



**Committee:** AUDIT COMMITTEE  
**Date:** WEDNESDAY, 18 JANUARY 2017  
**Venue:** MORECAMBE TOWN HALL  
**Time:** 6.00 P.M.

## A G E N D A

1. **Apologies for Absence**

2. **Appointment of Vice-Chairman**

To appoint a Vice-Chairman for the 2016/17 municipal year. (The Vice-Chairman must not be a member of Cabinet or Overview and Scrutiny.)

3. **Minutes**

Minutes of meeting held on 14<sup>th</sup> September 2016 (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 9 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 Auditor's Grant Certification Report 2015/16 (Pages 1 - 3)**

Report of KPMG LLP.

7. **External Auditor's Annual Audit Letter 2015/16 (Pages 4 - 11)**

Report of KPMG LLP.

8. **Arrangements for the Appointment of the External Auditor (Pages 12 - 31)**

Report of the Chief Officer (Resources).

9. **Internal Audit Charter** (Pages 32 - 42)

Report of the Internal Audit and Assurance Manager.

10. **Internal Audit Monitoring** (Pages 43 - 47)

Report of the Internal Audit and Assurance Manager.

**ADMINISTRATIVE ARRANGEMENTS**

**(i) Membership**

Councillors Abbott Bryning (Chairman), Ian Clift, Colin Hartley, Elizabeth Scott, Malcolm Thomas, David Whitaker and Nicholas Wilkinson

**(ii) Substitute Membership**

Councillors Stuart Bateson (Substitute), Tim Hamilton-Cox (Substitute), Brendan Hughes (Substitute), Roger Sherlock (Substitute) and Peter Williamson (Substitute)

**(iii) Queries regarding this Agenda**

Please contact Sarah Moorghen, Democratic Services - telephone 01524 582132, or email [smoorghen@lancaster.gov.uk](mailto:smoorghen@lancaster.gov.uk).

**(iv) Changes to Membership, substitutions or apologies**

Please contact Democratic Support, telephone 582170, or alternatively email [democraticsupport@lancaster.gov.uk](mailto:democraticsupport@lancaster.gov.uk).

SUSAN PARSONAGE,  
CHIEF EXECUTIVE,  
TOWN HALL,  
DALTON SQUARE,  
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**Private & confidential**

Nadine Muschamp  
 Chief Officer (Resources)

Lancaster City Council  
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 Dalton Square  
 Lancaster  
 LA1 1PJ

Our ref RL/016

Contact Richard Lee  
 0161 246 4661

4 January 2017

Dear Nadine

**Lancaster City Council - Certification of claims and returns - annual report 2015/16**

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

In 2015/16 we carried out certification work on two claims / returns; the Housing Benefit Subsidy claim and the Pooling of Housing Capital Receipts return.

**Housing Subsidy Benefit**

The certified value of the Housing Subsidy Benefit claim was £41.107 million, and we completed our work and certified the claim on 28 November 2016.

Our certification work on Housing Subsidy Benefit claim included:

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



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

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

#### **Certification work fees**

Public Sector Audit Appointments set an indicative fee for our certification work in 2015/16 of £9,573. Our actual fee was the same as the indicative fee, and this compares to the 2014/15 fee for this claim of £10,320.

#### **Pooling of Housing Capital Receipts**

In addition to the Housing Subsidy Benefit claim, we certified the Council's Pooling of Housing Capital Receipts return for 2015/16. Although this return does not form part of the Public Sector Audit Appointments certification regime, it is a requirement of the Department for Communities and Local Government. We issued our certificate for this return on 29 November 2016. No issues were identified from our test work. Our fee for this certification work was £3,000.

Yours sincerely

A handwritten signature in blue ink, appearing to be 'TC', written over a light blue horizontal line.

Tim Cutler  
Engagement Lead



This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website ([www.psaa.co.uk](http://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, Andrew Sayers, by email to [andrew.sayers@kpmg.co.uk](mailto:andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto: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.





# Annual Audit Letter 2015/16

Lancaster City Council

—

October 2016



# Contents

The contacts at KPMG 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. Public Sector Audit Appointments 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.psa.co.uk](http://www.psa.co.uk)).

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This Annual Audit Letter summarises the outcome from our audit work at Lancaster City Council in relation to the 2015/16 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

<p><b>VFM conclusion</b></p>	<p>We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2015/16 on 30 September 2016. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources.</p> <p>To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.</p>
<p><b>VFM risk areas</b></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>Our work identified the following significant matters:</p> <ul style="list-style-type: none"> <li>— Financial resilience</li> </ul> <p>The Authority continues to face substantial budgetary pressures – largely as a result of the significant cuts in Government funding as part of its programme of reductions in public sector spending. To date it has managed these through a combination of measures, mainly through efficiency savings. However the cumulative impact of these budget pressures results in a risk to the ongoing financial viability of the authority.</p> <p>The Authority achieved a £331,000 under-spend against its revised budget for the year ended 31 March 2016 demonstrating it is able to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p> <p>We have concluded that the arrangements in place for identifying, implementing and monitoring savings and efficiency targets were sufficient to ensure the Authority achieved its financial budget in 2015/16.</p> <p>For 2016/17, savings and growth of £986k have been identified to help balance the budget. However this is in addition to increases in Council Tax of £5.00 per band D property (£2.45%). The Authority will now need to monitor this savings position carefully and take any action as appropriate to ensure that the budget is achieved.</p>
<p><b>Audit opinion</b></p>	<p>We issued an unqualified opinion on the Authority's financial statements on 30 September 2016. 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>



# Headlines (cont)

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.

<p><b>Financial statements audit</b></p>	<p>We received complete draft accounts on 27 June 2016 ahead of the DCLG deadline. The accounting policies, accounting estimates and financial statement disclosures were in line with the requirements of the Code.</p> <p>The quality of the accounts and the supporting working papers was maintained at a high standard in 2015/16, which assisted with the delivery of an effective and efficient audit. As a result, the audit process was completed within the planned timescales.</p> <p>During our audit we did not identify any corrected or uncorrected audit adjustments. We agreed a number of presentational changes to the Statement of Accounts with management which were corrected in the final version of the accounts.</p> <p>The Authority has implemented all of the recommendations identified in 2014/15 relating to the financial statements.</p>
<p><b>Other information accompanying the financial statements</b></p>	<p>Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.</p>
<p><b>Whole of Government Accounts</b></p>	<p>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.</p>
<p><b>Recommendations</b></p>	<p>We have raised three recommendations in 2015/16. These are in respect of the following issues:</p> <p><b>Fixed Asset Module to Northgate Housing Management System reconciliation</b> - we noted that the fixed asset module reconciliation to the housing management system is not formally documented.</p> <p><b>General IT controls user access</b> - we identified that no periodic review is performed to ensure that staff have appropriate access rights to the general ledger. We also noted that for two individuals with access to the creditors module, authorisation limits or access rights had not been updated to reflect their revised job roles.</p> <p><b>Declarations of interest</b> – we observed that declaration of interest forms were not updated for all key officers and members.</p> <p>None of the recommendations raised were classified as high priority. The recommendations raised have been accepted by management. We will follow these recommendations up as part of our 2016/17 audit work.</p>

## Section one

# Headlines (cont)

We will issue our certificate to confirm the completion of our audit responsibilities once we have considered matters brought to our attention by a local elector.

<b>Certificate</b>	We have not yet issued our certificate confirming the conclusion of the audit. This is because we are currently considering information brought to our attention by a local elector. Once this matter has been addressed we will issue the 2015/16 closure certificate.
<b>Audit fee</b>	Our fee for 2015/16 was £58,388, excluding VAT. Further detail is contained in Appendix 2. This fee is in line with that highlighted within our audit plan presented to Audit Committee in June 2016.

# Appendix 1: Summary of reports issued

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

These reports can be accessed via the Audit Committee pages on the Authority's website at [www.Lancaster.gov.uk](http://www.Lancaster.gov.uk).

**External Audit Plan (June 2016)**

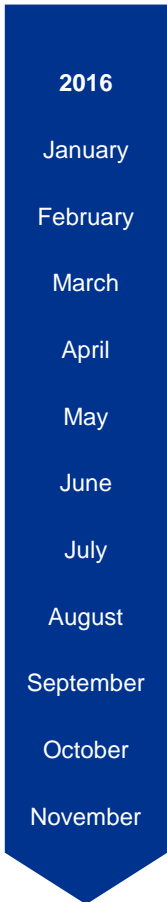
The External Audit Plan set out our approach to the audit of the Authority's financial statements and to work to support the VFM conclusion.

**Audit Fee Letter (June 2016)**

The Audit Fee Letter set out the proposed audit work and draft fee for the 2016/17 financial year.

**Auditor's Report (September 2016)**

The Auditor's Report included our audit opinion on the financial statements along with our VFM conclusion.



**Certification of Grants and Returns (June 2016)**

This letter summarised the outcome of our certification work on the Authority's 2014/15 grants and returns.

**Report to Those Charged with Governance (September 2016)**

The Report to Those Charged with Governance summarised the results of our audit work for 2015/16 including key issues and recommendations raised as a result of our observations. We also provided the mandatory declarations required under auditing standards as part of this report.

**Annual Audit Letter (October 2016)**

This Annual Audit Letter provides a summary of the results of our audit for 2015/16.

# Appendix 2: Audit fees

This appendix provides information on our final fees for the 2015/16 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2015/16 planned audit fee.

## External audit

Our final fee for the 2015/16 audit of the authority was £58,388 plus VAT.

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

## Other services

Our scale fee for certification for the HBCOUNT is £9,573 plus VAT. Our work on this claim is ongoing.

Our fee for certification of the Pooling of Housing Capital Receipts return is £3,000 plus VAT. Our work on this return is ongoing.





[kpmg.com/socialmedia](https://kpmg.com/socialmedia)



[kpmg.com/app](https://kpmg.com/app)

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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**AUDIT COMMITTEE****18<sup>th</sup> January 2017****Appointment of External Auditor****Report of Chief Officer (Resources)****PURPOSE OF REPORT**

To seek the Committee's backing for proposals to secure the future appointment of an external auditor for the Council and ask that the Committee recommends the proposals for approval by Full Council.

**This report is public**

**RECOMMENDATIONS**

- (1) That the Audit Committee recommends to Full Council that this Council opts in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors.**

**1.0 Background**

- 1.1 Following the abolition of the Audit Commission new arrangements were needed for the appointment of external auditors to local authorities. The Local Audit and Accountability Act 2014 requires authorities to either opt in to an "appointing person regime" or to establish an auditor panel and conduct their own procurement exercise.

**2.0 Report**

- 2.1 As part of closing the Audit Commission the Government novated external audit contracts to a newly established body, Public Sector Audit Appointments (PSAA) on 1 April 2015. At that point, external audit contracts were due to expire following conclusion of the audits of the 2016/17 accounts, but could be extended for a period of up to three years by PSAA, subject to approval from the Department for Communities and Local Government.
- 2.2 In October 2015 the Secretary of State confirmed that the transitional provisions would be amended to allow an extension of the contracts for a period of one year. This meant that for the audit of the 2018/19 accounts it would be necessary for authorities to either undertake their own procurements or to opt in to the appointed person regime.
- 2.3 There was a degree of uncertainty around the appointed person regime until July 2016 when PSAA were specified by the Secretary of State as an "appointing person" under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The appointing person is sometimes referred to as the sector led body and PSAA has wide support across most of local government. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission and is a company owned by the Local Government Association's Improvement and Development Agency (IDeA).

2.4 The date by which authorities need to opt in to the appointing person arrangements has now been set as 9<sup>th</sup> March 2017 and, in accordance with the Regulations, the decision to become an opted-in authority must be taken by full Council. It is therefore proposed that this decision is referred for consideration by full Council at its meeting on 1<sup>st</sup> February 2017.

### **3.0 Details of Consultation**

3.1 The Chief Officer (Resources) is a member of the Lancashire Chief Financial Officers group and has consulted on this matter with other Section 151 Officers. Sector advice and guidance on the matter has been provided by the Local Government Association.

### **4.0 Options and Options Analysis (including risk assessment)**

4.1 **Option 1:** The objectives of the PSAA and the advantages of using it are set out in its prospectus (attached as Appendix A) and are summarised below.

- a) Assure timely auditor appointments
- b) Manage independence of auditors
- c) Secure highly competitive prices
- d) Save on procurement costs
- e) Save time and effort needed on auditor panels
- f) Focus on audit quality
- g) Operate on a not for profit basis and distribute any surplus funds to scheme members.

4.2 A further document produced by the PSAA, setting out Frequently Asked Questions regarding the process and the appointing person role is attached as Appendix B.

4.3 **Option 2:** The alternative option to signing up to the service provided by the PSAA is for the Council to undertake its own, individual procurement exercise. Whilst this option would give the advantage of more direct control over the appointment, the advantages for the PSAA (listed above) can also be viewed as the disadvantages or risks associated with the Council undertaking its own procurement.

4.4 For reasons of efficiency in procurement and the minimisation of risk, the preferred option being recommended is to sign up to the service available via the sector-led body Public Sector Audit Appointments.

### **5.0 Conclusion**

5.1 In accordance with the Local Audit and Accountability Act 2014, the Council is required to make a decision on its preferred arrangements for appointing an external auditor for the audit of the 2018/19 accounts onwards. The preferred option being recommended is to sign up to the service available via the sector-led body Public Sector Audit Appointments.

**CONCLUSION OF IMPACT ASSESSMENT  
(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)**

Risk Management:

As set out in the report, use of PSAA minimises the risks inherent in undertaking our own procurement.

**FINANCIAL IMPLICATIONS**

If PSAA is not used some additional resource may be needed to establish an auditor panel and conduct our own procurement. Until either procurement exercise is completed it is not possible to state whether, or what, additional financial resource may be required for audit fees for 2018/19 onwards, although it is anticipated that any increase will be minimised through using PSAA.

**SECTION 151 OFFICER'S COMMENTS**

The report has been produced by the Chief Officer(Resources) in her capacity as Section 151 Officer; she has no further comments.

**LEGAL IMPLICATIONS**

The process as set out above and the recommendation should ensure compliance with the Local Audit and Accountability Act 2014.

**MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted and has no further comments

**BACKGROUND PAPERS**

PSAA Prospectus

PSAA – Appointing Person – Frequently Asked Questions

**Contact Officer:** Nadine Muschamp

**Telephone:** 01524 582117

**E-mail:** nmuschamp@lancaster.gov.uk

**Ref:** CO(Res)/LW






Developing the option  
of a national scheme for  
local auditor appointments

[www.psa.co.uk](http://www.psa.co.uk)

Public Sector  
Audit Appointments



“The LGA has worked hard to secure the option for local government to appoint auditors through a dedicated sector-led national procurement body. I am sure that this will deliver significant financial benefits to those who opt in.”

– Lord Porter CBE, Chairman,  
Local Government Association

[www.psaa.co.uk](http://www.psaa.co.uk)

Over the next few months all principal authorities will need to decide how their auditors will be appointed in the future. They may make the appointment themselves, or in conjunction with other bodies. Or they can take advantage of a national collective scheme which is designed to offer them a further choice. Choosing the national scheme should pay dividends in quality, in cost, in responsiveness and in convenience.

Public Sector Audit Appointments Ltd (PSAA) is leading the development of this national option. PSAA is a not-for-profit company which already administers the current audit contracts. It aims to be designated by the Department for Communities & Local Government (DCLG) to operate a collective scheme for auditor appointments for principal authorities (other than NHS bodies) in England. It is currently designing the scheme to reflect the sector's needs and views.

The Local Government Association (LGA) is strongly supportive of this ambition, and 200+ authorities have already signalled their positive interest. This is an opportunity for local government, fire, police and other bodies to act in their own and their communities' best interests.

We hope you will be interested in the national scheme and its development. We would be happy to engage with you to hear your views – please contact us at [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk)

You will also find some questions at the end of this booklet which cover areas in which we would particularly welcome your feedback.

# Audit does matter

High quality independent audit is one of the cornerstones of public accountability. It gives assurance that taxpayers' money has been well managed and properly expended. It helps to inspire trust and confidence in the organisations and people responsible for managing public money.

Imminent changes to the arrangements for appointing the auditors of local public bodies are therefore very important. Following the abolition of the Audit Commission, local bodies will soon begin to make their own decisions about how and by whom their auditors are appointed. A list of the local government bodies affected can be found at the end of this booklet.

The Local Government Association (LGA) has played a leadership role in anticipating these changes and influencing the range of options available to local bodies. In particular, it has lobbied to ensure that, irrespective of size, scale, responsibilities or location, principal local government bodies can, if they wish, subscribe to a specially authorised national scheme which will take full responsibility for local auditor appointments which offer a high quality professional service and value for money.

The LGA is supporting PSAA in its application to the Department for Communities & Local Government (DCLG) to be appointed to deliver and manage this scheme.

# PSAA is well placed to award and manage audit contracts, and appoint local auditors under a national scheme

PSAA is an independent, not-for-profit company limited by guarantee and established by the LGA. It already carries out a number of functions in relation to auditor appointments under powers delegated by the Secretary of State for Communities & Local Government. However, those powers are time-limited and will cease when current contracts with audit firms expire with the completion of the 2017/18 audits for local government bodies, and the completion of the 2016/17 audits for NHS bodies and smaller bodies.

The expiry of contracts will also mark the end of the current mandatory regime for auditor appointments. Thereafter, local bodies will exercise choice about whether they opt in to the authorised national scheme, or whether they make other arrangements to appoint their own auditors.

PSAA wishes to be selected to be the trusted operator of the national scheme, formally specified to undertake this important role by the Secretary of State. The company is staffed by a team with significant experience in appointing auditors, managing contracts with audit firms and setting and determining audit fees. We intend to put in place an advisory group, drawn from the sector, to give us ready access to your views on the design and operation of the scheme. We are confident that we can create a scheme which delivers quality-assured audit services to every participating local body at a price which represents outstanding value for money.

“Many district councils will be very aware of the resource implications of making their own appointment. Joining a well-designed national scheme has significant attractions.”

– Norma Atlay, President,  
Society of District Council Treasurers

“Police bodies have expressed very strong interest in a national scheme led by PSAA. Appointing the same auditor to both the PCC and the Chief Constable in any area must be the best way to maximise efficiency.”

– Sean Nolan, President,  
Police and Crime Commissioners  
Treasurers’ Society (PACCTS)

## The national scheme can work for you

We believe that the national scheme can be an excellent option for all local bodies. Early indications are that many bodies agree - in a recent LGA survey more than 200 have expressed an interest in joining the scheme.

We plan to run the scheme in a way that will save time and resources for local bodies - time and resources which can be deployed to address other pressing priorities. Bodies can avoid the necessity to establish an auditor panel (required by the Local Audit & Accountability Act, 2014) and the need to manage their own auditor procurement. The scheme will take away those headaches and, assuming a high level of participation, be able to attract the best audit suppliers and command highly competitive prices.

The scope of public audit is wider than for private sector organisations. For example, it involves forming a conclusion on the body’s arrangements for securing value for money, dealing with electors’ enquiries and objections, and in some circumstances issuing public interest reports. PSAA will ensure that the auditors which it appoints are the most competent to carry out these functions.

Auditors must be independent of the bodies they audit, to enable them to them to carry out their work with objectivity and credibility, and in a way that commands public confidence. PSAA plans to take great care to ensure that every auditor appointment passes this test. It will also monitor any significant proposals, above an agreed threshold, for auditors to carry out consultancy or other non-audit work to ensure that these do not undermine independence and public confidence.

The scheme will also endeavour to appoint the same auditors to bodies which are involved in formal collaboration/joint working initiatives or within combined authority areas, if the parties consider that a common auditor will enhance efficiency and value for money.



## PSAA will ensure high quality audits

We will only contract with firms which have a proven track record in undertaking public audit work. In accordance with the 2014 Act, firms must be registered with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of their work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC). Current indications are that fewer than ten large firms will register meaning that small local firms will not be eligible to be appointed to local public audit roles.

PSAA will ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any concerns are detected at an early stage and addressed effectively in the new regime. The company will take a close interest in feedback from audited bodies and in the rigour and effectiveness of firms' own quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems arising. We will liaise with the National Audit Office (NAO) to help ensure that guidance to auditors is updated when necessary.

We will include obligations in relation to maintaining and continuously improving quality in our contract terms and quality criteria in our tender evaluation method.

## PSAA will secure highly competitive prices

A top priority must be to seek to obtain the best possible prices for local audit services. PSAA's objective will be to make independent auditor appointments at the most competitive aggregate rate achievable.

Our current thinking is that the best prices will be obtained by letting three year contracts, with an option to extend to five years, to a relatively small number of appropriately registered firms in two or three large contract areas nationally. The value of each contract will depend on the prices bid, with the firms offering the best prices being awarded larger amounts of work. By having contracts with a number of firms we will be able to ensure independence and avoid dominance of the market by one or two firms.

Correspondingly, at this stage our thinking is to invite bodies to opt into the scheme for an initial term of three to five years, subject, of course, to the terms of specification by DCLG.

The procurement strategy will need to prioritise the importance of demonstrably independent appointments, in terms of both the audit firm appointed to each audited body and the procurement and appointment processes used. This will require specific safeguards in the design of the procurement and appointment arrangements.

“Early audit planning is a vital element of a timely audit. We need the auditors to be available and ready to go right away at the critical points in the final accounts process.”

– Steven Mair, City Treasurer,  
Westminster City Council

“In forming a view on VFM arrangements it is essential that auditors have an awareness of the significant challenges and changes which the service is grappling with.”

– Charles Kerr, Chair,  
Fire Finance Network

[www.psaa.co.uk](http://www.psaa.co.uk)

## PSAA will establish a fair scale of fees

Audit fees must ultimately be met by individual audited bodies. PSAA will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising PSAA's own costs. The changes to our role and functions will enable us to run the new scheme with a smaller team of staff. PSAA is a not-for-profit company and any surplus funds will be returned to scheme members.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk. Pooling means that everyone within the scheme will benefit from the most competitive prices. Current scale fees are set on this basis. Responses from audited bodies to recent fee consultations have been positive.

PSAA will continue to consult bodies in connection with any proposals to establish or vary the scale of fees. However, we will not be able to consult on our proposed scale of fees until the initial major procurement has been completed and contracts with audit firms have been let. Fees will also reflect the number of scheme participants - the greater the level of participation, the better the value represented by our scale of fees. We will be looking for principal bodies to give firm commitments to join the scheme during Autumn 2016.

# The scheme offers multiple benefits for participating bodies

We believe that PSAA can deliver a national scheme which offers multiple benefits to the bodies which take up the opportunity to collaborate across the sector by opting into scheme membership.

Benefits include:

- assured appointment of a qualified, registered, independent auditor
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives or combined authorities, if the parties believe that it will enhance efficiency and value for money
- on-going management of independence issues
- securing highly competitive prices from audit firms
- minimising scheme overhead costs
- savings from one major procurement as opposed to a multiplicity of small procurements
- distribution of surpluses to participating bodies
- a scale of fees which reflects size, complexity and audit risk
- a strong focus on audit quality to help develop and maintain the market for the sector
- avoiding the necessity for individual bodies to establish an auditor panel and to undertake an auditor procurement
- enabling time and resources to be deployed on other pressing priorities
- setting the benchmark standard for audit arrangements for the whole of the sector

We understand the balance required between ensuring independence and being responsive, and will continually engage with stakeholders to ensure we achieve it.

# How can you help?

We are keen to receive feedback from local bodies concerning our plans for the future. Please let us have your views and let us know if a national scheme operated by PSAA would be right for your organisation.

In particular we would welcome your views on the following questions:

1. Is PSAA right to place emphasis on both quality and price as the essential pre-requisites for successful auditor appointments?
2. Is three to five years an appropriate term for initial contracts and for bodies to sign up to scheme membership?
3. Are PSAA's plans for a scale of fees which pools scheme costs and reflects size, complexity and audit risk appropriate? Are there any alternative approaches which would be likely to command the support of the sector?
4. Are the benefits of joining the national scheme, as outlined here, sufficiently attractive? Which specific benefits are most valuable to local bodies? Are there others you would like included?
5. What are the key issues which will influence your decisions about scheme membership?
6. What is the best way of us continuing our engagement with you on these issues?

Please reply to: [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk)

The following bodies will be eligible to join the proposed national scheme for appointment of auditors to local bodies:

- county councils in England
- district councils
- London borough councils
- combined authorities
- passenger transport executives
- police and crime commissioners for a police area in England
- chief constables for an area in England
- national park authorities for a national park in England
- conservation boards
- fire and rescue authorities in England
- waste authorities
- the Greater London Authority and its functional bodies.

#### **BOARD MEMBERS**

Steve Freer (Chairman), former Chief Executive CIPFA

Caroline Gardner, Auditor General Scotland

Clive Grace, former Deputy Auditor General Wales

Stephen Sellers, Solicitor, Gowling WLG (UK) LLP

#### **CHIEF OFFICER**

Jon Hayes, former Audit Commission Associate Controller

“Maintaining audit quality is critically important. We need experienced audit teams who really understand our issues.”

– Andrew Burns, Director of Finance and Resources,  
Staffordshire County Council

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Public Sector  
Audit Appointments

**Appointing person: Frequently asked questions**

Question	Response
1. What is an appointing person?	<p>Public Sector Audit Appointments Limited (PSAA) has been specified as an appointing person under the Local Audit (Appointing Person) Regulations 2015 and has the power to make auditor appointments for audits of the accounts from 2018/19 on behalf of principal local government bodies that opt in, in accordance with the Regulations. Eligible bodies are principal local government bodies listed in schedule 2 of the Local Audit and Accountability Act 2014. This includes county councils, district councils, London Borough councils, unitary authorities, metropolitan councils, police bodies, fire and rescue authorities, joint authorities, combined authorities, national park authorities, conservation boards, PTEs, waste authorities, and the GLA and its functional bodies.</p> <p>The 'appointing person' is sometimes referred to as the sector-led body.</p> <p>PSAA is a company owned by the LGA's Improvement and Development Agency (IDeA) and was established to operate the transitional arrangements following closure of the Audit Commission.</p>
2. When will invitations to opt in be issued?	<p>The date by which principal authorities will need to opt into the appointing person arrangement is not yet finalised. The aim is to award contracts to audit firms by June 2017, giving six months to consult with authorities on appointments before the 31 December 2017 deadline. We anticipate that invitations to opt in will be issued before December 2016 at the latest.</p>



Question	Response
	<p>Authorities will have a minimum period of eight weeks to respond to the invitation.</p> <p>In order to maximise the potential economies of scale from agreeing large contracts with firms, and to manage any auditor independence issues, PSAA needs as much certainty as possible about the volume and location of work it is able to offer to firms. Our provisional timetable suggests that we will need to start preparing tender documentation early in 2017, so we will need to know by then which authorities want to be included.</p>
<p>3. Who can accept the invitation to opt in?</p>	<p>In accordance with Regulation 19 of the Local Audit (Appointing Person) Regulations 2015, a principal authority will need to make the decision to opt in at full council (authority meeting as a whole), except where the authority is a corporation sole (such as a police and crime commissioner), in which case the function must be exercised by the holder of the office.</p>
<p>4. Can we join after it has been set up or do we have to join at the beginning?</p>	<p>The Regulations require that once the invitations to opt in have been issued, there will be a minimum period of eight weeks for you to indicate acceptance of the invitation. One of the main benefits of a an appointing person approach is the ability to achieve economies of scale as a result of being able to offer larger volumes of work. The greater the number of participants we have signed up at the outset, the better the economies of scale we are likely to achieve. This will not prevent authorities from joining the sector-led arrangements in later years, but they will need to make their own arrangements to appoint an auditor in the interim. In order to be in the best position we would encourage as many authorities as possible to commit by accepting the invitation within the specified timeframe.</p>

Question	Response
5. Will membership be free for existing members of the LGA?	The option to join the appointing person scheme will be open to all principal local government authorities listed under Schedule 2 of the Local Audit and Accountability Act 2014. There will not be a fee to join the sector-led arrangements. The audit fees that opted-in bodies will be charged will cover the costs to PSAA of appointing auditors and managing the arrangements. We believe that audit fees achieved through large contracts will be lower than the costs that individual authorities will be able to negotiate. In addition, by opting into the PSAA offer, authorities will avoid the costs of their own procurement and the requirement to set up an auditor panel with independent members.
6. How will we be able to influence the development of the appointing person scheme and associated contracts with audit firms?	We have not yet finalised the governance arrangements and we are considering the options, including how best to obtain stakeholder input. We are considering establishing a stakeholder engagement panel or advisory panel which can comment on our proposals. PSAA continues to work in partnership with the LGA in setting up the appointing person scheme and you can feed in comments and observations to PSAA by emailing <a href="mailto:generalenquiries@psaa.co.uk">generalenquiries@psaa.co.uk</a> and via the LGA and their Principal Advisors.
7. Will there be standard contract terms and conditions?	The audit contracts between PSAA and the audit firms will require firms to deliver audits compliant with the National Audit Office (NAO) Code of Audit Practice. We are aware that authorities would like to understand how performance and delivery will be monitored and managed. This is one of the issues that could be discussed with the stakeholder advisory panel (see Q6).
8. What will be the length of the contracts?	The optimal length of contract between PSAA and firms has not been decided. We would welcome views on what the sector

Question	Response
	considers the optimal length of audit contract. We anticipate that somewhere between three and five years would be appropriate.
9. In addition to the Code of Audit Practice requirements set out by the NAO, will the contract be flexible to enable authorities to include the audit of wholly owned companies and group accounts?	<p>Local authority group accounts are part of the accounts produced under the CIPFA SORP and are subject to audit in line with the NAO Code of Audit Practice. They will continue to be part of the statutory audit.</p> <p>Company audits are subject to the provisions of the Companies Act 2006 and are not covered by the Local Audit (Appointing Person) Regulations 2015. Local authority companies will be able to appoint the same audit firm as PSAA appoints to undertake the principal body audit, should they so wish.</p>
10. Will bodies that opt in be able to seek information from potential suppliers and undertake some form of evaluation to choose a supplier?	PSAA will run the tendering exercise, and will evaluate bids and award contracts. PSAA will consult authorities on individual auditor appointments. The appointment of an auditor independently of the body to be audited is an important feature of the appointing person arrangements and will continue to underpin strong corporate governance in the public sector.
11. Will the price be fixed or will there be a range of prices?	The fee for the audit of a body that opts in will reflect the size, audit risk and complexity of the work required. PSAA will establish a system for setting the fee which is fair to all opted-in authorities. As a not-for-profit organisation, PSAA will be able to return any surpluses to participating authorities after all costs have been met.
12. We have shared service arrangements with our neighbouring bodies and we are looking to ensure that we share the same auditor. Will the appointing person scheme allow for this?	PSAA will be able to make appointments to all principal local government bodies listed in Schedule 2 of the Local Audit and Accountability Act 2014 that are 'relevant authorities' and not excluded as a result of being smaller authorities, for example parish councils.

Question	Response
	<p>In setting up the new arrangements, one of our aims is to make auditor appointments that take account of joint working and shared service arrangements. Requests for the same auditor as other authorities will need to be balanced with auditor independence considerations. As we have set out in our prospectus, auditors must be independent of the bodies they audit. PSAA will have an obligation under the provisions of the Local Audit and Accountability Act 2014 and in compliance with the Ethical Standards issued by the Financial Reporting Council to ensure that every auditor appointment it makes passes this test. We will need information from opted-in authorities on potential independence considerations and joint working arrangements, and will also need information on independence issues from the audit firms. Risks to auditor independence include, for example, an audit firm having previously been engaged to advise on a major procurement which could, of course, later be subject to audit.</p>
<p>13. We have a joint committee which no longer has a statutory requirement to have an external auditor but has agreed in the interests of all parties to continue to engage one. Is it possible to use this process as an option to procure the external auditor for the joint committee?</p>	<p>The requirement for joint committees to produce statutory accounts ceased after production of the 2014/15 accounts and they are therefore not listed in Schedule 2. Joint committees that have opted to produce accounts voluntarily and obtain non-statutory assurance on them will need to make their own local arrangements.</p>
<p>14. How will the appointing person scheme ensure audit firms are not over-stretched and that the competition in the market place is increased?</p>	<p>The number of firms eligible to undertake local public audit will be regulated through the Financial Reporting Council and the recognised Supervisory Bodies (RSBs). Only appropriately accredited firms will be able to bid for appointments whether that is through PSAA or an auditor panel. The seven firms appointed by PSAA and the Audit Commission generally</p>

Question	Response
	<p>maintain a dedicated public sector practice with staff trained and experienced in public sector work.</p> <p>One of the advantages of the appointing person option is to make appointments that help to ensure that each successful firm has a sufficient quantum of work to make it possible for them to invest in public sector specific training, maintain a centre of excellence or hub that will mean:</p> <ul style="list-style-type: none"> <li>• firms have a regional presence;</li> <li>• greater continuity of staff input; and</li> <li>• a better understanding the local political, economic and social environment.</li> </ul>
<p>15. Will the appointing person scheme contract with a number of different audit firms and how will they be allocated to authorities?</p>	<p>PSAA will organise the contracts so that there is a minimum number of firms appointed nationally. The minimum is probably four or five (depending on the number of bodies that opt in). This is required, not just to ensure competition and capacity, but because each firm is required to comply with the FRC's ethical standards. This means that an individual firm may not be appointable for 'independence' reasons, for example, because they have undertaken consultancy work at an audited body. PSAA will consult on appointments that allow each firm a balanced portfolio of work subject to independence considerations.</p>
<p>16. What will be the process to feed in opinions from customers of current auditors if there are issues?</p>	<p>PSAA will seek feedback on its auditors as part of its engagement with the sector. PSAA will continue to have a clear complaints process and will also undertake contract monitoring of the firms it appoints.</p>
<p>17. What is the timetable for set up and key decisions?</p>	<p>We expect the key points in the timetable to be broadly:</p>

Question	Response
	<ul style="list-style-type: none"> <li>• establish an overall strategy for procurement - by 31 October 2016;</li> <li>• achieve 'sign-up' of scheme members - by early January 2017;</li> <li>• invite tenders from audit firms - by 31 March 2017;</li> <li>• award contracts - by 30 June 2017;</li> <li>• consult on and make final auditor appointments - by 31 December 2017; and</li> <li>• consult on, propose audit fees and publish fees - by 31 March 2018.</li> </ul>
18. What are the terms of reference of the appointing person?	PSAA is wholly owned by the IDeA (the IDeA is wholly owned by the LGA). PSAA will continue to operate as an independent company, although there will be changes to its governance arrangements and its founding documents to reflect the fact that it will be an appointing person rather than a transitional body.
19. Will the appointing person take on all audit panel roles and therefore mitigate the need for there to be one in each individual authority?	Opting into the appointing person scheme will remove the need to set up an auditor panel. This is set out in the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.



Question	Response
<p>20. What will be the arrangements for overseeing the quality of audit work undertaken by the audit firms appointed by the appointing person?</p>	<p>PSAA will only contract with firms which have a proven track record in undertaking public audit work. In accordance with the 2014 Act, firms must be registered with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of their work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC). Current indications are that fewer than ten large firms will register meaning that small local firms will not be eligible to be appointed to local public audit roles.</p> <p>PSAA will ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any concerns are detected at an early stage and addressed effectively in the new regime. The company will take a close interest in feedback from audited bodies and in the rigour and effectiveness of firms' own quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems arising. We will liaise with the NAO to help ensure that guidance to auditors is updated when necessary.</p>

**AUDIT COMMITTEE****18<sup>th</sup> January 2017****Internal Audit Charter****Report of Internal Audit & Assurance Manager****PURPOSE OF REPORT**

To seek the Committee's approval for a revised Internal Audit Charter

**This report is public**

**RECOMMENDATIONS**

**(1) That the revised Internal Audit Charter (Appendix A) is approved.**

**1.0 Background**

1.1 The council's current Internal Audit Charter was approved by the Audit Committee at its meeting on 22<sup>nd</sup> January 2014. In accordance with extant Internal Audit Standards<sup>1</sup>, the Code is reviewed annually.

**2.0 Report**

2.1 A review of the Charter during 2016 has identified that a number of alterations are required to the document. These broadly fall into the following categories:

- Alterations required to reflect changes in the legislative environment for Internal Audit, as brought about by the Accounts and Audit Regulations 2015;
- Alterations reflecting changes in the staffing and structure of the Internal Audit function and managerial responsibilities of the Internal Audit & Assurance Manager; and
- Alterations aimed at developing the service and further promoting compliance with professional standards.

2.2 Any substantive changes being proposed are highlighted in the draft Internal Audit Charter attached to this report as Appendix A. Members are asked to consider the changes and approve the revised Charter.

**3.0 Details of Consultation**

3.1 Management Team have been consulted in developing the draft Audit Charter.

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<sup>1</sup> Public Sector Internal Audit Standards

**4.0 Options and Options Analysis (including risk assessment)**

- 4.1 The options available to the Committee are to:
- a) approve the draft charter, either as presented, or with suggested changes; or
  - b) propose an alternative course of action.
- 4.2 Option a) is the preferred option as it will provide the council and its internal audit function with the basis for continued compliance with established Internal Audit standards.

**5.0 Conclusion**

- 5.1 It is timely and appropriate to update the council's Internal Audit Charter; this is a key component in establishing compliance with professional standards for internal audit.

<p><b>CONCLUSION OF IMPACT ASSESSMENT</b>  <b>(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</b></p> <p>Not applicable</p>	
<p><b>FINANCIAL IMPLICATIONS</b></p> <p>None directly arising from this report</p>	
<p><b>SECTION 151 OFFICER'S COMMENTS</b></p> <p>The Section 151 Officer has been consulted and has no further comments</p>	
<p><b>LEGAL IMPLICATIONS</b></p> <p>None directly arising from this report</p>	
<p><b>MONITORING OFFICER'S COMMENTS</b></p> <p>The Monitoring Officer has been consulted and has no further comments</p>	
<p><b>BACKGROUND PAPERS</b></p> <p>Public Sector Internal Audit Standards</p> <p>Local Government Application Note for the UK PSIAS - (CIPFA, in collaboration with the Chartered Institute of Internal Auditors)</p>	<p><b>Contact Officer:</b> Derek Whiteway  <b>Telephone:</b> 01524 582028  <b>E-mail:</b> dwhiteway@lancaster.gov.uk  <b>Ref:</b> aud/comm/audit/170118Charter</p>



# **LANCASTER CITY COUNCIL INTERNAL AUDIT CHARTER**

**REVIEW OF THE LATEST VERSION, APPROVED BY AUDIT COMMITTEE 22/01/14**

PREPARED BY THE INTERNAL AUDIT AND ASSURANCE MANAGER

**Revision History**

Date of this revision:

Revision Date	Summary of Changes	Version
14/11/07	Initial Draft	0.01
23/01/08	Approved by Audit Committee	1.00
06/06/13	Complete Re-draft – to take account of PSIAS requirements	1.02
26/06/13	Approved by Audit Committee	2.00
17/12/13	Amendments arising from review of PSIAS etc	2.01
19/12/13	Further amendments	2.02
22/01/14	Approved by Audit Committee	3.00
21/09/16	Review amendments (DA and DCW)	3.01

**Distribution**

Name	Title
Internally via Intranet	Internal Audit Charter

**Approvals**

Name	Date Approved	Link to Approval Minutes	Version
Audit Committee	23/01/08	Minute 31 2007/08	1.00
Audit Committee	26/06/13	Minute 9(2) 2013/14	2.00
Audit Committee	22/01/14	Minute 21(2) 2013/14	3.00

## INTERNAL AUDIT CHARTER

### 1. Introduction

- 1.1 Internal Audit in local authorities is a statutory function, required under section 5 of the Accounts and Audit Regulations 2015. Section 5 requires that local authorities to which the Regulations apply “...**must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance**”
- 1.2 From 1<sup>st</sup> April 2013, “public sector internal auditing standards or guidance” are defined as those set out by the UK Public Sector Internal Audit Standards (PSIAS). The standards combine best practice from the global and private sector experience of the Institute of Internal Auditors (IIA), with the UK public sector expertise of CIPFA and other audit bodies in the public services and form the benchmark against which local authority internal audit services are assessed.
- 1.3 The Standards comprise a revised definition of Internal Auditing, a Code of Ethics for Internal Auditors working in the Public Sector and the Standards themselves. The Standards are mandatory for all internal auditors working in the UK public sector.

### 2. Definition of Internal Audit

- 2.1 The PSIAS define internal auditing as *“an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”*

### 3. Framework for Internal Audit

- 3.1 The following diagram sets out the key legislative, professional and organisational elements which create the framework within which internal audit operates.
- 3.2 Whilst the Council’s highest level of commitment to internal audit is set out in the Financial Regulations (§ 6.3.7), it is the Internal Audit Charter which plays the central and most significant role in establishing the internal framework and environment for internal audit. The Charter sets the scene for the production and management of the more detailed elements, including strategic and operational plans, people management and development, and working practices (the audit manual).
- 3.3 Within the overall framework established under the Charter, internal audit is managed and delivered in accordance with more detailed elements including those relating to HR matters (competency framework, Job Descriptions and the Employee Development & Performance Appraisal regime); strategy and planning; and operational management (covered by the Internal Audit Manual).





#### 4. Key Organisational Roles and Relationships

- 4.1 The PSIAS require that the internal audit charter defines the terms ‘Board’ and ‘Senior Management’ in relation to the work of internal audit. For the purposes of internal audit work, the ‘Board’ is taken to refer to the full Council, although in practice, the Audit Committee has delegated responsibility for overseeing the work of internal audit, on behalf of full Council. ‘Senior Management’ is taken to refer to the Chief Executive and Chief Officers.
- 4.2 The authority has adopted CIPFA’s “Statement on the Role of the Chief Financial Officer in Local Government”, 2010, and the associated “Statement on the Role of the Head of Internal Audit in Public Service Organisations”, 2011. These statements set out principles and standards for the Chief Officer (Resources) (as CFO and Section 151 Officer) and the Internal Audit and Assurance Manager to act in a mutually supportive way in fulfilling their statutory and professional responsibilities.
- 4.3 Internal Audit supports the Chief Executive, as Head of Paid Service, in providing high level assurances relating to the council’s strategy and governance arrangements.
- 4.4 Internal Audit also supports the Monitoring Officer, in discharging his/her responsibilities in maintaining high standards of governance, conduct and ethical behaviour.
- 4.5 The Internal Audit and Assurance Manager is responsible for the effective review of all aspects of governance, risk and internal control across the full range of the Authority’s activities.

- 4.6 The existence of Internal Audit does not detract from or diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient, accountable and well-ordered manner.
- 4.7 Internal Audit works with, and is accountable to the council's Audit Committee, to ensure it can:
  - o rely on the assurances provided by Internal Audit
  - o Rely on the assurances provided in respect of all other aspects of the Council's governance arrangements, to enable them to perform an informed critique of the Annual Governance Statement, on behalf of the Council.

## 5. Internal Audit Independence and Objectivity

- 5.1 Internal Audit operates independently within the Council to ensure it is able to appraise the Authority's governance, risks and internal control systems in the impartial and unbiased manner essential to the proper conduct of audits.
- 5.2 To ensure this independence, Internal Audit operates within a framework that allows unrestricted access to all council officers, senior management and elected Members. As such, all Internal Audit staff have the right to access all premises, records and documentation held by the council, its officers and Elected Members, and to seek explanations as they see necessary to effectively discharge their duties. This position is supported by §5(2) of the Accounts and Audit Regulations 2015.
- 5.3 The Internal Audit and Assurance Manager will report in his / her own name to officers and Elected Members, as they are charged with maintaining effective governance within the organisation. The work of Internal Audit will be performed and reported in accordance with the direction and agreement of the Internal Audit and Assurance Manager.
- 5.4 Objectivity is preserved by ensuring that internal audit personnel are free from conflicts of interest and do not undertake any non-audit duties. Exceptions to this currently exist in the following roles which are undertaken by the Internal Audit and Assurance Manager:
  - a) Deputy Section 151 Officer;
  - b) Functional and operational manager of the Council's corporate Information Governance function; and
  - c) Functional (though not operational) management of the services provided by the shared Corporate Enquiry Team (CET).
- 5.5 Each of the above roles have the potential to involve the Internal Audit and Assurance Manager in operational matters, creating a conflict of interest. Where there is a call for internal audit review and opinion on any area in which the Internal Audit and Assurance Manager has fulfilled an operational role, this will be managed and reported on directly by the Principal Auditor, where possible. If necessary, consideration will be given to procuring audit services from external source in order to maintain independence.
- 5.6 Where internal auditors have a perceived or real conflict of interest in undertaking a particular piece of work, this will be managed through the internal audit management and supervisory process. Internal auditors are required to declare any potential conflict of interest both on an annual basis, and when they are assigned a particular audit review. The work will then be reassigned to another auditor.

## 6. Reporting Lines and Audit Reports

- 6.1 The Internal Audit and Assurance Manager reports administratively to the Chief Officer (Resources).

- 6.2 Functionally, the work of internal audit is reported in full to senior managers, Members of the Audit Committee and the external auditor by means of specific reports, and in summary form to Audit Committee via periodic monitoring and activity reports.
- 6.3 The Internal Audit and Assurance Manager and the Chief Executive have mutual direct access to each other as they consider appropriate and hold regular one-to-one meetings.
- 6.4 The Internal Audit and Assurance Manager and Chairman of the Audit Committee have mutual direct access to each other as they consider appropriate and hold regular one-to-one meetings.
- 6.5 Most internal audit assignments will result in the production of a formal report. Draft reports will be sent to the manager(s) responsible for the area under review for agreement of the factual accuracy of findings and to develop an action plan to address weaknesses in internal controls.
- 6.6 Once agreed, final reports will be copied to the relevant Chief Officer(s), the Chief Executive and the Chief Officer (Resources) as well as Members of the Audit Committee and the external audit manager.
- 6.7 Internal Audit will report regularly on the results of its work to senior management and the Audit Committee, highlighting significant control issues and potential for improving risk management and internal control processes.
- 6.8 Whilst management are responsible for the implementation of agreed actions, follow up work will be performed of agreed action plans to ensure they are being progressed. The Audit Committee will be advised of progress with the implementation of action plans, and the Committee may seek explanations directly from the managers responsible for any delays or failure to implement.

## 7. Scope of Internal Audit Work

- 7.1 The scope of Internal Audit covers all the council's governance arrangements, procedures for ensuring the effective management of all significant risks and ensuring regularity in all its financial affairs, including achieving value for money.
- 7.2 Where the Council works in partnership with other organisations, the role of Internal Audit will be defined on an individual basis or agreed with the organisation through liaison with the relevant Chief Officer.
- 7.3 Where Internal Audit undertakes work on behalf of any other organisations, this will be determined in conjunction with the Audit Committee and in consultation with the Chief Officer (Resources), to ensure that adequate audit resources remain available to provide assurance over the council's activities. External assurance work will result in a report and assurance statement to the relevant organisation's Board and recommendations to its senior management.
- 7.4 Internal Audit may undertake consultancy work in addition to its primary assurance role and the extent of each type of work will be set out in internal audit plans. The scope of any consultancy work will be agreed with management and will only be undertaken where resources permit without impacting on the annual assurance process. In line with the PSIAS, the Audit Committee will be advised of any consultancy work requested and performed.
- 7.5 Where individual internal auditors undertake non-audit activities, for example in participating in corporate projects in a non-audit role, the auditor involved will not participate in future audits of the service/project area until at least one year has elapsed from completion of the activity.

7.6 The role of Internal Audit in fraud related work is set out in the following Council documents:

- Financial Regulations
- Anti-Fraud, Bribery and Corruption Policy
- Raising Concerns at Work Policy
- Fraud Response Plan.

7.7 The primary responsibility for maintaining a sound system of internal control, including arrangements to prevent and detect fraud and corruption lies with management. The completion of planned audit work assists this process by highlighting areas where controls are inadequate or are not operating as intended.

## 8. Internal Audit Obligations and Responsibilities

8.1 The Internal Audit and Assurance Manager is responsible for:

- o Developing and proposing the future strategic direction for Internal Audit within the Authority;
- o Developing an annual audit plan in the context of the strategic direction and based on an understanding of the significant risks to which the organisation is exposed;
- o Managing the provision of a complete professional internal audit service to the authority that is compliant with the PSIAS;
- o Monitoring and reporting the performance of the Internal Audit service in accordance with the documented Internal Audit Performance Management Framework;
- o Producing and reporting to Audit Committee an annual audit opinion, based on the outcomes of internal audit work conducted throughout the year;
- o Providing advice and guidance on risks and the application and development of internal controls;
- o Maintaining good working relationships with External Audit based on mutual recognition and respect, leading to a joint improvement in performance and the avoidance of unnecessary overlapping of work;
- o Assessing all matters of potential fraud or irregularity in line with the requirement of the Council's Anti-Fraud, Corruption and Bribery Policy. Internal audit will undertake or commission investigations as necessary into such matters and advise the Statutory Officers and Audit Committee of the outcomes.

## 9. Limitations of Internal Audit Responsibilities

9.1 In seeking to discharge the obligations and responsibilities set out in §8 above, it should be noted that Internal Audit is not responsible for the following, which are the proper responsibility of management:

- o Controlling the risks of the Authority;
- o Establishing and maintaining systems of internal control;
- o Determining operational policies or procedures; and
- o Preventing or detecting fraud and irregularity.

## 10. Client Obligations and Responsibilities

- 10.1 The effective fulfilment of the objectives of internal audit reviews and the robustness of internal audit assurance opinions requires commitment from the managers of services under review to:
- o understand their responsibilities to establish systems of internal control which ensure that activities are conducted in a secure, efficient, accountable and well-ordered manner;
  - o identify, evaluate and manage business (including financial) risks on a day-to-day basis;
  - o inform Internal Audit of proposed new systems to enable involvement from the outset, the scope of involvement to be mutually agreed;
  - o discuss risks identified with the lead auditor at the start of an audit assignment with a view to agreeing the scope, objectives and methodology for the review, to be formalised in the audit brief;
  - o agree with the lead auditor the plan for the review including timescales, communication lines and expectations;
  - o provide constructive input and adequate resources to complete the review within the agreed timescale;
  - o respond to audit requests and documentation on a timely basis ensuring that accurate, up-to-date information is made available to auditors as required;
  - o evaluate and take ownership of agreed actions, taking account of risk and cost-effectiveness: and
  - o implement agreed actions in line with agreed timescales.

## 11. Resourcing and Staffing Matters

- 11.1 The Internal Audit and Assurance Manager will hold an appropriate professional qualification (CMIIA, CCAB or equivalent) and have extensive internal audit experience.
- 11.2 Internal audit will be staffed according to the staffing structure as approved by the Chief Officer (Resources) and advised to the Audit Committee and will aim to maintain a suitable mix of experienced and qualified staff. Adequate resources will be maintained to enable meaningful, evidenced assurances to be provided.
- 11.3 The Internal Audit and Assurance Manager will ensure that the Internal Audit service has access to an appropriate range of knowledge, skill, qualifications and experience required to deliver the audit plan.
- 11.4 Individual training needs are established and agreed through the Employee Development and Performance Appraisal (EDPA) process along with the most cost effective means of meeting those needs. As a professional service, staff are expected to actively participate in relevant formal Continuing Professional Development (CPD) schemes.

## 12. Ethics

- 12.1 The PSIAS contain a Code of Ethics which is mandatory for all internal auditors in the public sector. In addition, individuals are also required to adhere to the council's Code of Conduct for Employees and the Codes of Ethics of their professional bodies, where appropriate.
- 12.2 Internal Audit has adopted the PSIAS Code of Ethics. Staff will be required to declare annually any personal interests and certify that they understand and will comply with requirements of the Code.

**13. Review**

13.1 The Internal Audit and Assurance Manager will review this Charter annually and in the event of any substantive changes, present it to senior management and the Audit Committee for approval.



**AUDIT COMMITTEE****18<sup>th</sup> January 2017****Internal Audit Monitoring****Report of Internal Audit & Assurance Manager****PURPOSE OF REPORT**

To advise Members of the latest monitoring position regarding the 2016/17 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 results of recent audit activity (sections 2 - 3 of the report) are noted.

**1.0 Audit Plan Monitoring to 19<sup>th</sup> December 2016**

- 1.1 The 2016/17 Internal Audit Plan was approved by the Audit Committee at its meeting on 29<sup>th</sup> June 2016 with a number of variations approved at the meeting on 14<sup>th</sup> September 2016. This report is based on the monitoring position up to 19<sup>th</sup> December 2016 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 19<sup>th</sup> December 2016

Area of work	Resources (audit days)					
	Actuals to 19/12/16	Remain-ing	Comm-itted	Current Plan	Variance	Proposed Plan
<b>Assurance Work</b>						
Core Financial Systems	12	18	30	50	20	30
Revenues & Benefits Shared Services	1	39	40	40	0	40
Core Management Arrangements	45	5	50	50	0	50
Risk Based Assurance Audits	92	53	145	120	-25	145
Follow-Up Reviews	16	14	30	35	5	30
<b>Sub-Total, Assurance</b>	<b>166</b>	<b>129</b>	<b>295</b>	<b>295</b>	<b>0</b>	<b>295</b>
<b>Consultancy Work</b>						
Ad-Hoc Advice	43	10	53	50	-3	53
Corporate Risk Management	2	8	10	20	10	10
Support Work	10	5	15	20	5	15
<b>Sub-Total, Consultancy</b>	<b>55</b>	<b>23</b>	<b>78</b>	<b>90</b>	<b>12</b>	<b>78</b>
<b>Other Work</b>						
Other Duties (Non-Audit)	118	24	142	130	-12	142
Audit Management	33	7	40	40	0	40
<b>Sub-Total, Other Work</b>	<b>151</b>	<b>31</b>	<b>182</b>	<b>170</b>	<b>-12</b>	<b>182</b>
<b>Contingencies</b>						
Investigations	4	6	10	10	0	10
General Contingency	0	0	0	10	10	0
<b>Sub-Total, Contingencies</b>	<b>4</b>	<b>6</b>	<b>10</b>	<b>20</b>	<b>10</b>	<b>10</b>
<b>Total</b>	<b>376</b>	<b>189</b>	<b>565</b>	<b>575</b>	<b>10</b>	<b>565</b>

1.3 The monitoring position takes account of ongoing and planned work commitments. This shows that overall, current commitments total 565 days compared with the currently approved plan of 575 days, giving an uncommitted resource of 10 days. This equates to the unused balance of the general contingency of 10 days.

1.4 As reported to the September meeting of the Committee, internal audit staff resources had been diverted, between March and September 2016 to cover both the management and day-to-day operation of the Council's corporate information management functions. Adjustments to the plan approved by the Committee at that meeting identified in a shortfall in resources in the plan of 40 days. That position has been maintained in the intervening period, resources available from the current staffing for the remainder of the year being 149 days.

### Proposals

1.5 The proposals incorporate a reduction in time spent on follow-up reviews (5 days), corporate risk management (10 days), support work (5 days) and the transfer of 10 days from the general contingency. Arrangements are in hand to secure additional resources to provide the additional 40 days required to complete the plan. This has been built into the revised budget for 2016/17 and will be therefore be met from within existing budgets.

1.6 These proposals seek to maintain the main programme of Assurance Audit work.

## 2.0 Results of Internal Audit Work to 19<sup>th</sup> December 2016

2.1 This report covers audit work and reports issued since the last update report to Committee on 14<sup>th</sup> September 2016. 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	
<b>New Audit Reports</b>				
16/0971	Council Housing Rent Collection and Arrears Management	14/11/16	Substantial	✓
16/0974	Williamson Park – Cash and Banking	04/11/16	Substantial	✓
16/0975	Licensing – Taxis	14/12/16	Substantial	✓
<b>Follow-up Reviews</b>				
15/0956	Stores	16/11/16	Limited	⚠
15/0963	Safeguarding Adults	23/12/16	Limited	⚠

## 3.0 Matters Arising from Audit Reviews

3.1 The key conclusions and action points in relation to those reports where a “Limited” assurance opinion has been given are:

### 3.2 15/0956 - Stores (Limited)

Very good progress has been made with implementation of the agreed actions, improvements having been made in relation to stocktaking, record keeping and security checks on stock leaving the depot. However, reviews are still ongoing in relation to key areas including purchasing, stock management and ensuring that the most effective use is being made of the Stores system. Therefore, the level of assurance which can be provided at this time remains at limited. However, revised target implementation dates have been agreed to take into account work in progress, which once complete should result in substantial assurance being provided.

### 3.3 15/0963 – Safeguarding Adults (Limited)

Good progress has been made with implementation of the agreed actions, improvements having been made in relation to the corporate induction presentation and the information available on the council's intranet and Website. At the time of producing this report, a number of actions were in the process of being addressed in relation to some key areas; these include the revision of the Safeguarding Adults Policy, the launch of the revised safeguarding e-learning modules and a review of safeguarding training needs across the council. Whilst the level of assurance which can be provided at this time remains at limited, revised target implementation dates early in 2017 have been agreed to take into account work in progress, which once complete, will enable the assurance level to be raised to substantial.

## 4.0 Details of Consultation

4.1 Management Team and senior service managers continue 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 Adjustments in plan allocations and the exploration of options to secure additional resources, within existing budgets, are being proposed to maintain the core elements of the internal audit plan.

**CONCLUSION OF IMPACT ASSESSMENT  
(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)**

Not applicable

**FINANCIAL IMPLICATIONS**

Any options for securing additional resources to maintain the audit plan can be met from within existing budgets.

**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 2016/17

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**Ref:** aud/comm/audit/170118IAMon

## Internal Audit Annual Plan 2016/17 - Monitoring to 19 December 2016

Work Allocations		Actuals to 19/12/16	Remaining	Committed	Approved Plan (14/09/16)	Variance	Status at 19/12/16
Job No	Title						
<b>1. ASSURANCE WORK</b>							
<b>LCC Core Financial Systems</b>							
15/0966	Sundry Debtors	12	0	12			✓
	Unallocated	0	18	18			⚠
<b>Sub-total - Core Financial Systems</b>		<b>12</b>	<b>18</b>	<b>30</b>	<b>50</b>	<b>20</b>	
<b>Revenues Shared Service - Financial Systems</b>							
16/0983	Housing Benefits - E-Claims Module	1	9	10			⚠
	Unallocated		30	30			⚠
<b>Sub-total - Revenues Shared Services</b>		<b>1</b>	<b>39</b>	<b>40</b>	<b>40</b>	<b>0</b>	
<b>Core Management Arrangements</b>							
Various	National Fraud Initiative	31	4	35			⚠
15/0962	Counter Fraud Activities	5	1	6			⚠
16/0969	Annual Governance Review and Statement 2015/16	9	0	9			✓
<b>Sub-total - Core Management Arrangements</b>		<b>45</b>	<b>5</b>	<b>50</b>	<b>50</b>	<b>0</b>	
<b>Risk Based Assurance Work Programme</b>							
15/0963	Safeguarding Adults	4	0	4			✓
16/0965	Section 106 Agreements	7	0	7			✓
16/0971	Council Housing Rent Collection & Arrears Management	18	0	18			✓
16/0972	Drivers' Certificates of Professional Competence	5	0	5			✓
16/0973	Anti-Social Behaviour	8	2	10			⚠
16/0974	Williamson Park Cash and Banking	16	0	16			✓
16/0975	Licensing - Taxis	14	0	14			✓
16/0976	Equality Act	4	8	12			⚠
16/0978	Debt Collection Agency Performance	10	4	14			⚠
16/0979	Canal Corridor North - Project Assurance	3	7	10			⚠
16/0980	Debt Recovery - Legal Services	1	9	10			⚠
16/0981	Fees and Charges - Legal Services	2	8	10			⚠
	Unallocated	0	15	15			⚠
<b>Sub-total - Risk Based Assurance Work</b>		<b>92</b>	<b>53</b>	<b>145</b>	<b>120</b>	<b>-25</b>	
<b>Follow-Up Reviews</b>		<b>16</b>	<b>14</b>	<b>30</b>	<b>35</b>	<b>5</b>	∞
<b>SUB-TOTAL - ASSURANCE WORK</b>		<b>166</b>	<b>129</b>	<b>295</b>	<b>295</b>	<b>0</b>	
<b>2. CONSULTANCY WORK</b>							
<b>Ad-Hoc Advice</b>		<b>43</b>	<b>10</b>	<b>53</b>	<b>50</b>	<b>-3</b>	∞
<b>Corporate Risk Management</b>		<b>2</b>	<b>8</b>	<b>10</b>	<b>20</b>	<b>10</b>	∞
<b>Support Work (projects and other)</b>							
16/0509	RIPA Monitoring and Central Register	1	1	2			∞
16/0982	Review of Local Code of Corporate Governance	9	4	13			⚠
<b>Sub-total - Support Work (projects and other)</b>		<b>10</b>	<b>5</b>	<b>15</b>	<b>20</b>	<b>5</b>	
<b>SUB-TOTAL - CONSULTANCY WORK</b>		<b>55</b>	<b>23</b>	<b>78</b>	<b>90</b>	<b>12</b>	
<b>3. OTHER</b>							
15/0392	Deputy Section 151 Officer Duties	5	5	10	20	10	∞
15/0950	Management - Information Governance Function	110	15	125	100	-25	∞
15/0951	Management - Corporate Fraud Team	3	4	7	10	3	∞
<b>SUB-TOTAL - OTHER</b>		<b>118</b>	<b>24</b>	<b>142</b>	<b>130</b>	<b>-12</b>	
<b>4. AUDIT MANAGEMENT</b>							
15/0172	Committee Work	12	3	15			∞
15/0189	Audit Planning & Management	21	4	25			∞
<b>SUB-TOTAL - AUDIT MANAGEMENT</b>		<b>33</b>	<b>7</b>	<b>40</b>	<b>40</b>	<b>0</b>	
<b>5. CONTINGENCIES</b>							
<b>Investigations</b>		<b>4</b>	<b>6</b>	<b>10</b>	<b>10</b>	<b>0</b>	
<b>General Contingency</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>10</b>	<b>10</b>	
<b>SUB-TOTAL - CONTINGENCIES</b>		<b>4</b>	<b>6</b>	<b>10</b>	<b>20</b>	<b>10</b>	
<b>TOTALS</b>		<b>376</b>	<b>189</b>	<b>565</b>	<b>575</b>	<b>10</b>	

Key: ✓ Completed    ⚠ In Progress    ? Not Yet Started    ∞ Continuous or Multi-Year Activity  
 CFwd Carried Forward to 2017/18 Plan    ✗ Abandoned