



Committee: AUDIT COMMITTEE
Date: WEDNESDAY, 18 JUNE 2014
Venue: MORECAMBE TOWN HALL
Time: 6.00 P.M.

AGENDA

1. **Apologies for Absence**

2. **Appointment of Vice-Chairman**

To appoint the Vice-Chairman of Audit Committee for the Municipal Year 2014/15. (The Chairman must not be a member of Cabinet or Overview and Scrutiny - Part 3, Section 8 of the Constitution.)

3. **Minutes**

Minutes of meeting held on 22 January 2014 (previously circulated).

4. **Items of Urgent Business authorised by the Chairman**

5. **Declarations of Interest**

To receive declarations by Members of interests in respect of items on this Agenda.

Members are reminded that, in accordance with the Localism Act 2011, they are required to declare any disclosable pecuniary interests which have not already been declared in the Council's Register of Interests. (It is a criminal offence not to declare a disclosable pecuniary interest either in the Register or at the meeting.)

Whilst not a legal requirement, in accordance with Council Procedure Rule 10 and in the interests of clarity and transparency, Members should declare any disclosable pecuniary interests which they have already declared in the Register, at this point in the meeting.

In accordance with Part B, Section 2, of the Code of Conduct, Members are required to declare the existence and nature of any other interests as defined in paragraphs 8(1) or 9(2) of the Code of Conduct.

6. **External Audit Certification of Grants and Returns (Pages 1 - 7)**

Report of KPMG LLP

7. **External Audit Plan 2013/14 (Pages 8 - 32)**

Report of KPMG LLP

8. **External Audit Fee Letter 2014/15** (Pages 33 - 37)
Letter from KPMG LLP
9. **Financial Regulations and Audit Committee's Terms of Reference** (Pages 38 - 45)
Report of Chief Officer (Resources)
10. **Internal Audit Annual Report and Assurance Statement 2013/14** (Pages 46 - 58)
Report of Internal Audit Manager
11. **Internal Audit Strategy and Risk Based Plan** (Pages 59 - 66)
Report of Internal Audit Manager

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

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

(ii) Substitute Membership

Councillors Roger Dennison, Tim Hamilton-Cox, Geoff Marsland, Sylvia Rogerson, Roger Sherlock and Susan Sykes

(iii) Queries regarding this Agenda

Please contact Jane Glenton, Democratic Services - telephone (01524) 582068, or email jglenton@lancaster.gov.uk.

(iv) Changes to Membership, substitutions or apologies

Please contact Members' Secretary, telephone (01524) 582170, or email memberservices@lancaster.gov.uk.

MARK CULLINAN,
CHIEF EXECUTIVE,
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Published on Monday, 9 June 2014



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Certification of grants and returns 2012/13

Lancaster City Council

January 2014



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in connection with this
report are:**

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

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tim Cutler, who is the engagement leader to the Authority (telephone 0161 246 4774, e-mail tim.cutler@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees (telephone 0161 236 4000, e-mail trevor.rees@kpmg.co.uk) who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 444 8330.

<p>Introduction and background</p>	<p>This report summarises the results of work on the certification of the Council’s 2012/13 grant claims and returns.</p> <ul style="list-style-type: none"> ■ For 2012/13 we certified: <ul style="list-style-type: none"> – Three grants and returns with a total value of £96.6million. 	<p>-</p>
<p>Certification results</p>	<p>We issued unqualified certificates for two of the three grants and returns but a qualification was necessary for the Housing and Council Tax Benefit claim.</p> <ul style="list-style-type: none"> ■ This claim was qualified as our sample testing identified one case of underpayment and one case of overpayment of benefit. ■ We issued unqualified certificates for all grants and returns in 2011/12. 	<p>Pages 3 – 4</p>
<p>Audit adjustments</p>	<p>Adjustments were necessary to one of the Council’s grants and returns as a result of our certification work this year.</p> <ul style="list-style-type: none"> ■ Adjustments with a total value of £4,236 were made to the Housing and Council Tax Benefits Subsidy claim of £53.1million. ■ In 2011/12, adjustments with a total value of £14,951 were made to the Housing and Council Tax Benefits Subsidy claim. 	<p>Pages 3 – 4</p>
<p>The Council’s arrangements</p>	<p>The Council has good arrangements in place for preparing its grants and returns and supporting our certification work.</p>	<p>-</p>
<p>Fees</p>	<p>The Audit Commission changed its fee regime for certifying grants and returns in 2012/13, and set an indicative fee for the Council of £15,900. Our actual fee for the certification of grants and returns was £15,900 and therefore consistent with that outlined in our annual fee letter 2012/13.</p> <p>The fee represents a reduction of £13,980 compared to 2011/12, which is as a result of the change in the Audit Commission fee regime and a reduction in the number of grants and returns requiring certification in 2012/13.</p>	<p>Page 5</p>

Overall, we certified three grants and returns:

- two were unqualified with no amendment; and
- one required a qualification to our audit certificate and a minor adjustment.

Detailed comments are provided overleaf.

Detailed below is a summary of the key outcomes from our certification work on the Council's 2012/13 grants and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate.

A qualification means that issues were identified concerning the Council's compliance with a scheme's requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Council to satisfy itself that the full amounts of grant claimed are appropriate.

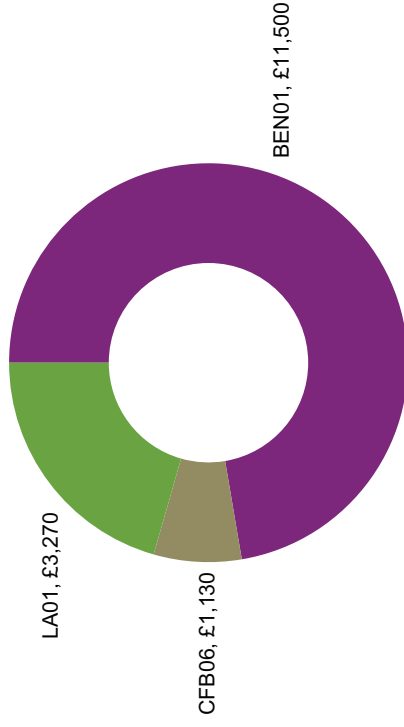
	Qualified certificate	Significant adjustment	Minor adjustment	Unqualified certificate
Housing & Council Tax Benefit	●		●	
Pooling of Housing Capital Receipts				●
National Non Domestic Rates return				●

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

Ref	Summary observations	Qualification letter/ Amendment
<p>1</p>	<p>Housing and Council Tax Benefit Adjustments with a total value of £4,236 were made to the Housing and Council Tax Benefits Subsidy claim of £53.1 million. Three separate errors were identified as follows:</p> <ul style="list-style-type: none"> ■ An adjustment for an increase of £5,431 was required due to the incorrect classification of an overpayment; ■ An adjustment for a decrease of £75 was made due to the incorrect treatment of a modified scheme case where the statutory disregard of £10 was applied twice in error; and ■ A further adjustment for a decrease of £1,120 was made due to a case being incorrectly included in the initial claim form when it in fact related to 2013/14. 	<p>+£4,236</p>
<p>2</p>	<p>Housing and Council Tax Benefit We qualified the Housing and Council Tax Benefit claim because we found cases where the Council had made incorrect benefit payments. Our initial sample identified one error where the Council had underpaid benefit to claimants and one error where the Council had overpaid benefits to claimants. The errors identified included:</p> <ul style="list-style-type: none"> ➢ One case where benefit had been underpaid as a result of the Authority applying the claimant's 13 week protection from the date they made their claim rather than the date their benefit began payment. This resulted in the 13 week protection ending five days prematurely. The amount of underpayment was £0.82. ➢ One case where benefit had been overpaid by £161.11 as a result of the Authority not correctly identifying the claimant as being entitled to a single person's deduction. <p>No adjustments were made for the errors identified as:</p> <ul style="list-style-type: none"> ➢ The Council cannot receive subsidy where benefit has not been paid (underpayment errors); and ➢ Where overpayment errors were identified an extrapolation was calculated. However, given the nature of the population and the error found, it is unlikely that even significant additional work will result in amendments to the claim form that will allow us to conclude that it is fairly stated. <p>Although these errors are clearly trifling, the Audit Commission's certification requirements mandate that any error, regardless of its value, is reported and that a 'zero materiality' threshold is applied.</p> <p>The above errors were reported to the Department of Work and Pensions in a qualification letter.</p>	<p>QL</p>

Our overall fee for the certification of grants and returns in 2012/13 is £15,900. This is consistent with the fee outlined in our annual fee letter 2012/13.

Breakdown of certification fees 2012/13



Breakdown of fee by grant/return		
	2012/13 (£)	2011/12 (£)
BEN01 – Housing and Council Tax Benefit	11,500	18,260
CFB06 – Pooling of Housing Capital Receipts	1,130	1,625
LA01 – National Non Domestic Rates return	3,270	4,825
HOU01 - Housing Subsidy	-	5,170
Total fee	15,900	29,880

The Audit Commission changed its fee regime for certifying grants and returns in 2012/13. It set an indicative fee for the Council of £15,900. Based on the actual work we carried out the actual fee we charged was consistent with the indicative fee. The significantly reduced fee is a direct result of the change in the fee regime and the reduced number of returns requiring certification in 2012/13.



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External Audit Plan 2013/14

Lancaster City Council

March 2014

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This document describes how we will deliver our audit work for Lancaster City Council.

Scope of this report

This document supplements our *Audit Fee Letter 2013/14* presented to you in June 2013. It describes how we will deliver our financial statements audit work for Lancaster City Council ('the Authority'). It also sets out our approach to value for money (VFM) work for 2013/14.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

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

Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998* and the Audit Commission's *Code of Audit Practice*.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to review and report on your:

- *financial statements (including the Annual Governance Statement):* providing an opinion on your accounts; and
- *use of resources:* concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The Audit Commission's *Statement of Responsibilities of Auditors and Audited Bodies* sets out the respective responsibilities of the auditor and the Authority.

Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, including any key risks identified this year for the financial statements and Value for Money audit.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 provides further detail on the financial statements audit risks.
- Section 5 explains our approach to VFM work.
- Section 6 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

Acknowledgements

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

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

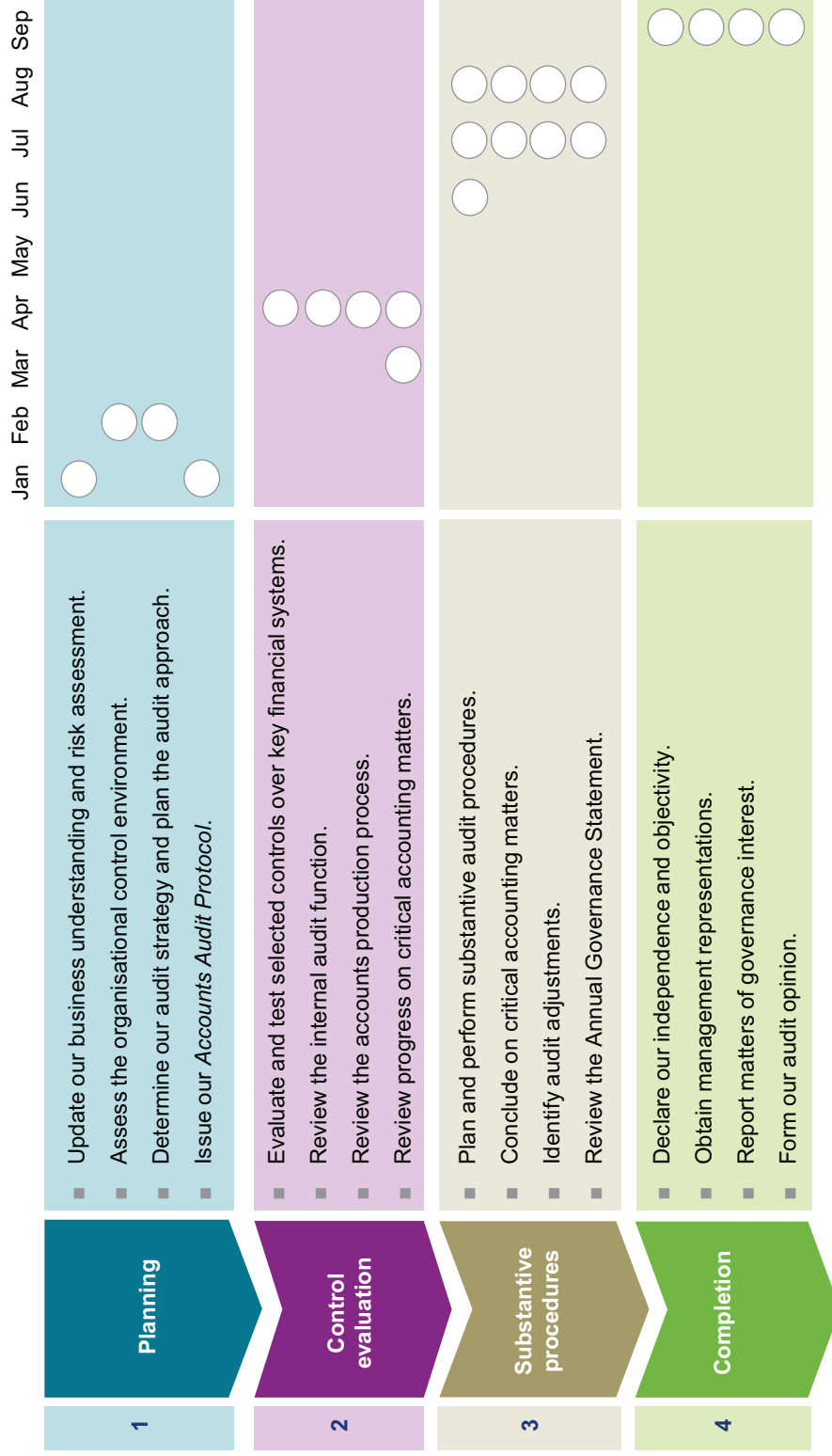
<p>Audit approach</p>	<p>Our overall audit approach is unchanged from last year. Our work is carried out in four stages and the timings for these, and specifically our on site work, have been agreed with Chief Officer (Resources) and Financial Services Manager.</p> <p>Our audit strategy and plan remain flexible as risks and issues change throughout the year. We will review the initial assessments presented in this document throughout the year and should any new risks emerge we will evaluate these and respond accordingly.</p>
<p>Key financial statements audit risks</p>	<p>We have completed our initial risk assessment for the financial statements audit and have not identified any significant risks this year. We have identified three areas of audit focus, which are detailed on pages 9 to 11. We will assess the Authority's progress in addressing these areas as part of our audit work and conclude this work at year end.</p>
<p>VFM audit approach</p>	<p>The VFM audit methodology is largely unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector. Our VFM approach is detailed on pages 12 to 15.</p> <p>We will report on the results of the VFM audit through our <i>ISA 260 Report</i>. This will summarise any specific matters arising, and the basis for our overall conclusion.</p> <p>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.</p>
<p>Audit team, deliverables, timeline and fees</p>	<p>We have refreshed our audit team this year, introducing a new Engagement Lead (Tim Cutler) who will provide a fresh perspective and challenge. The other members of our team remain unchanged from last year.</p> <p>Our main year end audit is currently planned to commence in July 2014. Upon conclusion of our work we will again present our findings to you in our <i>Report to Those Charged with Governance (ISA 260 Report)</i>.</p> <p>The planned fee for the 2013/14 audit is £76,950. This is unchanged from the position set out in our <i>Audit Fee Letter 2013/14</i>.</p>

Section three Our audit approach

We undertake our work on your financial statements in four key stages during 2014:

- **Planning**
(January to February).
- **Control Evaluation**
(April).
- **Substantive Procedures**
(July to August).
- **Completion** (September).

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



Section three Our audit approach – planning

During January and February 2014 we completed our planning work.

We assessed the key risks affecting the Authority's financial statements and discussed these with officers.

We assessed if there are any weaknesses in respect of central processes that would impact on our audit.

Following the completion of our planning work we will now issue our *Accounts Audit Protocol*

Our planning work took place in January and February 2014. This involved the following aspects:

Planning

- Updated our business understanding and risk assessment.
- Assessed the organisational control environment.
- Determined our audit strategy and planned the audit approach.

Business understanding and risk assessment

We have updated our understanding of the Authority's operations and identified any areas that will require particular attention during our audit of the Authority's financial statements.

We have identified the key risks affecting the Authority's financial statements. These are based on our knowledge of the Authority, our sector experience and our ongoing dialogue with Authority staff. Any risks identified to date through our risk assessment process are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Authority's responsibility to adequately address these issues. We encourage the Authority to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We meet with the finance team on a regular basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit.

In particular risk management, internal control and ethics and conduct have implications for our financial statements audit. The scope of the work of your internal auditors also informs our risk assessment.

Audit strategy and approach to materiality

Our audit is performed in accordance with International Standards on Auditing (ISAs) (UK and Ireland). The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities. We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of judgement and is set by the Engagement Lead.

In accordance with ISA 320 '*Audit materiality*', we plan and perform our audit to provide reasonable assurance that the financial statements are free of material misstatement and give a true and fair view. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

An indicative level of materiality for 2013/14 is £2.6million. This is based on the prior year Statement of Accounts and on our understanding of the projected outturn for the current year. This figure is a guide only. The overriding objective is to preserve the true and fair view presented by the financial statements and we will consider any audit differences, individually and cumulatively, in that context. See appendix 3 for further details.

Accounts audit protocol

Following the completion of our planning work we will now issue our *Accounts Audit Protocol*. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide during our interim and final accounts visits.

Section three

Our audit approach – control evaluation

During April 2014 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2013/14. We work with your internal audit team to avoid duplication.

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

We will report any significant findings arising from our work to management.

Our interim visit on site will be completed during April. During this time we will complete work in the following areas:

Control Evaluation

- Evaluate and test controls over key financial systems identified as part of our risk assessment.
- Review the work undertaken by the internal audit function on controls relevant to our risk assessment.
- Review the accounts production process.
- Review progress on critical accounting matters.

Review of internal audit

Where we intend to rely on internal audit's work in respect of the key financial systems identified as part of our risk assessment, auditing standards require us to review aspects of their work. This includes re-performing a sample of tests completed by internal audit. We will provide detailed feedback to the Head of Internal Audit at the end of our interim visit.

Critical accounting matters

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

Controls over key financial systems

We update our understanding of the Authority's key financial processes where our risk assessment has identified that these are relevant to our final accounts audit and where we have determined that this is the most efficient audit approach to take. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Where our audit approach is to undertake controls work on financial systems, we seek to rely on any relevant work internal audit have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place reliance on their work. We will meet with the Head of Internal Audit to discuss the principles and timetables for the managed audit process for 2013/14.

Our audit approach – substantive procedures

During July 2014 we will be on site for our substantive work.

We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.

We also review the Annual Governance Statement for consistency with our understanding.

We will present our *ISA 260 Report to the Audit Committee in September 2014*.

Our final accounts visit on site has been provisionally scheduled for the two weeks commencing 14 July 2014. During this time, we will complete the following work:

Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify and assess any audit adjustments.
- Review the Annual Governance Statement.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Audit Committee. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are key to this.

We report the findings of our final accounts work in our *ISA 260 Report*, which we will issue in September 2014.

Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the Authority's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

Critical accounting matters

We conclude our testing of key risk areas identified at the planning stage and any additional issues that may have emerged since.

Audit adjustments

During our on site work, we will meet with the Chief Officer (Resources) and Financial Services Manager to discuss the progress of the audit, any differences found and any other issues emerging.

In addition to auditing the financial statements, we review the Authority's Whole of Government Accounts pack.

We may need to undertake additional work if we receive objections to the accounts from local electors.

We will communicate with you throughout the year, both formally and informally.

Whole of government accounts (WGA)

We are required to review and issue an opinion on your WGA consolidation to confirm that this is consistent with your financial statements. The audit approach has been agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and issue of our opinion on the pack have not yet been confirmed.

Electors challenge

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

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

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on 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 Audit Commission's fee scales.

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 finance team and the Audit Committee. Our deliverables are included on page 17.

Independence and objectivity confirmation

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

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 Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place which, 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.

Appendix 1 provides further detail on auditors' responsibilities regarding independence and objectivity.

Confirmation statement

We confirm that as of 23 April 2014 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.

Key financial statements audit risks

In this section we set out our assessment of the significant risks to the audit of the Authority's financial statements for 2013/14.

We have identified no significant risks at this stage.

We have identified three areas of audit focus.

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 */SA 260 Report*. They are:

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent 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.

Our initial assessment has not identified any significant risks that are specific to the Authority. We will revisit our assessment throughout the year and should any significant risks present themselves we will adjust our audit strategy as necessary.

We have identified three areas of audit focus, which are set out in the table below.


Area of focus	Impact on audit
	<p>Area of focus</p> <p>As at February 2014, the Authority has achieved £243,000 (80%) of the £303,000 savings required to meet its 2013/14 budget and is projecting an under spend of £13,000 which will be transferred into balances. This is after identifying growth opportunities worth £213,000 and after allowing for planned contributions to reserves of £367,000.</p> <p>The Authority estimates it will need to make savings of £260,000 in 2014/15 and will need to find savings of £1.0m in 2015/16 and £2.5m in 2016/17. Against a backdrop of continued demand pressures, it will become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability.</p> <p>Our audit work</p> <p>In conjunction with our VFM work we will assess the controls the Authority has in place to ensure a sound financial standing, specifically that its Medium Term Financial Plan has duly taken into consideration the potential funding reductions and that it is sufficiently robust to ensure that the Authority can continue to provide services effectively. We will also review how the Authority is planning and managing its savings plans.</p>

Key financial statements audit risks (continued)

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

We have identified no significant risks at this stage.

We have identified three areas of audit focus.

Area of focus	Impact on audit
<div style="display: flex; align-items: center;">  <div style="margin-left: 20px;"> <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ Non Current Assets ■ Long term liabilities ■ Financial standing </div> </div>	<p>Area of focus</p> <p><u>Lancaster Market</u></p> <p>The Lancaster Market Lease was surrendered in May 2013. The surrender resulted in a significant payment of £1.7m to break the lease and this transaction will be accounted for in full in the 2013/14 financial statements.</p> <p>This will involve the de-recognition of the market hall asset and related lease liability but there will be a requirement to recognise the surrender payment.</p> <p><u>Luneside East</u></p> <p>During our 2012/13 audit, the Authority appealed against the Land Tribunal's compensation award in respect of the Luneside East project, where the Authority exercised compulsory purchase order powers to purchase land. The Authority was successful in its appeal to the Court of Appeal on three of the four heads of the compensation claim. As such, the Lands Tribunal are required to re-determine the associated compensation award and the liability for costs.</p> <p>Officers believe that the revised costs award should be known before the end of the financial year and therefore they will be required to reflect this updated position within the 2013/14 financial statements.</p> <p>Our audit work</p> <p><u>Lancaster Market</u></p> <p>In 2011/12 we agreed with management the accounting principles for surrendering the Market Lease.</p> <p>Now that the lease has been surrendered we have requested that management sets out the proposed accounting entries that will appear in the financial statements.</p> <p>Once received, we will review this proposal to ensure that it is in line with the relevant accounting standards and the Code of Practice.</p> <p><u>Luneside East</u></p> <p>We will continue to review the outcome of any Lands Tribunal decisions made up until the 2013/14 audit is concluded and ensure that the impact is appropriately reflected in the financial statements.</p>

Key financial statements audit risks (continued)

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

We have identified no significant risks at this stage.

We have identified three areas of audit focus.

Area of focus	Impact on audit
<div style="text-align: center;"> <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ Pensions Liability ■ Actuarial gains or losses </div>	<p>Area of focus</p> <p>During the year, the Local Government Pension Scheme for Lancashire (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2013 in line with the Local Government Pension Scheme (Administration) Regulations 2008. 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 carry out this triennial valuation.</p> <p>The IAS 19 numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data.</p> <p>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.</p> <p>Our audit work</p> <p>As part of our audit, we will need to agree the data provided to the actuary back to the systems and reports from which it was derived, and test the accuracy of this data.</p> <p>We will 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. The Pension Fund may seek to recharge any additional costs arising from this work.</p>

Our approach to VFM work follows guidance provided by the Audit Commission.

Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below.

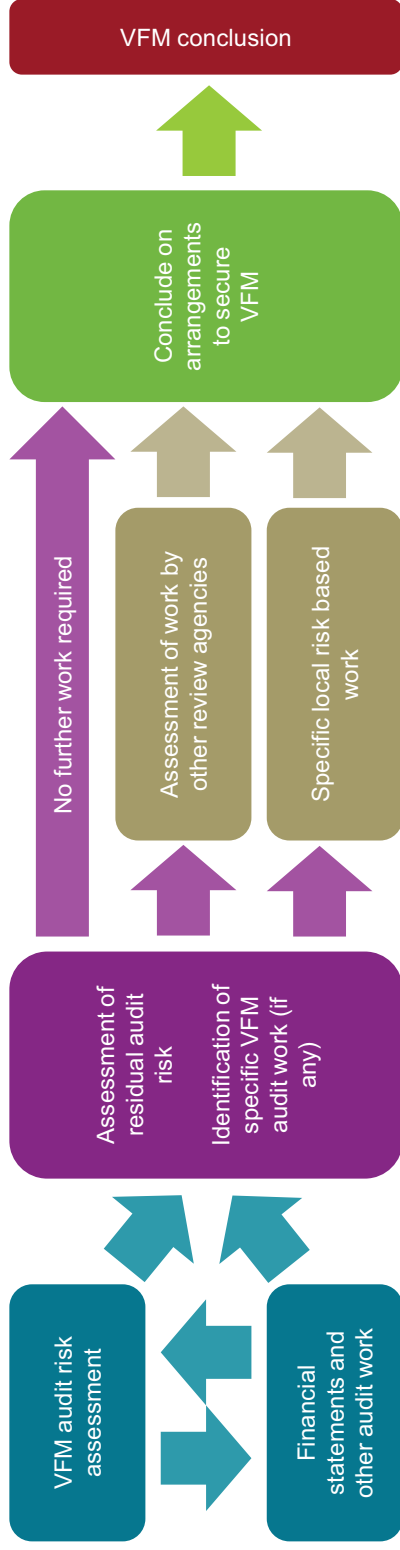
Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing financial resilience .	The organisation has robust systems and processes to: <ul style="list-style-type: none"> ■ manage effectively financial risks and opportunities; and ■ secure a stable financial position that enables it to continue to operate for the foreseeable future. 	<ul style="list-style-type: none"> ■ Financial governance ■ Financial planning ■ Financial control
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness .	The organisation is prioritising its resources within tighter budgets, for example by: <ul style="list-style-type: none"> ■ achieving cost reductions; and ■ improving efficiency and productivity. 	<ul style="list-style-type: none"> ■ Prioritising resources ■ Improving efficiency and productivity

Section five VFM audit approach (continued)

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

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.



Each of these stages are summarised further below.

VFM audit stage	Audit approach
VFM audit risk assessment	<p>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 <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; information from the Audit Commission's VFM profile tool and financial ratios tool; evidence gained from previous audit work, including the response to that work; and the work of other inspectorates and review agencies.

Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

We will then form an assessment of residual audit risk to identify if there are any areas where more detailed VFM audit work is required.

VFM audit stage	Audit approach
<p>Linkages with financial statements and other audit work</p>	<p>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.</p> <p>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.</p>
<p>Assessment of residual audit risk</p>	<p>It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria.</p> <p>Such work may involve interviews with relevant officers and /or the review of documents such as policies, plans and minutes. We may also refer to any self assessment the Authority may prepare against the characteristics.</p> <p>To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion.</p> <p>At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee.</p>
<p>Identification of specific VFM audit work</p>	<p>If we identify residual audit risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> ■ 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.

Where relevant, we may draw upon the range of audit tools and review guides developed by the Audit Commission.

We will conclude on the results of the VFM audit through our **ISA 260 Report**.

VFM audit stage	Audit approach
<p>Delivery of local risk based work</p>	<p>Depending on the nature of the residual audit risk identified, we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as:</p> <ul style="list-style-type: none"> ■ local savings review guides based on selected previous Audit Commission national studies; and ■ update briefings for previous Audit Commission studies. <p>The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.</p>
<p>Concluding on VFM arrangements</p>	<p>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.</p> <p>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.</p>
<p>Reporting</p>	<p>We will report on the results of the VFM audit through our <i>ISA 260 Report</i>. This will summarise any specific matters arising, and the basis for our overall conclusion.</p> <p>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.</p>

Your audit team has been drawn from our specialist public sector assurance department.

For 2013/14, Tim Cutler will lead the audit and will provide a fresh perspective and challenge. Richard and Sim have both been members of the audit team for a number of years and will ensure that our knowledge of the Authority is retained.

Contact details are shown on page 1.

The audit team will be assisted by other KPMG specialists as necessary.



Tim Cutler
Engagement Lead

"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 Executive Directors."



Richard Lee
Audit Manager

"I am responsible for the management, review and delivery of the audit. I will work closely with Tim to ensure we add value and will liaise with the Chief Officer (Resources) and the Internal Audit Manager."



Sukhsimran Singh
Audit Assistant Manager

"I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants."

At the end of each stage of our audit we issue certain deliverables, including reports and opinions.

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

We will discuss and agree each report as appropriate with the Authority's officers prior to publication.

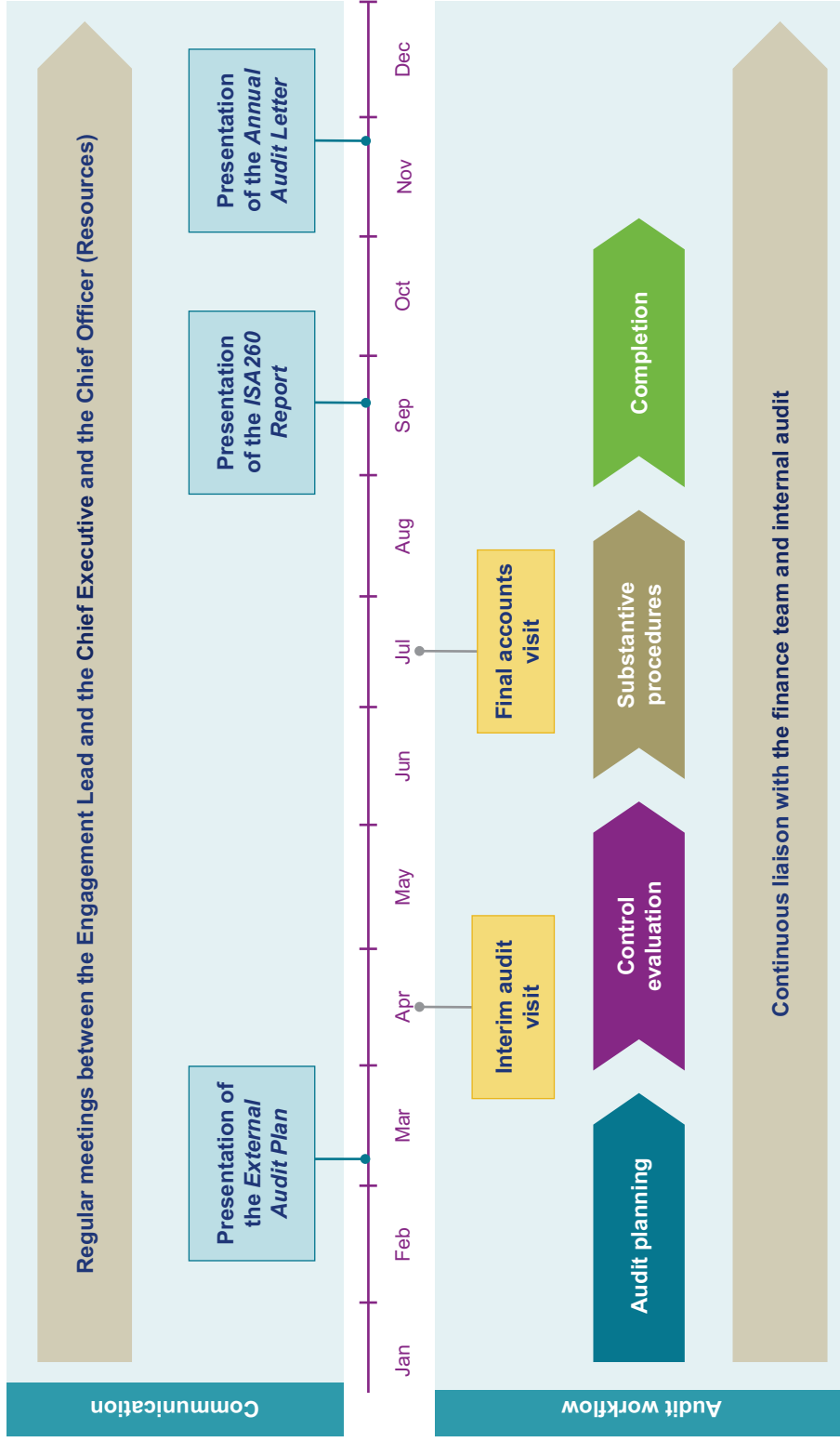
Deliverable	Purpose	Issue dates
Planning		
External Audit Plan	<ul style="list-style-type: none"> Outlines our audit approach. Identifies areas of audit focus and planned procedures. 	March 2014
Substantive procedures		
Report to Those Charged with Governance (ISA 260 Report)	<ul style="list-style-type: none"> Details the resolution of key audit issues. Communicates adjusted and unadjusted audit differences. Highlights performance improvement recommendations identified during our audit. Comments on the Authority's value for money arrangements. 	September 2014
Completion		
Auditor's Report	<ul style="list-style-type: none"> Provides an opinion on your accounts (including the Annual Governance Statement). Concludes on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion). 	September 2014
Whole of Government Accounts	<ul style="list-style-type: none"> Provide our opinion on the Authority's WGA pack submission. 	September 2014
Annual Audit Letter	<ul style="list-style-type: none"> Summarises the outcomes and the key issues arising from our audit work for the year. 	November 2014

We will be in continuous dialogue with you throughout the audit.

We work with the finance team and internal audit throughout the year.

Our main work on site will be our:

- Interim audit visits during April.
- Final accounts audit during July.



The fee for the 2013/14 audit of the Authority is £76,950.

The fee has not changed from that set out in our *Audit Fee Letter 2013/14* issued in June 2013.

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

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

Audit fee

Our *Audit Fee Letter 2013/14* presented to you in June 2013 first set out our fees for the 2013/14 audit. We have not considered it necessary to make any changes to the agreed fees at this stage.

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

The planned audit fee for 2013/14 is **£76,950**. The fee is unchanged from the final 2012/13 audit fee.

Audit fee assumptions

The fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2012/13;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2013/14* within your 2013/14 financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:
 - the financial statements are made available for audit in line with the agreed timescales;
 - good quality working papers and records will be provided at the start of the final accounts audit;

- requested information will be provided within the agreed timescales;
- prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit adheres to our joint working protocol and completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the Authority achieves an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

Changes to the audit plan

Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
- additional work is required of us by the Audit Commission or other regulators; and
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Chief Officer (Resources).

Appendix 1: Independence and objectivity requirements

This appendix summarises auditors' responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of Commission-related work, and senior members of their audit teams 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.
- Firms are expected to comply with the requirements of the Commission's protocols on provision of personal financial or tax advice to certain senior individuals at audited bodies, independence considerations in relation to procurement of services at audited bodies, and area wide internal audit work.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the Commission'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 standing guidance.

Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

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

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

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

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG. We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

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

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

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

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

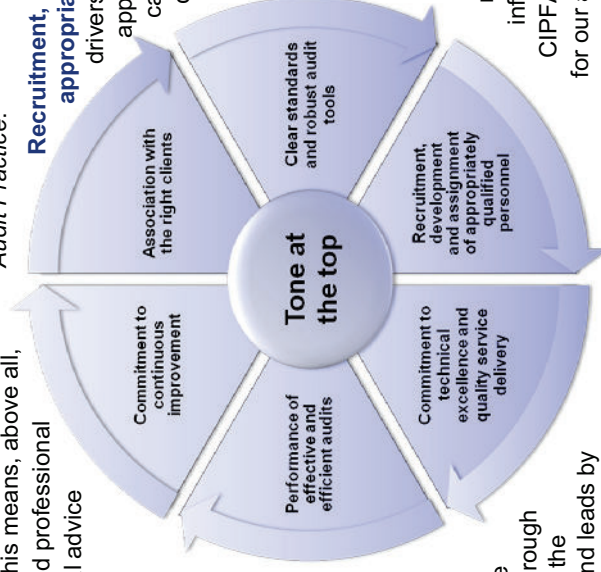
Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill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

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

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

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

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



Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

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

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

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

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

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

Our quality review results

We are able to evidence the quality of our audits through the results of National Audit Office and Audit Commission reviews. The Audit Commission publishes information on the quality of work provided by KPMG (and all other firms) for audits undertaken on behalf of them (<http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/principal-audits/kpmg-audit-quality>).

The latest Annual Regulatory Compliance and Quality Report (issued June 2013) showed that we performed highly against the Audit Commission's criteria. We were one of only two firms to receive a combined audit quality and regulatory compliance rating of green for 2012/13.

Appendix 3: Materiality and reporting of audit differences

When we determine our audit strategy we set a monetary materiality level for planning purposes.

For 2013/14 we have set this at £2.6 million.

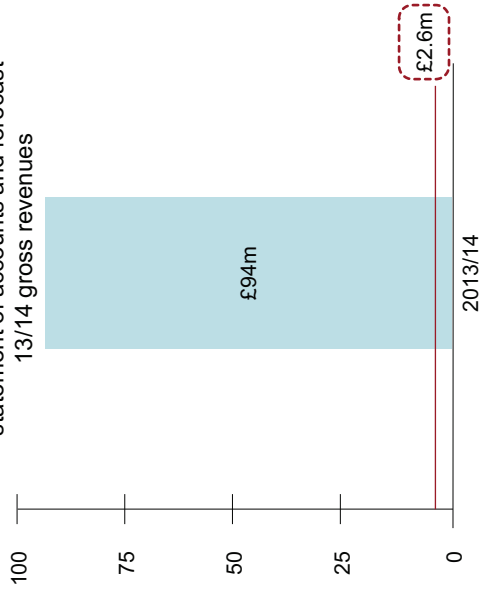
We will report all audit differences over £174,000 million to the Audit Committee.

Materiality

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

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

Materiality based on audited prior year statement of accounts and forecast



Materiality for planning purposes has been set at £2.6 million, which equates to around 3 percent of gross revenues.

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

Reporting to the Audit Committee

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

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

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

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £174,000.

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.



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Our ref **RL/016**
 Contact **Richard Lee**
0161 246 4661

14 May 2014

Dear Nadine

Annual audit fee 2014/15

I am writing to confirm the audit work and fee that we propose for the 2014/15 financial year at Lancaster City Council. Our proposals are based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission.

As we have not yet completed our audit for 2013/14 the audit planning process for 2014/15, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary. We will naturally keep you informed.

The proposed indicative fee for the core audit for 2014/15 is £76,950 (exclusive of VAT). The fee is unchanged from the planned fee for 2013/14 and is in line with the scale fee recommended by the Audit Commission.

The proposed indicative audit and certification fees for 2014/15 are shown below, along with a comparison to the prior year's audit. All fees are exclusive of VAT and are in line with the scale fees recommended by the Audit Commission.

Audit Area	Planned fee 2014/15	Planned fee 2013/14
Code of Audit Practice audit fee	£76,950	£76,950
Certification of grant claims & returns	£10,320	£11,900

DCLG and HM Treasury are working with grant-paying bodies to develop assurance arrangements for certifying claims and returns following the closure of the Commission. Subject to confirmation, we expect these new arrangements to apply to 2014/15 claims and returns and therefore the Pooling of housing capital receipts (CFB06) scheme to fall outside the Commission's arrangements.



The Department for Work and Pensions (DWP) has asked the Audit Commission to prepare auditor guidance for the certification of housing benefit subsidy for 2014/15. We will therefore continue to certify the housing benefit subsidy claim under the Audit Commission's arrangements. The estimated indicative certification fee above therefore only covers this work. It is expected that arrangements for 2015/16 onwards will be made on the same basis by an independent private company to be set up by the Local Government Association, which will take on transitional responsibility for the management of the Audit Commission's audit contracts following its closure in March 2015.

The indicative fees are based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. Our assumptions are set out in more detail in Appendix 1 to this letter.

In setting the fee at this level, we have assumed that the general level of risk in relation to the audit of the financial statements and certification work is not significantly different from that identified for the current year's audit. A more detailed audit plan will be issued later this year. This will detail the risks identified, planned audit procedures and (if required) any changes in fee. If we need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with you and then prepare a report for the Audit Committee, outlining the reasons why the fee needs to change.

We expect to issue a number of reports relating to our work over the course of the audit. These are listed at Appendix 2.

The proposed fee excludes any additional work we may agree to undertake at the request of Lancaster City Council. Any such piece of work will be separately discussed and a detailed project specification agreed with you.

The key members of our audit team for the 2014/15 audit are:

Name	Role	Contact details
Tim Cutler	Director	Tim.cutler@kpmg.co.uk 0161 246 4774
Richard Lee	Manager	Richard.lee@kpmg.co.uk 0161 246 4661
Sim Singh	Assistant Manager	Sukhsimran.singh@kpmg.co.uk 0161 246 4668



KPMG LLP
Annual audit fee 2014/15
14 May 2014

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact KPMG's national contact partner for Audit Commission work, Trevor Rees (trevor.rees@kpmg.co.uk).

If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet '*Something to Complain About*', which is available from the Commission's website (www.audit-commission.gov.uk) or on request.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Tim Cutler', written over a light blue horizontal line.

Tim Cutler
Director



Appendix 1 – Audit fee assumptions

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2013/14;
- you will inform us of significant developments impacting on our audit;
- internal audit meets the appropriate professional standards;
- you will identify and implement any changes required under the CIPFA IFRS-based Code of Practice on local Authority Accounting within your 2014/15 financial statements;
- your financial statements will be made available for audit in line with the timetable we agree with you;
- good quality working papers and records will be provided to support the financial statements in line with our *prepared by client* request and by the date we agree with you;
- requested information will be provided within agreed timescales;
- prompt responses will be provided to draft reports;
- complete and accurate claims and returns are provided for certification, with supporting working papers, within agreed timeframes; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Improvements to the above factors may allow reductions to the audit fee in future years. Where these assumptions are not met, we will be required to undertake additional work and charge an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the detailed audit plan.

Any changes to our audit plan and fee will be agreed with you. Changes may be required if:

- new residual audit risks emerge;
- additional work is required by the Audit Commission, KPMG or other regulators; or
- additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.



Appendix 2: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Planned output	Indicative date
External audit plan	February 2015
Report to those charged with governance (ISA260 report)	September 2015
Auditor's report giving the opinion on the financial statements, value for money conclusion and audit certificate	September 2015
Opinion on Whole of Government Accounts return	September 2015
Annual audit letter	November 2015
Certification of grant claims and returns	February 2016

AUDIT COMMITTEE

**Financial Regulations and Audit Committee’s
Terms of Reference
18 June 2014**

Report of Chief Officer (Resources)

PURPOSE OF REPORT

To advise the Committee 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.

This report is public

RECOMMENDATIONS

1. That Members support in principle the proposals for the future responsibility for drafting, maintaining and approval of Financial Regulations and associated instructions and guidance.
2. That the proposed revised Terms of Reference for the Audit Committee are referred to full Council for approval.

1.0 Introduction

- 1.1 The terms of reference of the Audit Committee currently include: *“To consider and approve amendments to the Council’s Financial Regulations and Contract Procedure Rules.”* (the Constitution, part 3 section 8, TOR 8.16).
- 1.2 The council’s current Financial Regulations and associated Financial Procedures were originally approved by the Audit Committee in April 2002, with the most recent update (relating to project and capital programme management) being approved in September 2007.

2.0 Proposal Details

2.1 Financial Regulations and Procedures

2.1.1 Whilst revised Contract Procedure Rules (CPRs) were approved by the Audit Committee on 23rd January 2013, the current Financial Regulations remain due for a thorough review. As well as many references to individual posts and some elements of the organisation being outdated, there is a general need to modernise and refresh the regulations and tie them in with other ongoing reviews of the Constitution, in particular the recently updated Scheme of Delegation.

2.1.2 In support of the Financial Regulations and CPRs the Council has adopted an associated set of Financial Procedures (which currently also form part of the Constitution), as well as a wide range of separate financial policies and guides. To be effective, it is important that these sources of instruction and guidance are drawn together into a clear and cohesive structure and 'library' of information.

2.1.3 These proposals reflect requirements under the Accounts & Audit Regulations (England) 2011 that, *"subject... to any instructions given by a relevant body to its responsible financial officer, that officer must determine, on behalf of the body, its -*

- (a) *accounting records, including the form of accounts and supporting accounting records; and*
- (b) *accounting control systems,*

and such an officer must ensure that the accounting control systems determined by that officer are observed and that the accounting records of the body are kept up to date."

2.1.4 In essence, this establishes responsibility for the financial regulations with the Chief Officer (Resources) as Section 151 Officer, whilst recognising that the Council might choose to instruct that officer on particular matters, so long as any such instruction is itself consistent with the Accounts & Audit Regulations.

2.1.5 The Chief Officer (Resources), Financial Services Manager and Internal Audit Manager are currently reviewing the Financial Regulations and have been considering the most efficient and effective approach to managing the supporting documents. The proposed structure for the future is as follows:

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)

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

2.2 Audit Committee Terms of Reference

2.2.1 Drawing on the Accounts and Audit Regulations 2011, Members' responsibilities regarding the Regulations need to be reflected in revised wording of the Committee's terms of reference.

2.2.2 Additionally, the current terms of reference have now been in place for a number of years and are due for a general review and update. A number of the proposed changes reflect requirements arising from the Public Services Internal Audit Standards (PSIAS) which came into effect on 1st April 2013. The contents have also been re-ordered to provide a more meaningful grouping of clauses.

2.2.3 Appendix A sets out proposed new Terms of Reference for the Audit Committee, with the existing document appended for comparison.

2.2.4 Members are advised that, resulting from the Local Audit and Accountability Act 2014, and its abolition of the Audit Commission, local authorities will in future have more direct responsibility for appointing their external auditor. These changes will come into effect in the next two years and, as the Council's body with delegated authority for audit matters, will entail further changes to the Audit Committee's terms of reference

3.0 Details of Consultation

3.1 No specific consultation has been undertaken in compiling this report.

4.0 Options and Options Analysis (including risk assessment)

4.1 The proposals are that the Audit Committee:

- a) supports the proposed approach to the drafting of Financial Regulations and the supporting framework of financial instructions and guidance; and
- b) accepts and refers to full Council the proposed revision to the Committee's Terms of Reference

4.2 There are no obvious alternatives at this point. Members of Audit Committee could make suggestions as to the development of the proposed framework, in which case officers may need further time to consider their implications. In any case, at the September meeting, the Committee will have the opportunity to consider the new-look Financial Regulations, and at that time, it would have the opportunity of considering any appropriate instructions to the Section 151 Officer.

5.0 Conclusion

5.1 The Council's Financial Regulations are in need of review and update. The proposals in this report aim to establish more efficient procedures for the future maintenance of Financial Regulations and associated instructions/guidance, taking account of the current legislative requirements.

- 5.3 The Proposed new Terms of Reference for the Committee reflect these proposals and incorporate a number of other updates made necessary by organisational and professional developments in recent years.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

This report has no direct impact on these areas.

FINANCIAL IMPLICATIONS

None arising directly from this report

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer is also the Council's Chief Officer (Resources), in whose name this report has been prepared; she has no further comments to add.

LEGAL IMPLICATIONS

The proposals are in accordance with the provisions of the relevant legislation.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS

Contact Officer: Derek Whiteway
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Ref: aud/ctte/aud/140618/FinRegs

Proposed new Terms of Reference

SECTION 8 – AUDIT COMMITTEE

Composition: 7 Members of the Council on a PR basis, Chairman and Members of the Committee appointed by Council annually. The Chairman must not be a member of Cabinet or Overview and Scrutiny. Changes can be made by Council during the course of the year.

Terms of Reference

- 8.1 To review all matters relating to Internal and External Audit. It will have the right of access to all the information it considers necessary and can consult directly with Internal and External Auditors.
- 8.2 To monitor arrangements for discharging the Council's responsibilities for efficient and effective financial and operational resource management. In pursuing this aim, it will consider:-
 - the soundness, adequacy and application of controls;
 - compliance with policies, procedures and statutory requirements;
 - arrangements for safeguarding the Council's assets and interests;
 - the integrity and reliability of management information and financial records;
 - the economic, efficient and effective use of resources.
- 8.3 To approve a Statement of Purpose for the Audit Committee.
- 8.5 To approve Internal Audit plans. ***** Revised**
- 8.6 To monitor Internal Audits progress with the annual Audit Plan, evaluating the effectiveness of Internal Audit and the use of audit resources and approving adjustments to the Audit Plan.
- 8.7 To receive and review the findings of both Internal and External Audit examinations and to ensure that management takes appropriate action to implement agreed recommendations and to remedy any internal accounting, organisational or operational control weaknesses identified.
- 8.8 To receive the Internal Audit Annual Report and annual controls assurance statement.
- 8.9 To review internal audit's compliance with 'proper practices' as set out in the Public Sector Internal Audit Standards and perform an annual evaluation of the effectiveness of Internal Audit in accordance with the Accounts and Audit (England) Regulations 2011. ***** New**
- 8.10 To be consulted as part of the process in agreeing the appointment by the Audit Commission of the Council's external auditor.
- 8.11 To receive and comment upon the External Auditor's Annual Plan, considering the scope and depth of external audit work and to ensure it gives value for money.
- 8.12 To monitor the External Auditor's progress with the Annual Plan.
- 8.13 To receive all scheduled outputs from the External Auditor's work, including the annual Audit Letter. ***** Revised**

- 8.14 To review and comment upon liaison arrangements between Internal and External Audit with a view to optimising the effective deployment of Audit resources.
- 8.15 To evaluate the adequacy and effectiveness of the Council's financial and operational policies and procedures including financial and accounting management through discussions with the External Auditors, Internal Auditors and appropriate officers.
- 8.16 To consider and endorse amendments to the Council's Financial Regulations and Contract Procedure Rules and, on behalf of full Council, give any instructions to the Section 151 Officer as may be appropriate. *** **Revised**
- 8.17 To approve the annual Statement of Accounts on behalf of full Council in accordance with the Accounts and Audit (England) Regulations 2011. *** **Revised**
- 8.18 To monitor the effective development and operation of risk management and corporate governance by considering the effectiveness of the Council's adopted local Code of Governance. Also to oversee the production of the authority's annual Governance Statement in accordance with the Accounts and Audit (England) Regulations 2011 and recommend its adoption. *** **Revised**
- 8.19 To prepare an Annual Report to full Council setting out the committee's work and performance during the year and to refer to Council any matters it shall see fit.
- 8.20 To review any issue referred to it by the Chief Executive or any Council body
- 8.21 To consider any matters referred to it by the Monitoring Officer in accordance with Overview and Scrutiny Procedure Rule 12.
- 8.22 With the Monitoring Officer to monitor and review the operation of the Constitution to ensure the aims and principles of the Constitution are given full effect.
- 8.23 With the exception of those parts of the Constitution which are assigned specifically to the Council Business Committee, to consider and propose to Council any other amendments to the Constitution as necessary. *** **Revised**
- 8.24 To act as the mechanism for Members of the Council to liaise with the Independent Remuneration Panel on the Members' Allowances Scheme.

Current Terms of Reference

SECTION 8 – AUDIT COMMITTEE

Composition: 7 Members of the Council on a PR basis, Chairman and Members of the Committee appointed by Council annually. The Chairman must not be a member of Cabinet or Overview and Scrutiny. Changes can be made by Council during the course of the year.

Terms of Reference

- 8.1 To review all matters relating to Internal and External Audit. It will have the right of access to all the information it considers necessary and can consult directly with Internal and External Auditors.
- 8.2 To monitor arrangements for discharging the Council's responsibilities for efficient and effective financial and operational resource management. In pursuing this aim, it will consider:-
 - the soundness, adequacy and application of controls;
 - compliance with policies, procedures and statutory requirements;
 - arrangements for safeguarding the Council's assets and interests;
 - the integrity and reliability of management information and financial records;
 - the economic, efficient and effective use of resources.
- 8.3 To approve the annual Statement of Accounts, income and expenditure and balance sheet or record of payments and receipts under the Account and Audit Regulations 1996.
- 8.4 To comment on the scope and depth of external audit work and to ensure it gives value for money.
- 8.5 To monitor the External Auditor's progress with the Annual Plan, including his comments on the Best Value Performance Plan and the production of agreed outputs.
- 8.6 To approve Internal Audit strategic plans and the Annual Internal Audit Plan.
- 8.7 To monitor Internal Audits progress with the Annual Audit Plan, evaluating the effectiveness of Internal Audit and the use of Audit resources and recommending adjustments to the Audit Plan.
- 8.8 To review and comment upon liaison arrangements between Internal and External Audit with a view to optimising the effective deployment of Audit resources.
- 8.9 To evaluate the adequacy and effectiveness of the Council's financial and operational policies and procedures including financial and accounting management through discussions with the External Auditors, Internal Auditors and appropriate officers.
- 8.10 To receive and review the findings of both Internal and External Audit examinations and to ensure that management takes appropriate action to implement agreed recommendations and to remedy any internal accounting, organisational or operational control weaknesses identified.

- 8.11 To receive the Internal Audit Annual Report and annual controls assurance statement.
- 8.12 To monitor the effective development and operation of risk management and corporate governance by considering the effectiveness of the Council's adopted local Code of Governance. Also to oversee the production of the authority's annual Governance Statement and recommend its adoption.
- 8.13 To prepare an Annual Report to full Council setting out the committee's work and performance during the year and to refer to Council any matters it shall see fit.
- 8.14 To consider any matters referred to it by the Monitoring Officer in accordance with Overview and Scrutiny Procedure Rule 12.
- 8.15 With the Monitoring Officer to monitor and review the operation of the Constitution to ensure the aims and principles of the Constitution are given full effect.
- 8.16 To consider and approve amendments to the Council's Financial Regulations and Contract Procedure Rules.
- 8.17 To consider and propose to Council any other amendments to the Constitution as necessary.
- 8.18 To act as the mechanism for Members of the Council to liaise with the Independent Remuneration Panel on the Members' Allowances Scheme.
- 8.19 To review any issue referred to it by the Chief Executive or Deputy Chief Executive or any Council body.
- 8.20 To approve a Statement of Purpose for the Audit Committee.
- 8.21 To be consulted as part of the process in agreeing the appointment by the Audit Commission of the Council's external auditor.

AUDIT COMMITTEE**Internal Audit Annual Report and
Assurance Statement 2013/14
18 June 2014****Report of Internal Audit Manager****PURPOSE OF REPORT**

To inform the Committee 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.

This report is public

RECOMMENDATIONS

1. That the report be noted.
2. That the Internal Audit Manager's Assurance Statement and Annual Internal Audit Opinion (paragraphs 2.20 to 2.35) be accepted and considered by the Committee in relation to the annual governance review and Annual Governance Statement, which will be presented to the September meeting of the Committee.
3. That Members consider and provide initial views on the requirement for an external assessment of Internal Audit's compliance with proper practice standards (as set out in paragraphs 2.13 to 2.16)

1.0 Introduction

- 1.1 The terms of reference of the Audit Committee include: *To receive the annual Internal Audit Report and Controls Assurance Statement (the Constitution, part 3 section 8, TOR 11).*
- 1.2 Proper practices for Internal Audit in local government¹ specify that "*The chief audit executive (the Internal Audit Manager) must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement*", and that "*The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.*"

¹ *Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN) (CIPFA 2013)*

2.0 Report

Annual Audit Plan 2013/14

- 2.1 Internal Audit plans and assignments are developed on a risk-based approach, seeking to identify and devote resources to the areas of greatest significance to the Council. The 2013/14 Internal Audit Plan was approved by the Audit Committee at its meeting on 24th April 2013. Adjustments to the plan were approved by the Committee at its meetings on 26th June 2013, 18th September 2013 and 22nd January 2014.
- 2.2 The annual outturn position against the 2013/14 annual plan is summarised in the following table.

Area of work	Resources (days)		
	Original Plan	Revised Plan (22/01/14)	Actuals
Assurance Audit			
Core Financial Systems	100	38	33
Revenues & Benefits Shared Services	60	76	86
Core Management Arrangements	80	55	28
Risk Based Assurance Audits	140	217	248
Follow-Up Reviews	60	66	64
Sub-Total, Assurance Work	440	452	459
Advice & Support Work	105	90	98
Corporate Service Reviews	0	50	37
Investigations	30	25	16
Audit Management	50	50	57
Other Duties (Non-Audit)	15	8	7
Work for Other Bodies (LDNPA)	10	25	26
General Contingency	40	5	0
Total Chargeable Days	690	705	700
Non-Chargeable Activities (note1)	108	109	117
Total Available Days	798	814	817

Note 1. Non-chargeable activities include team meetings, section and service management, general administration, EDPA, regional audit group meetings, etc.

Explanation of Major Variances

- 2.3 The summary shows that the number of available days increased by 19, this primarily being due to the section not having recorded any sick leave during the year. The number of chargeable days delivered were up by 10 on the original plan.
- 2.4 Within the main programme of assurance work, there was a significant re-direction of resources to the Risk Based Audit section. This reflected the identification of a number of emerging risk areas during the year and a commitment to some wide-ranging reviews, including one of corporate "working time arrangements" and another programme considering arrangements for fees and charges across the Council.
- 2.5 Overall, 19 more days than originally planned were delivered on the core programme of assurance audit work.

- 2.6 Outside of the core assurance programme, a new area of work was added to the plan during the year relating to work on 'Corporate Service Reviews'. This reflects the increasing financial pressures on the council and the associated need to reorganise operations, identify efficiencies and make savings. Whilst the number of days actually delivered in this area of work (37) was less than envisaged, Internal Audit has an ongoing involvement in reviews which will continue throughout 2014/15. Further proposals to provide resources for this type of work are made in the Internal Audit Plans elsewhere on this agenda.
- 2.7 As reported to the Committee during the year, the Internal Audit team provided the Lake District National Park Authority with part of its internal audit service for 2013/14, this amounting to 26 days of work. This arrangement has operated very successfully and the proposed Internal Audit Plan elsewhere on the agenda refers to arrangements to extend the service during the current financial year.
- 2.8 Elsewhere in the plan, there has been little call for formal investigative work and no other major variations in workload. The general contingency of 40 days has been sufficient to cover any changes.

Compliance with Professional Standards

- 2.9 From 1st April 2013, Internal Audit in local government is required to be established and operate in accordance with 'proper practices' as set out in the *Public Sector Internal Audit Standards (PSIAS)* and the associated *Local Government Application Note (LGAN) (CIPFA 2013)*.
- 2.10 The PSIAS require the Internal Audit Manager to maintain a 'Quality Assurance and Improvement Programme' (QAIP) which includes periodical internal and external assessments of compliance with the Standards. Furthermore, standard 1322 of the PSIAS requires the council to consider disclosing any significant deviations in its annual Governance Statement.
- 2.11 The most recent internal assessment was reported to the Audit Committee's meeting on 22nd January 2014. At that meeting, Members approved a revised Internal Audit Charter, considered the results of the internal assessment and noted the resulting action plan. Based on this most recent assessment, full compliance with the PSIAS and LGAN has not as yet been achieved. However, it is the Internal Audit Manager's view that none of the points of non-compliance or partial compliance represent a deviation of such significance as to warrant disclosure in the annual Governance Statement.
- 2.12 The next monitoring and internal assessment of compliance with the PSIAS is scheduled to take place during the summer and the results will be included in the information provided to the September 2014 meeting of the Audit Committee to consider its annual review of the effectiveness of Internal Audit (as mentioned in § 2.17 below). This self-assessment will review the position on all areas of non-compliance and re-consider whether there is a need to disclose in the Governance Statement.

External Assessments

- 2.13 Advice received from CIPFA is that the first external assessments, which are required every five years by the PSIAS, should have been undertaken by 1st April 2016. External assessments must be carried out by a competent assessor or assessment team, but within this constraint, the selection of assessor, as well as the form and scope of the assessment, is a matter for the Internal Audit Manager to discuss and agree with the Audit Committee.
- 2.14 This requirement is being considered collectively by the heads of Internal Audit of the 15 Lancashire local authorities comprising the Lancashire Chief Auditors Group, with the two main options identified being:

- a) Engaging a professional third party accountancy/audit provider; or
- b) Setting up a programme of peer reviews within the Lancashire districts.
- 2.15 At this stage, each head of Internal Audit has agreed to seek the initial views of their authority's key sponsors of internal audit, i.e. the chief financial officer and the Audit Committee (or equivalent). Whilst it is not possible at present to say what level of resources (and cost) the assessment would entail, the outline advantages, disadvantages and risks associated with these two options are set out in the following table.

	Option 1 Third Party Provider	Option 2 Peer Review
Advantages	Organisational independence and freedom from any conflict of interest.	Independence can be built through having peer groups of three or more, with rotation of roles.
		Reciprocal arrangement - no additional financial cost.
	Potential for the authority to learn from the provider's experiences and knowledge.	Potential for the authority to learn from its peers' shared experiences and knowledge.
		Opportunity for IA managers to develop skills, knowledge and experience.
Disadvantages	Cost of engaging a provider (currently unbudgeted) Note: Some economies of scale might be achievable if services are procured on behalf of group of authorities	Additional workload when providing peer review service to other authorities.
	Provides limited potential for staff development.	
Risks		The robustness of the assessment might diminish if sufficient independence is not established. (Low)
		Additional workload might impact IA plans and provision of assurance (Low)





- 2.16 At this stage, Members are asked to consider the above and provide views and direction to the Internal Audit Manager to feed into the deliberations of the Lancashire Chief Auditors Group.

Review of the Effectiveness of Internal Audit

- 2.17 The Accounts & Audit (England) Regulations 2011 require the Council to conduct an annual review of the effectiveness of internal audit and for a committee of the Council to consider the findings. This process is part of the wider annual review of the effectiveness of the system of internal control and governance. A report on this review will be included within the report on the annual review of governance to be considered at the next meeting of the Committee in September 2014.

Results of Assurance Work





- 2.18 In all cases, completed assurance audits have resulted in the production of a report and action plan, agreed by managers and submitted for consideration by the Audit Committee. The assurance system uses four levels of opinion, as follows:

Level of assurance	Image	Definition
Maximum		The Authority can place high levels of reliance on the arrangements/controls. Best practice is demonstrated in some or all areas.
Substantial		The Authority can place substantial (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.

- 2.19 The Table in Appendix A sets out the assurance opinions issued from audits and follow-up reviews completed since 31st March 2013, and any subsequent changes in assurance level.

Assurance Statement

- 2.20 It must be recognised that Internal Audit can be expected to provide reasonable and not absolute assurance that risk is being effectively managed and that control weaknesses or irregularities do not exist.
- 2.21 This assurance statement is drawn from both the results of individual internal audit assignments and the results of follow-up reviews into previously completed audits, as reflected in the contents of Appendix A. The following table summarises the assurance opinions covered in the appendix, based on the most recent review, with the previous year's totals, for comparison.

Assurance Level (most recent review)	Number of Audit Opinions				
	2013/14				2012/13
	Financial Audits	Governance Audits	Other Audits	Total	
Maximum 	1	0	0	1	1
Substantial 	12	1	5	18	17
Limited 	3	1	5	9	6
Minimal 	0	0	0	0	1
Totals	16	2	10	28	25

- 2.22 Through established procedures, the Audit Committee will continue to receive updates on progress with those audits which have not reached at least the “substantial” assurance level. At present this consists of the nine audits listed in Appendix A whose assurance ratings stand as “limited”.
- 2.23 In addition to these audits, the assurance opinion on an audit of “Information Security and Use of Emails” from the 2012/13 audit programme has not yet been raised from its original level of “Minimal”. A formal review of this audit has been on hold pending completion of the significant body of work required over the past 12 months 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 remains a body of work to be picked up regarding wider corporate information governance arrangements. A formal review of the original audit findings will be undertaken in the coming months and the results reported to the Audit Committee.
- 2.24 These procedures for reporting and following up audits and reporting progress to Audit Committee continue to operate effectively.

Financial Systems Audits

- 2.25 This relates to sixteen financial system audits, including six audits relating to the council’s various income streams and the associated fees and charges. Assurance levels on the Council’s core financial systems remain consistently high. A “maximum” assurance opinion was issued in relation to the council’s arrangement surrounding Housing Benefit and Welfare Reforms. Three audits resulted in a “limited” assurance opinion, these being in relation to:
- Purchase ordering and creditor payment processes – Environmental Services;
 - Debt Management – Council Housing; and
 - Grounds Maintenance, Nursery and Cleansing Income Streams.
- 2.26 In the first two of these, systems are being reviewed under projects within the council’s programme of service reviews. Internal Audit is playing an active role in one of these projects and keeping a ‘watching brief’ on the other. It is anticipated that these pieces of work will over time subsume or supersede the outcomes and action plans from the original audits. In the case of the Grounds Maintenance, Nursery and Cleansing Income Streams audit, whilst some of the operations covered may also be affected by service reviews; a formal follow-up of the audit will be undertaken as scheduled in January 2015.
- 2.27 Given the work undertaken, it is the Internal Audit Manager’s opinion that effective internal controls exist to ensure the accuracy and integrity of the key financial systems and that no significant unmanaged risks or ongoing control weaknesses have been identified.

Governance Arrangements

- 2.28 An updated assurance opinion of “substantial” was 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”.
- 2.29 An audit of arrangements relating to officer gifts, hospitality and interests resulted in an opinion of “limited”, reflecting a need to strengthen the role of managers, raise awareness generally and promote greater consistency across the authority.
- 2.30 There remain a number of outstanding considerations from earlier audit work relating to the council’s information governance arrangements (referred to in § 2.23).

- 2.31 In the Internal Audit Manager's opinion, the remaining issues surrounding information governance arrangements, and recognition of the council's achievements in achieving PSN compliance, warrant specific mention in the annual governance statement.

Other Audits

- 2.32 This section covers ten audits, five of which resulted in a "limited" assurance opinion, these being in relation to:
- Salt Ayre Sports Centre, Williamson Park and Other Recreational Facilities – Income Streams;
 - Working Time Arrangements;
 - CCTV;
 - Corporate Property Related Service Contracts; and
 - Affordable Warmth.
- 2.33 Again, the first three of these areas are under consideration in service reviews and arrangements have been made to feed the results of audit work in to those pieces of work.
- 2.34 In the Internal Audit Manager's opinion, no unmanaged risks or control weaknesses have been identified which are so significant as to warrant disclosure in the Council's Annual Governance Statement. Where weaknesses have been identified, remedial action has been agreed and arrangements are in place to monitor the implementation of those actions and the level of assurance provided.

Annual Internal Audit Opinion

- 2.35 Drawing on the work undertaken and the above summaries, it is the Internal Audit Manager's opinion that, subject to the individual matters highlighted, the council has reliable and effective framework of governance, risk management and control.

3.0 Details of Consultation

- 3.1 No specific consultation has been undertaken in compiling this report.

4.0 Options and Options Analysis (including risk assessment)

- 4.1 The proposal is that the Committee accepts the Internal Audit Manager's assurance statement as a contribution to the overall assessment of the internal control environment and the Annual Governance Statement. No alternative options are identified.

5.0 Conclusion

- 5.1 The work of Internal Audit seeks to provide assurance to the Council as to the appropriateness and effectiveness of its internal control and corporate governance arrangements. During the 2013/14 financial year, Internal Audit's work has provided assurance in a variety of areas as well as incorporating input and contribution to the development of a number of key systems and processes and the conduct of service reviews.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

This report has no direct impact on these areas.

FINANCIAL IMPLICATIONS

None arising directly from this report.

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has been consulted and has no further comments.

LEGAL IMPLICATIONS

None arising from this report

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS

Internal Audit Plan 2013/14

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Ref: aud/ctte/aud/140618/IAAnnRep

Financial Audits


12/0838 Payroll Systems Replacement - ResourceLink Aurora

09-Aug-13 Substantial  The scope and objectives of the original audit review were to provide assurance that data transferred to the new HR/Payroll system was correct at the time of going live and that the payroll module was capable of meeting the Authority's needs in managing its payroll efficiently, effectively and in line with corporate policies and legislation (e.g. HMRC regulations). The audit concluded that substantial assurance could be provided on these objectives. Since the audit, good progress has been made to strengthen arrangements in those areas identified within the audit report and action plan, including the separation of duties between the HR and Payroll roles and improving system access rights on the new Payroll system.


12/0857 Purchase Ordering and Creditor Payment Processes within Environmental Services

10-Jan-14 Limited  Although some progress has been made to implement the agreed actions, it is felt that at present the level of assurance remains at limited given that actions to improve the efficiency of systems and processes within the Grounds Maintenance and Cleansing section have yet to be addressed, and although systems used for the processing and management of rechargeable repairs are in the process of being reviewed, it is unlikely that any improved systems will be in place before April 2014.


12/0859 Income Management

22-Apr-13 Substantial  Implementation of all actions agreed following the review in January have further strengthened control in relation to income management. Staff have been reminded of correct procedure in relation to a number of issues, including improvements necessary to comply with Payment Card Industry Data Security Standards. The Income Management Policy and supporting guidance have been updated accordingly and published on the Intranet.

12/0861 Debt Management - Council Housing

29-May-13 Limited  Council Housing debts are currently managed via two systems, the corporate financial system (Civica) and the Council Housing management system (Anite). It remains to be determined how the systems and procedures are to be used for managing Council Housing debt in the future. However, once this has been determined, Council Housing need to review arrangements with a view to improving invoicing and debt management procedures particularly in respect of rechargeable repairs and leaseholder charges. Regardless of which systems are used for managing debt in the future, the Service needs to introduce the same level of debt monitoring and review for the debt in Civica as is currently in place for the debt within Anite, and ensure that corporate financial monitoring requirements are met.


12/0862 Housing and Council Tax Benefits 2012/13 (Council Tax Support) - Lancaster

05-Jun-13 Substantial  A 'Substantial' level of assurance has been given on the basis that good arrangements were put in place to adopt and implement a Localised Council Tax Support Scheme within the prescribed timescales. Proposals for the new scheme were appropriately informed and details of the new scheme were communicated to residents. As the scheme adopted was to retain existing levels of council tax support for 2013/14 the financial implications of this decision are to be closely monitored and due consideration is to be given to the key risks facing the authority, whilst options for the 2014/15 scheme are being considered and consulted on.


12/0864 NNDR 2012/13 - Lancaster

26-Feb-14 Substantial  Arrangements for completion of NNDR returns have now been improved to ensure the accuracy of figures quoted and for a comparison to be made of the current and previous year's NNDR returns.

13/0885 Environmental Health Income Streams



11-Feb-14 Substantial  Good arrangements are in place for setting, reviewing and collecting Environmental Health fees and charges. Current arrangements ensure compliance with relevant legislation and are in accordance with the council's fees and charges policy. Actions have been agreed to review a number of fees and charges to ensure that they remain appropriate, cover the costs of service provision where required and can be appropriately substantiated should they be challenged.

13/0886 Planning and Building Control Income


16-Sep-13 Substantial  The opinion is based on current proposals for implementing new charges and the conclusion is that substantial assurance can be provided on arrangements being made. Given the position regarding implementation of charges it is felt that a further review of their effectiveness should be undertaken within 12 months. Similarly a substantial assurance opinion has been reached in terms of arrangements being trialled for delivery of the building control function.

Financial Audits



13/0888 Licensing Income

07-Oct-13	Substantial		A mechanism has been developed to accurately record time spent and to apportion the costs involved to each type of licensing activity. Systems and procedures in place ensure that fee setting is transparent and that costs to be recovered through licence fees can be robustly demonstrated
15-Jul-13	Substantial		Good arrangements are in place for the setting, reviewing and collecting of licence fees. Current arrangements ensure compliance with the legislation, and the council's fees and charges policy. Improvements required to ensure that arrangements are as robust as possible are currently being developed, and once in place should ensure that the risks associated with fee setting processes are minimised.



13/0889 Debtors 2013/14

05-Dec-13	Substantial		The council has a good system to record and manage debts effectively and actions have been agreed to address issues found during the course of this review.
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13/0890 Private Housing and Cemeteries Income Streams

07-May-14	Substantial		A substantial assurance opinion has been given on the basis that HMO re-licensing fees have been revised and reduced in accordance with the amendment to the Housing Act which came into force in September 2014. A number of other private housing fees have also been reviewed and arrangements for the collection of fees in respect of HMO re-licensing have been strengthened.
17-Oct-13	Limited		A limited assurance opinion has been given on the basis that the fees for HMO re-licensing have not been reduced in accordance with the amendment to the Housing Act which came into force in September 2012. Actions have been agreed to review these and all other private housing fees and charges to ensure that they remain appropriate and cover the costs of service provision where required. Implementation of the action plan should result in a substantial level of assurance being achieved.


13/0891 Creditors 2013/14

09-Dec-13	Substantial		Significant progress has been made with implementation of the actions agreed following the original audit. Procedures have been put in place to strengthen arrangements for authorising new creditors. Arrangements have also been made to ensure the situation regarding non compliance of the EU Directive on combating late payment is kept under close review.
14-Aug-13	Substantial		The council has effective arrangements in place for the payment of creditors. Arrangements have been identified for improvement in relation to the authorisation of new creditors, and compliance with the EU Directive on combating late payment. These are to be addressed through implementation of the agreed action plan.


13/0895 Trade Waste and Recycling, Bulky Waste and Litter Enforcement Fees and Charges

15-Jan-14	Substantial		Good arrangements are in place for setting, reviewing and collecting fees relating to the provision of trade and bulky waste collections and for litter enforcement. Current arrangements ensure compliance with relevant legislation and are in accordance with the council's fees and charges policy. Actions have been agreed to review trade waste fees to ensure that they remain appropriate and to ensure that bulky waste fees can be appropriately substantiated should they be challenged.
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13/0896 Grounds Maintenance, Nursery and Cleansing Income Streams



21-Jan-14	Limited		Limited assurance is given on the basis that there is a heavy reliance on manual systems, officer knowledge and experience. Whilst arrangements are in place to calculate grounds maintenance charges which are in accordance with the Local Government Act 2003, actual charges are generally higher. There is no evidence of cleansing charges having been reviewed since 2008/09 and the relationship between the current schedule of rates and the rates calculated in 2008/09 is unclear. The nursery operates on trust, the cash receipting system and stock management arrangements being underdeveloped and open to error and abuse.
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13/0901 NDR Retention - Lancaster

11-Nov-13	Substantial		A reasonable approach has been taken to estimating potential changes in revenue due to appeals therefore minimising the risk of a significant impact on cash flow, and ensuring that rate retention is appropriate. Good arrangements have also been made to ensure that adjustments to be made due to appeals are properly taken into account in NDR income monitoring.
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Financial Audits

13/0902 Housing Benefit (Welfare Reforms) - Lancaster


08-May-14	Maximum		The original review found that Welfare Reforms had been effectively implemented and assessments made were in accordance with the new Regulations. With a view to demonstrating good practice two actions were agreed following the original audit, however these have subsequently been found to be impractical. The assurance opinion remains 'maximum'.
12-Dec-13	Maximum		Maximum assurance is provided on the basis that the council has effectively implemented the Welfare Reforms and testing found assessments to be correct and in accordance with Housing Benefit Regulations. Action is being taken to further raise standards by implementing matters of best practice highlighted through the review concerning data sharing protocols and awarding Discretionary Housing Payments.

Governance Audits

11/0837 Complaints


14-Oct-13	Substantial		The revised Customer Comments, Compliments and Complaints Policy and Guidance are now in place and training is currently being developed. A system has been developed to manage complaints data, ensure consistency, and facilitate report writing. Arrangements also ensure that complaints can be monitored corporately so that common themes can be highlighted and areas for improvement identified. Sufficient progress has been made to achieve a substantial level of assurance.
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13/0911 Officer Gifts, Hospitality and Register of Interests



24-Apr-14	Limited		Current arrangements effectively demonstrate the council's commitment to high standards of conduct, this being clearly stated in the Officers' Code of Conduct (the Code). Systems and procedures are in place, however staff need to be made more aware of their responsibilities, with standards and expectations being more effectively communicated. Effectiveness of the Code is difficult to measure, compliance with standards set being dependent on the awareness and integrity of employees. However, feedback obtained indicates understanding and compliance with the Code varies across the council. Strengthening the role of managers in current arrangements, and increased awareness of the standards in place, should address the issues identified in this review and help to ensure that the requirements of the Code are met.
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Other Audits


11/0821 Repairs and Maintenance Section - Partnership with Forrest

15-May-13	Substantial		Since the time of the review in October 2011, officers have continued to develop effective arrangements for working within the partnership framework. Communication and trust have also significantly improved resulting in strong working relationships and good working practices. Effective arrangements are in place to ensure that work is completed on time, within budget and to a high standard. Good arrangements are also in place for recharging leaseholders.
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12/0855 Septic Tanks

23-Sep-13	Substantial		Since the time of the post audit review further progress has been made in implementing the agreed actions. Most significantly a new contract is now in place and arrangements have been developed for its effective management. Therefore, a substantial level of assurance can be provided.
06-Jun-13	Limited		Whilst significant progress has been made with implementation of the action plan and improvements have been made, the review of systems is ongoing and new procedures will not be fully implemented until the new contract is in place. Therefore, a limited level of assurance remains. Given the current position, Internal Audit will review progress again with a view to reporting to the September meeting of the Audit Committee.

12/0860 Markets


10-May-13	Substantial		Good progress has been made to implement the actions agreed at the original review and this is reflected in the assurance opinion being raised from 'Limited' to 'Substantial'. A comprehensive master record of stalls and stallholders has been produced which is being used to ensure that licences are appropriately issued, all traders maintain up-to-date public liability insurance and payments due are correctly calculated and the audit trail is complete.
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13/0871 HR Systems Replacement - ResourceLink Aurora



25-Apr-14	Substantial		A substantial assurance opinion has been given in respect of the HR element of the new system, on the basis that although implementation is still very much 'work in progress', controls have been put in place to ensure that each module is built and tested and that appropriate training and guidance is provided, prior to each module being rolled out. Actions have been agreed to review system access requirements ensuring that a good separation of duties between the HR and Payroll roles is enforced through the system.
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Other Audits


12/0874 Salt Ayre Sports Centre, Williamson Park and Other Recreational Facilities

26-Sep-13	Limited		There are good arrangements in place to ensure that fees and charges are appropriately set, authorised and reviewed. A limited assurance opinion has been given on the basis that the efficiency and effectiveness of current purchasing and stock management arrangements in respect of catering at SASC need to be improved. Pricing arrangements at recreational grounds seek to encourage maximum usage, however consideration needs to be given to whether the service provided is effectively balanced against the income generated.
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12/0875 Visitor Information Centres

14-Oct-13	Substantial		The original review found the Service to be good and able to demonstrate best practice for customer service. Aspirations for continuing improvement is demonstrated through work with partner organisations on the development of a Brand Implementation Plan to better market the district. The action arising from the original review concerning the proper accounting for VAT on the commission for ticket sales has now been addressed.
19-Jun-13	Substantial		Whilst the City Council's arrangements for delivering tourism objectives are continually being developed, the VICs' role is well understood by those concerned. The Service has good arrangements to keep up to date with industry changes, the local area and business and customer needs and to develop its service provision accordingly. Customer feedback is positive and best practice for customer service can be demonstrated.


12/0877 Corporate Property Related Service Contracts

20-Aug-13	Limited		The review has identified that there is no coordinated approach to the management of property service related contracts. Responsibilities have not been formalised or defined, and systems in place require improvement in order to evidence compliance with statutory regulations and/or health and safety requirements. At present therefore limited assurance can be provided. An action plan has been agreed which seeks to take a more corporate approach in this area of business introducing a structured and automated approach to compliance with clearly identifiable roles, responsibilities and training requirements.
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12/0878 Affordable Warmth

16-Dec-13	Limited		An affordable warmth strategy has been drafted with a view clearly defining aims and objectives and achieving a co-ordinated approach to helping vulnerable households achieve affordable warmth. However, resources available to deliver the actions within the strategy have not been identified. Therefore limited assurance can be provided in relation to the council's arrangements for delivering affordable warmth objectives.
30-May-13	Limited		Whilst the Authority is currently helping vulnerable households to achieve affordable warmth, the development of a strategy with clearly defined aims and objectives would provide more strategic direction and a co-ordinated approach. Funding is available to March 2014, however arrangements for resourcing affordable warmth objectives beyond this point need to be considered in the context of overall Council priorities.

13/0883 Working Time Arrangements

13-Nov-13	Limited		<p>Whilst working time arrangements across the council are generally appropriate to business needs there are areas where there may be scope for greater efficiency (e.g. standby and callout arrangements). Not all areas of the council are compliant with Working Time Regulations and/or corporate policies relating to working time arrangements. Policies need reviewing and clarifying for managers to ensure that they are applied fairly and consistently (where appropriate).</p> <p>Arrangements for the management of non standard pay are inadequate, inefficient and prone to error and this should be addressed through better utilisation of the new HR/Payroll system and a review of related procedures and practices - e.g. improved distinctions between different types of pay, standardised forms etc.</p> <p>There may be scope for efficiencies through better time recording systems and the introduction of a corporate approach where possible. Arrangements for booking and recording annual leave should be improved once the related module of the HR/Payroll system is introduced, which is due by April 2014.</p> <p>Lone working risk assessments and procedures need to be reviewed.</p> <p>A corporate approach to home-working and hot-desking is required to maximise the benefits of this flexible approach to working.</p>
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Other Audits

13/0897 CCTV

16-Dec-13 Limited



Current arrangements require significant improvement in order to meet the requirements of the Home Office Surveillance Camera Code of Practice, and demonstrate compliance with legislation. The guiding principles of the Code closely reflect the requirements of the Data Protection Act 1998, and systems and procedures require strengthening to enable the council to effectively evidence that it is fully compliant with data protection obligations in the management of its CCTV systems, therefore minimising the risk of legal challenge, financial penalties and/or reputational damage. An action plan has been agreed with a view to ensuring compliance with legislation through the adoption of the principles of the Code. Officers with CCTV management responsibilities are to form a working group with a view to taking forward actions agreed in the plan.

AUDIT COMMITTEE

**Internal Audit Strategy and Risk Based Plan
18 June 2014**

Report of Internal Audit Manager

PURPOSE OF REPORT
To seek the Committee's approval for a proposed three-year Internal Audit Strategic Plan and Annual Operational Plan for 2014/15
This report is public

RECOMMENDATIONS

1. That the Internal Audit Strategy and Risk Based Plan for 2014/15 is 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, is endorsed.

1.0 Introduction

- 1.1 The terms of reference of the Audit Committee include: *"To approve Internal Audit strategic plans and the Annual Internal Audit Plan"* (the Constitution, part 3 section 8, TOR 11).
- 1.2 Proper practices for Internal Audit in local government¹ specify that *"The chief audit executive (the Internal Audit Manager) must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals."*
- 1.3 The standards also specify that *"The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. It must incorporate or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities."*

¹ *Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN) (CIPFA 2013)*

2.0 Proposal Details

Internal Audit Strategy

- 2.1 The requirements of the new standards are less prescriptive than previously in relation to the need for a strategic plan. In accordance with the new standards, rather than having a separate strategic plan, a strategy statement has been incorporated in the Risk Based Internal Audit Plan, which is attached to this report as Appendix A.
- 2.2 There is an ongoing strategic theme for internal audit to support the council's change programme by contributing to the implementation of new service structures and the conduct of service reviews.
- 2.3 As the organisation responds to the continuing financial pressures it is experiencing and new structures, systems and working practices are introduced, there is an ongoing need to ensure that standards of governance, internal control and conduct in the organisation are maintained. Internal Audit's strategy is both to promote these standards and to provide independent assurance on the effectiveness of arrangements.

Risk Based Internal Audit Plan 2014/15

- 2.4 The draft Risk Based Internal Audit Plan (section 2 of Appendix A) has been developed along similar lines to recent years and retains the following features:
- being explicit about which elements of work are intended to provide assurance to support the overall annual opinion on the internal control environment;
 - being explicit about the resources to be devoted to other "consultancy" work aimed at helping the Council's ongoing improvement programme; and
 - providing for a rolling programme of audit work to be operated within the plan which will provide a suitable level of flexibility and responsiveness to changes in the risk environment, and any emerging demands for internal audit assurance work.
- 2.5 The annual plan for 2014/15 is based on estimated available resources of 690 days, this being delivered by the in-house team of 3.81 FTE staff. The Internal Audit Manager's role as Deputy Section 151 Officer has been estimated as requiring 10 days. This gives a net allocation to audit activity of 680 days.
- 2.6 As with established practice, the Internal Audit Manager continues to consult with Chief Officers, the statutory officers, service managers and Management Team generally to inform and develop the detailed programme. As indicated in the strategy statement, it is anticipated that the scope and objectives of audit work during the year will once again be greatly influenced by the financial pressures affecting the council. In recognition of this, the draft plan incorporates an allocation of 50 days to support corporate service reviews (a feature introduced to the audit plan during 2013/14). In all categories of work, the plan will be managed flexibly to ensure that audit effort is targeted as effectively as possible.
- 2.7 The draft plan also includes 50 days relating to the provision of an Internal Audit service to the Lake District National Park Authority (LDNPA). This arrangement has 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 has been discussed with the Audit Committee Chairman. The Committee is asked to endorse the action taken by the Internal Audit Manager, in consultation with the Chairman, to make these arrangements.

2.8 As more detailed programmes of work are developed, these will be publicised both to Members of the Audit Committee and to Chief Officers and senior managers as well as the plan being formally reported to and monitored by each meeting of the Audit Committee.

3.0 Details of Consultation

3.1 No specific consultation has been undertaken in compiling this report. Management Team, the statutory officers and senior managers are being consulted in detail in the preparation of Internal Audit's detailed work programme for 2014/15. The Audit Committee Chairman has been consulted in negotiating the provision of an internal audit service to the LDNPA for 2014/15.

4.0 Options and Options Analysis (including risk assessment)

4.1 The proposal is that the Committee approves the Risk Based Internal Audit Plan for 2014/15. Members are invited to comment on the proposed plan, but no specific alternative options are identified.

4.2 Members are asked to endorse the action taken to arrange the provision of internal audit services to the LDNPA. This arrangement will generate income of £14k to offset the net cost of providing the Council's internal audit service.

5.0 Conclusion

5.1 Audit strategy and planning are key elements in the provision of an effective internal audit service. The proposed risk-based plan seeks to maintain a firm platform for the ongoing effectiveness and improvement of the Council's internal audit service.

<p>CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</p> <p>This report has no direct impact on these areas.</p>	
<p>FINANCIAL IMPLICATIONS</p> <p>The 2014/15 net budget for the Internal Audit service is £190,700. Arrangements to provide an internal audit service of 50 days to the LDNPA will generate income of £14,000 to offset against the budgeted net cost.</p>	
<p>SECTION 151 OFFICER'S COMMENTS</p> <p>The Section 151 Officer has been consulted and has no further comments</p>	
<p>LEGAL IMPLICATIONS</p> <p>None arising from this report</p>	
<p>MONITORING OFFICER'S COMMENTS</p> <p>The Monitoring Officer has been consulted and has no further comments.</p>	
<p>BACKGROUND PAPERS</p>	<p>Contact Officer: Derek Whiteway Telephone: 01524 582028 E-mail: dwhiteway@lancaster.gov.uk Ref: aud/ctte/aud/140618/IAPPlans</p>

Internal Audit Strategy and Risk Based Plan 2014/15

1. Internal Audit Strategy

1.1. This strategy is the high level statement of how the Internal Audit service will be delivered and developed in accordance with its approved terms of reference (the Audit Charter) and how it links to the Council's organizational objectives and priorities.

1.2. Service Purpose

1.2.1. The key purposes of the Internal Audit service are to:

- provide the Council* with independent assurance regarding the effectiveness of its systems of Governance and Internal Control;
- support the Council in delivering organizational change and its development programme; and
- help the Council secure and demonstrate value for money throughout its activities.

* This purpose also relates to Preston City Council with regards to the audit by Lancaster's Internal Audit of the Revenues and Benefits Shared Service arrangements.

1.3. Strategic Aims & Objectives

1.3.1. Internal Audit's strategic aims and objectives are defined as:

- promoting and helping develop standards of risk management throughout the Council's operations;
- contributing to improving standards of internal control and governance within the authority and its key partnerships;
- supporting the Council in the implementation of its change programme and providing assurance on the effectiveness of both new and existing arrangements;
- supporting the Council in identifying efficiencies and achieving value for money in service delivery; and
- continuing to develop the scope, robustness and effectiveness of Internal Audit's assurance and support work.

1.4. Identifying and accommodating significant local and national issues and risks

1.4.1. Emerging local and national issues that might warrant Internal Audit attention will primarily be identified through:

- contributing to the development, updating and monitoring of the assurance framework;
- reviewing the Corporate Plan and individual service plans; and
- through regular consultation and liaison with Chief Officers, the statutory officers, service managers and the corporate Management Team.

1.4.2. This approach will seek to ensure that significant risks are adequately identified, assessed and evaluated in terms of the level of assurance necessary and already available, and will involve:

- tracking corporate policy/priority developments and the decisions taken by the authority's decision-making bodies;

- regular consultation with service managers and the Corporate Management Team;
 - regular liaison with other review bodies, especially the Council's external auditor;
 - liaison with/considering the approach and work programmes of other internal review bodies, for example the Overview & Scrutiny function;
 - liaison with other local government auditors and active participation in local/regional professional groups;
 - consideration of key corporate risks; and
 - maintaining a professional focus and taking advantage of opportunities for professional updates/development, including CPD where appropriate.
- 1.4.3. In line with the above, the risk-based audit plan is designed to be sufficiently flexible to meet the changing risks and priorities of the Council. It provides for a programme of work to be developed on a rolling basis to reflect and accommodate significant risks and assurance needs identified through an ongoing review of the assurance framework.
- 1.4.4. Internal Audit activity may involve any one, or a combination of the following:
- a specific piece of Internal Audit assurance work;
 - efficiency/VfM or support work directed at improving the efficiency of existing procedures and/or standards of governance and control;
 - contributing to corporate groups/projects/reviews (officer and/or Member based) established for a given purpose/objective.

2. Internal Audit Risk Based Plan 2014/15

1. ASSURANCE WORK		
CORE FINANCIAL SYSTEMS		
Approach and objectives	Covers the following areas:	Planned Days
<p>The focus will be on those systems (selected from the areas listed alongside) which currently demonstrate higher levels of risk.</p> <p>The objective is to provide assurance that in practice, key system controls remain robust and are operating securely and efficiently.</p> <p>There will be a focus throughout this work on providing assurance on the robustness of measures to combat fraud and corruption</p>	<ul style="list-style-type: none"> ➤ Main Accounting ➤ Asset Management ➤ Payroll ➤ Ordering & Payments ➤ Sundry Debtors ➤ Income Management ➤ Treasury Management ➤ Housing Rents ➤ Anti-Fraud & Corruption Arrangements 	60
<p>Revenues and Benefits Shared Service</p> <p>Coverage is agreed through consultation with the Shared Service managers and Preston CC's head of internal audit.</p>	<ul style="list-style-type: none"> ➤ Council Tax ➤ Housing Benefit & Council Tax Benefit ➤ Council Tax Support ➤ National Non-Domestic Rates 	40
CORE MANAGEMENT ARRANGEMENTS		
Approach and objectives	Covers the following areas:	Planned Days
<p>Assurance work in 2014/15 will continue to focus on key corporate systems (selected from the areas listed alongside) with the objectives of:</p> <ul style="list-style-type: none"> ➤ providing assurance that newly introduced arrangements are fit for purpose; ➤ existing arrangements remain robust and reliable; and ➤ helping identify and implement efficiencies and improvement. 	<ul style="list-style-type: none"> ➤ Financial Management ➤ Performance Management ➤ Human Resource Management ➤ Risk Management ➤ Information Management ➤ Corporate Governance ➤ Partnership / Shared Services Arrangements ➤ Procurement & Contract Management ➤ Project and Programme Management ➤ National Fraud Initiative 	50

RISK BASED ASSURANCE WORK PROGRAMME		
Approach and objectives	The following areas are currently in progress or registered as potential audits in 2014/15:	Planned Days
<p>Drawing on the Corporate Plan and service plans, the risk based programme is developed and reviewed in consultation with Chief Officers and service managers, taking account of the nature and levels of risk in their spheres of activity.</p> <p>The main objectives in this work are to provide assurance that:</p> <ul style="list-style-type: none"> ➤ sound arrangements are in place to identify and assess risks; ➤ risks are being effectively managed; ➤ value for money is being achieved. 	<ul style="list-style-type: none"> ➤ Salt Ayre Sports Centre ➤ Fleet Management (Environmental Services) ➤ Commercial Property Leases and Licensing ➤ Planning – Strategic Housing Market Assessment ➤ Council Housing Tenancy Fraud ➤ Outdoor Events Management 	180

FOLLOW-UP REVIEWS		
Approach and objectives	Covers the following areas:	Planned Days
<p>Following the production of an Internal Audit report and assurance opinion, a follow-up review is undertaken at an agreed time (usually after 6 months) to review progress with the agreed action plan.</p> <p>Progress is reported to management and to the Audit Committee.</p>	All Internal Audit reports which result in the production of an assurance opinion and action plan.	50
SUB-TOTAL – ASSURANCE WORK		380

2. CONSULTANCY WORK		
Work Area and Objectives	This Covers	Planned Days
<p>Ad-Hoc Advice</p> <p>To provide an on-demand advice service in respect of day-to-day internal control, risk management and governance matters.</p>	<ul style="list-style-type: none"> ➤ Advice provided on request from employees and elected members; ➤ Liaison with the external auditor and other agencies; ➤ Publication of fraud alerts and other guidance notices; ➤ Provision of training. 	65
<p>Support Work (projects and other support)</p> <p>To provide support and advice to management in the development and implementation of new policies, systems and projects.</p>	<p>Current support areas include:</p> <ul style="list-style-type: none"> ➤ Review of Financial Regulations 	15
<p>Corporate Service Reviews</p> <p>To contribute to review teams and/or undertake specific audits to inform service reviews.</p>	<p>Reviews currently being supported are:</p> <ul style="list-style-type: none"> ➤ Environmental Services and Housing job costing systems 	50
SUB-TOTAL – CONSULTANCY WORK		130

3. OTHER		
Work Area and Objectives	This Covers	Planned Days
<p>Non Audit Duties</p> <p>The professional standard regarding independence states that Internal Auditors should have no operational responsibilities.</p> <p>Internal Audit currently departs from this expectation in that the Internal Audit Manager currently shares Deputy Section 151 duties with the Financial Services Manager.</p> <p>Work for Other Bodies</p>	<ul style="list-style-type: none"> ➤ Deputy Section 151 duties (undertaken by the Internal Audit Manager) ➤ Agreement has been reached to provide the Lake District National Park Authority with its internal audit service for 2014/15. 	<p>10</p> <p>50</p>
4. AUDIT MANAGEMENT		
Work Area and Objectives	This Covers	Planned Days
Planning, Monitoring and Committee Work	<ul style="list-style-type: none"> ➤ Development and updating of the Internal Audit Strategy and Risk Based Audit Plan; ➤ Monitoring and review of activity; ➤ Reporting to and attending Audit Committee / other member meetings 	50
5. CONTINGENCIES		
Work Area and Objectives	This Covers	Planned Days
<p>Investigations</p> <p>Requests to undertake investigative work are irregular and unpredictable</p> <p>At the time of preparing the plan the section was not involved in any ongoing investigations</p>	<ul style="list-style-type: none"> ➤ Investigating and reporting on alleged malpractice ➤ Attending and submitting evidence to disciplinary hearings as necessary 	30
<p>General Contingency</p> <p>A general provision made to help accommodate unforeseen variations in demand for Internal Audit work during the year</p>	<ul style="list-style-type: none"> ➤ Additional calls for work, particularly in areas such as investigations, or in support of corporate initiatives/major projects. 	40
TOTAL – ALL ACTIVITIES		690