



Committee: AUDIT COMMITTEE
Date: WEDNESDAY, 28 JUNE 2017
Venue: LANCASTER TOWN HALL
Time: 6.10 P.M.

A G E N D A

1. **Apologies for Absence**

2. **Appointment of Vice-Chairman**

To appoint a Vice-Chairman for the 2017/18 municipal year (The Vice Chairman must not be a member of Cabinet or Overview and Scrutiny).

3. **Minutes**

Minutes of meeting held on 18th January 2017 (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 Audit Plan 2016/17 (Pages 1 - 16)**

Report of KPMG LLP.

7. **External Audit Fee 2017/18 (Pages 17 - 24)**

Report of KPMG LLP.

8. **Internal Audit Management - Collaboration with Wyre Borough Council** (Pages 25 - 28)

Report of the Chief Officer (Resources).

9. **Annual Review of Internal Audit's Compliance with Professional Standards** (Pages 29 - 36)

Report of the Internal Audit and Assurance Manager.

10. **Internal Audit Annual Report and Assurance Statement 2016/17** (Pages 37 - 45)

Report of the Internal Audit and Assurance Manager.

11. **Internal Audit Strategy and Risk Based Plan 2017/18** (Pages 46 - 51)

Report of the Internal Audit and Assurance Manager.

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

Councillors Abbott Bryning (Chairman), Nathan Burns, 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.

(iv) Changes to Membership, substitutions or apologies

Please contact Democratic Support, telephone 582170, or alternatively email democraticsupport@lancaster.gov.uk.

SUSAN PARSONAGE,
CHIEF EXECUTIVE,
TOWN HALL,
DALTON SQUARE,
LANCASTER, LA1 1PJ

Published on 20th June, 2017.



External Audit Plan 2016/17

Lancaster City Council

June 2017



Financial Statement Audit



There are no significant changes to the Code of Practice on Local Authority Accounting in 2016/17, which provides stability in terms of the accounting standards the Authority need to comply with.

Materiality

Materiality for planning purposes has been based on last year's expenditure and set at **£3 million**.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at **£150,000**.

Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- Significant changes in the pension liability due to LGPS Triennial Valuation; and
- Valuation of PPE.

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding have been identified as:

- Disclosure around retrospective restatement of Comprehensive Income and Expenditure (CIES), Movement in Reserves Statement (MiRS) and Expenditure and Funding Analysis (EFA) note from 1 April 2016; and
- Recognition of pay and non-pay expenditure.

See pages 3 to 6 for more details.

Value for Money Arrangements work



Our risk assessment is ongoing and we will report VFM significant risks during our audit .

See pages 7 to 10 for more details.

Logistics

Our team is:

- Tim Cutler- Director
- Chris Paisley – Audit Manager
- Forget Chasakara – Assistant Manager

More details are on **page 13**.

Our work will be completed in four phases from March to September and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 12**.

Our fee for the audit is £58,388 (£58,388 in 2015/16) see **page 11**.



Introduction

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2016/17 presented to you in June 2016, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

Our audit has two key objectives, requiring us to audit/review and report on your:

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

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

Acknowledgements

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

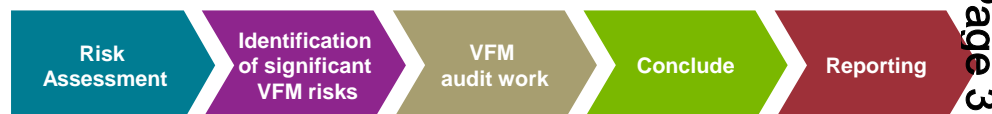
Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.



Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 8 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2016/17.



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Financial Statements Audit Planning

Our planning work took place during December 2016 to February 2017. This involved the following key aspects:

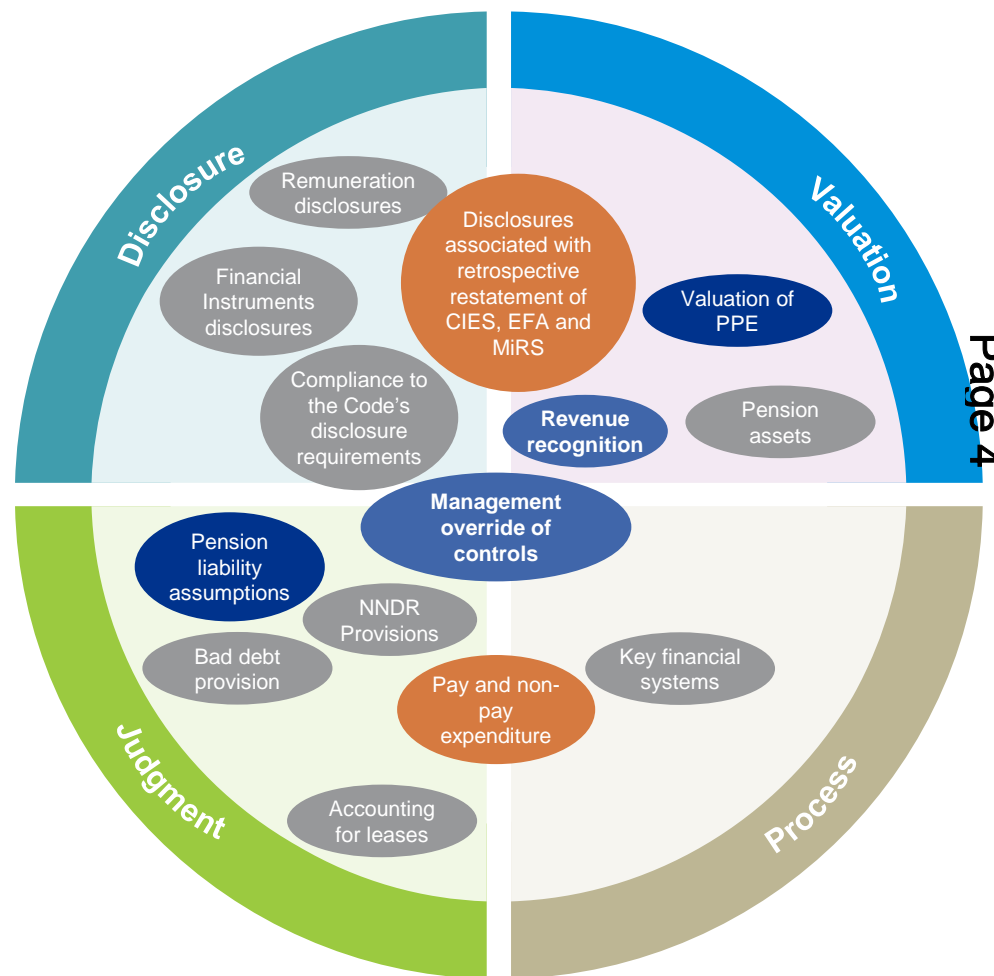
- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

Risk assessment

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

- **Management override of controls** – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- **Fraudulent revenue recognition** – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The diagram opposite identifies, significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.



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Keys: ● Significant risk ● Other area of audit focus ● Example other areas considered by our approach



Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error.

Risk: Significant changes in the pension liability due to LGPS Triennial Valuation

During the year, the Local Government Pension Scheme for Lancaster City Council (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.

The pension liability numbers to be included in the financial statements for 2016/17 will be based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data.

There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Lancashire County Council, who administer the Pension Fund.

Approach: As part of our audit, we will agree any data provided by the Authority to the actuary, back to the relevant systems and reports from which it was derived, in addition to checking the accuracy of this data.

We will also liaise with Grant Thornton, who are the auditors of the Pension Fund administering authority, where this data was provided by the Pension Fund on the Authority's behalf, to check the completeness and accuracy such data.

Risk : Valuation of Property, Plant and Equipment

The Authority undertakes a rolling revaluation of its Property, Plant and Equipment (PPE) assets. Assets are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current net book value; as a minimum, all assets are revalued at least every five years.

The valuation of these assets is impacted significantly by the assumptions adopted by the Authority's expert valuation specialist. Further, Authorities are required to consider annually the possibility of any impairment to its existing estate. The asset valuation and impairment review processes are both estimates and therefore present a higher level of risk to the audit.

Approach: We will review the valuation basis adopted and consider its appropriateness. We will undertake appropriate work to understand the basis upon which any impairments to land and buildings have been calculated.

We will test the associated assumptions. We will re-perform any calculations of movement in market value indices relied upon by the Authority, and confirm the data used by valuer, to the appropriate source data.

We will assess the independence and objectivity of the surveyors and the terms under which they were engaged by management.



Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Disclosures associated with retrospective restatement of CIES, EFA and MiRS

During past years, CIPFA has been working with stakeholders to develop better accountability through the financial statements as part of its 'telling the whole story' project. The key objective of this project was to make Local Government accounts more understandable and transparent to the reader in terms of how the Councils are funded and how they use the funding to serve the local population. Outcome of this project resulted in two main changes in respect of the 2016-17 Local Government Accounting Code (Code) as follows:

- Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and
- Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MIRS) and replaces the current segmental reporting note

As a result of these changes, retrospective restatement of CIES (cost of services), EFA and MiRS is required from 1 April 2016 in the Statement of Accounts.

New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable Accounting Standards.

Though less likely to give rise to a material error in the financial statements, this is an important material disclosure change in this year's accounts, worthy of audit understanding.

Approach :

As part of our audit ;

- We will assess how the Authority has actioned the revised disclosure requirements for the CIES, MiRS and the new EFA statement as required by the Code ; and
- We will check the restated numbers and associated disclosures for accuracy, correct presentation and compliance with applicable Accounting Standards and Code guidance

Pay and non-pay expenditure

Staff costs represent a significant proportion of the Authority's expenditure base. The disaggregated nature of pay expenditure transactions and the number of changes to Payroll data that take place during the year indicates that staff costs should be given specific audit focus.

Non-pay expenditure is an area of audit focus because it is highly material to the users of the Accounts, and contains areas of management judgement in respect of, for example, accrued expenditure.

Approach:

In respect of pay costs, we will test the controls around changes to Payroll data, which impact directly on staff costs recognised in the financial statements, to confirm they have been operating effectively during 2016/17.

For non-pay expenditure, we will perform testing over controls in place around the approval of non-pay expenditure. We will perform substantive testing of non-pay expenditure transactions in 2016/17, as well as conducting a high-level analytical review of non-pay expenditure by category.



Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

Materiality for planning purposes has been set at £3 million, which equates to 1.85 percent of total expenditure in 2015/16. We design our procedures to detect errors in specific accounts at a lower level of precision of £2.25 million.

Reporting to the Audit Committee

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

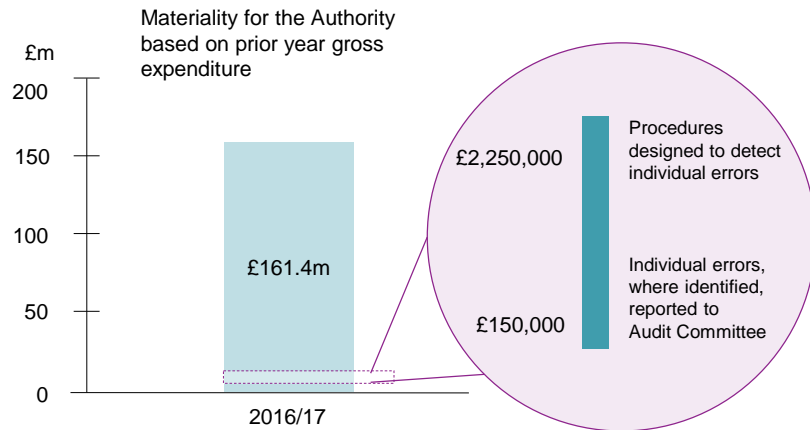
Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential,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

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £150,000.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

We will report the following matters in our Report to those charged with Governance:

- Any deficiencies in the system of internal controls or instances of fraud which the subsidiary auditors identify; and
- Any limitations on the audit, for example, where our access to information may have been restricted.



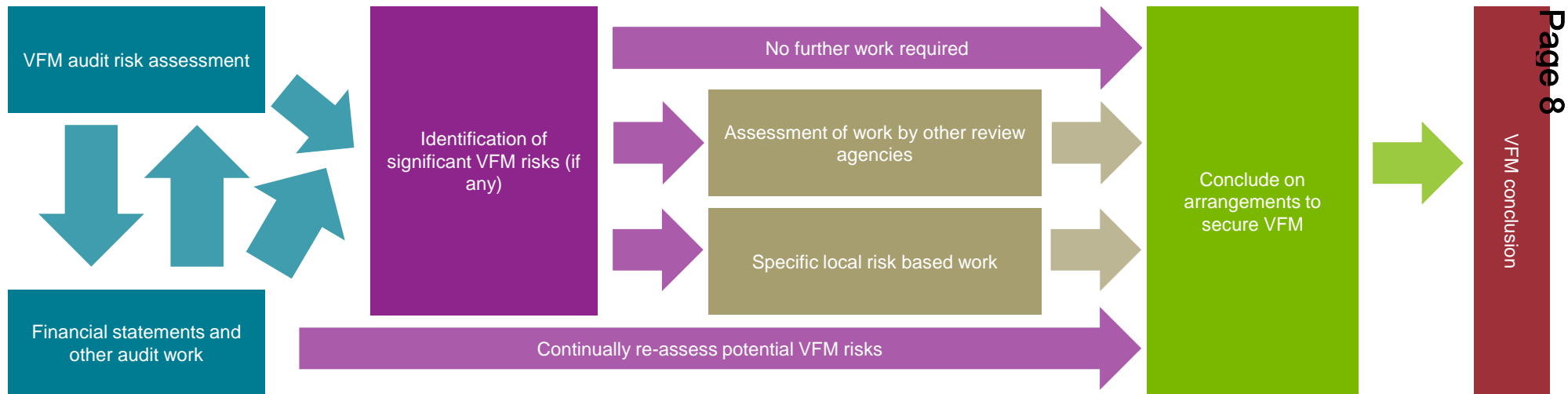


Background to approach to VFM work

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2015/16 and the process is shown in the diagram below. The diagram overleaf shows the details of the criteria for our VFM work.





Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Informed decision making

Proper arrangements:

- Acting in the public interest, through demonstrating and applying the principles and values of sound governance.
- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.
- Reliable and timely financial reporting that supports the delivery of strategic priorities.
- Managing risks effectively and maintaining a sound system of internal control.

Sustainable resource deployment

Proper arrangements:

- Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.
- Managing and utilising assets to support the delivery of strategic priorities.
- Planning, organising and developing the workforce effectively to deliver strategic priorities.

Working with partners and third parties

Proper arrangements:

- Working with third parties effectively to deliver strategic priorities.
- Commissioning services effectively to support the delivery of strategic priorities.
- Procuring supplies and services effectively to support the delivery of strategic priorities.



VFM audit stage	Audit approach
VFM audit risk assessment	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> ■ The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ Information from the Public Sector Auditor Appointments Limited VFM profile tool; ■ Evidence gained from previous audit work, including the response to that work; and ■ The work of other inspectorates and review agencies.
Linkages with financial statements and other audit work	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
Identification of significant risks	<p>The Code identifies a matter as significant 'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'</p> <p>If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> ■ Considering the results of work by the Authority, inspectorates and other review agencies; and ■ Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Value for money arrangements work (cont.)



VFM audit stage	Audit approach
<p>Assessment of work by other review agencies</p> <p>and</p> <p>Delivery of local risk based work</p>	<p>Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.</p> <p>If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:</p> <ul style="list-style-type: none"> ■ Meeting with senior managers across the Authority; ■ Review of minutes and internal reports; ■ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.
<p>Concluding on VFM arrangements</p>	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
<p>Reporting</p>	<p>We have completed our initial VFM risk assessment and have not identified any significant VFM risks. We will update our assessment throughout the year should any issues present themselves and report against these in our ISA260.</p> <p>We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p>

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2016/17 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

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

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.

Our audit team

Our audit team will be led by Tim Cutler, who has worked with the Council for a number of years. We have also refreshed our team by introducing Chris Paisley as your Audit Manager. Appendix 2 provides more details on specific roles and contact details of the team.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our communication outputs are included in Appendix 1.

Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

Audit fee

Our Audit Fee Letter 2016/17 presented to you in June 2016 first set out our fees for the 2016/17 audit. This letter also sets out our assumptions.

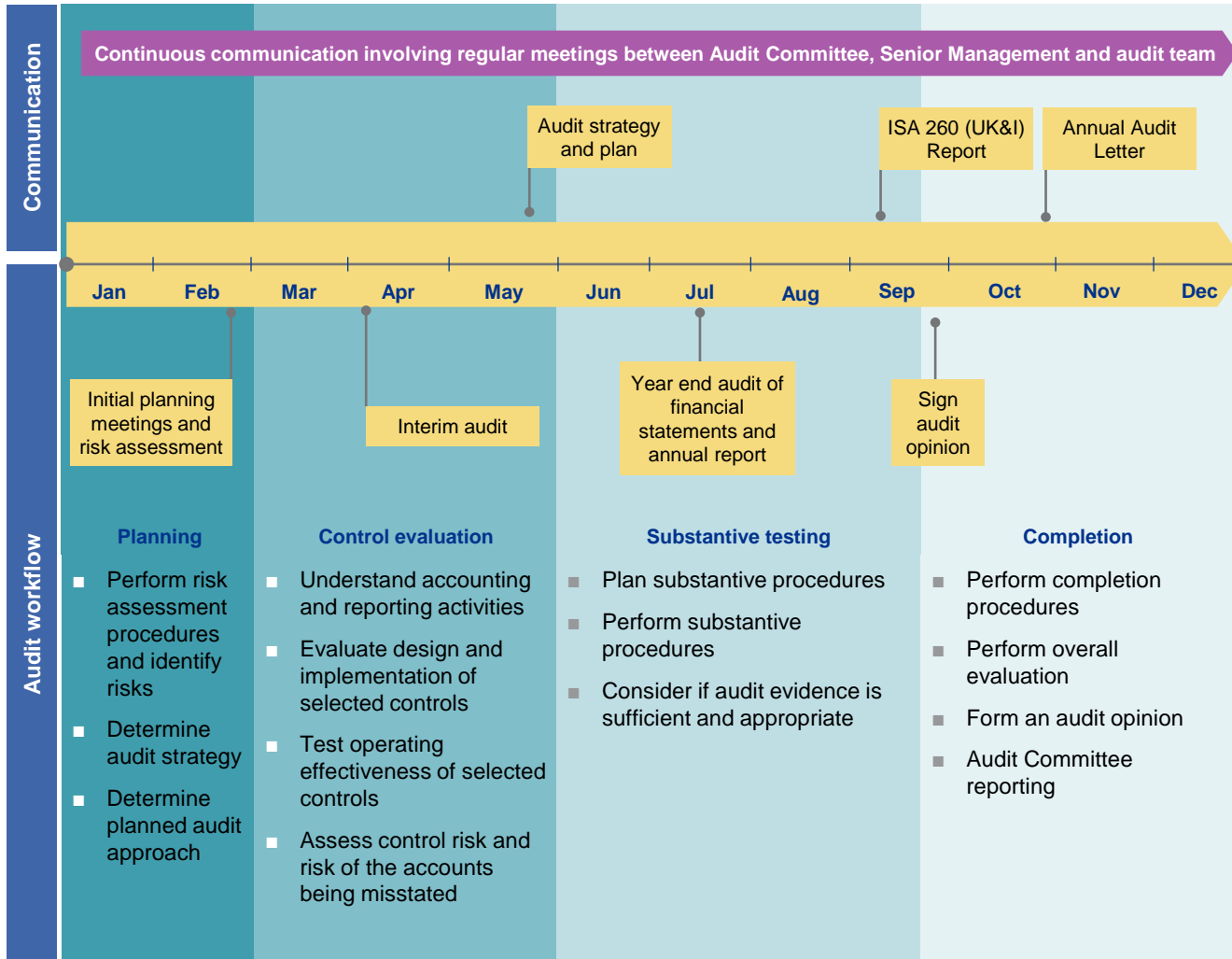
We have not considered it necessary to make any changes to the agreed fees at this stage.

Our audit fee may be varied later, subject to agreement with PSAA, for changes in the Code, specifically this year the changes in relation to the disclosure associated with retrospective restatement of CIES, EFA and MiRS. If such a variation is agreed with PSAA we will report that to you in the due course

The planned audit fee for 2016/17 is £58,388. This is consistent with the audit scale fee for 2015/16. Our 2015/16 fee doesn't currently include any additional fees in respect of an elector challenge to the 2015/16 accounts, which was concluded in May 2017. KPMG is in the process of reviewing the additional time required to respond to this elector challenge, and the appropriate additional fee, which will be agreed with the Chief Officer (Resources) before being submitted to PSAA for approval.

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

Appendix 1: Key elements of our financial statements audit approach



Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.' Data and Analytics allows us to:

- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as journals. We also expect to provide insights from our analysis of these tranches of data in our reporting to add further value from our audit.

Appendix 2: Audit team



Your audit team has been drawn from our specialist public sector assurance department. Our audit team will be led by Tim Cutler, who has worked with the Council for a number of years. We have also refreshed our team by introducing Chris Paisley as your Audit Manager.



Tim Cutler

Partner

0161 246 4774

tim.cutler@kpmg.co.uk

Name	Tim Cutler
Position	Partner
	'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion. I will be the main point of contact for the Audit Committee, Chief Executive and Chief Officer (Resources).'



Chris Paisley

Manager

0161 246 4934

christopher.paisley@kpmg.co.uk

Name	Chris Paisley
Position	Manager
	'I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with Tim to ensure we add value. I will liaise with the Financial Services Manager and other Chief Officers.'



Forget Chasakara

Assistant Manager

07917 780 402

forget.chasakara@kpmg.co.uk

Name	Forget Chasakara
Position	Assistant Manager
	'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'

Appendix 3: Independence and objectivity requirements

Independence and objectivity

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

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standards require us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Further to this auditors are required by the National Audit Office's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.

- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the PSAA's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

Confirmation statement

We confirm that as of June 2017 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.



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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. 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.psa.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 [...], 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. 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.



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 Head of Financial Services
 Lancaster City Council
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 LA1 1PJ

Our ref 1718/AFL/LCC

Contact Christopher Paisley
 0161 246 4934

21 April 2017

Dear Ms Muschamp

Annual audit fee 2017/18

I am writing to confirm the audit work and fee that we propose for the 2017/18 financial year at Lancaster City Council. Our proposals are based on the risk-based approach to audit planning as set out in the Code of Audit Practice and Public Sector Audit Appointments Ltd's (PSAA's) published work programme and fee scales.

Planned audit fee

The planned audit and certification fees for 2017/18 are shown below, along with a comparison to the prior year's fee. All fees are exclusive of VAT.

Audit area	Planned fee 2017/18	Planned fee 2016/17
Audit fee – Lancaster City Council	£58,388	£58,388
Certification of housing benefit grant claim	TBC	£7,740

PSAA has set the 2017/18 scale fees at the same level as for 2015/16 and 2016/17, thereby preserving the 25 per cent reductions in cash terms that were applied to those years which in turn were in addition to the savings of up to 40 per cent in scale audit fees and certification fees in 2012/13. This equates to a real terms saving of 61 per cent over this period. The 2017/18 planned fee is in line with the scale fee.

The PSAA has yet to publish its scale fee for the Certification of housing benefit grant claim. We will communicate this to you as soon as the PSAA publishes this information.



As we have not yet completed our audit for 2016/17 the audit planning process for 2017/18, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary. We will naturally keep you informed.

Redistribution of Audit Commission surplus

PSAA plans, during the course of 2017/18, to make a distribution of surplus funds to principal local government and police bodies. The distribution is made possible by the transfer of an element of the Audit Commission's retained earnings prior to its closure in March 2015 and by PSAA continuing to generate surplus funds and make further efficiencies since its establishment.

This distribution will be made directly by PSAA and not via KPMG. Based on current information, PSAA anticipates that the amount of the redistribution is likely to be in the order of 15% of the scale fee.

Factors affecting audit work for 2017/18

We plan and deliver our work to fulfil our responsibilities under the Code of Audit Practice (the Code) issued by the National Audit Office (NAO). Under the Code, we tailor our work to reflect local circumstances and our assessment of audit risk. We do this by assessing the significant financial and operational risks facing an audited body, and the arrangements it has put in place to manage those risks, as well as considering any changes affecting our audit responsibilities or financial reporting standards.

Under the Code, we have a responsibility to consider an audited body's arrangements to secure economy, efficiency and effectiveness in its use of resources and to do this we will undertake appropriate value for money (VFM) audit work. The 2017/18 fees have been set on the basis that the NAO's Code and supporting guidance does not change the level of work required on the VFM audit. Should this not be the case, or if new or increased significant VFM audit risks arise that require further audit work, additional fees will be necessary over and above the scale fee. Any such additional fees will be subject to approval through PSAA's fee variation process.

Certification work

As well as our work under the Code, we will certify the 2017/18 claim for housing benefit subsidy to the Department for Work & Pensions (DWP).

The 2017/18 subsidy claim will be the final year for which PSAA will make arrangements for auditors to undertake housing benefit subsidy certification work. After the end of the transitional arrangements and the current audit contracts, PSAA has no legal power or remit in relation to assurance on claims or returns. The DWP is developing its own assurance arrangements from 2018/19 and has issued further



guidance directly to local authorities. We will liaise with the Council over the future approach to this work as details emerge.

There are no longer any other claims or returns that we are required to certify under the PSAA audit contract. Assurance arrangements for other schemes are a matter for the relevant grant-paying body, and may be the subject of separate fees and tri-partite arrangements between the grant-paying body, the audited body, and the auditor. We would be happy to discuss any such certification needs with you.

Assumptions

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

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

We expect to issue a number of reports relating to our work over the course of the audit. These are listed at Appendix 2. A statement of our independence is included at Appendix 3.

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

Beyond 2017/18

The 2017/18 audit will be the last under the current transitional arrangements whereby PSAA is responsible for managing the audit contracts novated to it from the Audit Commission upon its closure in March 2015.

For audits of the accounts from 2018/19, the provisions of the Local Audit & Accountability Act 2014 in relation to local appointment of auditors take effect. The Secretary of State for Communities and Local Government has specified PSAA as the

appointing person for principal local government and police bodies. PSAA will therefore appoint auditors and set scale audit fees for bodies that have opted into its national scheme.

Our team

The key members of our audit team for the 2017/18 audit are:

Name	Role	Contact details
Tim Cutler	Partner	Tim.Cutler@KPMG.co.uk 0161 246 4281
Christopher Paisley	Manager	Christopher.Paisley@KPMG.co.uk 0161 246 4934
Forget Chasakara	Assistant Manager	Forget.Chasakara@KPMG.co.uk 07917 780402

Quality of service

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 me and I will try to resolve your complaint. If you are dissatisfied with your response please contact the national contact partner for all of KPMG's work under our contract with PSAA, Andy Sayers (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, by telephoning 020 7072 7445 or by writing to:

Public Sector Audit Appointments Limited
3rd Floor
Local Government House
Smith Square
London
SW1P 3HZ

Yours sincerely



Tim Cutler
Partner, KPMG LLP



Appendix 1 – Audit fee assumptions

In setting the fee, we have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2016/17;
- you will inform us of significant developments impacting on our audit work;
- internal audit meets the appropriate professional standards;
- internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
- you will identify and implement any changes required under the CIPFA Code of Practice on Local Authority Accounting within your 2017/18 financial statements;
- your financial statements will be made available for audit in line with the timetable we agree with you (note that 2017/18 is the first year in which the 'faster close' timetable applies whereby the deadline for draft accounts moves to the end of May and the deadline for publishing audited accounts moves to the end of July);
- good quality working papers and records will be provided to support the financial statements in line with our *prepared by client* request and by the date we agree with you;
- requested information will be provided within agreed timescales;
- prompt responses will be provided to draft reports;
- complete and accurate claims and returns are provided for certification, with supporting working papers, within agreed timeframes; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Where these assumptions are not met, we will be required to undertake additional work and charge an increased audit fee. The fee for the audit will be re-visited when we issue the detailed audit plan.

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

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



Appendix 2: Planned outputs

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

Planned output	Indicative date
External audit plan	January 2018
Report to those charged with governance (ISA260 report)	July 2018
Auditor's report giving the opinion on the financial statements, value for money conclusion and audit certificate	July 2018
Opinion on Whole of Government Accounts return	September 2018
Annual audit letter	October 2018
Certification of grant claims summary report	November 2018



Appendix 3 – Independence & objectivity requirements

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

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. The APBs Ethical Standard requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Further to this auditors are required by the NAO's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.



- Audit staff are expected not to accept appointments as Governors at certain types of schools within a local authority area.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

Confirmation statement

We confirm that as of April 2017 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

AUDIT COMMITTEE

**Internal Audit Management
- Collaboration with Wyre Borough Council**

28 June 2017

Report of Chief Officer (Resources)

PURPOSE OF REPORT

To receive endorsement to the arrangements regarding the Internal Audit and Assurance Manager role as a 12 month pilot.

This report is public

RECOMMENDATIONS

- (1) **That the Committee endorses the 12-month pilot collaboration arrangement with Wyre Borough Council, to cover the Internal Audit and Assurance Manager (IAAM) role and to develop the Internal Audit function and team as set out in the report.**
- (2) **That future proposals (beyond the pilot) be considered by the Committee in due course, and in the meantime the Committee be informed of any significant changes or developments as the pilot progresses.**

1.0 Introduction

- 1.1 The Council's constitution (Part 3, Responsibility for Functions, Section 8) refers to the Audit Committee having responsibility for overseeing the internal audit function, in particular evaluating the effectiveness of internal audit and the use of audit resources.
- 1.2 The Accounts and Audit Regulations 2015 state that a relevant authority must ensure that it has a sound system of internal control. In order to achieve this, professional standards for internal audit in local government¹ must be applied. One of the standards refers to the "Head of Audit" role holding a professional qualification and being suitably qualified.
- 1.3 In the lead up to the retirement of the IAAM on the 19 May 2017, consideration was given to two main options for future arrangements, these being straight recruitment or some form of collaboration with neighbouring authorities.
- 1.4 The departure of the former manager unavoidably resulted in the loss of many years' knowledge and experience. Internal audit, and particularly local authority

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

internal audit, is a small-scale, specialist activity and this is reflected in the local employment market and indeed that for the wider area. From discussions with other local authorities and consultancy providers, expectations were that recruitment to a new full-time manager post would prove very difficult. Furthermore, other staff members within the existing team do not currently have the combination of qualifications and experience to fulfil the role and clearly this has a major bearing on in-house promotion prospects, at least for now.

- 1.5 With regard to collaboration opportunities, discussions were held with other local authorities in the county earlier this year. From the discussions it became clear that only Wyre Borough Council was in a position to consider collaboration. Fortuitously, it has a similar audit approach and culture to the City Council – this is an important factor in considering the likely success of any partnership.

2.0 Proposal Details

- 2.1 From the discussions, a collaboration arrangement has been agreed as a pilot for 12 months, subject to the endorsement of the Committee. The arrangement is designed to ensure stability and resilience of the audit service, whilst allowing time and flexibility to review current structures and develop internal audit staff. The pilot also allows both authorities to learn from the experience and share best practice. It gives flexibility in the event that for whatever reason, the pilot does not meet the council's needs. Both parties have been up front and open on this point.
- 2.2 Importantly for the City Council, the arrangements draws on the experience of Wyre's existing Internal Audit management. This has allowed the Council immediate cover for the role of IAAM and it is intended to continue to use that job title going forward. The interim IAAM is a fully qualified Chartered Internal Auditor (CIA) with over 16 years of internal audit experience; 8 of which have been served as the Head of Audit at Wyre Council. She also holds a Qualification in Internal Audit Leadership (QIAL).
- 2.3 The basic terms of the proposal are that the interim IAAM will spend 55 days on site on average (1 day a week), although this will be front-loaded initially in order that the Manager can establish her role and effective working relationships within the City Council. In addition, she will be available for the remaining time for unlimited advice and guidance whilst based at Wyre Council. This is to ensure that staff within the audit team are fully supported enabling the smooth day-to-day operation of the service.
- 2.4 It is envisaged that the interim arrangements will be in place until May 2018, however there will be a further option to extend this arrangement if desired/required. During the interim arrangements, the interim IAAM will work with the team to build resilience, ensuring that the Audit Committee and the organisation can continue to place reliance on the Internal Audit Service, maintaining its profile and reputation. This will involve developing the skills and roles of the other audit team members, including the managerial aspects of the Principal Auditor role. The establishment of an apprenticeship will also be pursued.
- 2.5 It is highlighted that the arrangements are solely focused on the provision of sufficient Officer capacity to ensure an effective audit function. They do not involve any Joint Committee or other proposals; the two authorities' governance and democratic arrangements will remain completely separate.

3.0 Details of Consultation

3.1 No specific consultation has been undertaken in compiling this report. Consultation with relevant authorities was undertaken beforehand, in developing the proposals, and audit staff have been fully engaged in the process.

4.0 Options and Options Analysis (including risk assessment)

4.1 No alternative options are considered appropriate at this time, given the suitability of the arrangements that have been developed. In addition, the flexibility allows changes to be made to the structure should the need arise. There is a need for the Committee to be kept abreast of future developments, however, and this is reflected within the recommendations.

5.0 Conclusion

5.1 Endorsing the proposals will ensure the Internal Audit Service continues to deliver an effective audit service which complies with the relevant professional standards. The proposals are designed to support the delivery of the Audit Plan, as outlined elsewhere on the agenda.

5.2 The interim IAAM will work with the Chief Officer (Resources) to embed a structure which will provide stability, increase resilience and retain its well-developed respect and standing throughout the organisation.

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

None directly arising.

LEGAL IMPLICATIONS

Legal Services have been consulted. A legal agreement backs the collaborative arrangements and this will be completed following the Committee's consideration of this matter.

FINANCIAL IMPLICATIONS

There are no direct/quantifiable financial implications arising at this time. The estimated basic charge for the collaboration is around £20,600 but if the Council's needs increase, then the charge would be varied accordingly. In addition the roles of the other team members will be reviewed and updated on a temporary basis, with any honoraria being determined in accordance with Council policy. There may well be a net saving overall when compared with the budgeted cost for the full-time post of IAAM, but this cannot yet be confirmed.

In considering future arrangements, a cost-benefit appraisal will be undertaken to inform decision-making.

OTHER RESOURCE IMPLICATIONS, such as Human Resources, Information Services, Property, Open Spaces:

As referred to in the report.

SECTION 151 OFFICER'S COMMENTS

The s151 Officer has contributed to this report, which is in her name (as s151 Officer).

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

Public Sector Internal Audit Standards

Local Government application note for the UK
Public Sector Internal Audit Standards

The Accounts and Audit Regulations 2015

Contact Officer: Nadine Muschamp

Telephone: 01524 582117

E-mail: nmuschamp@lancaster.gov.uk

Ref:

AUDIT COMMITTEE

28 June 2017

Annual Review of Internal Audit's Compliance with Professional Standards**Report of Internal Audit & Assurance Manager****PURPOSE OF REPORT**

To advise Members of the outcome from a self-assessment review against Public Sector Internal Audit standards as a contribution to the annual review of Internal Audit effectiveness, and to seek endorsement for an updated Quality Assurance and Improvement Programme

This report is public

RECOMMENDATIONS

- (1) That the Internal Audit and Assurance Manager's (IAAM) conclusions from the self-assessment exercises are accepted as evidence that Internal Audit is operating effectively and the Committee can therefore place reliance on Internal Audit's reports and work when considering the overall effectiveness of the Council's governance arrangements. The areas of partial compliance and agreed action is presented at Appendix A.
- (2) That the Internal Audit Quality Assurance and Improvement Programme (QAIP) for 2016/17, presented at Appendix B is noted and endorsed.

1.0 Background

- 1.1 The Accounts and Audit Regulations 2015 include a requirement that local authorities Internal Audit functions take into account public sector internal auditing standards. These standards are those set out in the Public Sector Internal Audit Standards (PSIAS) and the associated Local Government Application Note (LGAN) (CIPFA 2013).
- 1.2 The PSIAS require the IAAM to maintain a QAIP which includes periodical internal and external assessments of compliance with the Standards. Furthermore, standard 1322 of the PSIAS requires the council to consider disclosing any significant deviations in its Annual Governance Statement (AGS).

2.0 Report**2.1 Compliance with the PSIAS and LGAN**

- 2.1.1 A report was presented to the Audit Committee on 29 June 2016 setting out the most recent results from an initial self-assessment against the 334 lines included in the PSIAS/LGAN. At that point, the exercise identified 317 points where compliance was achieved (or which were not applicable to our situation). Partial compliance was identified in 17 instances and there were no areas of non-compliance.

- 2.1.2 A further annual self-assessment has now been undertaken in accordance with the QAIP, with the following outcomes:
- a) Of the 334 lines in the PSIAS/LGAN, compliance is achieved (or is not applicable to our situation) in 318 instances (previously 317);
 - b) Partial compliance is now demonstrated in 16 instances (previously 17), reflecting the position that action is ongoing to review arrangements in a number of areas.
 - c) There are no areas where non-compliance has been identified.

2.1.3 Appendix A sets out an update on those areas assessed as falling short of full compliance in the review of the PSIAS and a revised action plan.

2.2 Summary

2.2.1 The annual review of Internal Audit's compliance with professional standards is used to inform the Audit Committee's consideration of the IAAM's Annual Report (presented elsewhere on this agenda) and ultimately the annual governance review and the contents of the AGS (to be considered at the September meeting).

2.2.2 From the information presented in this report, it is felt that the Audit Committee can take reasonable assurance that Internal Audit is operating effectively and can place reliance on its reports and work in considering the overall effectiveness of governance arrangements. No significant deviations from the standards, or other issues regarding effectiveness, have been identified which would warrant disclosure in the AGS.

2.2.3 Areas of partial compliance have been identified where further work is required to reach full compliance, namely:

- a) the introduction of internal audit performance targets;
- b) continue to develop a fully risk based audit plan;
- c) strengthening the council's risk management framework; and
- d) mapping other streams of assurance that may be used to form the overall audit opinion.

An action plan has been formulated of the areas of partial compliance and these will be reviewed / addressed during the year.

2.3 External Reviews

2.3.1 The Standards require each Internal Audit service to undergo an independent external review against the standards at least once every five years. Lancaster's scheduled involvement in the agreed peer review programme arranged through the Lancashire District Councils' Chief Auditors Group is as follows:

- a) July 2017 - Review of Allerdale BC by Lancaster CC and Wyre BC
- b) November 2017 - Review of Lancaster CC by Wyre BC and Allerdale BC
- c) March 2018 – Review of Wyre BC by Lancaster CC and Allerdale BC

2.3.2 The self-assessment referred to in paragraph 2.1.2 will be used as the basis of the peer review team's external assessment and the results of the external assessment will be reported to the Audit Committee in due course.

2.4 Assurance and Improvement Programme (QAIP)

2.4.1 The QAIP draws together those practices which have been established to deliver quality and continuous review and improvement in internal audit work.

2.4.2 The current version of the QAIP, endorsed by the Committee in June 2016, has been updated to reflect the progress made in agreeing arrangements for external assessments and the 2017/18 document is presented as Appendix B. Members are again asked to consider, comment on and endorse this document.

3.0 Details of Consultation

3.1 None specifically undertaken.

4.0 Options and Options Analysis (including risk assessment)

4.1 In terms of the review of Internal Audit's effectiveness, the options available to the Committee are to:

- a. Accept the results of the self-assessment against the PSIAS/LGAN and the overall conclusion presented in paragraph 2.2.2; or
- b. Adopt an alternative view to that presented in the report.

4.2 Option a) is the preferred option. This will inform the Audit Committee in its consideration of the annual governance review (to be considered at the September meeting).

5.0 Conclusion

5.1 The requirement for an annual review of the internal audit's compliance with professional standards is at present primarily informed by self-assessment reviews undertaken by officers. The results of these reviews provide elected members with information to inform their consideration of both Internal Audit's effectiveness and the Council's overall governance arrangements and AGS.

<p>CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</p> <p>Not applicable</p>	
<p>FINANCIAL IMPLICATIONS</p>	
<p>SECTION 151 OFFICER'S COMMENTS</p>	
<p>LEGAL IMPLICATIONS</p>	
<p>MONITORING OFFICER'S COMMENTS</p>	
<p>BACKGROUND PAPERS</p> <p>Public Sector Internal Audit Standards (PSIAS)</p> <p>Local Government Application Note for the UK PSIAS - (CIPFA, in collaboration with the Chartered Institute of Internal Auditors)</p>	<p>Contact Officer: Joanne Billington Telephone: 01524 582028 E-mail: jbillington@lancaster.gov.uk Ref: aud/comm/audit/170614IARReview</p>

Internal Audit - PSIAS Self-Assessment Update and Action Plan, May 2017

Ref	Conformance with the Standard	Assessment	Update May 2017	Action Required	By Whom	By When
3	Attribute Standards					
3.4	2500 Quality Assurance and Improvement Programme					
	1311 Internal Assessments					
LGAN	Does ongoing performance monitoring include comprehensive performance targets?	Partial	No change from last update	Situation to be reviewed again and options for future performance monitoring to be presented to Audit Committee.	Internal Audit & Assurance Manager	31/03/2018
LGAN	Are the performance targets developed in consultation with appropriate parties and included in any service level agreement?	Partial	No change from last update			
4	Performance Standards					
4.1	2000 Managing the Internal Audit Activity					
	2010 Planning					
LGAN	Does the risk-based plan take into account the organisation's assurance framework?	Partial	No change from last update	Consider whether/how the assurance framework can be further developed/defined. Include any conclusions/proposals in the future IA strategic and annual plans.	Internal Audit & Assurance Manager	31/03/2018
LGAN	Does the risk-based plan set out the:					
	b) Respective priorities of those pieces of audit work?	Partial	No change from last update	Consideration will be given to whether/how to incorporate a statement of priorities	Internal Audit & Assurance Manager	31/03/2018
	2030 Resource Management					
LGAN	Does the risk-based plan explain how internal audit's resource requirements have been assessed?	Partial	The absence of a comprehensive corporate risk information source means that audit needs assessments start from a relatively low position.	Develop this part of the risk-based plan as the corporate assurance framework and risk management strategy themselves develop.	Internal Audit & Assurance Manager	31/03/2018
	2050 Coordination					
LGAN	Does the risk-based plan include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources?	Partial	No change from last update	Consideration will be given to ways in which wider assurance can be obtained. Development of an Assurance Framework is being taken forward alongside the programme to develop strategic and service planning and performance and risk management. (see also section 2120 - Risk management below)	Internal Audit & Assurance Manager	31/03/2018
LGAN	Has the CAE carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance?	Partial	No change from last update	The Council has recently been appointed a new external audit team from KPMG. Consideration will be given to re-establishing regular or appropriately scheduled meetings.	Internal Audit & Assurance Manager	30/09/2017
	2060 Reporting to Senior Management and the Board					
LGAN	Does the periodic reporting also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board?	Partial	No change from last update	See comments and actions in section 2120 - Risk Management, below		

Ref	Conformance with the Standard	Assessment	Update May 2017	Action Required	By Whom	By When
4.2	2100 Nature of Work 2110 Governance					
	Has the internal audit activity assessed whether the organisation's information technology governance supports the organisation's strategies and objectives?	Partial	No change from last update	The current positioning on IT governance will be reviewed in consultation with the CO(Resources) and ICT Mgr in developing the next round of IA strategic and annual plans	Internal Audit & Assurance Manager	31/03/2018
LGAN	Has the CAE considered the proportionality of the amount of work required to assess the ethics and information technology governance of the organisation when developing the risk-based plan? 2120 Risk Management	Partial	No change from last update			
	Has the internal audit activity evaluated the effectiveness of the organisation's risk management processes by determining that:					
	b) Significant risks are identified and assessed?	Partial	Developments in this area are impacted by the extent of organisational change in recent years. These issues will be considered in developing the next IA strategic and annual plans.	The council's corporate risk management strategy is under review and being developed alongside a corporate programme to refresh and strengthen strategic and service planning and performance management. Attention and involvement in this process is necessary to ensure that risk management is fully considered and embedded in new arrangements.	Internal Audit & Assurance Manager	31/03/2018
	c) Appropriate risk responses are selected that align risks with the organisation's risk appetite?	Partial				
	d) Relevant risk information is captured and communicated in a timely manner across the organisation, thus enabling the staff, management and the board to carry out their responsibilities?	Partial				
4.5	2400 Communicating Results 2450 Overall Opinion					
	Does the communication identify the following:					
	c) The consideration of all related projects including the reliance on other assurance providers?	Partial	Developments in this area are impacted by the extent of organisational change in recent years. These issues will be considered in developing the next IA strategic and annual plans.	Develop the use of references to other sources of assurance in the IA Annual Report in line with the establishment of a corporate assurance framework.	Internal Audit & Assurance Manager	31/03/2018
	d) The risk or control framework or other criteria used as a basis for the overall opinion?	Partial		Develop the use of references to the risk and control framework in the IA Annual Report as a clearer corporate risk management strategy is implemented.	Internal Audit & Assurance Manager	31/03/2018

Internal Audit Quality Assurance & Improvement Programme (QAIP) 2017/18

Introduction

Internal Audit's Quality Assurance and Improvement Programme (QAIP) is designed to provide reasonable assurance to the various stakeholders of Lancaster City Council that Internal Audit:

- Performs its work in accordance with its Charter, which is consistent with the Public Sector Internal Audit Standards (PSIAS) and associated Local Government Application Note (LGAN), Definition of Internal Auditing and the Code of Ethics;
- Operates in an efficient and effective manner; and
- Is adding value and continually improving Internal Audit's operations.

The Internal Audit and Assurance Manager is ultimately responsible for the QAIP, which covers all types of Internal Audit activities. In accordance with the PSIAS, the QAIP makes provision for both internal and external assessments. Internal assessments are both ongoing and periodical and external assessments must be undertaken at least once every five years.

Internal Assessment

Internal Assessment is made up of both on-going reviews and periodic reviews.

On-going Reviews

On-going review is maintained through:

- Audit policies and procedures used for each engagement including the Internal Audit Manual to ensure compliance with applicable planning, fieldwork and reporting standards;
- Assignments managed and recorded using the established electronic Audit Management System;
- An appropriate level of supervision of all engagements;
- Weekly team update meetings on progress with assignments;
- Regular, documented review of work papers during engagements.
- Seeking and reviewing post-completion feedback from audit clients for individual audit assignments;
- All draft and final reports and action plans reviewed and approved by the Internal Audit Manager.

Periodic Reviews

Periodic reviews are designed to assess conformance with Internal Audit's Charter, the PSIAS/LGAN, Definition of Internal Audit, the Code of Ethics, and the efficiency and effectiveness of internal audit in meeting the needs of the Council and its other stakeholders. Periodic reviews will be conducted through:

- Monthly one-to-one meetings between each member of the Internal Audit team and their line manager;
- Activity and performance reporting to each scheduled meeting of the Audit Committee; and
- Annual self-assessment of conformance with the PSIAS/LGAN.

Any resultant action plans will be monitored by the Internal Audit Manager in line with the Audit Committee reporting cycle.

External Assessment

External assessments will appraise and express an opinion about Internal Audit conformance with the PSIAS/LGAN, Definition of Internal Audit and Code of Ethics and include recommendations for improvement as appropriate.

Ten of the authorities involved in the Lancashire District Chief Auditors Group have now agreed upon arrangements for a 'peer review' process to meet this requirement. A memorandum of understanding has been agreed and signed by the participating bodies for the 'Peer Review' process setting the methodology for the assessment.

A schedule for assessments has been drawn up and agreed between the participants. This schedule provides for the external assessment of Lancaster City Council's internal audit function to be carried out in October 2017.

Reporting

Internal Assessments: the outcomes and conclusions from internal assessments will be reported to the Audit Committee on an annual basis; normally as part of the Internal Audit and Assurance Manager's Annual Report.

External Assessments: the results of external assessments will be reported to the Audit Committee at the earliest opportunity following receipt of the external assessor's report. The external assessment report will be accompanied by an action plan in response to significant findings and recommendations contained in the report.

Follow Up: the Internal Audit and Assurance Manager will implement appropriate follow-up actions to ensure that recommendations made in the report and action plans developed are implemented in a reasonable timeframe.

AUDIT COMMITTEE**Internal Audit Annual Report and
Assurance Statement 2016/17****28 June 2017****Report of the Internal Audit and Assurance Manager****PURPOSE OF REPORT**

To inform the Committee of the extent and outcome of internal audit work during the 2016/17 financial year and to present an annual statement of assurance regarding the Council's framework of governance, risk management and control.

This report is public

RECOMMENDATIONS

1. That the report be noted.
2. That the Internal Audit and Assurance Manager's (IAAM) assurance statement and annual internal audit opinion (paragraphs 2.11 to 2.232.22) be accepted and considered by the Committee in relation to the annual governance review and Annual Governance Statement (AGS), which is to be considered by the Committee at the September meeting.

1.0 Introduction

- 1.1 The terms of reference of the Audit Committee include: *To receive the internal audit annual report and annual controls assurance statement (the Constitution, part 3 section 8, TOR 8.8).*
- 1.2 Professional standards for internal audit in local government¹ specify that *"The chief audit executive (IAAM) must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement", and that "The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control."*

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

2.0 Report

Annual audit plan 2016/17

- 2.1 Internal audit plans and assignments are developed on a risk-based approach, seeking to identify and devote resources to the areas of greatest significance to the Council. The 2016/17 internal audit plan was approved by the Audit Committee at its meeting on 29 June 2016. Adjustments to the plan were approved by the Committee at its meetings on 14 September 2016 and 18 January 2017.
- 2.2 The annual outturn position against the 2016/17 annual plan is summarised in the following table.

Area of work	Resources (days)		
	Original plan	Revised plan (18/01/17)	Actuals
Assurance audit			
Core financial systems	50	30	12
Revenues and benefits shared services	40	40	31
Core management arrangements	50	50	58
Risk based assurance audits	120	145	154
Follow-up reviews	50	30	17
Sub-total, assurance work	310	295	272
Advice and support work	90	78	76
Investigations	20	10	7
Audit management	40	40	55
Other duties (non-audit)	55	142	136
General contingency	20	0	0
Total chargeable days	535	565	546
Non-chargeable activities (note1)	100	110	139
Total available days	635	675	685

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

Explanation of major variances

- 2.3 The summary shows that the number of available days in the year increased by 50, the main factors behind this being:
- reduced annual leave - 7 days
 - reduced sickness - 7 days
 - reduced training - 8 days
 - use of interim contract staff - 28 days
- 2.4 In consequence, the number of chargeable days delivered was 546 compared with the original plan 535. As reported during the year, a major issue has been the call on resources to manage and support the newly created information governance team included in the table under "other duties (non-audit)". It was this factor that has led to the engagement of an interim contractor to help maintain the core programme of audit work.





- 2.5 The increase in resources devoted to “audit management” reflects recent work connected with the IAAM’s retirement in May 2017 and establishing succession arrangements.
- 2.6 In consequence, 38 fewer days than originally planned were delivered on the core programme of assurance audit work. Any reduction in core work must inevitably diminish the assurance that the Committee is able to take from Internal Audit’s output over the period and this is reflected and commented on in the IAAM’s audit opinion.

Review of the effectiveness of internal audit

- 2.7 Professional standards expect that an annual review is undertaken of the effectiveness of internal audit. This process forms part of a Quality Assurance and Improvement Programme (QAIP) which feeds in to the wider annual review of the effectiveness of the system of internal control and governance. The conclusions and outcomes from the most recent internal annual review is reported elsewhere on this agenda.
- 2.8 The review concludes that the Audit Committee can take reasonable assurance that internal audit is operating effectively and can place reliance on its reports and work in considering the overall effectiveness of governance arrangements. No significant deviations from the standards, or other issues regarding effectiveness, have been identified which would warrant disclosure in the AGS.

Results of assurance work

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





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

- 2.10 The table in Appendix A sets out the assurance opinions issued from audits and follow-up reviews completed since 31 March 2016, and any subsequent changes in assurance level.

Assurance statement

- 2.11 It must be recognised that internal audit can be expected to provide reasonable and not absolute assurance that risk is being effectively managed and that control weaknesses or irregularities do not exist.
- 2.12 This assurance statement is drawn from both the results of individual internal audit assignments and the results of follow-up reviews into previously completed audits, as

reflected in the contents of Appendix A. The following table summarises the assurance opinions covered in the appendix, based on the most recent review, with the previous year's totals, for comparison.

Assurance level (most recent review)	Number of audit opinions				
	2016/17				2015/16
	Financial audits	Governance audits	Other audits	Total	
Maximum 	0	0	0	0	1
Substantial 	6	0	3	9	10
Limited 	2	0	5	7	3
Minimal 	0	0	0	0	0
Totals	8	0	8	16	14

- 2.13 Through established procedures, the Audit Committee will continue to receive updates on progress with those audits which have not reached at least the “substantial” assurance level. At present this consists of the seven audits listed in Appendix A whose assurance ratings stand as “limited”.
- 2.14 These procedures for reporting and following up audits and reporting progress to Audit Committee continue to operate effectively.

Financial systems audits

- 2.15 This relates to eight financial system audits. Assurance levels on the Council’s core financial systems remain consistently high. Given the work undertaken, it is the IAAM’s opinion that effective internal controls exist to ensure the accuracy and integrity of the key financial systems and that no significant unmanaged risks or ongoing control weaknesses have been identified.

Governance arrangements

- 2.16 No new assurance audit work has been carried out during the year into specific governance arrangements. The internal audit team has however been heavily involved in undertaking the annual review of governance arrangements leading up to the preparation of the AGS. Work has also been undertaken to review the Council’s arrangements and Local Code of Governance in light of a new governance framework for local government being introduced in 2016.
- 2.17 There remain a number of outstanding considerations from earlier audit work relating to the council’s information governance arrangements. These considerations are being addressed through an ongoing reorganisation of the corporate information governance function.
- 2.18 In the IAAM’s opinion, at this stage of development, an update on the position regarding information governance should again be included in the AGS.

Other audits

- 2.19 This section covers eight audits, five of which resulted in a “limited” assurance opinion, these being in relation to:
- section 106 agreements;
 - driver certificates of professional competence; *

- stores; *
- safeguarding - adults; * and
- anti-social behaviour.

* Following further progress reviews undertaken since 1 April 2017, the opinion level for these audits has been raised to 'substantial'.

- 2.20 In each instance, work is ongoing to implement the action plans with a view to achieving progression to 'substantial' assurance in the near future. As always, arrangements are in hand for internal audit to monitor and provide the Audit Committee with updates on the progress made.
- 2.21 In the IAAM opinion, no unmanaged risks or control weaknesses have been identified which are so significant as to warrant disclosure in the Council's AGS. Where weaknesses have been identified, remedial action has been agreed and arrangements are in place to monitor the implementation of those actions and the level of assurance provided.

Annual internal audit opinion

- 2.22 Resourcing issues during 2016/17 and their implications for the provision of assurance have been mentioned in paragraph 0. Measures taken to manage those issues have limited the reduction in the amount of internal audit time spent on assurance work to 12% against the original plan.
- 2.23 The IAAM's opinion is that, whilst this reduction must inevitably lower the level of assurance that can be derived from internal audit work, this is not so significant as to invalidate the judgement. Given that internal audit work has not identified significant issues regarding the council's framework of governance, risk management and control, it is the IAAM's opinion that reasonable assurance can be provided for this particular period.

3.0 Details of consultation

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

4.0 Options and options analysis (including risk assessment)

- 4.1 The proposal is that the Committee accepts the IAAM assurance statement as a contribution to the overall assessment of the internal control environment and the AGS. No alternative options are identified.

5.0 Conclusion

- 5.1 The work of internal audit seeks to provide assurance to the Council as to the appropriateness and effectiveness of its internal control and corporate governance arrangements. During the 2016/17 financial year, internal audit's work has provided reasonable assurance.

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

This report has no direct impact on these areas.

FINANCIAL IMPLICATIONS

None arising directly from this report.

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

None arising directly 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:

Financial Audits


15/0966 Sundry Debtors

04-Jul-16 Substantial  Risks associated with sundry debt management are well managed, systems in place being well controlled. There is scope however to further strengthen some procedures within Services and actions have been agreed with a view to achieving this.


16/0971 Council Housing Rent Collection and Arrears Management

14-Nov-16 Substantial  Overall, risks associated with council housing rent collection and arrears management are well managed, systems and processes in place being well controlled and robust. There is scope however to further strengthen some administrative procedures within Services and a number of low level actions have been agreed with a view to achieving this.


16/0974 Williamson Park - Cash and Banking

04-Nov-16 Substantial  Substantial assurance has been provided on the basis that overall, risks are well managed and systems and procedures in place are robust. There is scope however to strengthen arrangements through training and reiteration of established procedure to ensure that transactions are recorded accurately, and a comprehensive audit trail is maintained. A number of actions have been agreed with a view to achieving this, some of which were implemented during the course of the audit.


16/0978 Debt Collection Agency Performance

30-Mar-17 Limited  Limited assurance has been given on the basis that a number of improvements are required in relation to debt collection procedures, processes and performance monitoring arrangements across the council. Arrangements within Council Housing Services require improvement with a view to ensuring a formal contract/agreement is in place with the debt collection agent, and data transfer arrangements are secure. Implementation of the actions agreed following this review should result in substantial assurance being provided.


16/0981 Fees and Charges - Legal Services

07-Apr-17 Limited  Limited assurance has been given on the basis that legal fees and charges have not been reviewed since 2010 and current levels of charge cannot be substantiated. It has been agreed that a comprehensive review of all fees and charges and charging structures will be carried out with a view to ensuring that all fees remain appropriate, cover the costs of service provision and can be appropriately substantiated should they be challenged.


16/0986 Housing Benefits Subsidy Claim - Modified Schemes

10-Feb-17 Substantial  On completion of the audit fieldwork a limited level of assurance was awarded on the basis that errors were identified which if left uncorrected could result in the External Auditors qualifying the 2016/17 Housing Benefit Subsidy Claim and potential loss of subsidy. During the completion of the audit the errors identified were rectified and arrangements were strengthened to ensure the correct treatment of war pensions within the benefits system going forward, thereby raising the level of assurance to substantial.


16/0988 Housing Benefit Overpayment Classifications

20-Apr-17 Substantial  Substantial assurance has been given on the basis that no overpayment misclassifications were identified. Classifications were found to be in line with DWP guidance and an appropriate audit trail was available to support each overpayment and the classification awarded.


16/0990 Welfare Reforms 1% Rent Reductions

11-Apr-17 Substantial  Substantial assurance has been given on the basis that the correct rent reductions had been applied in relation to all the cases tested during the course of this review.


Other Audits
15/0965 Section 106 Agreements

22-Aug-16 Limited  A limited assurance opinion has been awarded on the basis that although the majority of systems and controls in place in respect of S106 agreements are appropriate and are working well, there are concerns surrounding the effectiveness of current monitoring arrangements. Effective monitoring of agreed trigger points is fundamental in ensuring that contributions are received within specified timescales and failure to do so could potentially lead to contributions not being collected and therefore being returned to developers. Actions have been agreed to strengthen controls in this area which should ensure that all income or other agreed provisions due, are appropriately and promptly identified and received.


16/0972 Driver Certificate of Professional Competence

19-Jul-16 Limited  Although Managers are confident that all appropriate drivers have a valid Driver Certificate of Professional Competence (CPC), a limited assurance opinion has been given on the basis that this could not be demonstrated due to the lack of available supporting documentation. Actions have been agreed to ensure that a comprehensive record of those drivers requiring a valid CPC in order to carry out their duties is produced, along with a record of those drivers that currently hold a valid CPC, the expiry dates and a record of all training that has been undertaken. Thus ensuring that both the council and its drivers are compliant with legislation and therefore not subject to any financial penalties.


15/0955 Public Health Funerals

17-May-16 Substantial  The assurance opinion has been raised to substantial to reflect the considerable progress that has been made with implementation of the action plan resulting from the original audit review. Processes and procedures surrounding the administration of Public Health Funerals have been significantly strengthened and appropriate measures have been put into place to ensure that all avenues of responsibility are explored prior to the council accepting responsibility for burial arrangements. A comprehensive audit trail is now in place to support all actions and decisions taken for each public health funeral the council administers or is involved with.

15/0956 Stores

08-Nov-16 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.


15/0963 Safeguarding Adults

03-Jan-17 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.

Other Audits (cont'd)


16/0973 Anti-Social Behaviour (Council Housing)

09-Mar-17 Limited  Limited assurance has been given on the basis that there is scope to improve current arrangements with a view to ensuring the council fully complies with the requirements of the Anti-Social Behaviour Act, and regulatory standards set for housing providers. Policies and procedures in place are in need of review, and plans developed which seek to improve satisfaction levels in relation to anti-social behaviour need to be implemented. Officers are currently in the process of implementing actions agreed following this review, which once complete, should result in substantial assurance being provided.

16/0975 Licensing (Taxis)

14-Dec-16 Substantial  Substantial assurance has been provided on the basis that overall, risks are well managed and systems and procedures in place are robust. There is scope however to strengthen arrangements through the provision of member training and the reiteration of established procedures, thus ensuring that all documentation supporting the issue of a licence is retained on file and a comprehensive audit trail is maintained. A number of actions have been agreed with a view to achieving these improvements.

16/0985 BACS Processes

10-Apr-17 Substantial  Substantial assurance has been provided on the basis that the vast majority of controls are operating effectively and addressing risks inherent in the BACS process. However, there is scope for improvement in regard to the security, access, storage and retention of BACS files prior and subsequent to processing for payment / collection. Implementation of the recommendations would improve the overall opinion and should result in maximum assurance being provided.

AUDIT COMMITTEE

Internal Audit Strategy and Risk Based Plan 2017/18

28 June 2017

Report of Internal Audit and Assurance Manager

PURPOSE OF REPORT

To seek the Committee's approval for a proposed Internal Audit Strategy and Annual Risk Based Plan for 2017/18

This report is public

RECOMMENDATIONS

1. That the Internal Audit Strategy and Risk Based Plan for 2017/18 be approved.

1.0 Introduction

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

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

Internal Audit Strategy

- 2.1 In accordance with the standards, an internal audit strategy has been incorporated in the risk based plan. Both documents are attached to this report at appendices A and B.
- 2.2 As the organisation reviews its priorities and continues to respond to continuing financial pressures and political uncertainties, there is an ongoing need to ensure that standards of risk, governance and internal control in the organisation are maintained. Internal audit's strategy aims both to promote these standards and develop the level and quality of independent assurance provided to the organisation on the effectiveness of its arrangements.

Risk Based Plan 2017/18

- 2.3 The draft risk based plan submitted at Appendix B takes account of the characteristics and relative risks of the council's activities. Unlike previous years, this year's plan is more specific, to allow the internal audit team to plan their work more efficiently. However, it is important to note that the plan is flexible and should any new risks materialise, consideration will be given to making changes to this plan. The Audit Committee will be informed of any changes made in the future to the approved risk based plan.
- 2.4 It is anticipated that the adoption of a revised corporate risk management strategy and the development of assurance mapping for each service will in the future enable a re-focus of internal audit objectives and an associated re-design of the risk based plan. Developments in these areas and the implications for internal audit will be reported to the Audit Committee in due course.
- 2.5 Following the retirement of the former Internal Audit and Assurance Manager (IAAM) on the 19 May 2017, interim arrangements have been put in place with Wyre Borough Council, providing temporary cover for the senior management responsibilities of the IAAM's post.
- 2.6 The risk based plan for 2017/18 is based on estimated available resources of 485 days, this being delivered by the in-house team plus the input of the interim IAAM from the 22 May 2017.

Financial Considerations

- 2.7 The risk based plan for 2017/18 is expected to be delivered within the overall 2017/18 budget for the internal audit and assurance service.

3.0 Details of Consultation

- 3.1 Management Team has been consulted in the preparation of this report. Management Team, statutory officers and senior managers have been consulted in the preparation of internal audit's risk based audit plan for 2017/18.

4.0 Options and Options Analysis (including risk assessment)

- 4.1 Members are invited to comment on and then approve the proposed risk based plan for 2017/18.
- 4.2 There are no alternative options identified.

5.0 Conclusion

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

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

This report has no direct impact on these areas.

FINANCIAL IMPLICATIONS

The annual risk based plan for 2017/18 is expected to be delivered within the overall 2017/18 budget for the internal audit and assurance service.

There are no further financial implications arising from the report at this point.

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

None arising from this report

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

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Internal Audit Strategy

1. Internal Audit Strategy

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

2.0 Service Purpose

- 2.1 The key purposes of the internal audit service are to:
- provide the council* with independent assurance regarding the effectiveness of its systems of risk, governance and internal control;
 - support the council in delivering organisational change and its development programme; and
 - help the council secure and demonstrate value for money throughout its activities.

* This purpose also relates to Preston City Council with regards to the audit by Lancaster's internal audit of the revenues and benefits shared service arrangements.

3.0 Strategic Aims & Objectives

- 3.1 Internal audit's strategic aims and objectives are defined as:
- promoting and helping develop standards of risk management throughout the council's operations;
 - contributing to improving standards of internal control and governance within the authority and its key partnerships;
 - developing the corporate 'assurance framework' and coordinating the capture and reporting of sources of assurance;
 - developing and supporting managers in the management of risk;
 - working closely with the corporate enquiry team to develop programmes of work to combat and reduce the risk of fraud;
 - supporting the council in identifying efficiencies and achieving value for money in service delivery; and
 - continuing to develop the scope, robustness and effectiveness of internal audit's assurance work.

4.0 Identifying and accommodating significant local and national issues and risks

- 4.1 Emerging local and national issues that might warrant internal audit attention will primarily be identified through:
- contributing to the development, updating and monitoring of the assurance framework;
 - reviewing the corporate plan and individual service plans; and
 - regular consultation and liaison with Chief Officers, the statutory officers, service managers and the Corporate Management Team.

- 4.2 This approach will seek to ensure that significant risks are adequately identified, assessed and evaluated in terms of the level of assurance necessary and already available, and will involve:
- tracking corporate policy/priority developments and the decisions taken by the authority's decision-making bodies;
 - regular consultation with service managers, the Corporate Management Team and the Audit Committee Chairman;
 - regular liaison with other review bodies, especially the Council's external auditor;
 - liaison with/considering the approach and work programmes of other internal review bodies, for example the Overview and Scrutiny function;
 - liaison with other local government auditors and active participation in local/regional professional groups;
 - consideration of key corporate risks; and
 - maintaining a professional focus and taking advantage of opportunities for professional updates/development, including continuous professional development where appropriate.
- 4.3 In line with the Council's developing risk management strategy and associated assurance framework, the risk-based audit plan seeks to provide assurance in areas of significant risk where alternative sources of assurance are not readily available. Typically this will tend to focus on the auditing of "underlying risks", being those risks which are not being addressed by a current corporate or service-based project or initiative. The plan will be reviewed and updated on a rolling basis to accommodate any emerging significant risks and assurance needs identified through an ongoing review of the assurance framework.
- 4.4 Internal audit activity may involve any one, or a combination of the following:
- a specific piece of internal audit assurance work;
 - efficiency/VFM or support work directed at improving the efficiency of existing procedures and/or standards of governance and control;
 - contributing to corporate groups/projects/reviews (officer and/or Member based) established for a given purpose/objective.

Annual Audit Plan - 2017 / 18				
Category of Audit	Total Days	Audit and Assurance Manager (1 April - 19 May)	Interim Audit and Assurance Manager (22 May onwards)	Audit Team (x2 FTE)
General / Meetings / Non-Chargeable				
Internal audit management	26	6	10	10
Advice and assistance	40	0	0	40
Information Governance Management	12	10	0	2
Corporate Enquiry Team management	8	6	2	0
Deputy 151 responsibilities	3	3	0	0
2016/17 Audit Plan work				
HB subsidy claim - Overpayments	3.5	0	0.5	3
1% Rent reductions	5.5	0	0.5	5
Equality Act	3.5	0	0.5	3
Audit Contingencies				
Contingency for investigations / whistleblowing	20	0	0	20
Follow-up work				
Follow-up of assurance audits	36	0	1	35
Financial Systems				
Budgetary control	12	0	0.5	11.5
Income management	12	0	0.5	11.5
Main accounting	12	0	0.5	11.5
Core Management				
Procurement	12	0	0.5	11.5
Insurance	12	0	0.5	11.5
Asset management	12	0	0.5	11.5
Business planning	12	0	0.5	11.5
Contract management	12	0	0.5	11.5
Financial planning and MTFS	10	0	0.5	9.5
Performance management	12	0	0.5	11.5
Recovery of legal fees and court costs	15	0	0.5	14.5
Compliance to scheme of delegation	12	0	0.5	11.5
Salt Ayre leisure centre	12	0	0.5	11.5
Council housing voids	12	0	0.5	11.5
Local plan	12	0	0.5	11.5
Voluntary faith community sector	10	0	0.5	9.5
Learning and development	14	0	0.5	13.5
Green waste collection	12	0	0.5	11.5
Revenue Shared Service Financial Systems				
NNDR - Strategic	10	0	0.5	9.5
Council tax	10	0	0.5	9.5
Unified benefit	12	0	0.5	11.5
Housing benefit	10	0	0.5	9.5
Other Areas of Work				
Canal corridor north project	14	0	2	12
Annual governance review and statement	7	0	2	5
Risk management and assurance framework	20	0	5	15
PSIAS Review - moderation and preparation for assessment in C	14.5	0	4.5	10
National Fraud Initiative 2016/17	5	0	0	5
Counter fraud work	8	0	1	7
GRAND TOTAL	485	25	40	420