



Committee: AUDIT COMMITTEE
Date: WEDNESDAY, 20 JANUARY 2016
Venue: MORECAMBE TOWN HALL
Time: 6.00 P.M.

A G E N D A

1. **Apologies for Absence**
2. **Appointment of Vice-Chairman**

At the meeting of full Council on 21 October 2015, it was resolved that Councillor Sykes, Vice-Chairman of Audit Committee for the 2015/16 municipal year, be replaced on the Audit Committee. It is therefore necessary to re-appoint a Vice-Chairman of Audit Committee for the remainder of the 2015/16 municipal year. (The Vice-Chairman must not be a member of Cabinet or Overview and Scrutiny.)

3. **Minutes**

Minutes of meeting held on 16 September 2015 (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.

Matters for Decision

6. **External Auditor's Annual Audit Letter 2014/15 (Pages 1 - 7)**

Report of KPMG LLP

7. **Corporate Anti-Fraud Update** (Pages 8 - 25)
Report of Internal Audit & Assurance Manager
8. **Internal Audit Monitoring Report** (Pages 26 - 35)
Report of Internal Audit & Assurance Manager

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

Councillors Matt Mann (Chairman), George Askew, Brendan Hughes, Malcolm Thomas, David Whitaker, Anne Whitehead and Nicholas Wilkinson

(ii) Substitute Membership

Councillors Jon Barry, Stuart Bateson, Tim Hamilton-Cox, Colin Hartley, Roger Sherlock and Peter Williamson

(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 Democratic Support - telephone 01524 582170, or email democraticsupport@lancaster.gov.uk.

MARK CULLINAN,
CHIEF EXECUTIVE,
TOWN HALL,
DALTON SQUARE,
LANCASTER, LA1 1PJ

Published on Tuesday, 12 January 2016.



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Annual Audit Letter 2014/15

Lancaster City Council

October 2014

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Agenda Item 6

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Report sections

- Headlines

Appendices

1. Summary of reports issued
2. Audit fees

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies* summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tim Cutler, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Trevor Rees (on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

This report summarises the key findings from our 2014/15 audit of Lancaster City Council (the Authority).

Although this letter is addressed to the Members of the Authority, it is also intended to communicate these issues to key external stakeholders, including members of the public.

Our audit covers the audit of the Authority's 2014/15 financial statements and the 2014/15 VFM conclusion.

<p>VFM conclusion</p>	<p>We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2014/15 on 21 September 2015. This means we are satisfied that that Authority had proper arrangements for securing financial resilience and challenging how it secures economy, efficiency and effectiveness.</p> <p>To arrive at our conclusion we looked at the Authority's financial governance, financial planning and financial control processes, as well as the arrangements for prioritising resources and improving efficiency and productivity.</p> <p>We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.</p> <p>We did not identify any specific risks during these risk assessment processes which would impact on our VFM conclusion for 2014/15.</p>
<p>Audit opinion</p>	<p>We issued an unqualified opinion on the Authority's financial statements on 21 September 2015. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.</p>
<p>Financial statements audit</p>	<p>During the audit, one adjustment with a value of £1.9 million was identified relating to the impairment of the Lancaster Science Park Land. This was omitted from the Authority's revaluation schedule and was therefore not reflected in the financial statements. There was no net impact on the General Fund and HRA as a result of this amendment. In addition to the adjustment we raised one medium priority recommendation on this issue within our report to those charged with governance, as follows:</p> <ul style="list-style-type: none"> ■ In future years, at the time of accounts preparation, the finance team should confirm that its revaluations schedule agrees completely to all revaluation certificates held by Property Services. The finance team should also ensure that once any strategic decisions are made, any required amendments to asset carrying values are undertaken on a timely basis, rather than waiting until the year end closedown. <p>We agreed with management a small number of presentational amendments to the accounts during the course of our audit which were corrected in the final version.</p>
<p>Annual Governance Statement</p>	<p>We reviewed your <i>Annual Governance Statement</i> and concluded that it was consistent with our understanding.</p>

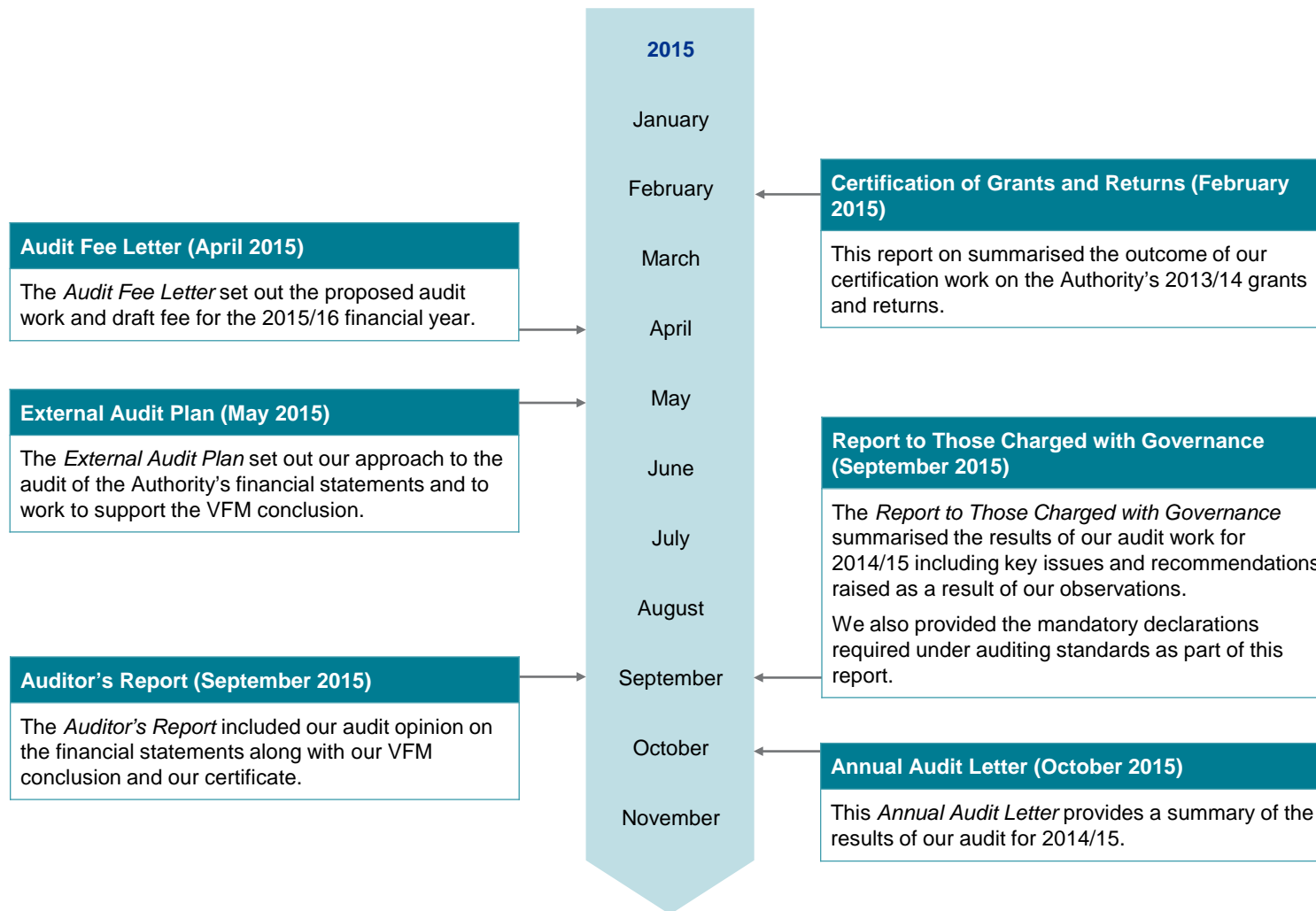
All the issues in this Annual Audit Letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 1.

Whole of Government Accounts	The Authority prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We are not required to review your pack in detail as the Authority falls below the threshold where an audit is required. As required by the guidance we have confirmed this with the National Audit Office.
High priority recommendations	We raised no high priority recommendations as a result of our 2014/15 audit work. The medium priority recommendation we made has been outlined on page 2 of this report.
Certificate	We issued our certificate on 21 September 2015. The certificate confirms that we have concluded the audit for 2014/15 in accordance with the requirements of the <i>Audit Commission Act 1998</i> and the Audit Commission's <i>Code of Audit Practice</i> .
Audit fee	Our fee for 2014/15 was £77,850, excluding VAT. This is in line with the agreed scale fee for 2014/15. Further detail is contained in Appendix 2.

Appendix 1: Summary of reports issued

This appendix summarises the reports we issued since our last *Annual Audit Letter*.

This appendix summarises the reports we issued since our last *Annual Audit Letter*.



This appendix provides information on our final fees for the 2014/15 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2014/15 planned audit fee.

External audit

Our fee for 2014/15 was £77,850, excluding VAT. This is in line with the agreed scale fee for 2014/15.

Our fees are still subject to final determination by Public Sector Audit Appointments.

Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in January 2016.



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AUDIT COMMITTEE**Corporate Anti-Fraud Update
20th January 2016****Report of Internal Audit & Assurance Manager****PURPOSE OF REPORT**

To provide Members with an update regarding the Council's approach to combatting fraud and corruption in the context of the latest national reports and to seek Members' comments on and support for the Council's strategy and the arrangements that are being developed.

This report is public

RECOMMENDATIONS

- (1) That the report is noted
- (2) That the approach to developing the Council's corporate anti-fraud arrangements and strategy is endorsed.

1.0 Introduction

- 1.1 The financial year 2015/16 has been a watershed for many local authorities in their arrangements for combatting fraud. Under the national transfer of housing benefit fraud investigation to the Single Fraud Investigation Service (SFIS), a number of staff previously employed under the Revenues and Benefits Shared Service with Preston City Council transferred to the Department for Work and Pensions (DWP) on 1st June 2015.
- 1.2 This report provides an update on the Council's actions in response to this significant change and its current positioning in relation to recently reported national statistics and trends.

2.0 Shared Corporate Fraud Team

- 2.1 At its meeting on 21st January 2015 the Audit Committee supported proposals for the creation of a corporate anti-fraud team in collaboration with Preston City Council and Fylde Borough Council.
- 2.2 Following finalisation of the arrangements for this collaboration, the new team commenced operations on 1st June 2015. The Lancaster side of the operation is sited alongside the Internal Audit team and the Corporate Fraud Manager reports functionally to the Internal Audit and Assurance Manager.
- 2.3 The Corporate Fraud Manager has been invited to attend the meeting to provide Members with a verbal presentation giving an insight into the work of team, an update on the results achieved so far and an indication of how the strategy is being developed.

3.0 National Fraud Reports

3.1 The Council has recently received the following reports:

- Protecting The English Public Purse 2015 (Fighting fraud against English Councils)
- Fraud Briefing 2015 (a locally tailored summary based on the Council's contributions to the national report)

3.2 The reports are based on the submissions made by English local authorities in a national Fraud Survey. The reports were previously developed and issued by the Audit Commission via the appointed external auditor but following the closure of the Commission the process is managed by The European Institute for Combatting Corruption And Fraud (TEICCAF).

3.3 The national Protecting The English Public Purse 2015 report has been circulated to Members and is available on the Council's intranet. An extract giving the report's summary and recommendations is attached as Appendix A. As in previous years, the overriding message from the report concerns the varying capacity of local authorities to address fraud and the correlation between the deployment of counter fraud resources and the identification of fraud.

3.4 The Fraud Briefing 2015 is attached as Appendix A. The main points to note are:

- Lancaster's total number of cases identified (84) and the value detected (£171.5k) were closely aligned with our comparator council average. (page 5 of the briefing). These cases were all either housing benefit (HB) or Council Tax benefit (CTB) frauds.
- In common with the majority of councils, no cases were detected of Council Tax Discount Fraud (page 7), tenancy fraud (page 8) Right to Buy fraud (page 9) or other frauds (page 10)

3.5 Members are asked to consider the questions raised on pages 6 and 11 of the Fraud Briefing and the recommendations in the national Protecting the English Public Purse report, in the context of the new arrangements made for corporate fraud.

4.0 National Fraud Initiative

4.1 Lancaster City Council has a legal duty to protect the public funds it administers and to take measures to prevent and detect fraud. One of these measures is sharing information with other bodies responsible for administering and auditing public funds via the National Fraud Initiative (NFI).

4.2 The NFI matches electronic data within and between public and private sector bodies to prevent and detect fraud. These bodies include police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies. Public sector bodies are required to submit data to National Fraud Initiative on a regular basis this being in line with a set timetable, defined data requirements and data specifications.

4.3 The council participates in an annual data matching exercise surrounding Council Tax payers' receipt of a Single Person Discount (SPD). For this purpose, the Council provides data to the Cabinet Office in relation to:

- Council tax payers; and
- Persons on the electoral register

- 4.4 A biennial data matching exercise is also carried out which involves submitting data in relation to:
- Trade creditors
 - Payroll
 - Residents' parking permits
 - Concessionary travel passes
 - Insurance claimants
 - Council Housing tenants and
 - Licenses (including taxi drivers, personal licenses to sell alcohol, market traders/operators)
- 4.5 The Data Protection Act 1998 requires NFI participants to inform individuals that their data will be processed by publishing what is known as a fair processing notice. The key contact for each body is also required to submit a declaration via the secure NFI application confirming that they are following fair processing notification requirements. For data processing to be fair, data controllers are required to give individuals whose data is to be processed the identity of the data controller, the purpose for which the data may be processed and any further information which is necessary to enable the processing to be fair.
- 4.6 The Chief Officer (Resources) is responsible for ensuring that the Council meets the statutory requirements for the NFI and has nominated two Key Contacts for this council; the Internal Audit and Assurance Manager, and the Principal Auditor. Key Contacts are responsible for fulfilling data protection requirements; ensuring that the data format guidance and data specifications are followed; coordinating and monitoring the overall exercise, and ensuring that outcomes from the investigation of matches are recorded on the web application promptly.
- 4.7 The last biennial exercise took place in 2014/15, data being uploaded to the secure NFI web application in October 2014 and matches being available to view from February 2015. Headline results from this exercise are as follows:
- The Authority has investigated 90.1% of the 1,991 matches returned for its attention;
 - No positively proven fraudulent activity has been identified as part of this exercise;
 - To date 22 errors have been found, these totaling £16,331 and recovery of this amount is currently in hand.
- 4.8 The 2015/16 data matching exercise for Council Tax Single Person Discount Fraud is currently underway, matches having been made available from 3rd December 2015. Monitoring as at 22/12/15 shows that the Authority is currently processing 72 of the 726 matches reported on 3rd December 2015.
- 5.0 Details of Consultation**
- 5.1 None specific to the matters covered in this report.
- 6.0 Options and Options Analysis (including risk assessment)**
- 6.1 The report is for noting.
- 7.0 Conclusion**
- 7.1 The establishment of the shared corporate fraud team marks a significant change in the Council's approach to combatting financial crime. Updates on the team's work and the outcomes achieved will be reported to future meetings of the Committee.

CONCLUSION OF IMPACT ASSESSMENT

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

Not applicable

FINANCIAL IMPLICATIONS

None directly arising from this report

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

None directly arising from this report

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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E-mail: dwhiteway@lancaster.gov.uk
Ref: aud/comm/audit/160120Fraud

SUMMARY AND RECOMMENDATIONS

This is the first Protecting the English Public Purse (*PEPP 2015*) report by The European Institute for Combatting Corruption And Fraud (TEICCAF). *PEPP 2015*:

- has been developed by the former counter fraud team of the Audit Commission, now part of TEICCAF;
- continues the national series of reports previously published by the Audit Commission; and
- reports on **national, regional and local** fraud detection by English councils.

In total, English councils detected fewer cases of fraud in 2014/15 compared with previous year. However, their value increased by more than 11 per cent. In particular:

- the number of detected cases fell by more than 18 per cent to over 84,000 while their value increased by more than 11 per cent to greater than **£207 million**;
- the number of detected cases of **housing benefit and council tax benefit** fraud fell by more than half to just over 27,000 while their value fell by more than 13 per cent to £109.7 million. This decline was expected; and
- the number of detected cases of non-benefit (corporate) fraud decreased by greater than 8 per cent to more than 57,000, while their value increased by greater than 63 per cent to more than £97 million.

**English Councils
detected fewer cases of
fraud in 2014/15, but the
value increased**

Councils detected fewer housing tenancy frauds in 2014/15. In particular:

- 2,993 tenancy frauds were detected, a more than 1 per cent decrease on the previous year; and
- London continues to detect more tenancy fraud than the rest of the country combined.

Regional and local fraud detection results suggest an emerging divergence in the capacity, capability and commitment of some councils to play an effective part in the fight against fraud. Using a series of proxy indicators we found that:

- London achieved the highest participation rate (93.9 per cent) in our voluntary detected fraud survey, the highest proportion of corporate fraud teams (93.5 per cent) and proportionately detected the most fraud relative to council spend;
- two regions where fewer than half of all councils had corporate fraud teams both detected proportionately fewer frauds than their expenditure levels would suggest; and
- evidence that neighbouring councils with similar socio-economic and demographic characteristics are detecting markedly different levels of corporate fraud.

London detected the most fraud... relative to council spend

Right to Buy (RTB) and No Recourse to Public Funds (NRPF) have emerged as significant areas of fraud risk for councils. In particular:

- RTB detected fraud cases more than **doubled** to 411, while their value increased by nearly 145 per cent to more than £30 million;
- we estimate that at least **3 per cent** of RTB applications in London are fraudulent, at least **1.5 per cent** in the rest of the country;
- legislative proposals to extend RTB to housing associations is likely to result in similar levels of RTB fraud to that encountered by councils. However, with a few notable exceptions, housing associations **do not** have the counter-fraud capacity or capability equivalent to councils to tackle such fraud; and
- NRPF is a new sub-category of fraud. Relatively few councils pro-actively targeted this type of fraud in 2014/15 yet there were still **444 cases** detected with a value more than £7 million.

RTB fraud detected was more than £30m, an increase of 145%

Recommendations

Councils should:

- use our checklist for councillors, senior officers and others responsible for audit and governance (Appendix 1) to review their counter-fraud arrangements;
- use our free, tailored benchmark comparative analysis (available from autumn 2015) to challenge poor performance;
- assess their own strategy in the context of the national *Fighting Fraud Locally 2015* strategy;
- give consideration to the social harm caused by fraud when determining their overall strategy to tackle corporate fraud;
- accelerate re-focusing of counter fraud activities towards non-benefit (corporate) frauds;
- record and report fraud as fraud;
- celebrate and promote their performance in detecting fraud and corruption; and
- assess their exposure to RTB and NRPF fraud risks.

**Give consideration to
the social harm caused
by fraud**

Government should:

- work in partnership with TEICCAF to better understand the nature and scale of RTB and NRPF frauds; and
- acknowledge and address the fraud exposure of housing associations to proposed changes to RTB legislation.

Protecting the English Public Purse Fraud Briefing 2015

Lancaster City Council

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Purpose of Fraud Briefing

1. Provide an information source to support councillors in considering their council's fraud detection activities
2. Extend an opportunity for councillors to consider fraud detection performance, compared to similar local authorities
3. Give focus to discussing local and national fraud risks, reflect on local priorities and the proportionate responses needed
4. Be a catalyst for reviewing the council's current strategy, resources and capability for tackling fraud

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About TEICCAF

The European Institute for Combatting Corruption And Fraud

Not for profit charity seeking to provide counter fraud and corruption strategic vision and thought leadership for public sector and charity organisations

Staffed by the former Audit Commission Counter Fraud Team

Continuation of expertise on the fraud risks facing councils

Continuation of the award winning '*Protecting the Public Purse*' reports

Working collaboratively with public sector bodies, charities and private companies across the UK, Europe and around the World

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Understanding the bar charts

All data are drawn from council submissions for the TEICCAF annual fraud and corruption survey for 2014/15

Your council is compared with the other district councils across the North West and Yorkshire & the Humber taking part in the voluntary survey (NB there are no district councils in the North East)

National district council submission rate: 59.7%

English councils surveyed submission rate: 59.5%

(County councils, district councils, metropolitan districts & unitary authorities and London boroughs)

Your council for detected cases is shown in **Yellow**

Your council for detected value is shown in **Red**

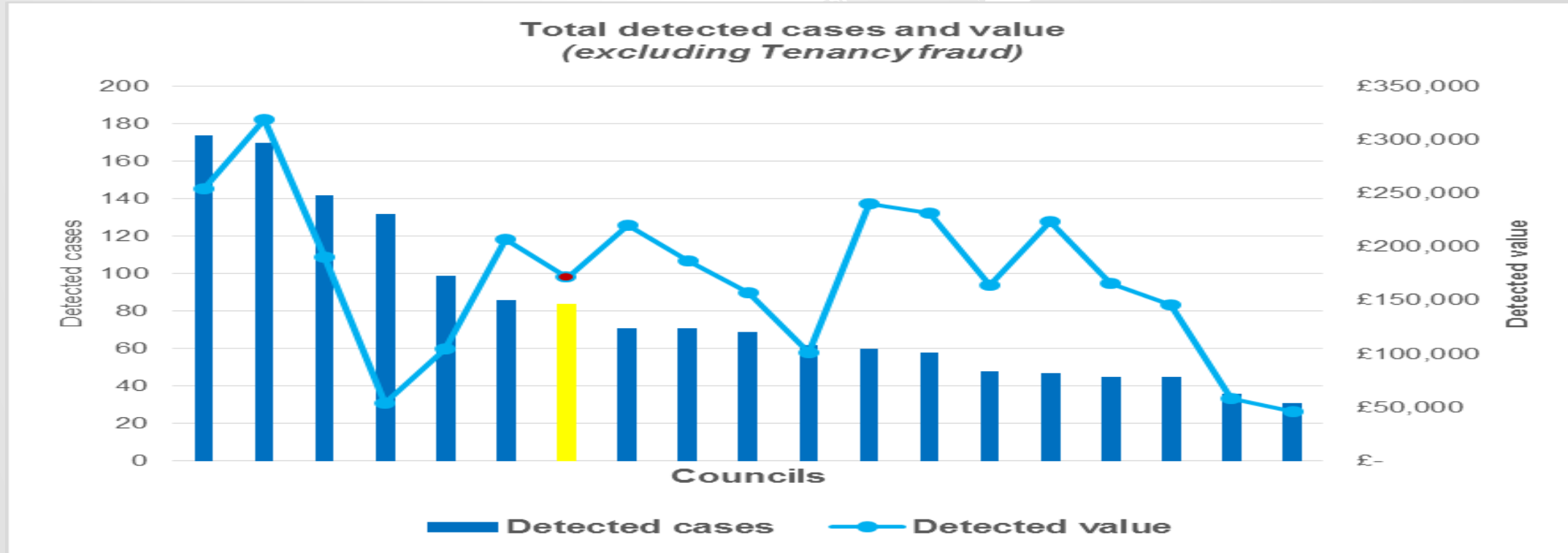
All averages are 'mean' averages

In some cases, council report they have detected fraud and do not report the number of cases and/or the value - for the purposes of this fraud briefing these 'Not Recorded' records are shown as Nil

NB it is always best practice to ensure counter fraud activity is accurately and comprehensively recorded, particularly for assessing fraud risk

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Total detected cases and value (excluding tenancy fraud)



Your council - Total number of detected cases: 84. Total detected value: £171,506.

Comparator council average – Detected cases: 81. Detected value: £170,657.

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Housing benefit (HB) and council tax benefit (CTB)

The investigation of benefit fraud is transferring from councils to the Department for Work and Pensions Single Fraud Investigation Service (SFIS)

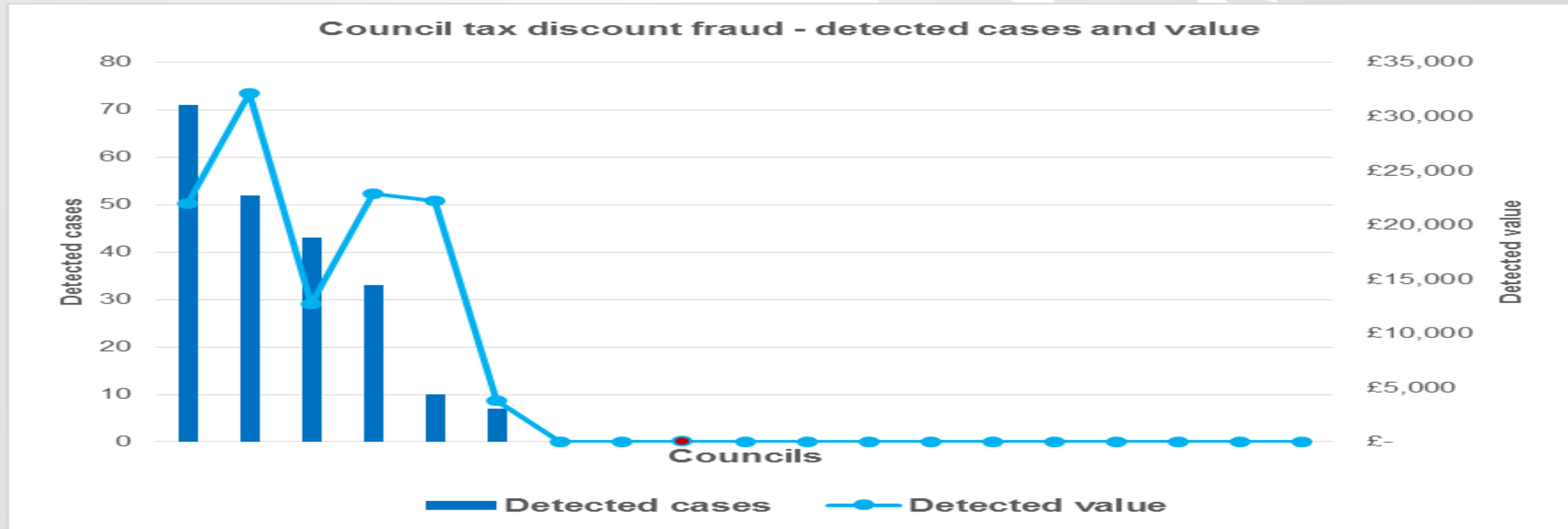
Some councils have already transferred their benefit fraud investigators to SFIS, the remaining councils should have done so by March 2016

This makes the comparison of HB/CTB of little value, as some council did not investigate HB/CTB in 2014/15, or others only a part of the year

However, you may wish to ask:

- Does my council have enough counter fraud resource to tackle non-benefit fraud post SFIS?
- Does my council's counter fraud resource have the skill sets to tackle the wide and varied range of non-benefit frauds?
- Is there a partnership working arrangement available that helps provide a counter fraud resource and value for money?

Council tax discount fraud



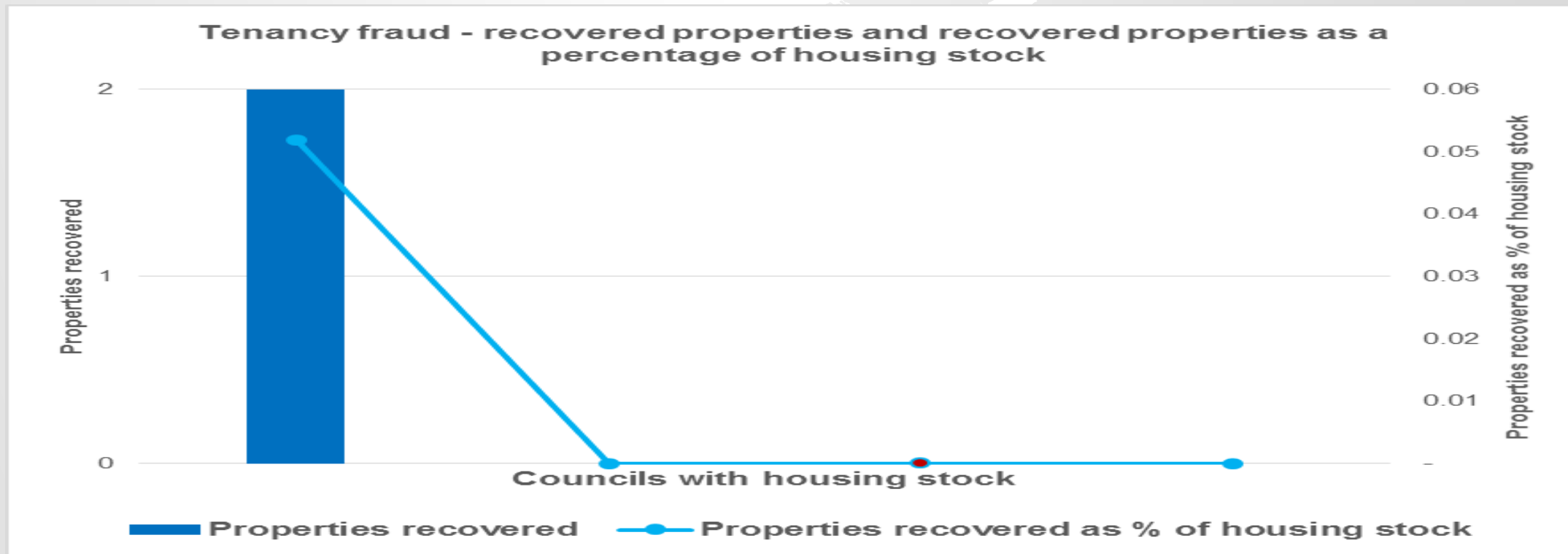
Your council - Total number of detected cases: nil. Total detected value: nil.

Comparator council average – Detected cases: 11. Detected value: £6,094.

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Tenancy fraud

(only councils with housing stock)

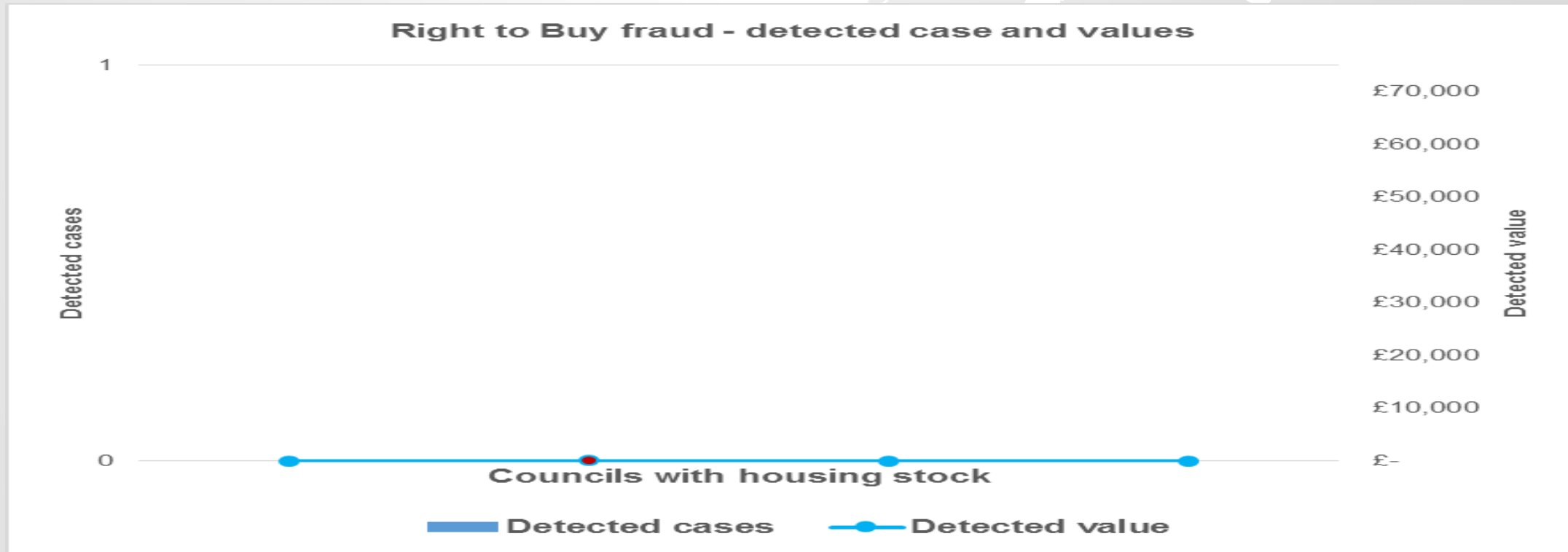


Your council - Total number of recovered properties: nil

Comparator council average– Recovered properties: 1

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Right to Buy fraud



Your council - Total number of detected cases: nil. Detected value: nil

Comparator council average – Detected cases: nil. Detected value: nil.

Other frauds

Procurement fraud

Your council - Total number of detected cases: nil.

Comparator council average – Detected cases: 1. Detected value: £921.

No recourse to public funds fraud

Your council - Total number of detected cases: nil.

Comparator council average – Detected cases: nil. Detected value: nil.

Business rates

Your council - Total number of detected cases: nil.

Comparator council average – Detected cases: nil. Detected value: nil.

Internal fraud

Your council - Total number of detected cases: nil.

Comparator council average – Detected cases: 1. Detected value: £1,031.

Further information and support

The 'Protecting the English Public Purse 2015' (PEPP) report and the 'Protecting the London Public Purse 2015' (PLPP) report are available at www.teiccaf.com

These reports also contain a counter fraud checklist for councils to use – questions you may wish to ask:

- Are local priorities reflected in our approach to countering fraud?
- Have we considered counter-fraud partnership working?
- Are we satisfied that we will have access to comparative information and data to inform our counter-fraud decision making in the future?

If you have any questions concerning:

- this fraud briefing;
- TEICCAF; or
- how TEICCAF can support you in counter fraud, counter corruption and anti-money laundering?

Please contact Duncan Warmington, Secretary to the Board at duncanw@teiccaf.com

TEICCAF, and our sponsor, 'INTEC for business', hope you found this fraud briefing useful and encourage your council to participate in the 2015/16 TEICCAF annual fraud and corruption survey

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AUDIT COMMITTEE**Internal Audit Monitoring Report
20th January 2016****Report of Internal Audit & Assurance Manager****PURPOSE OF REPORT**

To advise Members of the latest monitoring position regarding the 2015/16 Internal Audit Plan, seek approval for proposed variations to the plan, and update Members on the results of recent audits.

This report is public

RECOMMENDATIONS

- (1) That the current monitoring position is noted.
- (2) That the proposed revisions to the audit plan, as set out in the table in §1.2, are approved.
- (3) That the proposed rolling programme of Internal Audit work attached as appendix B is noted.
- (4) That the results of recent audit activity (section 3 of the report) are noted.

1.0 Audit Plan Monitoring to 31st December 2015

- 1.1 The 2015/16 Internal Audit Plan was approved by the Audit Committee at its meeting on 17th June 2015 with a number of revisions approved at the meeting on 16th September 2015. This report is based on the monitoring position up to 31st December 2015 and a detailed monitoring report as at that date is attached as Appendix A. In summary, the position at that date was as shown in the following table.

1.2 Summary of monitoring position at 31st December 2015

Area of work	Resources (audit days)					
	Actuals to 31/12/15	Remain-ing	Comm-itted	Current Plan	Variance	Proposed Plan
Assurance Work						
Core Financial Systems	14	0	14	40	26	30
Revenues & Benefits Shared Services	26	0	26	35	9	26
Core Management Arrangements	26	24	50	40	-10	50
Risk Based Assurance Audits	50	21	71	135	64	108
Follow-Up Reviews	54	10	64	55	-9	64
Sub-Total, Assurance	170	55	225	305	80	278
Consultancy Work						
Support Work	19	4	23	35	12	25
Ad-Hoc Advice	51	9	60	60	0	60
Sub-Total, Consultancy	70	13	83	95	12	85
Other Work						
Other Duties (Non-Audit)	39	9	48	35	-13	48
Audit Management	60	8	68	50	-18	68
Sub-Total, Other Work	99	17	116	85	-31	116
Contingencies						
Investigations	28	3	31	30	-1	31
General Contingency	0	0	0	20	20	0
Sub-Total, Contingencies	28	3	31	50	19	31
Total	367	88	455	535	80	510

1.3 The monitoring position takes account of ongoing and planned work commitments. This shows that overall, current commitments total 455 days compared with the current plan of 535 days, giving an uncommitted resource of 80 days. This includes the remaining general contingency of 20 days.

1.4 Proposals for the future resourcing and scope of Internal Audit, submitted as part of the Council's 2015/16 budget review, are covered in a report elsewhere on this agenda. Pending the outcome of these considerations, the section is continuing with a vacant post for the remainder of 2015/16. The impact of this is to reduce available resources by a further 25 days, giving a new plan total of 510.

Proposals

1.5 The Proposed Plan column in the above summary sets out changes to bring audit activity in line with this new resource target. The main implication from the Audit Committee's viewpoint is a proposed reduction of 27 days in the Assurance Work section of the plan. This is in addition to the reduction of 55 days approved by the Committee at the September meeting. In total, the revised allocation of 278 days to Assurance Work represents a 23% reduction against the originally planned level of 360 days.

1.6 The proposals include application of the remaining 20 days of the General Contingency to support the planned activity.

2.0 Rolling Internal Audit Plan

2.1 An updated rolling programme of Internal Audit work is attached to this report as Appendix B. Members' attention is particularly drawn to the list of potential areas for audit coverage during the final quarter of the year. This list has been developed through consultation meetings with Chief Officers. The actual programme and timing of work will be subject to the development of detailed scoping exercises.

3.0 Results of Internal Audit Work to 31st December 2015

3.1 This report covers audit work and reports issued since the last update report to Committee on 16th September 2015. Summary reports have been issued to Members for consideration and are also posted on the Council's Intranet. The reports issued have been:

Audit Title		Report Date	Assurance Level	
New Audit Reports				
15/0953	Value Added Tax	02/11/15	Substantial	✓
15/0952	Housing Benefit Subsidy - Overpayment Classifications (Lancaster)	24/12/15	Substantial	✓
15/0955	Public Health Funerals	22/12/15	Limited	⚠
Follow-Up Reports				
13/0885	Environmental Health Income Streams	29/07/15	Substantial	✓
13/0896	Grounds Maintenance, Nursery and Cleansing Income Streams	18/11/15	Substantial	✓
14/0920	Council Housing Tenancy Fraud	21/12/15	Substantial	✓
14/0921	Outdoor Events Management	10/09/15	Substantial	✓

Matters Arising from Audit Reviews

3.2 The key conclusions and action points in relation to those reports where a "Limited" or "Minimal" assurance opinion has been given are:

3.3 15/0955 – Public Health Funerals

3.3.1 A limited assurance opinion has been given on the basis that although the Council is fulfilling its statutory responsibilities, measures to avoid incurring avoidable expenditure/resource need to be strengthened. There is also scope to improve documentation in order to provide a comprehensive audit trail for each public health funeral administered. Implementation of the agreed action plan will enable a Substantial level of assurance being achieved in this area. Headline messages include:

- The risk of the Authority failing to fulfil its statutory responsibilities per the Public Health (Control of Disease) Act is minimal.
- Every effort is made to establish whether the deceased's next of kin/family/friends is willing to take pay for the funeral prior to the council accepting responsibility for the arrangements.
- Arrangements for the sale of the deceased person's possessions are to be strengthened through the production of formally agreed and documented procedures.
- Actions have been agreed to strengthen information sharing arrangements with other council services and Freedom of Information data relating to public health funerals is to be published on the Council's Website.

- Record keeping is to be strengthened in order to provide an appropriate audit trail with regard to each individual case.
- Good arrangements are in place to ensure the safety of officers conducting property searches.

Updates on Tracked Items

3.4 13/0877 – Corporate Property Related Service Contracts (Limited as at November 2014)

3.4.1 Following the original review an action plan was agreed which sought to ensure a consistent, co-ordinated and efficient approach to the management of property related service contracts. Due to the long term sickness absence of a key member of staff, progress with implementation of the action plan had been delayed at the time of the post audit review. The Senior Property Officer has confirmed that significant progress has now been made with implementation of the actions agreed, and that a considerable amount of work has been carried out with a view to centralising management of service contracts. However, as work is still ongoing in some areas the assurance opinion cannot be raised to Substantial at this time.

3.4.2 A substantial amount of information has been gathered regarding current arrangements with a view to identifying any gaps and ensuring compliance with statutory regulations. Comprehensive documentation has been developed which identifies service contracts currently in place, their associated costs, and contract renewal dates. Designated officers with responsibility for ensuring compliance with property related matters have also been identified for each council property. To ensure smooth delivery of activities, a Service Level Agreement (SLA) has been signed with Lancashire County Council covering 30 key planned maintenance activities. Lancashire County Council have undertaken a full tendering exercise to identify competent contractors and value for money. The SLA allows the City Council to build a full programme of planned maintenance using these contractors to ensure that the council is compliant with statutory obligations. Each building within the council's portfolio has been assessed to identify where planned maintenance is required. The new arrangements are scheduled to go live from 1st April 2016 with contractors being advised of changes during December 2015. Where like for like services are being undertaken, the new arrangements will represent savings. However, this exercise has identified where required activities have not been completed and so it is anticipated that maintenance costs will increase for some sites.

3.4.3 As part of the property collaboration agreement, Lancashire County Council are currently carrying out risk assessments in relation to three key areas, these being the management of asbestos, fire and legionella. These are due to be finalised by the end of January 2016 and will inform roles and responsibilities and which duties can be carried out in-house and those which need to be carried out by a specialist contractor. The property asset management database is currently being populated with assessment data as it is obtained with a view to the database being used to corporately manage and monitor compliance. The establishment of efficient and effective monitoring arrangements is key to the council being able to clearly evidence compliance with statutory regulations. The Senior Property Officer is working towards full monitoring arrangements being in place by the end of March 2016.

3.5 13/0897 – CCTV (Limited as at December 2014)

3.5.1 The Commercial Centre Manager has reported that whilst a significant amount of progress has been made in addressing the issues identified in the audit, work is still ongoing in some areas and therefore the assurance opinion cannot be raised to Substantial at this time.

3.5.2 In January 2015, security consultants appointed to advise the council on its Public Space CCTV system carried out a Technical, Management and Compliance Audit.

The audit was performed with a view to assessing the system's performance, operation and compliance with relevant legislation, British Standards and Best Practice Guidelines. The results of the audit, including the required improvements, have been assessed and also been discussed with the company with which the council has a contact for operation of the Public Space CCTV system. In addition to the report, the consultant has also produced a draft Code of Practice, Privacy Impact Assessment and Operation Procedures Manual.

- 3.5.3 The Commercial Centre Manager has reported that the condition of the present Public Space CCTV system has continued to be a problem in recent months and managing this issue has taken priority. Therefore, there is still a significant amount of work required to finalise the Code of Practice and the Procedures Manual, and to implement revised procedures where necessary. However, the Commercial Centre Manager has confirmed that this should be addressed within the next six months, subject to changing priorities.
- 3.5.4 Whilst the scope of the work carried out by the consultant did not extend to other council CCTV systems, work is currently ongoing with a view to improving management of these systems. Furthermore, since specialist advice is required, the same consultant is to be used to assist in this area to ensure consistency across all council CCTV installations

3.6 14/0922 - Salt Ayre Financial Procedures (Substantial)

- 3.6.1 The original audit carried out in July 2014 found that there were a number of areas where arrangements needed to be streamlined and more efficient and effective procedures and processes needed be introduced in relation to:
- Stock management;
 - Security arrangements;
 - Ordering and creditor payment processes;
 - Income managements; and
 - Wages and overtime recording
- 3.6.2 Many of these areas have now been fully addressed and improved procedures and processes are in place. As a result the assurance opinion has been raised to 'Substantial'.
- 3.6.3 A number of actions that were agreed to streamline the wages and overtime recording process are currently being addressed. Good progress has been made to rationalise pay across the Centre, bringing pay in line with corporate pay scales and spinal column points across all posts. A number of posts have been job evaluated and re-graded as a result, pay now taking into account acting up responsibilities and therefore reducing the number of overtime claims being submitted.
- 3.6.4 A suite of additional element codes have been developed and are in the process of being set up in the Payroll system/on-line claim form, the use of which will significantly improve financial monitoring and reporting capabilities. An on-line timesheet has been developed by Exchequer Services which seeks to streamline current processes through reducing the number of manual calculations and the level of checking and authorising that is currently required. A manual version of the timesheet is due to be trialled by the Centre following the receipt of appropriate training and guidance etc. This manual timesheet will be used at the Centre until the on-line form is phased in with a view to going live with the online form on 1st April 2016.

3.7 14/0941 – Fuel Cards

- 3.7.1 Fuel cards are a relatively simple payment method used in place of conventional credit/debit card or cash payment methods to purchase fuel. The majority of the council's fleet is based at White Lund Depot and most of the vehicles run on diesel.

Consequently, diesel tanks are located at the Depot and systems and procedures are in place to control and monitor their use. However many of the items of machinery in use by the grounds maintenance team run on petrol, for example mowers.

- 3.7.2 In November 2014 a review was carried out by the Procurement Manager with a view to establishing whether the current fuel card arrangement was providing the best value for money. The review established that switching to another provider could result in savings for the council. Therefore, an arrangement was entered into with another provider for the use of fuel cards. This arrangement was made under the Crown Commercial Services framework agreement, and does not tie the council into a contract for any specified length of time. Given the change in provider, the Financial Services Manager requested that Internal Audit carried out a review to establish the robustness of arrangements in place.
- 3.7.3 The review established that arrangements in place at that time required significant improvement in order to ensure an acceptable level of control. Responsibility for management of the system had not been defined; there were no mechanisms in place to monitor or control spend, or to minimise the potential for misuse of the cards and there were no procedures in place to verify that invoices received agree to actual spend.
- 3.7.4 Therefore, following a number of meetings with those concerned an action plan was developed which sought to ensure a robust system was introduced in relation to the management of fuel cards. Actions agreed were in relation to responsibilities being clearly defined; appropriate separation of duties being in place; systems and procedures documented; those with responsibilities being given appropriate guidance and support in relation to the correct use of cards; and the issue of cards being properly controlled. It was also agreed that effective use would be made of management information with a view to verifying expenditure and monitoring fuel usage. Mechanisms were also agreed to reduce the risk of error and/or misuse of the system.
- 3.7.5 Internal Audit have continued to monitor progress with implementation of the action plan and as part of a review carried out in October 2015 established that appropriate arrangements are in place for effective management of the fuel card system, these being proportionate to the level of potential risk exposure.

3.8 Other Activity

- 3.8.1 Work associated with the establishment of the shared corporate fraud team is covered in a separate update elsewhere on this agenda.
- 3.8.2 In line with an action in response to the Local Government Association's Peer Review in 2015, work is ongoing to develop arrangements for a new corporate approach to the management of risk, this being combined with the development of a wider Assurance Framework. Implementation of these arrangements is key to proposals for the future resourcing and deployment of Internal Audit, also elsewhere on this agenda.

4.0 Details of Consultation

- 4.1 Management Team continues to be consulted in developing the plan.

5.0 Options and Options Analysis (including risk assessment)

- 5.1 Regarding the Internal Audit Plan, the options available to the Committee are either to approve the proposed changes or to propose an alternative course of action.

6.0 Conclusion

- 6.1 Reductions in audit plan allocations are being proposed to reflect post vacancies and proposals being made regarding future internal audit needs and staffing, which are reported elsewhere on this agenda.
- 6.2 The programme of audits for the rest of the year continues to be developed in consultation with senior management.

CONCLUSION OF IMPACT ASSESSMENT

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

Not applicable

FINANCIAL IMPLICATIONS

None directly arising from this report

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

None directly arising from this report

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments

BACKGROUND PAPERS

Internal Audit Plan 2015/16

Contact Officer: Derek Whiteway

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Ref: aud/comm/audit/160120IAMon

Work Allocations		Actuals to 31/12/15	Remaining	Committed	Approved Plan (16/09/15)	Variance	Status at 31/12/15
Job No	Title						
1. ASSURANCE WORK							
LCC Core Financial Systems							
14/0925	Payroll	4	0	4			✓
15/0953	Value Added Tax	10	0	10			✓
Sub-total - Core Financial Systems		14	0	14	40	26	
Revenues Shared Service - Financial Systems							
15/0952	Housing Benefit Subsidy - Overpayment Classifications (Lancaster)	12	0	12			✓
15/0958	Housing Benefit Subsidy - Overpayment Classifications (Preston)	14	0	14			✓
Sub-total - Revenues Shared Services		26	0	26	35	9	
Core Management Arrangements							
14/0948	Annual Governance Review and Statement 2014/15	10	0	10			✓
14/0917	National Fraud Initiative 2014/15	5	3	8			⚠
14/0964	Annual Governance Review and Statement 2015/16	1	5	6			⚠
15/0957	National Fraud Initiative- Single Person Discount 2014/15	7	1	8			⚠
15/0959	Financial Management	2	13	15			⚠
15/0962	Proactive Counter Fraud Work	1	2	3			⚠
Sub-total - Core Management Arrangements		26	24	50	40	-10	
Risk Based Assurance Work Programme							
14/0943	Private Sector Housing - Rent Deposit Scheme	7	0	7			✓
14/0954	Port Health	9	3	12			⚠
15/0955	Public Health Funerals	12	0	12			✓
15/0947	Happy Mount Park - Cash Collection & Banking	4	0	4			✓
15/0956	Stores	10	6	16			⚠
15/0960	Ringo Cashless Parking System	6	2	8			⚠
15/0963	Safeguarding	2	10	12			⚠
Sub-total - Risk Based Assurance Work		50	21	71	135	64	
Follow-Up Reviews		54	10	64	55	-9	∞
SUB-TOTAL - ASSURANCE WORK		170	55	225	305	80	
2. CONSULTANCY WORK							
Support Work (projects and other)							
15/0509	RIPA Monitoring and Central Register	1	0	1			∞
14/0940	Financial Regulations - Roll Out and Developments	9	0	9			⚠
15/0961	Risk Management Strategy and Assurance Framework	9	4	13			⚠
Sub-total - Support Work (projects and other)		19	4	23	35	12	
Ad-Hoc Advice		51	9	60	60	0	∞
SUB-TOTAL - CONSULTANCY WORK		70	13	83	95	12	
3. OTHER							
15/0392	Deputy Section 151 Officer Duties	16	3	19			∞
15/0950	Management - Information Governance Function	8	4	12			∞
15/0951	Management - Corporate Fraud Team	4	2	6			∞
Var	Work for other bodies - LDNPA	11	0	11			∞
SUB-TOTAL - OTHER		39	9	48	35	-13	
4. AUDIT MANAGEMENT							
15/0172	Committee Work	23	3	26			∞
15/0189	Audit Planning & Management	37	5	42			∞
SUB-TOTAL - AUDIT MANAGEMENT		60	8	68	50	-18	
5. CONTINGENCIES							
Investigations		28	3	31	30	-1	
General Contingency		0	0	0	20	20	
SUB-TOTAL - CONTINGENCIES		28	3	31	50	19	
TOTALS		367	88	455	535	80	

Key: ✓ Completed ⚠ In Progress ⚠ Not Yet Started ∞ Continuous or Multi-Year Activity
 CFwd Carried Forward to 2015/16 Plan ✗ Abandoned

Internal Audit

Quarterly Rolling Programme 2015/16 (as at 1st January 2016)

Area of Work	Status	Q1 - 3 Apr – Dec (days)	Q4 Jan - Mar (days)
A. Completion of assurance audits commenced in 2014/15			
Payroll (14/0925)	Complete	4	0
National Fraud Initiative (14/0917)	Ongoing	5	3
B. New assurance audits 2015/16			
Rent deposit scheme (14/0943)	Complete	7	0
HMP cash collection and banking (15/0947)	Complete	4	0
Housing Benefit subsidy claims (Lancaster CC and Preston CC)	Complete	26	0
Value Added Tax	Complete	10	0
Public health funerals	Complete	12	0
Annual governance review and statement 2014/15	Complete	10	0
Ringo cashless parking system	Ongoing	6	2
Stores	Ongoing	10	6
Port health	Ongoing	9	3
Annual governance review and statement 2015/16	Ongoing	1	5
National Fraud Initiative – Single Person Discount	Ongoing	7	1
Proactive counter fraud work	Ongoing	1	2
Safeguarding	Proposal	2	10
Financial management	Proposal	2	13
C. Proposed assurance audits (from the following)			
Equality and diversity			53
Asset management			
Engineering services succession planning			
Contract management			
Anti-social behaviour			
Local Plan production			
D. Follow-up of assurance audits	Ongoing	54	10
Sub-total, Assurance Work (Sections A-D)		170	108
E. Completion of audits for LDNPA commenced in 2014/15	Complete	11	0

Area of Work	Status	Q1 - 3 Apr – Dec (days)	Q4 Jan - Mar (days)
F. Support Work and Advice			
RIPA monitoring (13/0509)	Ongoing	1	0
Financial regulations (14/0940)	Ongoing	9	0
Risk Management Strategy and Assurance Framework development	Ongoing	9	6
Ad-hoc advice	Ongoing	51	9
G. Investigations	Ongoing	28	3
H. Audit management, etc.	Ongoing	60	8
I. Non-audit duties	Ongoing	28	9
Total Chargeable		367	143