



Committee: AUDIT COMMITTEE
Date: WEDNESDAY, 23 MAY 2018
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 2018/19 municipal year (the Vice-Chairman must not be a member of Cabinet or Overview and Scrutiny)

3. **Minutes**

Minutes of meeting held on 21st February 2018 (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. **Public Sector Internal Audit Standards - Peer Review** (Pages 1 - 11)

Report of the Internal Audit and Assurance Manager

7. **Internal Audit Annual Report 2017 - 18** (Pages 12 - 27)

Report of the Internal Audit and Assurance Manager

8. **Counter Fraud Annual Report 2017 - 18** (Pages 28 - 31)

Report of the Corporate Fraud Manager

9. **Annual Governance Statement 2017 - 18** (Pages 32 - 43)

Report of the Internal Audit and Assurance Manager

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

Councillors Abbott Bryning (Chairman), Stuart Bateson, Nathan Burns, Colin Hartley, Malcolm Thomas, Oscar Thynne and Nicholas Wilkinson

(ii) Substitute Membership

Councillors Alan Biddulph (Substitute), Tim Hamilton-Cox (Substitute), Brendan Hughes (Substitute), Roger Mace (Substitute) and John Wild (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 Tuesday 15th May 2018.

AUDIT COMMITTEE**Public Sector Internal Audit Standards****Peer Review Report****23 May 2018****Report of the Internal Audit and Assurance Manager****PURPOSE OF REPORT**

To inform the Committee of the report from the external review of Internal Audit against the Public Sector Internal Audit Standards (PSIAS).

This report is public

RECOMMENDATIONS

- 1. That the Committee considers the report and the comments on the planned actions.**
- 1.0 Introduction**
 - 1.1 The PSIAS were first introduced as required internal audit practices in 2013. Annually Internal Audit is required to comment on its compliance with the standards and at least once every five years the compliance must be externally assessed. The external assessment was undertaken in January 2018 by the Head of Internal Audit from Allerdale Borough Council and the Senior Auditor from Burnley Borough Council.
 - 1.2 The assessment team were provided with a variety of evidence and were given access to a number of key officers across the organisation, namely; the Chief Executive Officer, Monitoring Officer, Section 151 Officer, Chief Officers, Senior Auditor and a sample of auditees. The Chair of the Audit Committee was also interviewed.
- 2.0 Proposal Details**
 - 2.1 Although overall compliance was achieved, there were 4 points for consideration made. The proposed actions have been presented to Management Team and the final action plan developed from those responses is attached at Appendix A.
- 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 No alternative options were identified. The need to carry out an external assessment of compliance to the PSIAS is a statutory requirement.

5.0 Conclusion

5.1 Overall the Council's Internal Audit Section is fully compliant with the PSIAS with only 4 points for consideration made of which an action plan has been approved to address these. This compliance has been reported in the Annual Audit Opinion and in the Annual Governance Statement for 2017/18.

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

Public Sector Internal Audit Standards

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

Contact Officer: Joanne Billington

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Ref:

Lancaster City Council

**PEER REVIEW OF INTERNAL AUDIT AGAINST THE UK
PUBLIC SECTOR INTERNAL AUDIT STANDARDS**

March 2018

Review Team

Emma Thompson, Assurance Risk and Audit Manager, Allerdale Borough
Council

Nadeem Ukadia, Senior Auditor, Burnley Council

1 Introduction

- 1.1 All principal local authorities and other relevant bodies subject to the Accounts and Audit (England) Regulations 2015 (amended), the Accounts and Audit (Wales) regulations 2005, section 95 of the Local Government (Scotland) Act 1973 and the Amendment to the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006 must make provision for internal audit in accordance with the Public Sector Internal Audit Standards (PSIAS) as well as the Chartered Institute of Public Finance and Accountancy (CIPFA) Local Government Application Note.
- 1.2 A professional, independent and objective internal audit service is one of the key elements of good governance in local government.
- 1.3 The PSIAS require that an external assessment of an organisation's internal audit function is carried out once every five years by a qualified, independent assessor or assessment team from outside of the organisation. External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation.
- 1.4 The Lancashire Districts Chief Auditor Group (LDCAG) has established a 'peer-review' process that is managed and operated by the constituent authorities. This process addresses the requirement of external assessment by 'self-assessment with independent external validation' and this report presents the summary findings of the review carried out on behalf of Lancaster City Council.
- 1.5 "An independent assessor or assessment team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs." This review has been carried out by the Head of Internal Audit at Allerdale Borough Council and the Senior Auditor at Burnley Council. Their 'pen pictures', outlining background experience and qualifications, are included at Appendix 1.

2 Approach/Methodology

- 2.1 The LDCAG has agreed a detailed Memorandum of Understanding (MoU) that outlines the broad methodology for the conduct of this review. A copy of the MoU is available upon request. However, in summary, the key elements of the process are:
 - The peer review is undertaken in three stages: pre-review; on-site review; post-review and covers audit activity during the period covered in the latest Head of Internal Audit Annual Report and Opinion. For example, reviews commencing after 1 July 2016 will cover the audit year 1 April 2015 to 31 March 2016.
 - Lancaster City Council has completed and shared its self-evaluation of the Internal Audit service together with any relevant supporting evidence/documentation in advance of on-site review commencement. The LDCAG has agreed that the self-assessment will use the **CIPFA Local Government Application Note (LGAN)** questionnaire. Typically, supporting evidence will include the Internal Audit Plan & Charter, the

Head of Internal Audit Annual Report and Opinion, Quality Assurance and Improvement Programme and examples of final audit reports.

- To support the on-site review, a customer survey form was issued and completed by key personnel within Lancaster City Council.
- The review itself comprises a combination of ‘desktop’ and ‘actual on-site’ review.
- The review cannot reasonably consider all elements of the LGAN self-assessment and the review team must use the ‘desktop’ period to determine strengths, weaknesses and subsequent key lines of enquiry in order that the review itself is risk-based, timely and adds real value. Lancaster City Council has been assessed against the four broad themes of: Purpose and Positioning; Structure and Resources; Audit Execution; and Impact.
- Upon conclusion, the Review team offers a ‘true and fair’ judgement and it is proposed that each Authority will be appraised as **Conforms**, **Partially Conforms** or **Does Not Conform** against each thematic area of the LGAN, from which an aggregation of the four themed scores gives an overall Authority score.

3 Summary Findings

3.1 Following a detailed examination process, the review team has concluded the following judgements:

Area of Focus	Judgement
Purpose & Positioning	Conforms
Structure & Resources	Conforms
Audit Execution	Conforms
Impact	Conforms
Overall Judgement	Conforms

Assessment against the individual elements of each area of focus is included in the table at Appendix 2.

3.2 The peer review at Lancaster City council was very positive. The majority of the feedback received from the Chief Officers and Managers during interview made clear reference to the added value the Internal Audit Team bring to the organisations governance and systems of internal control. A shared arrangement is in place with Wyre Council for the Internal Audit and Assurance Manager Role this started in May 2017. Feedback provided on this

arrangement highlighted the positive impact the Manager is having on the development of the team members in Internal Audit and the service delivery.

- 3.3 **Significant Observations** (leading to a 'does not conform' judgement)
There are no significant observations.
- 3.4 **Minor Observations** (i.e areas for improvement/development, minor elements of non-conformance, gaps in 'good practice' statement) Actions are included at Appendix 3.
- 3.4.1 The Audit Committee (Board) have a fundamental role in good organisational governance. Performing this independent oversight function requires a specific skill set (as defined in the CIPFA Practical Guidance for Audit Committees in Local Authorities) to ensure these governance responsibilities are delivered effectively. To provide assurance that the Audit Committee at Lancaster City Council is contributing to the governance framework as expected a review of the Audit Committee effectiveness should be completed (Appendix D to the CIPFA guidance). The outcomes from this review should be addressed by senior management.
- 3.4.2 The Internal Audit Team produce an annual risk based plan to provide assurance over risk management, control and governance processes at Lancaster City Council. Due to the shortage of information provided by Senior Management relating to draft Corporate Priorities and Corporate Risks at the time of the review, this risk based plan is based on Internal Audits professional knowledge and judgement. The Council is in the process of reviewing responsibilities regarding risk management as well as updating the Risk Management Policy and Strategy and once reviewed it is understood this will be presented to the Audit Committee for approval. Although work is underway to strengthen the management and reporting of the key risks linked to the draft Council Plan, work is still required across the council to embed the strategy and ensure the Council's practices are transparent when considering and documenting both strategic and operational risks. In the meantime, Internal Audit will continue to develop operational service risk registers to help prioritise work and develop the audit plan.
- 3.4.3 It would be beneficial to raise awareness of the skills, knowledge and experience of the Internal Audit Service throughout Lancaster City Council. Excellent feedback was provided by areas who regularly request assurance reviews and these Managers truly see the value of proactive engagement with Internal Audit. Unfortunately this awareness of the value added is inconsistent across the Chief Officers which means opportunities for services to benefit from Internal Audits work could be missed. The Leaders and Managers who speak so highly of the support received by Internal Audit should contribute to this exercise by providing this positive feedback to their peers on a regular basis.
- 3.4.4 The Internal Audit and Assurance Manager currently presents all audit reports to the Management Team as well as these being presented as part of the Audit Committee draft circulation. To maintain organisational independence the Standards require the Internal Audit activity to be free from interference in determining the scope of internal auditing, performing work and communicating results. This activity is also time consuming (the Manager works one day per week), the value added is minimal and is considered to be duplication. The

Senior Management Team would see more value from Internal Audit work if they engaged more proactively at the annual planning stage, to ensure their priorities and key corporate risks were considered in the planning process.

Review Team

Emma Thompson

I am the Assurance Risk and Audit Manager at Allerdale Borough Council and have worked here in Audit for 11 years. I obtained my PIIA with the Chartered Institute of Internal Auditors (CIIA) in 2010 and went on to win the national CIIA Internal Audit Champion award in 2015. I became a Certified with IIA Global in 2016.

Nadeem Ukadia

I am a Senior Auditor at Burnley Council and have worked in the Internal Audit department for 12 years. I became a chartered accountant in 2007 and have extensive experience in both Internal Audit and final accounts preparation.

Detailed Assessment

		Does not conform	Partially conforms	conforms	Comments
Purpose & positioning					
•	• Remit			X	
•	• Reporting lines			X	
•	• Independence			X	See 3.4.1
•	• Other assurance providers			X	
•	• Risk based plan			X	See 3.4.2
Structure & resources					
•	• Competencies			X	
•	• Technical training & development			X	
•	• Resourcing			X	See 3.4.3
•	• Performance management			X	
•	• Knowledge management			X	
Audit execution					
•	• Management of the IA function			X	
•	• Engagement planning			X	
•	• Engagement delivery			X	
•	• Reporting			X	3.4.4
		Do not agree	Partially agree	Fully agree	Comments
Impact					
•	• Standing and reputation of internal audit			X	See 3.4.3 above
•	• Impact on organisational delivery			X	See 3.4.3
•	• Impact on Governance, Risk, and Control			X	See 3.4.2 and 3.4.4

Conforms	X	Partially Conforms		Does Not Conform	
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PSIAS Ref	Report ref	Point For Consideration	Responsible	Action
1110 Independence	3.4.1	Although the Internal Audit function comply with the PSIAS in relation to their interactions with the Board (Audit Committee) a review of Board effectiveness would be beneficial to provide assurance that any work completed by the Board conforms with the PSIAS.	Joanne Billington Internal Audit and Assurance Manager	CIPFA are in the process of reviewing guidance for the Audit Committee in relation to demonstrating effectiveness. It is expected that the guidance will be available early April. A review of the Committee’s effectiveness will be completed following the issue of this guidance.
2010 Risk Based Planning	3.4.2	The organisation should develop a framework of Enterprise Wide Risk Management to support the Council Plan when this is finalised. This will allow the Internal Audit Team to deliver a risk based plan based on organisational priorities and key risks.	Management Team	The Council is in the progress of updating its Risk Management Policy and Strategy, which once completed will be reviewed and submitted to the Audit Committee for approval. Work is underway to strengthen the management and reporting of its key risks which are linked to the draft Council Plan. In the meantime, Internal Audit will continue to develop operational service risk registers, to prioritise work and develop the audit plan.
	3.4.3	The Internal Audit Team and management should raise awareness of the value added by Internal Audit. This should include clarity across the organisation	Joanne Billington Internal Audit and Assurance Manager	Internal Audit will continue to raise its profile through continued consultation with Chief Officers and

<p style="text-align: center;">N/A Identified by Interviews</p>		<p>about their role as business partners, independent assurance providers and the responsibilities they have in the delivery of the Annual Governance Statement.</p>		<p>Senior Managers in development of the Internal Audit Plan.</p>
	<p>3.4.4</p>	<p>The Management Team should review the current process for Audit Report presentation at Management Team to ensure this adds value. Consideration should be given to instead having more proactive engagement at the annual audit planning stage, this would improve the lines of governance and add value at the most appropriate time.</p>	<p>Joanne Billington Internal Audit and Assurance Manager</p>	<p>All internal audit reports will continue to go through the standard report clearance procedure which includes obtaining both S151 Officer and Monitoring Officer comments, with the exception of the PSIAS review and the Annual Governance Statement, which will be presented to Management Team.</p>

AUDIT COMMITTEE**Internal Audit Annual Report 2017-18****23 May 2018****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 2017/18 financial year and to present an annual overall opinion regarding the Council's internal control, risk management and governance framework.

This report is public

RECOMMENDATIONS

1. That the report be noted.
2. That the Internal Audit and Assurance Manager's (IAAM) Internal Audit Annual Report be accepted and considered by the Committee in relation to the annual governance review and Annual Governance Statement (AGS), which is to be re-considered by the Committee at the July meeting alongside the Statement of Accounts.

1.0 Introduction

- 1.1 The Internal Audit Annual Report is produced in order to meet the requirements of the Public Sector Internal Audit Standards and to assist in meeting the Accounts and Audit Regulations 2015. The report provides details of audit coverage and of the work carried out by the section and contains the IAAM opinion of the overall level of control in operation.
- 1.2 The Audit Committee's role in relation to reviewing the work carried out includes formal consideration of summaries of work done, key findings, issues of concern and actions in hand as a result of audit work. A key part of the role is receiving and reviewing regular reports from the IAAM in order to reach an overall opinion on the internal control environment and the quality of internal audit coverage. The Audit Committee has a clear role in relation to the authority's internal audit function and this involves:
 - Formally approving, but not directing, the overall strategy to ensure that it meets the council's overall strategic direction;
 - Agreeing the annual audit plan (paying particular attention to whether there is sufficient and appropriate coverage); and
 - Monitoring progress against the plan and assessing whether adequate skills and resources are available to provide an effective audit function.

2.0 Proposal Details

- 2.1 The Internal Audit Annual Report attached at Appendix A seeks to demonstrate that effective leadership of audit and governance are in place across the organisation and that the necessary arrangements are in place to maintain a sound system of internal control.

3.0 Details of consultation

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

4.0 Options and options analysis (including risk assessment)

4.1 The proposal is that the Committee accepts the IAAM Internal Audit Annual Report as a contribution to the overall assessment of the internal control environment and the AGS.

4.2 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, risk management and corporate governance arrangements. During the 2017/18 financial year, internal audit's work has gained the necessary assurances to be able to state the council has in place satisfactory controls to be able to maintain an adequate and effective internal control environment. However it should be noted that the IAAM has stated that both risk management and the Council's readiness for the General Data Protection Regulations should be reported in the Council's AGS for the year 2017/18 as areas requiring significant attention.

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 2017/18

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Ref:

INTERNAL AUDIT ANNUAL REPORT 2017/18

The Internal Audit and Assurance Section is responsible to the Chief Officer Resources (S151 Officer) for carrying out a continuous examination of the accounting, financial and other operations of the council in accordance with Section 151 of the Local Government Act 1972 and the Accounts and Audit Regulations 2015. The latter states that **“A relevant authority must ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives, ensures that the financial and operational management of the authority is effective and includes effective arrangements for the management of risk”**.

Members of the Audit Committee should note that copies of internal audit reports are published on the council's intranet. Access to the supporting files is available to members of the Audit Committee on request.

Lancaster City Council continues to be represented on the Lancashire District Council's Audit Group and we continue to participate in the National Fraud Initiative data sharing exercise.





Internal Audit continues to provide the council with the necessary assurance about its various activities and associated systems, as outlined in the council's Internal Audit Strategy and Audit Charter. In addition, the audit service has recently received validation following a peer review on its self-assessment of effectiveness of internal audit. Details of this peer review can be found later in this report.

This year (2017/18) the audit plan consisted of 485 days. 100% of the plan is completed by the in-house team with reviews being carried out by the Internal Audit and Assurance Manager to ensure that quality and standards are maintained.





Internal feedback forms are distributed after each audit review. In 2017/18 the feedback received indicated that the work of internal audit continues to be highly regarded.

Audit Work Performed in 2017 / 2018






Summarised below are the reviews that have been performed and reports issued in 2017/18. Final reports are published in full on the Council's Intranet site.


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.



2016/17 Audit Plan Work Finalised in 2017/18

TITLE	STATUS	Level of Assurance	Summary
HB Subsidy Claim - Overpayments	Final Report Issued 20/04/18	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.
1% Rent Reductions	Final Report Issued 24/04/18	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.
NNDR Transactional (Lancaster)	Final Report Issued 26/09/17	Substantial 	Substantial assurance has been given on the basis that good arrangements are in place to ensure that NNDR reliefs and exemptions are appropriate, correct and effectively managed and new accounts are appropriately supported. Only minor improvements are required with a view to further strengthening existing controls and actions have been agreed to address these.
NNDR Transactional (Preston)	Final Report Issued 03/11/17	Reported separately to Preston.	
Equality Act	Final Report Issued 11/01/18	Limited 	Limited assurance has been given on the basis that if the council is to fully comply with the requirements of the Duty, be able to effectively demonstrate compliance, and withstand any potential challenge, arrangements need to be strengthened. Roles and responsibilities need to be clearly defined and a corporate lead established. Officers require further training to ensure they are fully equipped to make decisions which are properly informed by the potential implications of those decisions on protected groups. More can also be done to ensure that equality issues are integral to decision making with compliance with the Duty being a conscious approach, the focus of arrangements being on performance rather than process.

2017/18 Audit Plan Work

TITLE	STATUS	Level of Assurance	Summary
Asset Management	Final Report Issued 22/12/17	Limited 	Limited assurance has been given on the basis that there is scope to improve management of the council's property portfolio with a view to ensuring value for money is obtained from the asset base. The Property Group has had resourcing issues and this has impacted upon the asset management function. Capacity has now been created to address this and an Asset Manager has been appointed. This officer will play a key role in taking forward actions agreed during the course of this review, which once implemented should result in a substantial assurance being provided.
Planning Enforcement (replaced Insurance work)	Final Report Issued 02/01/18	Substantial 	Substantial assurance has been awarded on the basis that current arrangements for receiving, recording and investigating planning enforcement complaints are efficient and effective. Only minor improvements are required in relation to data recording for performance monitoring purposes, and actions have been agreed to address this.
Salt Ayre Leisure Centre	Final Report Issued 03/04/18	Substantial 	Substantial assurance has been provided on the basis that the collection, storage and banking of income at the Centre is generally well controlled. A number of areas were identified where arrangements could be strengthened, and actions have been agreed to address these issues. The majority of the issues raised were actioned during the audit and the small number of issues which remain outstanding will be implemented by the end of the financial year 2017/18.
Income Management – The Print Room	Final Report Issued 12/02/18 Follow-up Report Issued 25/04/18	Limited  Substantial 	Limited assurance has been awarded on the basis that there are a significant number of minor control weaknesses surrounding income collection and banking arrangements at the Print Room. However, it should be noted that officers have already made a number of improvements during the course of this review and an action plan has been agreed which once implemented will address the remaining control weaknesses and raise the assurance opinion. This piece of work was followed up in April 2018 resulting in a Substantial Assurance opinion being achieved.

NNDR Rate Avoidance (Lancaster)	Final Report Issued 19/02/18	Substantial 	Substantial assurance has been awarded on the basis that a consistent, fair and proportionate approach is taken in relation to administering empty properties, the council taking all the necessary steps to improve business rate collections and reduce rate avoidance attempts. However, it has been agreed that arrangements will be made to publicise the council's stance on rate avoidance tactics, and to make clear the increased level of scrutiny and challenge that will be undertaken in relation to potential rate avoidance cases, through the production of a rate avoidance strategy.
NNDR Rate Avoidance (Preston)	Final Report Issued 19/02/18	Reported separately to Preston City Council.	
Business Planning	Position Statement prepared		Business Planning is still in development, this being overseen by Management Team and Cabinet. Revised arrangements are not yet developed to a point where Internal Audit assurance can be provided.
Compliance with the Scheme of Delegation	Position Statement prepared		This audit review will be picked up when an up-to-date and approved Scheme of Delegation is in place. However, no concerns were highlighted as a result of the earlier work already completed.
Council Housing Voids	Position Statement prepared		Internal Audit review postponed until after the completion of the external review currently being carried out. Internal Audit will monitor implementation of any resulting action plan produced by the external consultant.
Local Plan	Position Statement prepared		The Local Plan is still in development and progress is being overseen by Council and the Planning Policy Cabinet Liaison Group, as well as being monitored by the DCLG. No internal audit review to be carried out at this time. However Internal Audit are to keep development of the Local Plan under review and monitor progress made over the next 12 months.
Voluntary Faith Community Sector (VFCS)	Position Statement prepared		This review has not been carried out as Members are currently reviewing the Council's future arrangements in relation to VCFS commissioning. It is considered that a review carried out by Internal Audit at this point would result in a duplication of effort. Therefore, Internal Audit are to keep this situation under review and consider inclusion of a review in future Audit Plans based on evaluation of the potential risks associated with any new arrangements.




Performance Management	Draft report prepared	Limited 	Limited assurance has been given on the basis that whilst a performance management framework is in place, it is not yet fully embedded, this being in part due to key elements of it having recently been revised. Current indicators are in need of review to ensure they align with the new Council Plan, and there is scope to improve arrangements for the collection and reporting of data. Accountability also needs strengthening. An action plan has been agreed with a view to improving arrangements, which once implemented should result in substantial assurance being provided.
Learning and Development	Draft report prepared	Limited 	Arrangements are in place to ensure the council is compliant with statutory requirements in relation to the Apprenticeship Levy. The role of line managers in developing staff is clearly understood, and measures are being taken with a view to identifying learning and development needs of the workforce. However, there is scope to improve arrangements for maximising current investment in learning and development activity. Aims and objectives for developing the skills, knowledge and competencies of staff also need to be clearly defined. A learning and development officer is to be appointed in the near future who will play a key role in taking forward the agreed actions, which once implemented should result in a substantial assurance being provided.
Main Accounting	Fieldwork in progress		These reviews were delayed due to Chief Officers requesting additional work to be carried out. Fieldwork is now in progress and it is expected that reports will be issued in May / June 2018.
Procurement / Contract Management	Fieldwork in progress		
Budgetary Control	Fieldwork in progress		
Financial Planning and MTFs	Delayed		This piece of work has been slightly delayed due to workload, however it is due to be scoped with the Section 151 Officer in May/June 2018.
Recovery of Legal Fees and Court Costs	Delayed		There is currently no capacity at present within the team to assist with an internal audit review.
Green Waste Collection	Rolled to 2018/19 Audit Plan		It has been agreed that this piece of work will be rolled to the 2018/19 Audit Plan. There is currently no capacity at present within the Legal Team to assist with an internal audit review.

Follow-up work completed in 2017/18

TITLE	STATUS	Level of Assurance	Summary
Anti-Social Behaviour	Follow-up Report Issued 15/01/18	Substantial ✓	Substantial assurance has been given on the basis that, as per the requirements of the Anti-Social Behaviour Act, an up to date policy and procedure statement is now in place and this has been made publicly available.
Stores	Follow-up Report Issued 18/05/17	Substantial ✓	Substantial assurance has been given on the basis that good progress has been made with implementation of the agreed actions. Improvements have been made in relation to stock management, record keeping and security checks on stock leaving the depot. Purchasing arrangements have also been reviewed and changes introduced with a view to achieving savings through efficiencies and obtaining value for money. A review of the Stores system capabilities has been carried out, this leading to more effective use being made of the system to aid, inform and automate stock management arrangements.
Driver Certificate of Professional Competence	Follow-up Report Issued 08/05/17	Substantial ✓	Substantial assurance has been given on the basis that a comprehensive record of all drivers requiring a valid Driver Certificate of Professional Competence (CPC) in order to carry out their duties has recently been compiled, along with a record of those drivers currently holding a valid CPC, the expiry dates and a record of all training that has been undertaken to date. This strengthening of record keeping arrangements enables the council to better demonstrate compliance with relevant legislation and therefore reduces the risk of any financial penalties being imposed on either the driver or the council.

Other work completed in 2017/18

TITLE	STATUS	Level of Assurance	Summary
<p>BACS Processing</p>	<p>Final Report Issued 10/05/17</p>	<p>Substantial ✓</p>	<p>During discussions regarding the development of the Audit Plan, the Head of Revenues and Benefits requested that a review of BACS processes be carried out, on the basis that Housing Benefit payments are made via this method. An Internal Audit review of BACS processing arrangements had also recently been completed at Preston City Council with whom Lancaster City Council has a shared service agreement in relation to the provision of Revenue and Benefit Services</p> <p>Exchequer Services are responsible for the transmission of BACS files and as such a review of these arrangements was discussed with the Financial Services Manager. The scope of the review included Creditor, Salary and Housing Benefit Payments made by BACS.</p> <p>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.</p>

White Lund Nursery	Final Report Issued 15/08/17	Limited 	<p>Following an investigation into allegations concerning theft of stock at White Lund Depot Nursery it was agreed that a follow-up piece of audit work would be completed.</p> <p>Limited assurance has been given on the basis that the lack of clear policies and procedures for staff purchases, and the weaknesses identified relating to access and security of stock, leave the council vulnerable to inappropriate/unauthorised transactions taking place and/or theft of stock.</p>
	Follow-up Report Issued 06/02/18	Substantial 	<p>This piece of work was followed up in February 2018 resulting in a Substantial Assurance opinion being achieved.</p>
Housing Benefit E-Claim Module	Draft report prepared	Substantial 	<p>The Chief Officer (Resources) requested that an audit be carried out prior to the implementation of the new Housing Benefit E-Claim Module with a view to ensuring that the new system was fit for purpose and that robust controls were in place so that a large payment error that occurred at Preston City Council could not be replicated at Lancaster.</p>

Other audit work undertaken:

Investigations

- In October 2017 Internal Audit were asked to assist the Corporate Enquiry Team to conduct authorised surveillance, over a period of three days. The surveillance helped prove a case of theft from the Council's car park ticket machines. Although the perpetrator was not a Council employee, the investigation resulted in the individual resigning from his job and accepting a conditional Police caution, in which he agreed to pay Lancaster City Council a sum of money relating to the offence.
- A concern was raised in January 2018 by a member of staff in connection with staff being offered subsidies at the Salt Ayre Leisure Centre. The Chief Officer has been informed and a piece of work is currently being completed to assess the current arrangements at the Council's other satellite establishments; namely, The Storey Printroom Cafe and Williamson Park Café. Once this has been completed, Internal Audit will report on their findings.

Corporate Enquiry Team

The Council has a duty to protect public funds and has a shared Corporate Fraud Team with Preston and Fylde Councils. The team is called the Corporate Enquiry Team and its role is to investigate allegations of fraud against the Council, undertake pro-active investigations in high risk areas, act as single point of contact between the Council and the Department for Work and Pensions fraud team and to participate in multi agency working to prevent and detect crime with partner agencies. During 2017/18 the team focussed mainly on Council Tax, Council Tax Support, Business Rates and Housing Tenancy Fraud. A detailed report of the outcomes will be reported to the Audit Committee and is attached later in this agenda.

Information governance – judgement of security and use of business assets

Following the independent specialist advice gained in 2017, the Council has been preparing for the General Data Protection Regulations which come into force on the 25 May 2018. Whilst a considerable amount of work has been completed, the recently appointed Information Governance Manager has been working through a comprehensive action plan. Although significant progress has been made, the IGM highlighted that there is still a lot of work to be completed to ensure the Council is GDPR compliant.

Counter Fraud and Corruption Policies

There has been no use of the Council's Money Laundering procedure during 2017/18. Both the Money Laundering and Deputy Money Laundering have attended training on the new Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017.

Effectiveness of Internal Audit Review

In accordance with the Accounts and Audit Regulations 2015, paragraph 6 (1) requires the relevant body, each financial year to conduct a review of the effectiveness of its system of internal audit. The review recognises the important role that internal audit play in the assurance process and the need to continually ensure that it remains effective. The last self-assessment was carried out in June 2017 using the 'Public Sector Internal Audit Standards' and 'Local Government Guidance Note' issued by CIPFA. A few minor gaps were identified and have since been addressed.

In order to comply with the PSIAS an external assessment must be conducted at least once every five years by a qualified independent assessor or assessment team from outside the organisation. External assessments can be in the form of a full external assessment, or a self-assessment in-house with independent external validation. It was agreed by the Lancashire District Chief Auditors group and validated by the Audit Committee, that peer reviews would be used to obtain the independent external validation. Lancaster City Council's assessment was completed on the 30th and 31st January 2018. The peer review team (Allerdale Borough Council and Burnley Borough Council) concluded that the Internal Audit Team are fully compliant with the PSIAS. Four areas were reported for consideration, namely:

- To complete an Audit Committee effectiveness review;
- To improve the risk management arrangements to facilitate audit planning;
- To raise awareness of the 'value added' by Internal Audit; and
- To review the current process of audit report presentation at Management Team.

Further details on the suggested improvements are covered in more detail in the peer review report which features later in the agenda.

Quality Assurance Improvement Programme

In accordance with the PSIAS, the Chief Internal Auditor (Internal Audit and Assurance Manager) must develop and maintain a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity. The QAIP must include both internal; and external assessments.

The internal assessments include the following:

- An annual self-assessment of the effectiveness of the audit service using the PSIAS; and
- Day-to-day monitoring of compliance with the Definition of Internal Auditing and the Code of Ethics documented within the section's Audit Charter and also in the PSIAS.

External assessments include:

- A 5 yearly independent assessment of compliance to the PSIAS;
- An annual review of the Council's Annual Governance Statement which accompanies the Statement of Accounts;
- Regular attendance at the Audit Committee by the Council's External Auditor with the opportunity to meet in private with the Committee; and
- The External Auditors and the Audit Committee review and challenge all internal audit reports.

Compliance to the Public Sector International Audit Standards (PSIAS)

In April 2014, the International Standard setters developed a comprehensive set of standards (PSIAS) that are expected to be in place within any effective audit organisation. The PSIAS replaced CIPFA's 'Code of Practice for Internal Audit in Local Government'. The PSIAS requires that areas of non-compliance with the PSIAS Definition of Internal Auditing and the Code of Ethics are reported in the Annual Audit report and that significant deviation requires inclusion in the Council's Annual Governance Statement. It should be noted that at the self-assessment dated June 2017 and the external validation in January 2018 reported that there were no deviations to report.

Risk Management

The Council is in the process of reviewing responsibilities regarding risk management as well as updating the 'draft' Risk Management Policy and Strategy. Once reviewed this will be presented to the Audit Committee for approval. Although work is underway to strengthen the management and reporting of the key risks linked to the draft Council Plan, work is still required across the council to embed the strategy and ensure the Council's practices are transparent when considering and documenting both strategic and operational risks. In the meantime, Internal Audit will continue to develop operational service risk registers to help prioritise work and develop the audit plan.

Other Governance Work

Following a Freedom of information request, Internal Audit were asked by the Section 151 Officer to provide assurance on the recruitment and selection procedures that had taken place in 2017 to recruit the Council's Deputy Chief Executive. The work will be completed in May / June 2018 and on completion, the level of assurance provided will be reported to the Audit Committee.

Internal Control System

In accordance with the Accounts and Audit Regulations 2015, Internal Audit is required to form an opinion on the adequacy and effectiveness of the council's internal control environment, which includes consideration of any significant risk or governance issues and control failures that have been identified throughout the year.

In providing an overall opinion on the council's system of internal control, it should be noted that assurance can never be absolute. Internal Audit can only provide

reasonable assurance that there are no major weaknesses in the areas reviewed. In arriving at an opinion, consideration is given to;

- The findings from the audit work undertaken during the year;
- The amount of audit work undertaken in the year compared with work planned;
- The results of follow up action in respect of audit work;
- Whether or not any significant recommendations have not been accepted by management and the consequent risks; and
- The issues identified in the Annual Governance Statement.

The tables below show the total number of audits completed to date during 2017/18 and the overall level of assurance that was given. The table also shows the total number of audits still at the draft stage and where no reports have been issued following the preparation of a position statement

Assurance Level	Number of Audits
Maximum	0
Substantial	13
Limited	4
Minimal	0
Draft	2
Fieldwork	3
Delayed (at request of manager)	2
No report – position statement	5
Rolled to 2018/19 Audit Plan	1
Total	30

Internal Audit and Assurance Managers overall opinion on the council's internal control environment, risk management and governance arrangements

Taking into account all the audit areas examined and the other work carried out during the year, it is my opinion that in respect of internal control, the council has in place satisfactory controls to be able to maintain an adequate and effective internal control environment.

Of the audit work completed during the year, 43% of the work was given an assurance level of 'substantial', with only 13% of the work completed been given an assurance level of 'limited'. Instances where a 'limited' assurance level has been given, action plans have been agreed, which once implemented should result in substantial assurance being provided.

It should be noted that at the time of publishing this audit opinion, a number of audit reviews had yet to be completed. If at a later stage significant issues are identified that will ultimately change the overall opinion documented above, a further report to the Audit Committee will be completed.

In relation to risk management, whilst some work has been completed to strengthen the management and reporting of risk, the council still has a significant amount of work to embed the policy and strategy and ensure the Council's practices are transparent

when considering and documenting both strategic and operational risks. It is therefore in my opinion, that risk management should be reported in the Council's AGS for the year 2017/18 as an area requiring significant attention.

It is pleasing to see that the council is making steady progress in implementing the required actions ensuring the council's readiness for GDPR, however I am concerned that there is still a considerable amount of work to be completed before the 25 May 2018. It is therefore in my opinion that this should also be reported in the Council's AGS for the year 2017/18 as an area requiring significant attention.

AUDIT COMMITTEE**Counter Fraud – Annual Report 2017/18****23 May 2018****Report of the Corporate Fraud Manager****PURPOSE OF REPORT**

To inform the Committee of the extent and outcome of counter fraud work during the 2017/18 financial year.

This report is public

RECOMMENDATIONS

1. That the report be noted.

1.0 Introduction

1.1 Local Authorities have a statutory duty under section 151 of the Local Government Finance Act 1972 to make arrangements for the proper administration of their financial affairs. As responsibility for Housing Benefit fraud investigation passed to the Department for Work and Pensions on 1st June 2015, the Council made a decision to form a Corporate Fraud Team, shared between Preston, Lancaster and Fylde Councils. There is a duty to have effective controls and procedures in place to prevent, detect and investigate fraud and error in Council Tax Support, Council Tax and Business Rates. The Corporate Fraud, or Corporate Enquiry Team (CET) as it is also known, also works in partnership with the Housing Department and Social Housing providers to investigate tenancy fraud.

1.2 This report details performance and counter fraud activity undertaken by the Fraud Team/Corporate Enquiry Team during 2017/18 in this specialist area of work.

2.0 Background Information

2.1 Early in 2015, the Council supported a bid by Preston City Council for funding from the Department for Communities and Local Government (DCLG) to set up a shared Corporate Enquiry Team, with the partners being Preston City Council, Lancaster City Council and Fylde Borough Council. The bid was successful and £125,750 was awarded towards the cost. This team effectively replaced the former Benefit Fraud Team hosted by Preston City Council, with six staff from the share service transferred to the Department for Work and Pensions (“DWP”) on 1st June 2015.

2.2 At the same time, the Corporate Enquiry Team was established and consists of five staff, including a Manager, two Investigators and two Administrative Officers. The staff continue to be employed by Preston City Council and resources are shared between

the three authorities, giving Lancaster full time equivalent staff (FTE) of Manager (0.4 fte), Investigator (0.8 fte) and Administrative Officer (1.0 fte).

2.3 The objectives of the Corporate Enquiry Team are to:-

- Protect public funds;
- Undertake fraud prevention measures;
- Detect and stop fraud;
- Increase fraud awareness;
- Implement sanctions in accordance with Council prosecution policies;
- Ensure that investigations comply with the regulatory environment;
- Recover properties from fraudsters to enable re-housing of those identified as most in need of social housing;
- Encourage a strong culture of good performance in relation to cost;
- Promote the principles of fairness, equality of opportunity, social inclusion and poverty reduction through service provision; and
- Embrace partnership working to enable the delivery of an excellent service, whilst achieving savings based on economies of scale, reductions in duplication and financial savings to the authority.

2.4 The Corporate Enquiry Team strives to prevent and detect as much Council Tax Support fraud as possible, working with outside agencies such as the Department for Work and Pensions, HM Revenues and Customs, the Police and Immigration when appropriate. Currently no joint working arrangements are in place with DWP due to their national policies. However, the Council has recently expressed an interest in participating in future joint working with the DWP. This project is scheduled to begin in Autumn 2018.

2.5 The team acts as Single Point of Contact (SPOC) for providing information on Housing Benefit investigations to DWP.

2.6 The team has an excellent working relationship with Lancashire Police and acts as SPOC for Police Data Protection Act requests.

2.7 The Corporate Enquiry Team are active members of the National Anti Fraud Network (NAFN). NAFN's key services include:

- Acquiring data legally, efficiently and effectively from a wide range of information providers;
- Acting as the hub for the collection, collation and circulation of intelligence alerts; and
- Providing best practice examples of process, forms and procedures.

2.8 The team are also members of the Chartered Institute of Public Finance and Accountancy (CIPFA) Counter Fraud Centre in order to share best practice and receive information on new counter fraud initiatives. They work closely with other Lancashire and Greater Manchester Local Authorities, meeting regularly to discuss common problems and best practice.

3.0 Performance

3.1 Performance data is detailed as below:

	Year	Target	Achieved
Overpayments	2017/18	£100,000	£156,196.51

Financial Source	Overpayments	Weekly Savings
Council Tax Reduction Scheme	£30,474.29	£1,053.54
Housing Benefit	£35,476.61	£1,558.69
Council Tax	£33,273.38	£731.09
Business Rates	£1,722.23	£118.06
Parking	£6,500.00	£195.87
Right to Buy	£48,750.00	
Totals	£156,196.51	£3,657.25

- 3.2 From 1st April 2017 to 31st March 2018 the Corporate Enquiry Team identified overpayments of £156,196.51. In addition two Council properties were recovered from tenants who were not using the properties as their principal residences.
- 3.3 From 1st April 2017 the team has introduced an additional methodology to identify counter fraud performance. When a claim for an allowance, discount, reduction or exemption ends or reduces as a result of an intervention by the Corporate Enquiry Team the value of the intervention is not just the amount of any overpayment that has occurred. It is recognised that there is also a “future” saving made by preventing further incorrect payments being made. In these cases the weekly amount of reduced entitlement to an allowance, discount, reduction or exemption that is applied following fraud intervention should be multiplied by 52. It is reasonable to believe that the award would have continued unchanged for an average of a full year had no intervention taken place. This was agreed as an appropriate performance measure by the Lancashire and Greater Manchester Fraud Investigators Group. The weekly figure identified for Lancaster City Council is £3,657.25, multiplied by 52 gives total “future” savings for 2017/18 of £190,177.00.
- 3.4 The team has undertaken pro-active work by reviewing high risk claims for Council Tax Support.
- 3.5 The Corporate Enquiry Team has participated in the National Fraud Initiative data matching exercise, including investigating Council Tax data matches where single person discount is in place, but more than one adult is listed on the electoral register for the property.
- 3.6 The team now review 100% of all “right to buy” applications for Council Housing properties made to the Council.
- 3.7 A management checking regime is in place, structured to monitor performance and compliance with legislation. This process includes:-
- 1-2-1’s with staff to discuss the officer’s full caseload, giving advice and direction, identifying any inactive cases, together with any training needs;
 - A review of all “Interviews Under Caution” before prosecution is considered;
 - A full management check on all sanction cases; and regular checks are undertaken of fraud officer’s pocket notebooks.
- 3.8 Surveillance is only authorised in appropriate cases where considered necessary and proportionate, in line with the Regulation of Investigatory Powers Act (RIPA). Surveillance has been undertaken for one case during 2017/18, with the team

obtaining authority to conduct covert surveillance from Lancaster Magistrates Court. This resulted in the team identifying and dealing with an individual who was stealing from Council car park ticket machines. The individual resigned from their job and received a Police caution for theft.

4.0 Details of Consultation

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

5.0 Options and Options Analysis (including risk assessment)

5.1 None – the report is for noting.

<p>CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</p> <p>The Benefits Service has a major impact upon the wellbeing of the poorer members of the local community. The Council is committed to protecting the gateway to Benefits and Council Tax Support with a service that is accessible to everyone in the community, ensuring that customers receive all the allowances to which they are entitled. As an essential part of this service provision, the prevention and detection of fraud remains high on the Council's agenda.</p>	
<p>FINANCIAL IMPLICATIONS</p> <p>There are no direct financial implications arising from this report. However, the Corporate Enquiry Team has generated savings for the Council from their Corporate Fraud Shared Service work, and delivers value for money. It should be noted that the Government has indicated that Councils will retain 75% of Business Rates they collect from 2020/21. The Council recognises the impact that collection of Business Rates will have on its finances in future and the Corporate Enquiry Team will seek to ensure that income from business rate is maximised by dealing with fraud in the system.</p>	
<p>SECTION 151 OFFICER'S COMMENTS</p> <p>The Section 151 Officer has been consulted and has no further comments.</p>	
<p>LEGAL IMPLICATIONS</p> <p>None arising from this report.</p>	
<p>MONITORING OFFICER'S COMMENTS</p> <p>The Monitoring Officer has been consulted and has no further comments.</p>	
<p>BACKGROUND PAPERS</p> <p>n/a</p>	<p>Contact Officer: Andrew Taylor Telephone: 01772 906013 E-mail: a.taylor@preston.gov.uk Ref:</p>

AUDIT COMMITTEE**Review of Governance and the
Annual Governance Statement 2017/18****23 May 2018****Report of the Internal Audit and Assurance Manager****PURPOSE OF REPORT**

To approve the Annual Governance Statement (AGS) for inclusion in the Annual Statement of Accounts in July 2018 following a review of the Council's governance arrangements.

This report is public

RECOMMENDATIONS

- (1) **That the Annual Governance Statement (AGS) for 2017/18 be recommended for adoption and for signing by the Chief Executive and the Leader of the Council.**

1.0 Introduction

- 1.1 The AGS is a valuable means of communication. It enables an authority to explain to the community, service users, tax payers and other stakeholders its governance arrangements and how the controls it has in place manage risks of failure in delivering its outcomes.
- 1.2 In accordance with the Accounts and Audit Regulations 2015 the council is required to prepare an AGS, which is published alongside the Statement of Accounts.
- 1.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) have jointly issued a Framework and guidance in relation to the AGS; 'Delivering Good Governance in Local Government'. The guidance urges local authorities to prepare a governance statement in order to report publicly on the extent to which they comply with their own code of governance on an annual basis, including how they have monitored effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The process of preparing the governance statement should itself add value to the corporate governance and internal control framework of an organisation.
- 1.4 At the time of writing, the Council had not adopted a new Local Code of Governance reflecting the contents of the revised Framework. This will be reviewed once a decision has been made where the overall management of the governance statement sits within the organisation. It is expected this will be considered as part of the senior management restructure.
- 1.5 The Framework recognises that effective governance is achieved through seven core principles;
- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;**
 - B. Ensuring openness and comprehensive stakeholder engagement;**

- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits;**
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes;**
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it;**
- F. Managing risks and performance through robust internal control and strong public financial management; and**
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.**

2.0 Proposal Details

- 2.1 The AGS is attached at Appendix A and has been prepared following a workshop with key officers. A document compiled to detail the identified "sources" of assurance for each element of the Code has been updated. Sources of assurance range from a record of official policy and strategy documents such as the Constitution to the results of reviews such as internal audit and external audit reports. In addition, service managers have also been asked to complete assurance statements in relation to other external sources of assurance gained.
- 2.2 The timescale for the production of the AGS coincides with that for the approval of the audited financial accounts. The AGS must be approved at a meeting of the Council or delegated committee, in this case, the Audit Committee.
- 2.3 The leader of the Council and the Chief Executive will be asked to sign the AGS certifying that they are aware of the governance issues within the Authority and of the measures that are needed to mitigate them.

3.0 Details of consultation

- 3.1 Following the AGS workshop with key officers, assurance mapping statements from service managers and a further evaluation at Management Team of the conclusions, the AGS is attached at Appendix A.

4.0 Options and options analysis (including risk assessment)

- 4.1 As the production of an AGS is a legislative requirement, no alternative options are identified.

5.0 Conclusion

- 5.1 The AGS and the results of the review reflect the developments and issues impacting the Council's governance arrangements during the last twelve months. Addressing the significant issues identified in the statement will help ensure the Council maintains and improves its standards of governance in the future.

CONCLUSION OF IMPACT ASSESSMENT

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

The report has no direct impact on the above issues.

FINANCIAL IMPLICATIONS

None arising directly from this report.

OTHER RESOURCE IMPLICATIONS, SUCH AS HUMAN Resources, Information Service, Property, Open Spaces:

Responsibility of the Annual Governance Statement currently sits with the vacant Chief Officer (Governance) role, which is at present being covered by the Interim Head of Legal Services. Recognising the vacancy and the interim post, the Internal Audit Section have prepared the AGS on behalf of the organisation for the year 2017/18, however arrangements should be sought going forward to address where responsibility sits.

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has been consulted and their comments have been incorporated.

LEGAL IMPLICATIONS

The interim Head of Legal Services has been consulted and their comments have been incorporated.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and their comments have been incorporated.

BACKGROUND PAPERS

n/a

Contact Officer: Joanne Billington
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Ref:

Annual Governance Statement

2017/18

1.0 INTRODUCTION

1.1 Local authorities are statutorily required to review their governance arrangements at least once a year. Preparation and publication of an Annual Governance Statement in accordance with the CIPFA/SoLACE Delivering Good Governance in Local Government Framework (2016) (the Framework) fulfils this requirement. The Framework requires local authorities to be responsible for ensuring that:

- their business is conducted in accordance with all relevant laws and regulations;
- public money is safeguarded and properly accounted for; and
- resources are used economically, efficiently and effectively to achieve agreed priorities which benefit local people.

1.2 The Framework also expects that local authorities will put in place proper arrangements for the governance of their affairs which facilitate the effective exercise of functions and ensure that the responsibilities set out above are being met. Key elements of the Council's governance framework are summarised below;

Council, Cabinet and Leader

- Provide leadership, develop and set policy
- Develop and set policy to maintain the City's standing
- Support the City's diverse communities and distinctive neighbourhoods to thrive and succeed

Management Team and Statutory Officers

- The Head of Paid Service is the Chief Executive who is responsible for all Council staff and leading an effective corporate management team of Chief Officers
- The Chief Officer (Resources) is the Council's Section 151 Officer and is responsible for safeguarding the Council's financial position and ensuring value for money
- The Interim Head of Legal Services is the Council's Monitoring Officer, who is responsible for ensuring legality and promoting high standards of public conduct

Decision making

- Meetings are held in public
- Agendas, minutes and decisions are recorded on the Council's website

Scrutiny and Review

- Overview and Scrutiny Committee reviews Council policy and can challenge decisions
- Budget and Performance panel reviews operational and financial performance

- Audit Committee reviews internal control, fraud, risk management and governance

2.0 HOW WE COMPLY WITH THE CIPFA / SOLACE FRAMEWORK

2.1 The Council has approved and adopted:

- a Code of Corporate Governance (note that this needs reviewing);
- the requirements of the CIPFA/SoLACE Framework Delivering Good Governance in Local Government Framework 2016; and
- a number of specific strategies and processes for strengthening corporate governance.

2.2 Set out below is how the Council has complied with the seven principles set out in the CIPFA / SoLACE Framework during 2017/18.

PRINCIPLE A

Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

- The Constitution sets out the responsibilities of staff and elected members by defining decision-making powers, providing clear terms of reference and describing roles and functions.
- The Council has a Code of Conduct for elected and co-opted Members and a Code of Corporate Governance which provides guidance for officers and Members on expected standards of behaviour to ensure integrity.
- The Council has an established values and behaviours framework which is to be used in the appraisal process.
- A register of gifts, hospitality and registering interests is maintained for both members and officers.
- The Council has four priorities which are: to put community leadership and working with partners at the heart of all it does, promote and support the positive health and wellbeing of residents; maintain and build upon the district's reputation for being 'clean and green'; and take advantage of opportunities and demographic need to develop the local economy.
- New Members and officers receive training in Code of Conduct and behaviour issues.
- The Standards Committee and Monitoring Officer apply the code of Conduct when investigating any suspected breaches.
- The Raising Concerns at Work policy places emphasis on the agreed ethical values of Members and employees, providing protection for individuals to raise concerns in confidence about suspect behaviour or poor performance and ensuring that any concerns raised are properly investigated.
- All Council decisions have to consider legal implications which are recorded on the Council's website. Senior officers and other key post holders receive support from Legal Services in this regard and

if specialist legal advice is required then the Council will engage external advisors.

- The Section 151 and Monitoring Officers have specific responsibility for ensuring legality, for investigating any suspected instances of failure to comply with legal requirements, and for reporting any such instances to elected Members.
- The Council complies with the Chartered Institute of Public Finance and Accountant (CIPFA) statement on the Role of the Chief Financial Officer in Local Government.
- The Council's decision making reports provides an opportunity for 'equality' to be considered.

PRINCIPLE B

Ensuring openness and comprehensive stakeholder engagement

- All meetings are open to the public and all agenda papers, reports and decisions made by the Council are published on the Council's website together with details of forthcoming consultation exercises, surveys and, public meetings, except those determined as exempt from publication.
- The Council's constitution sets out how it engages with stakeholders and partners through a combination of joint working arrangements, partnership boards and the annual appointment to external organisations including local NHS bodies, neighbourhood forums, local business and other local authorities.
- The council has carried a wide range of community consultation, for example, the Local Plan. In addition, a number of services monitor customer satisfaction.
- The Council sends every household the annual magazine – Your District Council Matters. The Council also sends all its housing tenants the 'Your Council Housing Matters' magazine twice each year. These publications are also available online and the Council utilises various online communication channels including Twitter and Facebook.
- The Council has an easy to use website designed to improve the customer experience, and also free Wi-Fi 'hotspots' for easy access to a range of interactive services and information whilst on the move.
- The Council, in collaboration with Lancaster University has a mobile app 'iLancaster' providing a wealth of local information resources for residents, students and visitors.
- The council has initiated stakeholder engagement events to inform its future corporate planning.

PRINCIPLE C

Defining outcomes in terms of sustainable, economic, social and environmental benefits

- The Council's strategic vision for the district is set out in its Corporate Plan 2016-2020, and development of a refreshed corporate strategy is currently in progress.

- Each Council service determines how it will deliver the outcomes relevant to its area of work in the context of the agreed budget for the year ahead and the overall Medium Term Financial Strategy (MTFS).
- Budget proposals are developed by services and challenged by members.
- The Council works with ward councillors, parish and town councillors, community / friends of groups and other partner organisations to identify local issues and priorities.
- The development of the local plan specifically addresses the important and demographic challenges that could undermine the sustainability of the local economy in future years.

PRINCIPLE D

Determining the interventions necessary to optimise the achievement of the intended outcomes

- All service decisions are subject to scrutiny by lead Members, review of options and risk by officers and Members and key performance indicators are in place for directorates.
- Limits of lawful activity are recognised by the ultra vires doctrine. Managers use their powers to benefit the council and the community.
- Professional advice on matters that have legal or financial implications is available in support of decision making and the report format provides for a written response.
- The MTFS, revenue budget and capital programme are set in context of the requirements of the Corporate Plan, as far as possible, to help ensure sustainability going forward and are published annually.
- A programme of budget proposals complements the MTFS to help achieve sustainability going forward.

PRINCIPLE E

Developing the entity's capacity, including the capability of its leadership and the individuals within it

- Managerial communication has been developed through the establishment of a corporate Leadership Team of senior service managers and a wider Leadership Group of line managers.
- The Council's Performance Appraisal process aims to ensure that all employees have regular individual meetings with their manager and a personal training and development plan.
- The Council has an Online Learning Portal available to all employees and covering a range of key topics including mandatory training.
- The Council works across a broad set of partnerships and collaborative arrangements, and uses commissioning and procurement processes to optimise best value.

- The Council successfully achieved the 'Developed' level of IIP accreditation, under the revised IIP Framework, alongside the IIP Health and Wellbeing Award and is accredited until 2020.
- The Council launched a 'Celebrating success awards scheme' to recognise achievement, commitment and contribution of its employees.

PRINCIPLE F

Managing risks and performance through robust internal control and strong financial management

- Corporate Key Performance Indicators are reported quarterly to the Cabinet and Budget and Performance Panel.
- In support of the Council's draft Risk Management Policy and Strategy, a draft strategic risk register has been produced for consideration by members, alongside the corporate plan.
- The monitoring of risk management effectiveness is a function of the Audit Committee.
- Financial performance is reported monthly to managers and operational and financial performance are monitored and reported quarterly to both the Council's Cabinet and Budget and Performance Panel.
- The Council's Financial Regulations set out expected standards in, and responsibilities for, financial planning, management and reporting and in the control and use of resources.
- The Chief Officer (Resources) has statutory responsibility for the financial administration and stewardship of the council, in accordance with Section 151 of the Local Government Act 1972 and in compliance with the CIPFA Statement on The Role of the Chief Financial Officer (2010).
- The council adopts a four-year MTFS to inform and support the council's key priorities and objectives, subject to at least an annual review.
- The Council's has a dedicated counter-fraud team operating in collaboration with Preston City and Fylde Borough councils.
- The Internal Audit team provides regular reports on the effective management of risk and operation of internal controls, together with an annual assessment and opinion on the overall control environment.

PRINCIPLE G

Implementing good practices in transparency, reporting, and audit to deliver effective accountability

- All council decisions are published online together with supporting information to outline why that decision was chosen. The Council follows the Government Communication Service guidance on providing clear and accurate information.

- The Council publishes information on its website in accordance with the requirements of the Government's Transparency Code.
- The Council reports performance against targets and financial targets on a regular basis.
- The Council published its annual review of the Corporate Plan.
- Internal Audit operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and the CIPFA statement on "The role of the head of internal audit in public service organisations" (2010). All audit conclusions and progress with resulting action plans are reported to the Audit Committee, to ensure that appropriate action is taken.

3.0 REVIEW OF EFFECTIVENESS

- 3.1 The Council uses a number of ways to review and assess the effectiveness of its governance arrangements. These are set out below:

Assurance from Internal and External Audit

Internal Audit Assurance

One of the key assurances the Council receives is the Internal Audit Annual Report. In this report, the Internal Audit and Assurance Manager gives an opinion on the council's internal control, risk management and governance framework.

The 2017/18 Annual Report stated that although the council has in place satisfactory controls to be able to maintain an adequate and effective internal control environment, there were concerns around the council's risk management arrangements and the Council's readiness in relation to compliance to the General Data Protection Regulations (GDPR). It requested that both these areas be reported in the AGS as areas requiring attention.

External Audit Assurance

The Council's current external auditor, KPMG, provides assurance on the accuracy of the year-end Statement of Accounts and the overall adequacy of arrangements for securing and improving value for money. In the most recent External Audit report issued in September 2017, the auditor issued an unqualified opinion on the council's financial statements for 2016/17 and concluded that the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The external auditors made no high priority recommendations as a result of their 2016/17 audit work.

A review of key performance indicators

The Council uses a number of key outcome indicators to assess the quality of governance arrangements. Performance in 2017/18 is set out in the table below;

Indicator	Performance in 2017/18
Formal reports issued by the Section 151 Officer or Monitoring Officer	None issued
Outcomes from Standards Committee or Monitoring Officer investigations	No breaches of the code of conduct were reported to the Standards Committee in 2017/18
Proven frauds carried out by councillors or members of staff	None identified in 2017/18
Objections received from local electors	None received in 2017/18
Local Government Ombudsman (LGO) referrals upheld	No referrals have been upheld by the LGO or the Housing Ombudsman in 2017/18

4.0 CONCLUSION AND SIGNIFICANT GOVERNANCE ISSUES

4.1 Following the Annual Governance workshop it was identified that progress has been made during 2017/18 in relation to the following areas highlighted in the 2016/17 Annual Governance Statement (AGS), namely:

- **Business Planning** - a revised business planning template has been introduced for 2018-19 alongside the ongoing development of the new Council Plan 2018-22. Finalised business plans will include information on key functions and resources by team and a summarised SWOT analysis.
- **Performance Management:** Agreed corporate Key Performance Indicators were reported quarterly to Cabinet and Budget and Performance Panel throughout 2017-18, and a newly introduced 'Review of the Year' was published to reflect the Council's key achievements during 2016-17.
- **Risk Management** – The Council is in the progress of updating its Risk Management Policy and Strategy which once completed will be reviewed and submitted to the Audit Committee for approval. Work is underway to strengthen the management and reporting of its key risks which are linked to the draft Council Plan. In the meantime, Internal Audit will continue to develop operational service risk registers to prioritise work and develop the audit plan.

Information Governance - Following the independent specialist advice gained in 2017, the Council has been preparing for the General Data Protection Regulations which come into force on the 25 May 2018. Whilst a considerable amount of work has been completed, the recently appointed Information Governance Manager (IGM) has been working through a comprehensive action plan. Although significant

progress has been made, the IGM highlighted that there is still a lot of work to be completed to ensure the Council is GDPR compliant.

- 4.2 **Staffing capacity** was highlighted in the 2016/17 AGS and it is apparent that this is still a concern. Staffing capacity was also highlighted in the Section 151 Officers report on the Budget to Council. At the time of publication, the organisation was in the early stages of developing a new senior management structure
- 4.3 Whilst the **Council's Constitution** is considered to be a functional framework to assist officers and members when making decisions, a full review has not been carried out for some time. Subject to members approval, a constitutional review group will be formed to review the constitution with the objective being to strengthen and improve the administration of the decision making process.
- 4.4 During 2017/18 **other governance concerns** have been identified surrounding the council's decision making arrangements. Linked to this, a member resolution has been made to ensure that Section 151 and Monitoring Officer advice is sought at the appropriate time
- 4.5 An action plan will be formulated to address all the above issues ensuring improvements are made, which will include a recommendation that governance training is provided across the organisation for both members and officers. This is designed to ultimately improve the council's governance arrangements going forward. The action plan will be monitored by Management Team on a quarterly basis.

5.0 MINOR GOVERNANCE ISSUES

- 5.1 A number of minor governance issues were also identified following the Annual Governance Workshop. These have been documented in an action plan which will be monitored by Internal Audit and reported to Management Team on a quarterly basis.

6.0 REVIEWING AND REPORTING ARRANGMENTS

- 6.1 The CIPFA/SOLACE guidance recommends that authorities should undertake annual reviews of their governance arrangements to ensure continuing compliance with best practice as set out in the framework.
- 6.2 Each year, prior to the publication of the Annual Governance Statement, a governance workshop is held with key officers of the council who have the most appropriate knowledge, expertise and levels of seniority to consider the extent to which the organisation complies with the principles set out in the good governance framework. The principles are discussed in length and evidence is put forward to demonstrate how the council is meeting each of the principles. It is also an opportunity to identify any issues or gaps that could lead to a weaker governance structure. Following this meeting, the AGS is submitted for consideration by the Leader and Chief Executive who then sign to certify they are aware of the governance issues within the Council and of the measures that are required to improve the controls around the council's governance framework.

7.0 CERTIFICATION

As the Leader of the Council, I am aware of the governance issues within this Authority and of the measures that are needed to improve the control environment. Overall, my assessment of the control environment as at 31st March 2018 is satisfactory.

Cllr Eileen Blamire

Leader of Lancaster City Council

As the Chief Executive of the Council, I am aware of the governance issues within this Authority and of the measures that are needed to improve the control environment. Overall, my assessment of the control environment as at 31st March 2018 is satisfactory.

Susan Parsonage

Chief Executive of Lancaster City Council