Audit Charter on 22nd January 2014, which considered the results of the internal assessment, and had noted the resulting action plan. It was reported that, based on this most recent assessment, full compliance with the PSIAS and LGAN had not yet been achieved. It was, however, the Internal Audit Manager's view that none of the points of non-compliance or partial compliance represented a deviation of such significance as to warrant disclosure in the Annual Governance Statement.

External Assessments

With regard to external assessments, it was reported that CIPFA had advised that the first external assessments, which were required every five years by the PSIAS, should be undertaken by 1st April 2016. External assessments must be carried out by a competent assessor or assessment team, but it was a matter for the Internal Audit Manager to discuss and agree with Audit Committee. This requirement was being considered collectively by the heads of Internal Audit of the 15 Lancashire local authorities comprising the Lancashire Chief Auditors Group.

Two main options had been identified, which were to engage a professional third party accountancy/audit provider; or set up a programme of peer reviews within the Lancashire districts. Each head of Internal Audit had agreed to seek the initial views of their authority's chief financial officer and the Audit Committee (or equivalent). Committee was asked to provide its view on the two options, in order that this could be fed into the deliberations of the Lancashire Chief Auditors Group.

Members asked a number of questions relating to the two options identified in the report and expressed a variety of views on their relative merits. No overall consensus was reached regarding a preferred option and it was concluded that further information, including resource implications, indicative costs and the views of the other Lancashire Authorities, should be reported back to the Committee.

Internal Audit

It was reported that the Accounts and Audit (England) Regulations 2011 required the Council to conduct an annual review of the effectiveness of internal audit and for a committee of the Council to consider the findings. A report of the review would be included within the report on the Annual Review of Governance to be considered at the next meeting of the Committee on 17th September 2014.

Assurance Work

Members were advised that all cases of completed assurance audits had resulted in the

production of a report and action plan, agreed by managers and submitted for consideration by the Audit Committee, using four levels of opinion – *Maximum, Substantial, Limited, Minimal*. Appendix A to the report set out the results of individual Internal Audit assignments and the results of follow-up reviews into previously completed audits, showing nine audits listed as 'limited', which the Committee would receive updates on.

It was reported that the assurance opinion on an audit of *Information Security and Use of Emails* from the 2012/13 audit programme had not yet been raised from its original level of 'minimal'. A formal review of this audit had been on hold pending completion of the work by the ICT service to meet organisational and technical requirements relating to the Government's Public Services Network (PSN). Having achieved the necessary accreditation in May 2014, there remained a body of work to be picked up regarding wider corporate information governance arrangements. A formal review of the original audit findings would be undertaken in the coming months and the results reported to the Audit Committee.

It was the Internal Audit Manager's opinion that the procedures for reporting and following up audits and reporting progress to Audit Committee continued to operate effectively.

Financial Systems Audits

Members were advised that this related to the sixteen financial system audits, including six audits relating to the Council's various income streams and the associated fees and charges. It was noted that assurance levels on the Council's core financial systems remained consistently high.

A maximum assurance opinion had been issued in relation to the Council's arrangement surrounding Housing Benefit and Welfare Reforms. Three audits had resulted in a 'limited' assurance opinion. Two of these were being reviewed under projects within the Council's programme of service reviews. Internal Audit was playing an active role in one of the projects and keeping a watching brief on the other. A formal follow-up audit would be undertaken on the third, scheduled for January 2015.

It was the Internal Audit Manager's opinion that, given the work undertaken, effective internal controls existed to ensure the accuracy and integrity of the key financial systems, and that no significant unmanaged risks or ongoing control weaknesses had been identified.

Governance Arrangements

With regard to Governance Arrangements, an updated assurance opinion of 'substantial' had been issued during the year following a second follow-up of a 2012/13 audit of the Council's complaints policy and procedures, which had originally been assessed as 'minimal'. An audit of arrangements relating to officer gifts, hospitality and interests had resulted in an opinion of 'limited'. There remained a number of outstanding considerations from earlier audit work relating to the Council's information governance arrangements.

It was the Internal Audit Manager's opinion that the remaining issues surrounding information governance arrangements and recognition of the Council's achievements in

achieving PSN compliance, warranted specific mention in the Annual Governance Statement.

Other Audits

It was reported that these comprised ten audits, five of which had resulted in a 'limited' assurance opinion. Three of these were under consideration in service reviews and arrangements had been made to feed the results of audit work into those pieces of work.

In the Internal Audit Manager's opinion, no unmanaged risks or control weaknesses had been identified which were so significant as to warrant disclosure in the Council's Annual Governance Statement. Where weaknesses had been identified, remedial action had been agreed and arrangements were in place to monitor the implementation of those actions and the level of assurance provided.

Annual Internal Audit Opinion

The Internal Audit Manager advised Members that, in his opinion, subject to the individual matters highlighted, the Council had a reliable and effective framework of governance, risk management and control.

Resolved unanimously:

- (1) That the report be noted.
- (2) That the Internal Audit Manager's Assurance Statement and Annual Internal Audit Opinion in relation to the Annual Governance Review and Annual Governance Statement be accepted.
- (3) That a further report be submitted to the Committee on the requirement for an external assessment of Internal Audit's compliance with proper practice standards, the report to include information on resource implications, indicative costs and the views of other Lancashire Local Authorities.

10 INTERNAL AUDIT STRATEGY AND RISK BASED PLAN

The Committee received the report of the Internal Audit Manager to seek Members' approval for a proposed three-year Internal Audit Strategic Plan and Annual Operational Plan for 2014/15.

Members were advised that there was an ongoing need to ensure that standards of governance, internal control and conduct in the Authority were maintained. Internal Audit's strategy was both to promote these standards and to provide independent assurance on the effectiveness of arrangements.

It was reported that the draft Risk Based Internal Audit Plan had been developed along similar lines to recent years. The Annual Plan for 2014/15 was based on estimated available resources of 690 days being delivered by the in-house team of 3.81 FTE staff. The Internal Audit Manager's role as Deputy Section 151 Officer had been estimated as requiring 10 days, giving a net allocation to audit activity of 680 days.

It was anticipated that the scope and objectives of audit work during the year would once

again be greatly influenced by the financial pressures affecting the Council. In recognition of this, the draft Plan incorporated an allocation of 50 days to support corporate service reviews, and would be managed flexibly in order to be effective.

Members were advised that the draft Plan also included 50 days relating to the provision of an Internal Audit service to the Lake District National Park Authority (LDNPA). This arrangement had built on the provision of ad-hoc audits to the Authority in the past two years and the provision of an extended service for 2014/15 had been discussed with the Chairman of Audit Committee.

Resolved unanimously:

- (1) That the Internal Audit Strategy and Risk Based Plan for 2014/15 be approved.
- (2) That the action taken by the Internal Audit Manager, in consultation with the Audit Committee Chairman, to arrange the provision of 50 days of internal audit service to the Lake District National Park Authority, be endorsed.

Chairman

(The meeting ended at 7.13 p.m.)

**Any queries regarding these Minutes, please contact
Jane Glenton, Democratic Services - telephone 01524 582068, or email
jglenton@lancaster.gov.uk**