



**Committee:** AUDIT COMMITTEE  
**Date:** WEDNESDAY, 20 FEBRUARY 2019  
**Venue:** LANCASTER TOWN HALL  
**Time:** 6.10 P.M.

**A G E N D A**

1. **Apologies for Absence**

2. **Minutes**

Minutes of meeting held on 28<sup>th</sup> November 2018 (previously circulated).

3. **Items of urgent business authorised by the Chairman**

4. **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.

5. **Audit Committee Terms of Reference** (Pages 1 - 5)

Report of the Internal Audit and Assurance Manager

6. **Internal Audit Charter** (Pages 6 - 15)

Report of the Internal Audit and Assurance Manager

7. **Internal Audit Strategy and Risk Based Plan 2019/20** (Pages 16 - 21)

Report of the Internal Audit and Assurance Manager

8. **Certification of Claims and Returns 2017/18** (Pages 22 - 25)  
Report of KPMG
9. **External Audit Planning Report for year ending 31 March 2019** (Pages 26 - 50)  
Report of Deloitte
10. **Periodic Discussion with the Internal Audit and Assurance Manager**  
Discussions with the Internal Audit and Assurance Manager.

## **ADMINISTRATIVE ARRANGEMENTS**

### **(i) Membership**

Councillors Abbott Bryning (Chairman), Colin Hartley (Vice-Chairman), Nathan Burns, Brett Cooper, Oliver Robinson, Malcolm Thomas 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](mailto:smoorghen@lancaster.gov.uk).

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

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

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

Published on Tuesday 12<sup>th</sup> February 2018.

<b>AUDIT COMMITTEE</b>
------------------------

**20 February 2019**

**Audit Committee Terms of Reference**

**Report of Internal Audit and Assurance Manager**

<b>PURPOSE OF REPORT</b>
--------------------------

Annual Review of Audit Committee's Terms of Reference
---

<b>This report is public</b>
------------------------------

**RECOMMENDATIONS**

- (1) That the proposed revision of the Audit Committee's Terms of Reference be accepted and recommended to full Council for adoption.**

**1.0 Background**

- 1.1 Audit Committees are a key component of corporate governance. Their overall purpose being to provide those charged with governance, independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance process.
- 1.2 In March 2018, CIPFA re-issued their practical guidance for Audit Committees (Audit Committees Practical Guidance for Local Authorities and Police) and provided local authorities with a suggested terms of reference setting out the purpose and the core functions required. The terms of reference state that 'The purpose of an Audit Committee is to provide those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes'. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

**2.0 Proposed Revision**

- 2.1 Since its last review in February 2018, whilst no further responsibilities have been assigned to the committee, a significant number of changes have been made to the terms of reference to ensure that it accurately reflects the work of the committee and that it takes into consideration the suggested terms of reference recommended by CIPFA. In particular, the requirements for the terms of reference to have a 'statement of purpose' which includes the committee's core purpose.
- 2.2 The amended terms of reference is attached as Appendix A.

**3.0 Details of Consultation**

- 3.1 None specifically regarding this report.

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

4.1 The options available are to accept the proposed revisions to the terms of reference for recommendation to Full Council, or recommend alternative wording if necessary.

<b>CONCLUSION OF IMPACT ASSESSMENT</b> (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)  Not applicable	
<b>FINANCIAL IMPLICATIONS</b>  None directly arising from this report	
<b>SECTION 151 OFFICER'S COMMENTS</b>  The Section 151 Officer has been consulted and has no further comments	
<b>LEGAL IMPLICATIONS</b>  None directly arising from this report	
<b>MONITORING OFFICER'S COMMENTS</b>  The Monitoring Officer has been consulted and has no further comments	
<b>BACKGROUND PAPERS</b>  Audit Committees Practical Guidance for Local Authorities and Police 2018 Edition	<b>Contact Officer:</b> Joanne Billington <b>Telephone:</b> 01524 582028 <b>E-mail:</b> jbillington@lancaster.gov.uk <b>Ref:</b>

**Audit Committee Terms of Reference – Current Revision****SECTION 8 – AUDIT COMMITTEE**

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

**Statement of Purpose**

- 8.1 The audit committee is a key component of Lancaster City Council's corporate governance. It provides an independent high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
- 8.2 The purpose of an audit committee is to provide those charged with governance, independent assurance of the adequacy of the risk management framework and the internal control environment. It provides independent review of Lancaster City Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal and external audit, helping to ensure efficient and effective assurance arrangements are in place.

**Core Functions****Governance, Risk and control**

- 8.3 To review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.
- 8.4 To review the annual governance statement and consider whether it properly reflects the risk environment and supporting assurances, taking into account the head of audit's annual audit opinion.
- 8.5 To consider the reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 8.6 To consider the council's arrangements to secure value for money and review assurances and assessment on the effectiveness of these arrangements.
- 8.7 To monitor the effective development and operation of risk management in the council and monitor progress in addressing risk-related issues reported to the committee.
- 8.8 To monitor counter fraud, actions and resources and review the assessment of fraud risks and potential harm to the council from fraud and corruption.
- 8.9 To review the governance and assurance arrangements for significant partnerships or collaborations.

**Internal Audit**

- 8.10 To approve the internal audit charter.
- 8.11 To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations on their effectiveness.
- 8.12 To approve the risk-based internal audit plan, including resource requirements and the approach to using other sources of assurances and any work required to place reliance upon those other sources.

- 8.13 To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- 8.14 To approve and periodically review safeguards to limit impairments to independence or objectivity of the internal audit team.
- 8.15 To approve significant changes to the audit plan and resource requirements.
- 8.16 To consider reports from the head of internal audit on the performance during the year. This will include an update on the implementation of agreed recommendations.
- 8.17 To consider the head of internal audit's annual report.
- 8.18 To consider a report on effectiveness of internal audit to support the Annual Governance Statement and also any external assessments of effectiveness; i.e. the quality assessment of internal audit that takes place at least once every five years in accordance with the Public Sector Internal Audit Standards.
- 8.19 To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

#### **External Audit**

- 8.20 To receive and comment upon the External Auditor's Annual Plan, considering the scope and depth of external audit work and to ensure it gives value for money.
- 8.21 To monitor the External Auditor's progress with the Annual Plan.
- 8.22 To consider the external auditors' annual letter and the report to those charged with governance.
- 8.23 To consider specific reports as agreed with the external auditor.
- 8.24 To advise and recommend on the effectiveness of relationships between internal and external audit and other inspection agencies or relevant bodies.
- 8.25 To provide free and unfettered access to the audit committee chair for the external auditors, including the opportunity for a private meeting with the committee.

#### **Financial Reporting**

- 8.25 To review the annual Statement of Accounts on behalf of full Council in accordance with the Accounts and Audit Regulations 2015.
- 8.26 To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.
- 8.27 To consider and endorse amendments to the Council's Financial Regulations and Contract Procedure Rules and, on behalf of full Council, give any instructions to the Section 151 Officer as may be appropriate.

#### **Accountability Arrangements**

- 8.28 To prepare an annual report to full Council setting out the committee's work and performance during the year in relation to the terms of reference and to refer to Council any matters it shall see fit.
- 8.29 To review any issue referred to it by the Chief Executive or any Council body.

#### **Other core functions**

- 8.30 To consider any matters referred to it by the Monitoring Officer in accordance with Overview and Scrutiny Procedure Rule 12.
- 8.31 With the Monitoring Officer to monitor and review the operation of the Constitution to ensure the aims and principles of the Constitution are given full effect.
- 8.32 To undertake the annual review of the council's use of the Regulation of Investigatory Powers Act 2000 (RIPA), ensuring compliance with the Code of Practice

- 8.33 With the exception of those parts of the Constitution, which are assigned specifically to the Council Business Committee, to consider and propose to Council any other amendments to the Constitution as necessary

**AUDIT COMMITTEE**

**20 February 2019**

**Internal Audit Charter**

**Report of Internal Audit and Assurance Manager**

**PURPOSE OF REPORT**

Annual Review of the Internal Audit Charter

**This report is public**

**RECOMMENDATIONS**

**(1) That the Audit Committee agree the Internal Audit Charter (Appendix A).**

**1.0 Background**

**1.1** In accordance with Public Internal Audit Standards, the Internal Audit Charter should be reviewed periodically. The Audit Charter was last approved by the Audit Committee at its meeting on 21 February 2018.

**2.0 Report**

**2.1** The annual review of the Audit Charter has only identified that a few minor changes need to be made to the document to take into consideration that following a recent organisational restructure, 'Management Team' is now the 'Executive Team' and the Internal Audit and Assurance Manager now reports directly to the Council's Section 151 Officer following the departure of the Council's Chief Officer (Resources).

**2.2** Members are asked to consider the changes and approve the revised Audit Charter.

**3.0 Details of Consultation**

**3.1** No consultations have taken place when reviewing the Audit Charter.



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

**4.1** The options available are to either accept the proposed revisions to the Audit Charter which will provide the council and its Internal Audit function with the basis for continued compliance with established Internal Audit standards or recommend alternative wording if necessary.

**5.0 Conclusion**

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

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



# **LANCASTER CITY COUNCIL INTERNAL AUDIT CHARTER**

**TO BE APPROVED BY AUDIT COMMITTEE 20 FEBRUARY 2019  
DRAFT - VERSION 5.00**

## **1. Introduction**

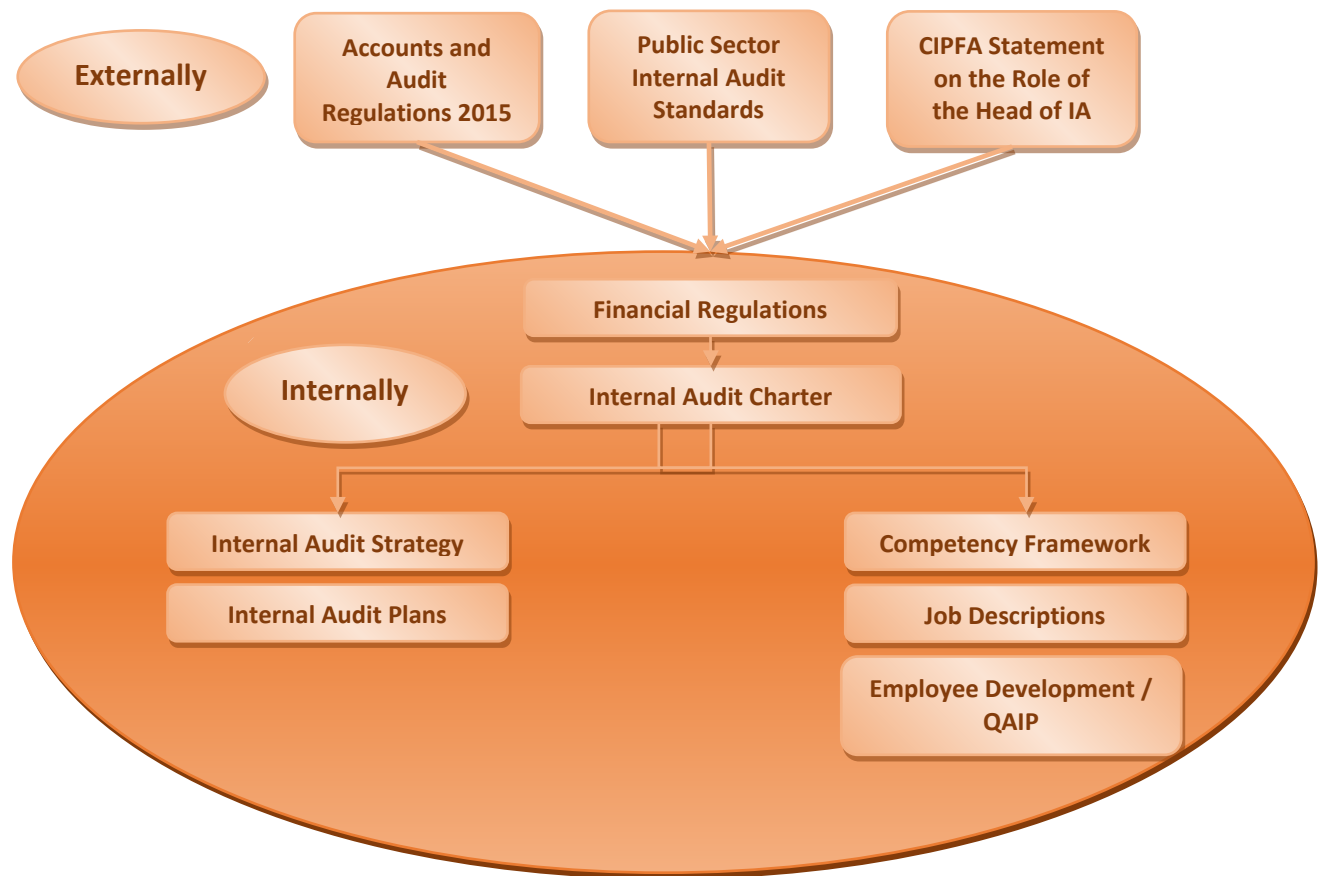
- 1.1 Internal Audit in local authorities is a statutory function, required under section 5 of the Accounts and Audit Regulations 2015. Section 5 requires that local authorities to which the Regulations apply “must undertake an effective internal audit to evaluate the effectiveness of its risk management,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

## **2. Definition of Internal Audit**

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

## **3. Framework for Internal Audit**

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



#### 4. Key Organisational Roles and Relationships

- 4.1 The PSIAS require that the Internal Audit Charter defines the terms *'Board'* and *'Senior Management'* in relation to the work of internal audit. For the purposes of internal audit work, the *'Board'* is taken to refer to the Full Council, although in practice, the Audit Committee has delegated responsibility for overseeing the work of internal audit, on behalf of full Council. *'Senior Management'* is taken to refer to the Chief Executive and Chief Officers.
- 4.2 The authority has adopted CIPFA's *"Statement on the Role of the Chief Financial Officer in Local Government", 2016*, and the associated *"Statement on the Role of the Head of Internal Audit in Public Service Organisations", 2010*. These statements set out principles and standards for the Section 151 Officer and the Internal Audit and Assurance Manager to act in a mutually supportive way in fulfilling their statutory and professional responsibilities.
- 4.3 Internal Audit supports the Chief Executive, as Head of Paid Service, in providing high level assurances relating to the council's strategy and governance arrangements.
- 4.4 Internal Audit also supports the Monitoring Officer, in discharging his/her responsibilities in maintaining high standards of governance, conduct and ethical behaviour.
- 4.5 The Internal Audit and Assurance Manager is responsible for the effective review of all aspects of governance, risk and internal control across the full range of the Authority's activities.

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

## **5. Internal Audit Independence and Objectivity**

- 5.1 Internal Audit operates independently within the Council to ensure it is able to appraise the Authority's governance, risks and internal control systems in the impartial and unbiased manner essential to the proper conduct of audits.
- 5.2 To ensure this independence, Internal Audit operates within a framework that allows unrestricted access to all council officers, senior management and elected Members. As such, all Internal Audit staff have the right to access all premises, records and documentation held by the council, its officers and Elected Members, and to seek explanations as they see necessary to effectively discharge their duties. This position is supported by S5(2) of the Accounts and Audit Regulations 2015.
- 5.3 The Internal Audit and Assurance Manager will report in their own name to officers and Elected Members, as they are charged with maintaining effective governance within the organisation. The work of Internal Audit will be performed and reported in accordance with the direction and agreement of the Internal Audit and Assurance Manager.
- 5.4 Objectivity is preserved by ensuring that internal audit personnel are free from conflicts of interest and do not undertake any non-audit duties. The exception to this being that the Internal Audit and Assurance Manager has functional (though not operational) management of the services provided by the shared Corporate Enquiry Team (CET). Where there is a call for internal audit review and opinion on any area in which the Internal Audit and Assurance Manager has fulfilled an operational role, this will be managed and reported on directly by another member of the audit team where possible. If necessary, consideration will be given to procuring audit services from an external source in order to maintain independence.
- 5.5 Where internal auditors have a perceived or real conflict of interest in undertaking a particular piece of work, this will be managed through the internal audit management and supervisory process. Internal auditors are required to declare any potential conflict of interest both on an annual basis, and when they are assigned a particular audit review. The work will then be reassigned to another auditor.

## **6. Reporting Lines and Audit Reports**

- 6.1 The Internal Audit and Assurance Manager reports administratively to the Section 151 Officer.
- 6.2 Functionally, the work of Internal Audit is reported in full to senior managers, Members of the Audit Committee and the External Auditor by means of specific reports, and in summary form to Audit Committee via periodic monitoring and activity reports.
- 6.3 The Internal Audit and Assurance Manager and the Chief Executive have mutual direct access to each other as they consider appropriate and the Internal Audit and Assurance Manager attends Executive Team meetings at least quarterly.

- 6.4 The Internal Audit and Assurance Manager and Chairman of the Audit Committee have mutual direct access to each other as they consider appropriate and hold regular one-to-one meetings.
- 6.5 Most internal audit assignments will result in the production of a formal report. Draft reports will be sent to the manager(s) responsible for the area under review for agreement of the factual accuracy of findings and to develop an action plan to address weaknesses in internal controls.
- 6.6 Once agreed, final reports will be copied to the Section 151 Officer, relevant Directors, Service Managers as well as Members of the Audit Committee and the External Auditors.
- 6.7 Internal Audit will report regularly on the results of its work to the Executive Team and the Audit Committee, highlighting significant control issues and potential for improving risk management, governance and internal control processes.
- 6.8 Whilst management are responsible for the implementation of agreed actions, follow up work will be performed of agreed action plans to ensure they are being progressed. The Audit Committee will be advised of progress with the implementation of action plans, and the Committee may seek explanations directly from the managers responsible for any delays or failure to implement.

### **7. Scope of Internal Audit Work**

- 7.1 The scope of Internal Audit covers all the council's governance arrangements, procedures for ensuring the effective management of all significant risks and ensuring regularity in all its financial affairs, including achieving value for money.
- 7.2 Where the Council works in partnership with other organisations, the role of Internal Audit will be defined on an individual basis or agreed with the organisation through liaison with the relevant Director and the Section 151 Officer.
- 7.3 Where Internal Audit undertakes work on behalf of any other organisations, this will be determined in conjunction with the Audit Committee and in consultation with the Section 151 Officer to ensure that adequate audit resources remain available to provide assurance over the council's activities. External assurance work will result in a report and assurance statement to the relevant organisation's Board and recommendations to its senior management.
- 7.4 Internal Audit may undertake consultancy work in addition to its primary assurance role and the extent of each type of work will be set out in internal audit plans. The scope of any consultancy work will be agreed with management and will only be undertaken where resources permit without impacting on the annual assurance process. In line with the PSIAS, the Audit Committee will be advised of any consultancy work requested and performed.
- 7.5 Where individual internal auditors undertake non-audit activities, for example in participating in corporate projects in a non-audit role, the auditor involved will not participate in future audits of the service/project area until at least one year has elapsed from completion of the activity.

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

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

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

## **8. Internal Audit Obligations and Responsibilities**

8.1 The Internal Audit and Assurance Manager is responsible for:

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

## **9. Limitations of Internal Audit Responsibilities**

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

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

## **10. Client Obligations and Responsibilities**

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

## **11. Resourcing and Staffing Matters**

- 11.1 The Internal Audit and Assurance Manager will hold an appropriate professional qualification (CMIIA, CCAB or equivalent) and have extensive internal audit experience.
- 11.2 Internal audit will be staffed according to the staffing structure as approved by the Section 151 Officer and advised to the Audit Committee and will aim to maintain a suitable mix of experienced and qualified staff. Adequate resources will be maintained to enable meaningful, evidenced assurances to be provided.
- 11.3 The Internal Audit and Assurance Manager will ensure that the Internal Audit service has access to an appropriate range of knowledge, skill, qualifications and experience required to deliver the audit plan.
- 11.4 Individual training needs are established and agreed through the Employee Development and Performance Appraisal (EDPA) process along with the most cost effective means of meeting those needs. As a professional service, staff are expected to actively participate in relevant formal Continuing Professional Development (CPD) schemes.

## **12. Ethics**

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



**13. Review**

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

**AUDIT COMMITTEE****Internal Audit Strategy and Risk Based Plan 2019/20****20 February 2019****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 2019/20

**This report is public**

**RECOMMENDATIONS**

1. That the Internal Audit Strategy and Risk Based Plan for 2019/20 be approved.
2. That the Audit Committee approve the appointment of Lancashire County Council Internal Audit Services for the delivery of up to 50 audit days to assist with the delivery of the 2019/20 Audit Plan.
3. That the Audit Committee note that a re-structure is currently taking place, which is exploring the possibilities of extending the current arrangements with Wyre Council for a further three years in relation to the post of the Internal Audit and Assurance Manager (IAAM).

**1.0 Introduction**

- 1.1 The terms of reference of the Audit Committee include the wording: "To approve the risk-based internal audit plan, including resource requirements and the approach to using other sources of assurances and any work required to place reliance upon those other sources".
- 1.2 Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN) (CIPFA 2013) Professional standards for Internal Audit in local government specify that "The Chief Audit Executive (the IAAM) 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."

## **2.0 Proposal Details**

### **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 2019/20**

- 2.3 The risk-based plan submitted at Appendix B takes account of the characteristics and relative risks of the council's activities. The on-going development of the council's strategic risk register and assurance mapping has assisted with re-focusing the risk-based plan. Although specific pieces of work have been identified, it is important to note that it is flexible and should any new risks materialise following a review of the strategic risk register or from the development of operational risk registers, 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 Following the resignation of the Deputy IAAM in December 2018, subject to Audit Committee approval, temporary arrangements have been provisionally made with Lancashire County Council to provide up to 50 audit days to assist in the delivery of the 19/20 audit plan.
- 2.5 The risk-based plan for 2019/20 is based on estimated available resources of 320 days, this being delivered by the in-house team (220 days – 1 FTE) the input of the IAAM (50 days) and up to 50 days from Lancashire County Council. Whilst this is a reduction of 144 days from the 2018/19 plan, assurances sought from the mapping exercise and also the draft strategic risk register allows confidence to be sought that audit coverage is still sufficient to be able to deliver an overall opinion going forward.
- 2.6 Whilst the contract with Wyre Council for the post of the IAAM ceases on the 31 August 2019, a review of the Internal Audit Services is currently being completed by the Director of Corporate Services, which if approved will see the continuation of the current arrangements with Wyre Council for a further three years. On that basis, a full year's allocation of 50 days has been allocated to the 2019/20 audit plan for the IAAM. A further report on the restructure will be presented to the Audit Committee in due course.

### **Financial Considerations**

- 2.6 The risk based plan for 2019/20 is expected to be delivered within the overall 2019/20 budget for the internal audit and assurance service.

## **3.0 Details of Consultation**

- 3.1 The Executive Team, which includes the Monitoring Officer and all Service Managers have been consulted in the preparation of the risk based plan for 2019/20.

## **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 2019/20 which includes the appointment of Lancashire County Council to assist in the delivery and to also note the pending restructure of the Internal Audit Service.

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 2019/20 is expected to be delivered within the overall 2019/20 budget for the internal audit and assurance service. Due to a vacancy within the team, up to 50 audit days are to be sourced from Lancashire County Council at a cost of £325 p/day (total £16,250 plus VAT). The costs will be met from vacancy savings.

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**

Public Sector Internal Audit Standards (PSIAS) and CIPFA's Local Government Application Note (LGAN)

**Contact Officer:** Joanne Billington

**Telephone:** 01524 582028

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

**Ref:**

## 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 strategic 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, strategic risk register and individual service plans; and
  - regular consultation and liaison with the External Auditors, Section 151 Officer, Service Managers and the Executive 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 Executive 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; or
  - contributing to corporate groups/projects/reviews (officer and/or Member based) established for a given purpose/objective.

**DRAFT AUDIT PLAN - 2019/20**

<b>Category of work</b>
<b><i>General / Meetings / Non-Chargeable</i></b>
Internal Audit Management / Audit committee work
Advice and assistance
Qualification training / professional development
<b><i>2018/19 Audit Plan work</i></b> (work rolled forward / work in progress)
Financial Planning and MTFS
Recovery of Legal Fees & Court Costs
Council Housing Assets - Cost of works
Economic Development/Regeneration Strategy
Green Waste
<b><i>Local Authority Trading Work</i></b>
Trade Waste
Salt Ayre
<b><i>Project Assurance Work</i></b>
Yet to be allocated (Canal Quarter/Bailrigg Garden Village/Eden Project/Heysham Gateway/Lower Lune Phase 3 Flood Defence Scheme)
<b><i>Audit contingencies</i></b>
Contingencies for investigations/whistleblowing
<b><i>Follow-up work</i></b>
Follow up of 2018/19 Audit work
<b><i>Financial System work</i></b>
Overtime (holiday pay on overtime)
<b><i>Assurance work requested</i></b>
Fixed Asset Register
Payroll Budget / E Budgeting
Property Investment Strategy
Debt Recovery
Health and Safety
Planning - S106/CIL Education Contributions
<b><i>Service specific work</i></b>
Vehicle Maintenance Unit
Dog Warden - Enforcement
<b><i>Revenue shared service financial systems</i></b>
Council Tax (Preston / Lancaster) - Occupation Validation
Housing Benefits - E forms (Lancaster)
<b><i>Other areas of work</i></b>
<i>GDPR Compliance work</i>
Preparation of the Annual Governance Statement
Validation of assurance mapping work



KPMG LLP  
Infrastructure, Government &  
Healthcare  
1 St Peter's Square  
Manchester  
M2 3AE  
United Kingdom

Tel +44 (0) 161 246 4000

**Private & confidential**

Daniel Bates  
Acting Section 151 Officer  
Lancaster City Council  
Town Hall  
Dalton Square  
Lancaster  
LA1 1PJ

Our ref LCC/GR/1718

Contact Chris Paisley  
christopher.paisley@kpmg.co.uk

7 February 2019

Dear Daniel

**Lancaster City Council - Certification of claims and returns - annual report 2017/18**

Public Sector Audit Appointments requires its external auditors to prepare an annual report on the claims and returns certified for each audited body. This letter is our annual report for the certification work we have undertaken for 2017/18.

In 2017/18 we carried out certification work on two claims:

- The Housing Benefit Subsidy claim. The certified value of the claim was £30.2 million, and we completed our work and certified the claim on 29 November 2018.
- The Pooling of Housing Capital Receipts return. The total housing capital receipts subject to pooling for 2017/18 was £1.1 million, and we completed our work and submitted our report to the Ministry of Housing, Communities and Local Government on 18 January 2019.

**Housing Benefit Subsidy**

*Matters arising*

Our certification work on Housing Subsidy Benefit claim included:

- agreeing standard rates, such as for allowances and benefit incomes, to the DWP Circular communicating the value of each rate for the year;
- sample testing of benefit claims to confirm that the entitlement had been correctly calculated and was supported by appropriate evidence;





- undertaking an analytical review of the claim form considering year-on-year variances and key ratios;
- confirming that the subsidy claim had been prepared using the correct benefits system version; and
- completing testing in relation to modified schemes payments, uncashed cheques and verifying the accurate completion of the claim form.

Our work identified two errors relating to our testing of Rent Allowances cases:

- one case where the calculation of claimant earnings was not completed correctly, resulting in an underpayment of benefit. Although the error identified in our initial testing gave rise to an underpayment of benefit, the nature of the error was such that it could also have created overpayment of benefit if the error were to be repeated in other cases. Therefore we undertook additional testing to establish the rate of error across the population of cases. Our additional testing identified one case where the incorrect calculation of claimant earnings had resulted in an overpayment of benefit of £2. We were therefore unable to conclude that this error was isolated; and
- one case where an incorrect dependants' allowance was applied to the claim, resulting in an underpayment of benefit. As our additional testing did not identify any further such claims, we concluded that this error was isolated.

As we were unable to confirm that the first error type was isolated throughout the population of Rent Allowance claims, we issued a qualification letter in respect of this claim on 29 November 2018.

We have not made any recommendations to the Authority to improve its claims completion process. There were no recommendations made last year and there are no further matters to report to you regarding our certification work.

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

#### *Matters arising*

Our other grants certification work completed during 2017/18 was in relation to the Ministry of Housing, Communities and Local Government (MHCLG) Pooling of Housing Capital Receipts return.

We did not identify any exceptions or errors in relation to the return, and we submitted our report in respect of this return to the MHCLG on 18 January 2019.



**Certification work fees**

Public Sector Audit Appointments set an indicative fee for our certification work in relation to the Housing Benefit Subsidy claim for 2017/18 of £9,573. Our actual fee was the same as the indicative fee, and this was also consistent with the 2016/17 fee for this claim.

Our fee for the assurance engagement over the Pooling of Housing Capital Receipts return was subject to agreement directly with the Council, and was £3,000 for 2017/18. This is consistent with the fee for this work in 2016/17.

**Other fees – financial statements audit 2017/18**

Following the completion of our financial statements audit for 2017/18, we agreed with the Council on 3 October 2018 a proposed increased fee, through a fee variation to be agreed with Public Sector Audit Appointments, of £2,271 in respect of our 2017/18 audit. This additional fee relates to the audit time required to address two specific matters arising during the audit: adjustments required to the treatment of the up-front pension contribution in the draft Statement of Accounts, and the Prior Period Adjustment relating to historic asset valuation basis.

This additional fee has now been agreed with Public Sector Audit Appointments, and means that our final fee for the 2017/18 financial statements audit is £60,659, compared with an original fee of £58,388.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'T. Cutler', written over a light blue horizontal line.

Tim Cutler  
Partner, KPMG LLP



This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website ([www.psaa.co.uk](http://www.psaa.co.uk)).

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

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



Planning report to the Audit Committee for the year  
ending 31 March 2019

February 2019

# Contents

---

## 01 Planning report

Partner introduction	3
Responsibilities of the Audit Committee	4
Our audit explained	5
Scoping	6
Continuous communication	8
Materiality	9
Significant risks	10
Value for Money	15

---

## 02 Appendices

Fraud responsibilities and representations	21
Independence and fees	23
Our approach to quality	25



# Partner introduction

## The key messages in this report:

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our planning report to the Audit Committee for the 2019 audit. I would like to draw your attention to the key messages of this paper:

---

### **Audit Plan**

- We have completed our handover with KPMG, including review of their prior year file. We understand there were no unadjusted misstatements from the 2017/18 audit.
- We are developing our understanding of the Council through discussion with management and review of relevant documentation from across the Council.
- Based on these procedures, we have developed this plan in collaboration with the Council to ensure that we provide an effective audit service that meets your expectations and focuses on the most significant areas of importance and risk to the Council.

### **Key risks**

- We have taken an initial view as to the significant audit risks the Council faces. These are presented as a summary dashboard on page 11.

### **Regulatory change**

- Our audit is carried out under the Code of Audit Practice issued by the National Audit Office.
- 

**Paul Hewitson**  
Lead audit director

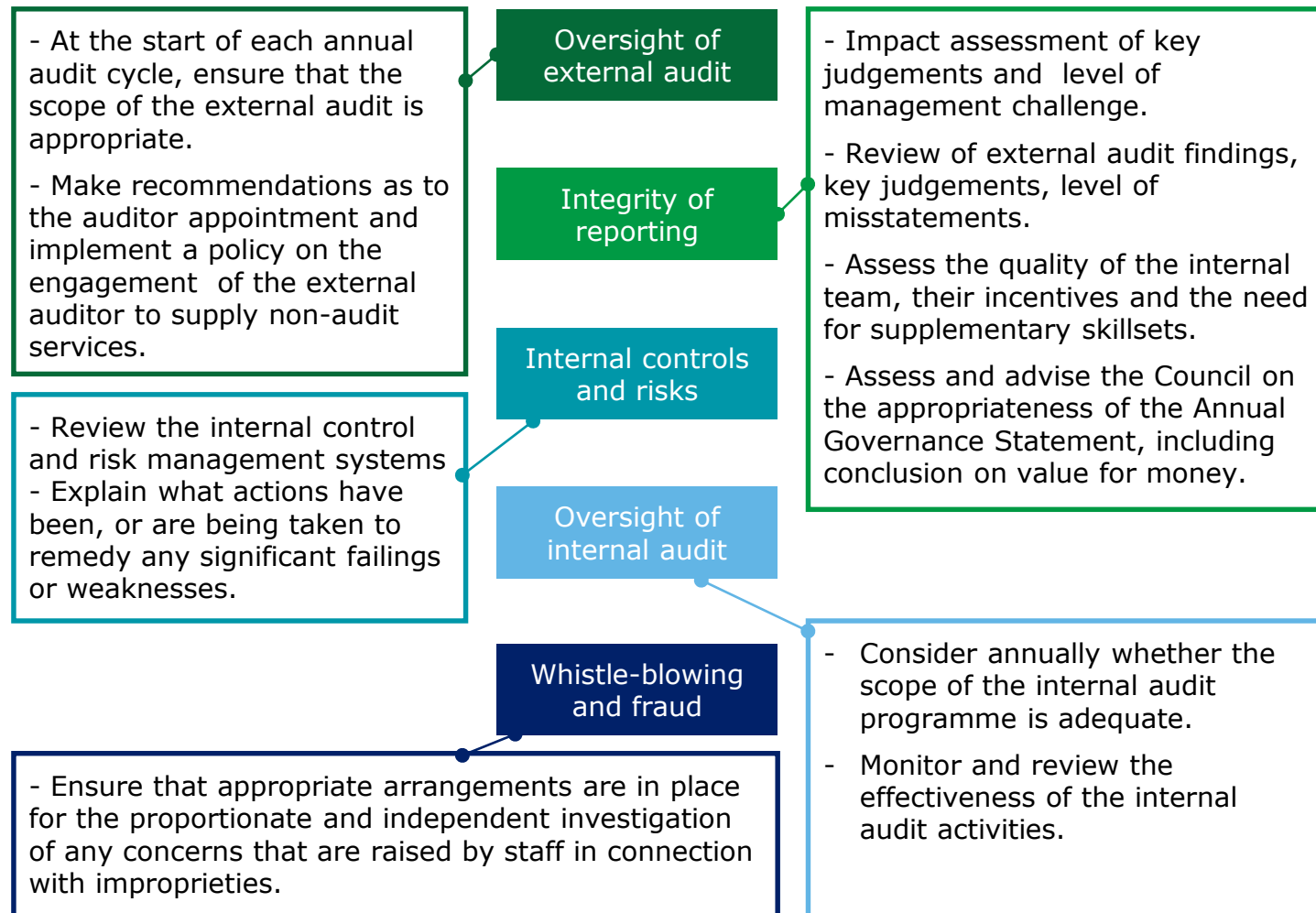
# Responsibilities of the Audit Committee

## Helping you fulfil your responsibilities

Why do we interact with the Audit Committee?

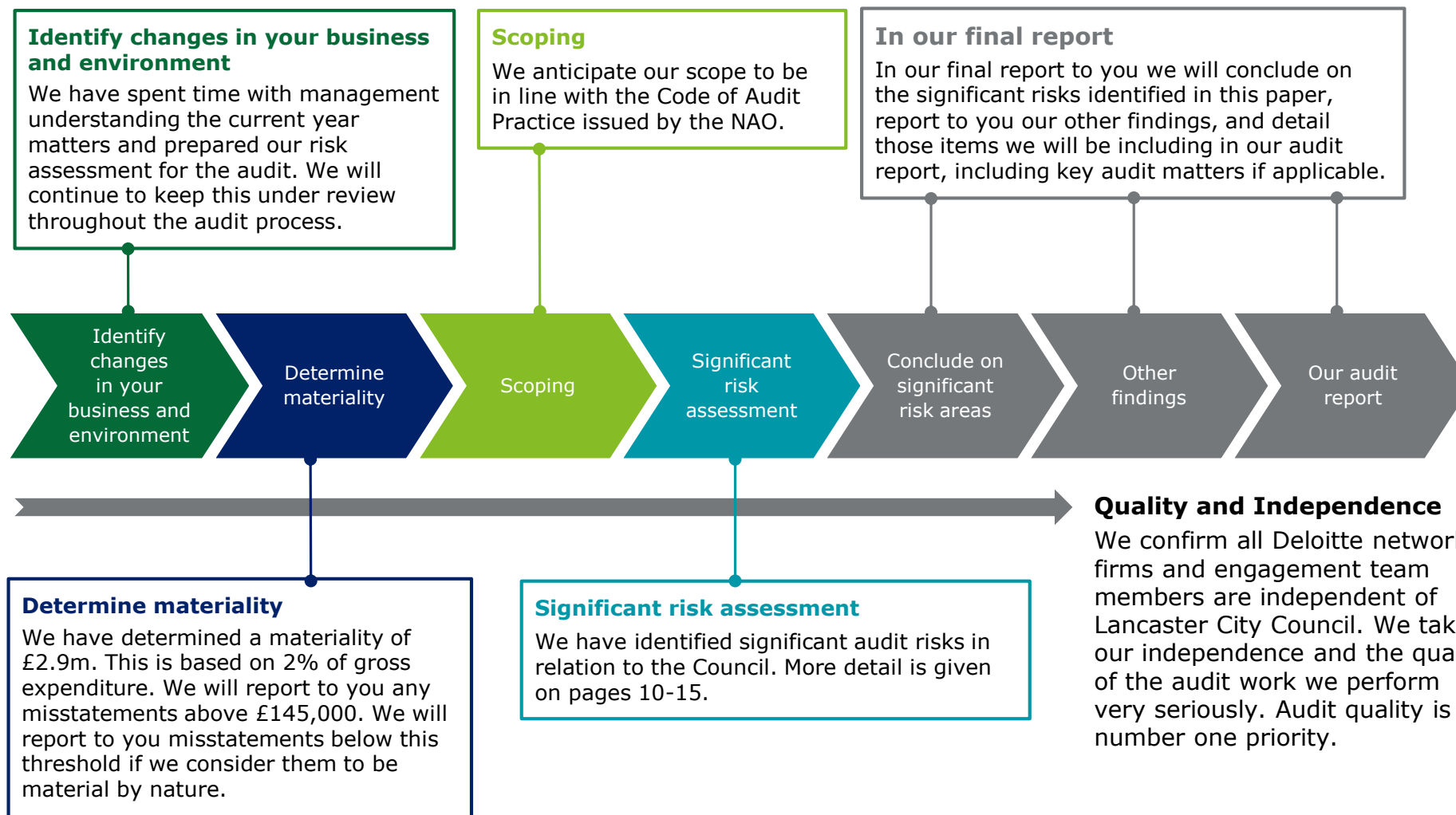


As a result of regulatory change in recent years, the role of the Audit Committee has significantly expanded. We set out here a summary of the core areas of Audit Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit Committee in fulfilling its remit.



# Our audit explained

## We tailor our audit to your business and your strategy





# Scope of work and approach

## We have three key areas of responsibility under the Audit Code

### **Financial statements**

We will conduct our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISA (UK and Ireland)") as adopted by the UK Auditing Practices Board ("APB") and Code of Audit Practice issued by the National Audit Office ("NAO"). The Council will prepare its accounts under the Code of Practice on Local Authority Accounting ("the Code") issued by CIPFA and LASAAC.

We may be required to issue a separate assurance report to the NAO on the Authority's separate return required for the purposes of its audit of the Whole of Government Accounts and departmental accounts. We will update the Committee on this matter once NAO instructions are confirmed for the year.

### **Annual Governance Statement**

We are required to consider the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identify any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work.

As part of our work we will review the remuneration report and annual report and compare with other available information to ensure there are no material inconsistencies. We will also review any reports from other relevant regulatory bodies and any related action plans developed by the Council.

### **Value for Money conclusion**

We are required to satisfy ourselves that the Council has made proper arrangements for securing financial resilience and economy, efficiency and effectiveness in its use of resources.

To perform this work, we are required to:

- plan our work based on consideration of the significant risks of giving a wrong conclusion; and
- carry out as much work as is appropriate to enable us to give a safe conclusion on the arrangements to secure VFM.

Our work therefore includes a detailed risk assessment based on the risk factors identified in the course of our audits. This is followed by specific work focussed on the risks identified.

Our risk assessment in this area remains ongoing although we have not yet identified any specific risks to the delivery of value for money.

# Scope of work and approach

## Our approach

### Liaison with internal audit

The Auditing Standards Board's version of ISA (UK and Ireland) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

We will review their reports and meet with them to discuss their work. We will discuss the work plan for internal audit, and where they have identified specific material deficiencies in the control environment we consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we can work together with internal audit to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the Council's staff.

### Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I").

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

### Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We recommend the Council complete the Code checklist during drafting of their financial statements.

We would welcome early discussion on the planned format of the financial statements, and whether there is scope for simplifying or streamlining disclosures, as well as the opportunity to review a skeleton set of financial statements and an early draft of the annual report ahead of the typical reporting timetable to feedback any comments to management.

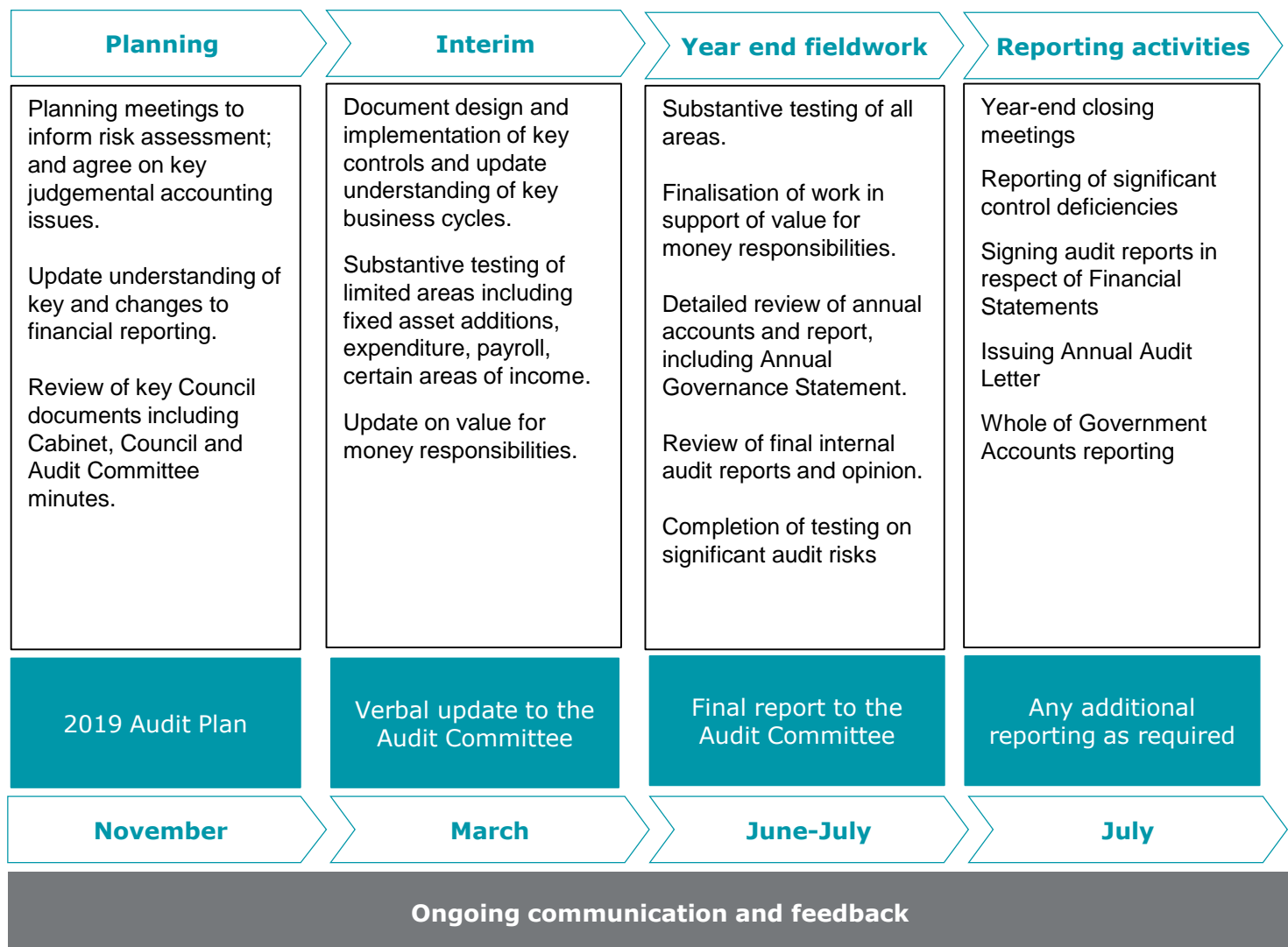
### Value for Money and other reporting

The Code of Audit Practice requires us to report by exception in our audit report any matters that we identify that indicate the Council has not made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

# Continuous communication and reporting

## Planned timing of the audit

As the audit plan is executed throughout the year, the results will be analysed continuously and conclusions (preliminary and otherwise) will be drawn. The following sets out the expected timing of our reporting to and communication with you.



# Materiality

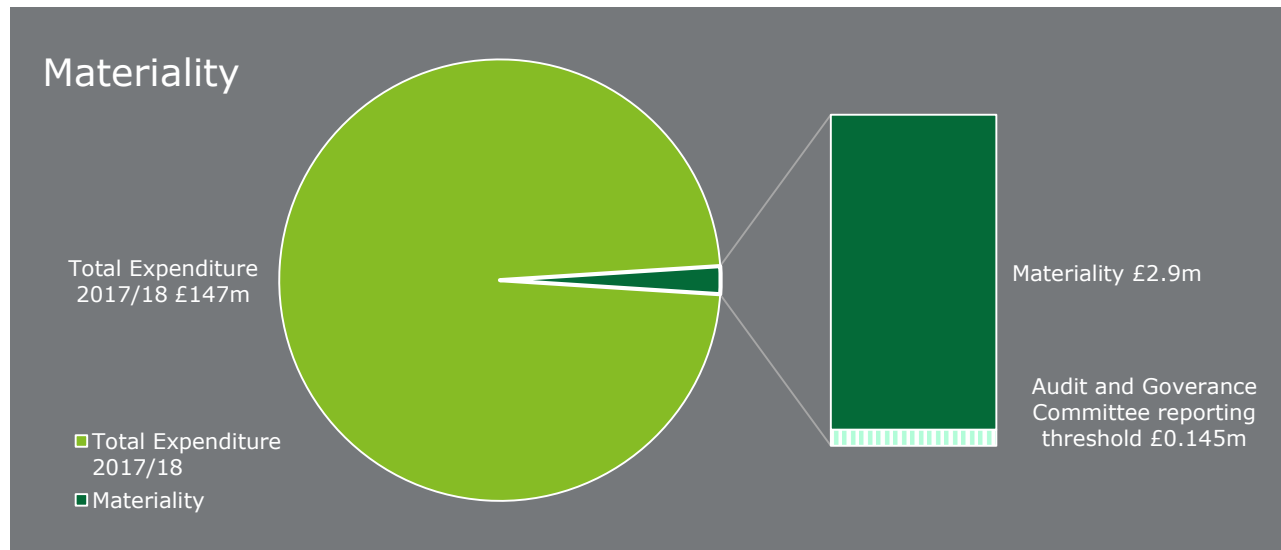
## Our approach to materiality

### Basis of our materiality benchmark

- The audit partner has determined materiality as £2.9m, based on professional judgement, the requirement of auditing standards and the financial measures most relevant to users of the financial statements.
- We have used 2% of Total Expenditure based on the 2017/18 audited accounts as the benchmark for determining materiality.
- We will re-visit the determined materiality based on completion of interim audit procedures.

### Reporting to those charged with governance

- We will report to you all misstatements found in excess of £0.145m.
- We will report to you misstatements below this threshold if we consider them to be material by nature.



Although materiality is the judgement of the audit partner, the Audit Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

# Significant risks

## Our risk assessment process

We consider a number of factors when deciding on the significant audit risks. These factors include:

- the significant risks and uncertainties previously reported in the annual report and financial statements;
- the IAS 1 critical accounting estimates previously reported in the annual report and financial statements;
- our assessment of materiality; and
- the changes that have occurred in the business and the environment it operates in since the last annual report and financial statements.

### Principal risk and uncertainties

- Business planning
- Performance management
- Risk management
- Information governance
- Staffing capacity
- Decision making arrangements

### Changes in your business and environment

- Management restructure
- Change of Chief Executive & S151 officer
- Bailrigg Garden Village

### IAS 1 Critical accounting estimates

- Property Valuations
- Pension Liabilities
- Fair Value Measurement
- Provision for NNDR Appeals
- Provision for debtors

### NAO – Auditor Guidance Note 06













The National Audit Office has identified going concern, new accounting standards (IFRS15 and IFRS 9) and the guaranteed minimum pension as key issues for 2018-19. Whilst we do not consider these to represent significant risks we will carefully review the approach being taken by the Council to address these issues.

The next page summarises the significant risks that we will focus on during our audit. All the risks mentioned in the prior year Audit Committee report are included as significant risks in this year's audit plan. We have also included expenditure as a new significant risk.



# Significant risks

## Significant risk dashboard

Risk	Material	Fraud risk	Planned approach to controls	Level of management judgement	Management paper expected	Slide no.
Completeness and Cut off of service line expenditure			D+I			12
Property Valuations			D+I			13
Management Override of Controls			D+I			14

D+I: Assessing the design and implementation of key controls

# Significant risks

## Risk 1 – Completeness and cut-off of service line expenditure

---

**Risk identified**

Under UK auditing standards, there is a presumed risk of revenue recognition due to fraud. We have rebutted this risk, and instead believe that a fraud risk lies with the completeness and cut-off of service line expenditure. We identify this as expenditure excluding payroll costs, depreciation and amortisation and expenditure which is grant backed (such as Housing Benefit expenditure).

There is an inherent fraud risk associated with the recording of expenditure in order for the Council to report a more favourable year-end position.

There is a risk that the Council may materially misstate expenditure through manipulating the year end position in order to report a more favourable outturn.

---

**Our response**

Our work in this area will include the following:

We will obtain an understanding of the design and implementation of the key controls in place in relation to recording completeness and cut-off of service line expenditure (excluding payroll, depreciation and amortisation, and expenditure which is grant backed);

We will perform focused testing in relation to the completeness and cut-off of service line expenditure (excluding the areas set out above); and,

We will review and challenge the assumptions made in relation to year-end estimates and judgements to assess completeness and accuracy of recorded service line expenditure.

---

# Significant risks

## Risk 2 – Property Valuation

---

**Risk identified**

The council held £236m of property assets at 31 March 2017 which increased to £241m as at 31 March 2018. The increase was in part due to additions of £13.6m offset by £1.6m of disposals, and depreciation of £7.8m.

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.

Furthermore the Council completed the valuation as at the 1 April 2018. Any changes to factors used in the valuation process could materially affect the value of the Council's assets as at year end.

There is therefore a risk that that the value of property assets materially differ from the year end fair value.

---

**Our response**

We will test the design and implementation of key controls in place around the property valuation, and how the Council assures itself that there are no material impairments or changes in value for the assets not covered by the annual valuation;

We will review any revaluations performed in the year, assessing whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified individuals;

We will review the approach used by the Authority to assess the risk that assets not subject to revaluation are materially misstated.

We will use our valuation specialists, Deloitte Real Estate, to support our review and challenge the appropriateness of the Council's assumptions on its assets values between April 2018 and Year end.

We will test a sample of revalued assets and re-perform the calculation assessing whether the movement has been recorded through the correct line of the accounts.

---



# Significant risks

## Risk 3 – Management override of controls

---

**Risk identified**

In accordance with ISA 240 (UK and Ireland) management override of controls is a significant risk for all entities. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions. The key judgements in the financial statements include those which we have selected to be the significant audit risks, (completeness and cut-off of service line expenditure and the Council's property valuations) and any one off and unusual transactions where management could show bias. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.

---

**Our response**

In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk:

- We will test the design and implementation of key controls in place around journal entries and key management estimates;
- We will risk assess journals and select items for detailed testing. The journal entries will be selected using computer-assisted profiling based on areas which we consider to be of increased interest;
- We will review accounting estimates for biases that could result in material misstatements due to fraud; and,
- We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the Council, or that otherwise appear to be unusual, given our understanding of the entity and its environment.

---

# Value for Money

## Risk Management

### Context for Risk Management

As noted in the Authority’s Risk Management Strategy, “A sense of proportion” (April 2014),

*Risk management is both a statutory requirement and an indispensable element of good management. As such, its implementation is crucial to the Council and its ability to discharge its various functions as a deliverer of public services, a custodian of public funds and a significant employer.*

This is further emphasised in the guidance to auditors concerning the formulation of the Value For Money opinion which sets out an expectation that Authorities will, “have arrangements in place to ensure proper...risk management...and to report on the design and operation of those arrangements through annual governance statements” (Auditor Guidance Note 03: November 2017).

The Authority noted in its Annual Governance Statement 2018 that, “With regard to managing such corporate and other risks, the Council adopted a pragmatic approach some years ago, and moved away from seeking to maintain all-encompassing ‘risk registers’. Instead, it seeks to ensure that alongside consideration of strategic risk, appropriate risk management is actively undertaken, through decision-making and day to day operations. A review of that approach is still due to be completed over the coming year”.

As part of our work undertaken to understand the Authority’s controls and processes we have made enquiries regarding the operation of the framework of risk management throughout the year and have raised a number of observations, which are set out below. We consider these observations to be significant in the context of our value for money conclusion and will require formal response from the Authority prior to the forming of that conclusion in July 2019.

Expectation	Observation	Implication
<p>The Risk Management Strategy states Cabinet must, through Performance Review Team (PRT) reports, analyse and review the high level strategic risks relating to portfolio holders’ individual areas of responsibility.</p>	<p>Having reviewed the Cabinet meeting papers for the last 12 months we cannot find evidence that the high level strategic risks have been analysed or reviewed.</p>	<p>The Cabinet, as the responsible group, may not be able to;</p>
<p>The Strategy further states that the Strategic Risk Register should be reported to Cabinet by the Chief Officer (Resources) as part of the budget and policy framework.</p>	<p>The paper covering the budget and policy framework update 2018 to 2022 (Cabinet meeting 13 February 2018) does not appear to include the strategic risk register.</p>	<ul style="list-style-type: none"> <li>• fully articulate the full spectrum of specific risks faced,</li> <li>• fully appreciate any interactions or interdependencies between strategic risks faced, and</li> <li>• Demonstrate effective oversight of the operation of risk management within the Authority.</li> </ul>

# Value for Money

## Risk Management (continued)

Expectation	Observation	Implication
<p>The risk management strategy states that the audit committee will</p> <ul style="list-style-type: none"><li>• monitor and review the effective management of risk by officers, and</li><li>• Receive reports on the effectiveness of the Risk Management Strategy and to review assurances that business risks are being actively managed.</li></ul> <p>The Audit Committee terms of reference mirror this duty at 8.18 where it states that the Audit Committee must monitor the effectiveness of the development and operation of risk management, indeed this is listed at 1.1 as part of the overall purpose of the Audit Committee.</p>	<p>Having reviewed the Audit Committee papers for the last 12 months we cannot find reference to either a review of the efficacy of risk management, or review of the assurances given regarding the management of risk having been undertaken by the Committee.</p> <p>We do note however that a action was approved to bring the Risk Register to the next meeting of the Audit Committee for review.</p>	<p>It is not currently clear how the Audit Committee is discharging its responsibilities in respect of risk management nor how it is able to advice the Cabinet or full Council on the validity of statements made in the Annual Governance Statement in respect of risk management.</p>
<p>The Authority continues to have a significant landlord / social housing function. It is an essential responsibility of providers of social housing that those charged with governance are assured both on the performance against core health and safety standards for housing (such as Annual Gas Servicing, Electrical Testing, Lift Maintenance, Water Hygiene, Fire Risk Assessment, Asbestos Surveys, Fire Safety Equipment Provision, and Portable Appliance Testing) and on the effectiveness of the mechanisms through which compliance data is gathered and reported.</p> <p>The regulator of social housing has commented in a number of In Depth Assessment reports on Registered Providers where oversight of these key standards is not apparent.</p>	<p>We note that the Audit Committee have received a report on the effectiveness of the Gas Servicing management process but that the scheduled report into Asbestos Management has been delayed into 2019/20.</p> <p>We did not note any of the other key areas of responsibility being addressed through the Internal Audit Plan.</p> <p>Review of the Cabinet meeting papers did not identify any reports on performance against key tenant health and safety standards nor assurances from subordinate committees other than a single reference to Gas Safety compliance.</p>	<p>The Authority may not be able to demonstrate sufficient oversight of the processes through which the key areas of responsibility are addressed.</p>

# Value for Money

## Risk Management (continued)

### Expectation

We have been provided with a copy of the Corporate Risk Map and example of the current Authority approach to the capture and evaluation of risk.

### Observation

The Risk Map lacks a number of key features that we would expect from a document used to facilitate the management and oversight of risk, specifically:

- The risks identified are insufficiently pinpointed or articulated to allow the user to clearly understand the precise nature of the risk being managed and the implications.
- The items listed under controls / mitigations were frequently found not be to controls or mitigations but broad statements of intention.
- No sources of assurance were noted against the controls and mitigations.
- In a number of cases the impact of a risk is identified as being reduced when, due to the way in which the risk is framed, it is difficult to see how the impact can ever be reduced.
- Not all risks have a named manager responsible.
- The document lacks any sense of direction of travel or target risk rating against which action to management can be judged.
- The document lacks any colour coding or summary to pull out those key risks that pose the greatest challenge to the Authority.

### Implication

The Corporate Risk Map does not appear to be fit for the purpose of managing the risks faced by the Authority or for facilitating effective oversight of the risk by either the Audit Committee, Cabinet or Council.

# Value for Money

## Risk Management (continued)

<b>Expectation</b>	<b>Observation</b>	<b>Implication</b>
The Annual Governance Statement 2017/18 makes reference to a review of the effectiveness of the Risk Management Approach being due to be completed in 2018/19.	It is not clear from our review of the Audit Committee papers for the year to date that this review has been completed and the implications for the Annual Governance Statement 2018/19 been considered.	The Audit Committee may not be able to discharge its responsibilities in respect of Risk Management.

# Purpose of our report and responsibility statement

## Our report is designed to help you meet your governance duties

### What we report

Our report is designed to establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope; and
- Key regulatory and corporate governance updates, relevant to you

### Use of this report

This report has been prepared for the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

We welcome the opportunity to discuss our report with you and receive your feedback.

### What we don't report

As you will be aware, our audit is not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

### Other relevant communications

We will update you if there are any significant changes to the audit plan.

**Deloitte LLP**

Newcastle | February 2019

# Fraud responsibilities and representations

## Responsibilities explained



### **Your Responsibilities:**

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.



### **Our responsibilities:**

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified the risk of fraud in expenditure and management override of controls as key audit risks for your organisation.



### **Fraud Characteristics:**

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

### **We will request the following to be stated in the representation letter signed on behalf of the Council:**

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- [We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
  - (i) management;
  - (ii) employees who have significant roles in internal control; or
  - (iii) others where the fraud could have a material effect on the financial statements.]
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

# Fraud responsibilities and representations

## Inquiries

We will make the following inquiries regarding fraud:



### **Management:**

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.

### **Internal audit**



- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.

### **Those charged with governance**



- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity.



# Independence and fees



As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

<b>Independence confirmation</b>	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2019 in our final report to the Audit Committee.
<b>Fees</b>	There are no non-audit fees.
<b>Non-audit services</b>	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Council's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
<b>Relationships</b>	We have no other relationships with the Council, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.

# Fees

The professional fees expected to be charged by Deloitte in the period from 1 April 2018 to 31 March 2019 are as follows:

	Current year £
Financial statement audit including Whole of Government and procedures in respect of Value for Money assessment	44,959
<b>Total audit</b>	44,959
<b>Total fees</b>	44,959



# Our approach to quality

## AQR team report and findings

We maintain a relentless focus on quality and our quality control procedures and continue to invest in and enhance our overall firm Audit Quality Monitoring and Measuring programme.

In June 2018 the Financial Reporting Council ("FRC") issued individual reports on each of the eight largest firms, including Deloitte, on Audit Quality Inspections which provides a summary of the findings of its Audit Quality Review ("AQR") team for the 2017/18 cycle of reviews.

We take the findings of the AQR seriously and we listen carefully to the views of the AQR and other external audit inspectors. We remediate every finding regardless of its significance and seek to take immediate and effective actions, not just on the individual audits selected but across our entire audit portfolio. We are committed to continuously improving all aspects of audit quality in order to provide consistently high quality audits that underpin the stability of our capital markets.

We have improved the speed by which we communicate potential audit findings, arising from the AQR inspections and our own internal reviews to a wider population, however, we need to do more to ensure these actions are embedded. In order to achieve this we have launched a more detailed risk identification process and our InFlight review programme. This programme is aimed at having a greater impact on the quality of the audit before the audit report is signed. Consistent achievement of quality improvements is our aim as we move towards the AQR's 90% benchmark.

All the AQR public reports are available on its website. <https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports>

### The AQR's 2017/18 Audit Quality Inspection Report on Deloitte LLP

"The overall results of our reviews of the firm's audits show that 76% were assessed as requiring no more than limited improvements, compared with 78% in 2016/17. Of the FTSE 350 audits we reviewed this year, we assessed 79% as achieving this standard compared with 82% in 2016/17. We are concerned at the lack of improvement in inspection results. The FRC's target is that at least 90% of these audits should meet this standard by 2018/19."

"Where we identified concerns in our inspections, they related principally to aspects of group audit work, audit work on estimates and financial models, and audit work on provisions and contingencies. During the year, the firm has continued to develop the use of "centres of excellence", increasing the involvement of the firm's specialists in key areas of the audit. We have no significant issues to report this year in most of the areas we reported on last year."

"The firm has revised its policies and procedures in response to the revised Ethical and Auditing Standards. We have identified some examples of good practice, as well as certain areas for improvement."

#### The firm has enhanced its policies and procedures in the following areas:

- Increased use of centres of excellence ("CoE") involving the firm's specialists, including new CoEs focusing on goodwill impairment (established in response to previous inspection findings) and corporate reporting, to address increasing complexity of financial reporting.
- Further methodology updates and additional guidance issued to the audit practice including the audit approach to pension balances, internal controls, data analytics, group audits and taxation.
- A new staff performance and development system was implemented with additional focus on regular timely feedback on performance, including audit quality.
- Further improvements to the depth and timeliness of root cause analysis on internal and external inspection findings.

#### Our key findings in the current year requiring action by the firm:

- Improve the group audit team's oversight and challenge of component auditors.
- Improve the extent of challenge of management's forecasts and the testing of the integrity of financial models supporting key valuations and estimates.
- Strengthen the firm's audit of provisions and contingencies.

Review of firm-wide procedures. The firm should:

- Enhance certain aspects of its independence systems and procedures.

This document is confidential and it is not to be copied or made available to any other party. Deloitte LLP does not accept any liability for use of or reliance on the contents of this document by any person save by the intended recipient(s) to the extent agreed in a Deloitte LLP engagement contract.

If this document contains details of an arrangement that could result in a tax or National Insurance saving, no such conditions of confidentiality apply to the details of that arrangement (for example, for the purpose of discussion with tax authorities).

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London, EC4A 3HQ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NWE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NWE LLP do not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) to learn more about our global network of member firms.