



**Committee:** AUDIT COMMITTEE  
**Date:** WEDNESDAY, 12 JUNE 2019  
**Venue:** LANCASTER TOWN HALL  
**Time:** 6.10 P.M.

## A G E N D A

1. **Apologies for Absence**

2. **Appointment of Vice-Chair**

To appoint a Vice-Chair for the 2019/20 municipal year (The Vice-Chair must not be a member of Cabinet or Overview and Scrutiny).

3. **Minutes**

Minutes of meeting held on 20<sup>th</sup> February 2019 (previously circulated).

4. **Items of Urgent Business authorised by the Chair**

5. **Declarations of Interest**

To receive declarations by Councillors of interests in respect of items on this Agenda.

Councillors 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, Councillors 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, Councillors 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. **Review of Internal Audit Effectiveness** (Pages 1 - 81)

Report of the Internal Audit and Assurance Manager

7. **Internal Audit Annual Report 2018-19** (Pages 82 - 95)

Report of the Internal Audit and Assurance Manager

8. **Annual Governance Statement 2018-19** (Pages 96 - 110)

Report of the Internal Audit and Assurance Manager

9. **External Audit Annual Fee Letter** (Pages 111 - 112)

Report of Deloitte

10. **Counter Fraud Annual Report 2018-19** (Pages 113 - 116)

Report of the Corporate Fraud Manager

**ADMINISTRATIVE ARRANGEMENTS**

**(i) Membership**

Councillors Paul Stubbins (Chair), Abbott Bryning, Jason Firth, Geoff Knight, Jean Parr, Oliver Robinson and Malcolm Thomas

**(ii) Substitute Membership**

Councillors Alan Biddulph (Substitute), Jake Goodwin (Substitute), Tricia Heath (Substitute), David Whitaker (Substitute), David Whitworth (Substitute) and Joanna Young (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).

KIERAN KEANE,  
CHIEF EXECUTIVE,  
TOWN HALL,  
DALTON SQUARE,  
LANCASTER, LA1 1PJ

Published on Tuesday 4<sup>th</sup> June 2019.

**AUDIT COMMITTEE****Review of Internal Audit Effectiveness****12 June 2019****Report of the Internal Audit and Assurance Manager****PURPOSE OF REPORT**

To inform the Committee of the requirement for the authority to undertake an annual review of the effectiveness of the system of Internal Audit.

**This report is public**

**RECOMMENDATIONS**

- 1. That Committee is asked to note the results of the May 2019 review of the effectiveness of Internal Audit detailed in Appendix A.**
- 1.0 Introduction**
  - 1.1 The Accounts and Audit Regulations 2015 requires the relevant body, at least once a year, to conduct a review of the effectiveness of its system of internal audit. The purpose behind this is to ensure that the opinion in the annual audit report issued by the Internal Audit and Assurance Manager can be relied upon as a key source of evidence in the Annual Governance Statement.
  - 1.2 From the 1 April 2013 Public Sector Internal Audit Standards (PSIAS) replaced the Code of Practice for Internal Audit in Local Government. In Local Government these standards are mandatory for all principal local authorities subject to the Accounts and Audit Regulations 2015. The PSIAS were re-issued in March 2017 with minor amendments.
  - 1.3 To accompany the PSIAS an 'application note' has been produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) to give guidance on applying the standards. However, the application note is no longer simply guidance but constitutes 'proper practices' alongside the PSIAS and it includes a checklist for measuring the performance of Internal Audit against the standards as part of the quality assurance and improvement programme.
  - 1.4 The PSIAS state that an external assessment must be conducted at least every five years by a qualified, independent assessor or assessment team from outside the organisation. External assessment can be in the form of a full external assessment, or a self-assessment with independent external validation. A decision was made by the majority of the Lancashire Districts to continue with the annual self-assessment completed by the CAE and for that annual self-assessment to be independently verified via peer review. Lancaster's peer review took place in March 2018 and was submitted to the Audit Committee in May 2018 to consider the recommendations made by the

peer review assessment team. Until the next round of peer reviews the Internal Audit and Assurance Manager will continue to carry out annual self-assessments.

**2.0 Proposal Details**

2.1 Although overall compliance is achieved, one minor observation has been made. The proposed action is detailed in bold in Appendix A. The partial compliance in relation to risk management will be documented in more detail in the Annual Governance Statement minor issues action plan and will be subsequently monitored by the Executive Team and Internal Audit.

**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 annual review of the effectiveness of internal audit is a statutory requirement.

**5.0 Conclusion**

5.1 The minor observations identified during the peer review in March 2018 have all been considered and where appropriate the necessary changes have been made.

5.2 The Internal Audit and Assurance Manager has assessed the effectiveness of the internal audit service using the recommended checklist contained within CIPFA's Local Government Application Note. This has subsequently been scrutinised by the Head of Finance (Section 151 Officer).

5.3 Although overall compliance is achieved, one minor observation has been made and this will be addressed immediately. In addition, there are a number of 'partial' completed actions in relation to risk management. Actions in relation to risk will be documented in more detail in the Annual Governance Statement minor issues action plan and will be subsequently monitored by the Executive Team and Internal Audit.

5.4 The results of the review are attached at Appendix A.

**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**

**Contact Officer:** Joanne Billington

Public Sector Internal Audit Standards –  
Applying the IIA International Standards to the  
UK Public Sector

CIPFA – Local Government Application Note  
for the United Kingdom Public Sector Internal  
Audit Standards

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**Ref:**

# Checklist for Assessing Conformance with the PSIAS and the Local Government Application Note

This checklist has been developed to satisfy the requirements set out in PSIAS 1311 and 1312 for periodic self-assessments and externally validated self-assessments as part of the Quality Assurance and Improvement Programme. It incorporates the requirements of the PSIAS as well as the Application Note in order to give comprehensive coverage of both documents.

Please tick to indicate Y = YES, P = PARTIAL, N = NO. Evidence for each response must be provided and reasons for any partial or full non-conformance should be given, together with any compensating measures in place or actions in progress to address this.

Ref	Conformance with the Standard	Y	P	N	Evidence
1	<b>Definition of Internal Auditing</b>				
	Using evidence gained from assessing conformance with other Standards, is the internal audit activity:				

Ref	Conformance with the Standard	Y	P	N	Evidence
	a) Independent?	Y			<p>An Audit Charter is in place that sets out Internal Audits independence. This is also documented in the Internal Audit and Assurance Manager's and Auditor's job descriptions.</p> <p>Internal Auditor declarations are completed annually whereby the Internal Audit Team acknowledge their understanding of the principles of independence as set out in the Code of Practice for Internal Audit in Local Government 2006.</p> <p>Audit are required from time to time to get involved / give advice on new systems / new controls etc. Due to the size of the team, it may be that the same auditor will then have to perform the audit. The auditor is, however mindful of their independence and has the option to buy in resource if necessary.</p>
	b) Objective?	Y			<p>It is a requirement of both IIA and CIPFA for its members to be both independent and objective.</p> <p>Objectivity is one of the four fundamental principles listed in the Internal Audit</p>

Ref	Conformance with the Standard	Y	P	N	Evidence
					<p>Charter / Code of Ethics.</p> <p>All reports are reviewed by the Internal Audit and Assurance Manager prior to issue to ensure that the auditor has remained objective and that an overall balanced view is given.</p>
	Using evidence gained from assessing conformance with other Standards, does the internal audit activity use a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the organisation?	Y			<p>There is a standard methodology in place for determining the ranking of opinions and rankings of findings / recommendations in audit reports.</p> <p>RISK / Control matrices are used to identify key areas prior to the start of each audit.</p> <p>The internal audit team use standardised working papers and audit report templates.</p>
<b>2</b>	<b>Code of Ethics</b>				
	<p><b>Integrity</b></p> <p>Using evidence gained from assessing conformance with other Standards, do internal auditors:</p>				



Ref	Conformance with the Standard	Y	P	N	Evidence
	a) Perform their work with honesty, diligence and responsibility?	Y			<p>Auditors are bound by their ethical standards both in the internal audit Charter / Code of Ethics and Employee Code of Conduct and with their own professional bodies, i.e. CIPFA / IIA.</p> <p>Elements such as these are a requirement of the role and, as such, are referred to in the job description and are reviewed annually via the council's performance appraisal process.</p>
	b) Observe the law and make disclosures expected by the law and the profession?	Y			Auditors are required to complete an annual declaration of interests.
	c) Not knowingly partake in any illegal activity nor engage in acts that are discreditable to the profession of internal auditing or to the organisation?	Y			Auditors are bound by their professional ethical standards and the Code of Ethics within the Internal Audit Charter.
	d) Respect and contribute to the legitimate and ethical objectives of the organisation?	Y			In addition to being bound by professional ethical standards and the Code of Ethics within the Internal Audit Charter, internal audit also complies with the council's Employee Code of Conduct Policy.
	<b>Objectivity</b>				

Ref	Conformance with the Standard	Y	P	N	Evidence
	Using evidence gained from assessing conformance with other Standards, do internal auditors display objectivity by not:				
	a) Taking part in any activity or relationship that may impair or be presumed to impair their unbiased assessment?	Y			<p>Compliance with Audit Charter / Code of Ethics</p> <p>Completion of annual declarations of interests.</p> <p>Audit are required from time to time to get involved / give advice on new systems / new controls etc. Owing to the size of the team, it may be that the same auditor will then have to perform the audit. The auditor is, however mindful of their independence and has the option to buy in resource if necessary.</p>
	b) Accepting anything that may impair or be presumed to impair their professional judgement?	Y			<p>Compliance with the Audit Charter / Code of Ethics.</p> <p>Declaring any gifts and hospitality for inclusion on the council's register.</p> <p>Completion of annual declarations of interests.</p>
	c) Disclosing all material facts known to them that, if not disclosed, may distort the reporting of activities under review?	Y			<p>Compliance with the Audit Charter / Code of Ethics.</p>

Ref	Conformance with the Standard	Y	P	N	Evidence
					<p>Declaring any gifts and hospitality for inclusion on the council's register.</p> <p>Completion of annual declarations of interests.</p> <p>Compliance with Employee Code of Conduct and council's competency framework.</p>
	<p><b>Confidentiality</b> Using evidence gained from assessing conformance with other Standards, do internal auditors display objectivity by:</p>				
	<p>a) Acting prudently when using information acquired in the course of their duties and protecting that information?</p>	Y			<p>Compliance with Audit Charter / Code of Ethics and Public Sector Internal Audit Standards.</p> <p>The Audit review process undertaken by the Internal Audit Manager includes a review of the information used for testing and how it was processed.</p> <p>Compliance with audit information asset registers.</p> <p>Completion of annual declarations of</p>

Ref	Conformance with the Standard	Y	P	N	Evidence
					interests.  Understanding of the Data Protection Act.
	b) Not using information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation?	Y			Compliance to the Audit Charter / Code of Ethics and the auditors own professional standards.
	<b>Competency</b> Using evidence gained from assessing conformance with other Standards, do internal auditors display objectivity by:				
	a) Only carrying out services for which they have the necessary knowledge, skills and experience?	Y			The Internal Audit and Assurance Manager takes due account of auditors' knowledge, skills and experience when allocating audits. Following the establishment of the shared Corporate Enquiry Team (CET), fraud investigations are normally conducted by that team's investigators.
	b) Performing services in accordance with the PSIAS?	Y			The Auditor has been supplied with a copy of Audit Charter / Code of Ethics and the PSIAS and performance is regularly assessed.

Ref	Conformance with the Standard	Y	P	N	Evidence
					The Audit team are familiar with the full standards and have contributed directly to the self-assessment since their adoption in 2014.
	c) Continually improving their proficiency and effectiveness and quality of their services, for example through CPD schemes?	Y			<p>Work related objectives are agreed in advance as part of the council's performance appraisal scheme.</p> <p>Staff are encouraged to maintain records of continuing professional development to satisfy their professional membership requirements.</p> <p>Regular attendance at the audit weekend school.</p>
	Do internal auditors have regard to the Standards of Public Life's <i>Seven Principles of Public Life</i> ?	Y			A copy of the Internal Audit Charter and the Code of Ethics, which refers to the Seven Principles of Public Life, has been provided to the Auditor. Both documents are also published on the Intranet.
	<b>Standards</b>				
<b>3</b>	<b>Attribute Standards</b>				
<b>3.1</b>	<b>1000 Purpose, Authority and Responsibility</b>				

Ref	Conformance with the Standard	Y	P	N	Evidence
	Does the internal audit charter include a formal definition of:				
	a) the purpose b) the authority, and c) the responsibility of the internal audit activity consistent with the Public Sector Internal Audit Standards (PSIAS)?	Y			The Audit Charter includes a definition in accordance with the PSIAS.
<b>LGAN</b>	Does the internal audit charter define the terms 'board' and 'senior management', for the purposes of the internal audit activity?  Note that it is expected that the audit committee will fulfil the role of the board in the majority of instances.	Y			The Audit Charter defines the 'board' as the Audit Committee and 'Senior Management' as the Chief Executive and Executive Team.
	Does the internal audit charter also:				
	a) Set out the internal audit activity's position within the organisation?	Y			See Audit Charter
	b) Establish the Chief Audit Executive's (CAE) functional reporting relationship with the board?	Y			See Audit Charter
<b>LGAN</b>	c) Establish the accountability, reporting line and relationship between the CAE and those to whom the CAE may report administratively?	Y			See Audit Charter

Ref	Conformance with the Standard	Y	P	N	Evidence
LGAN	d) Establish the responsibility of the board and also the role of the statutory officers (such as the CFO, the monitoring officer and the head of paid service) with regards to internal audit?	Y			See Audit Charter
	e) Establish internal audit's right of access to all records, assets, personnel and premises and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities?	Y			See Audit Charter
LGAN	f) Define the scope of internal audit activities?	Y			See Audit Charter
LGAN	g) Recognise that internal audit's remit extends to the entire control environment of the organisation?	Y			See Audit Charter
LGAN	h) Identify internal audit's contribution to the review of effectiveness of the control environment, as set out in the Accounts and Audit (England) Regulations 2015?	Y			See Audit Charter
LGAN	i) Establish the organisational independence of internal audit?	Y			See Audit Charter
	j) Cover the arrangements for appropriate resourcing?	Y			See Audit Charter
	k) Define the role of internal audit in any fraud-related work?	Y			See Audit Charter
	l) Set out the existing arrangements within the organisation's	Y			See Audit Charter

Ref	Conformance with the Standard	Y	P	N	Evidence
	anti-fraud and anti-corruption policies, to be notified of all suspected or detected fraud, corruption or impropriety?				
	m) Include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities?	Y			See Audit Charter
	n) Define the nature of assurance services provided to the organisation, as well as assurances provided to parties external to the organisation?	Y			From 22 May 2017, the Internal Audit and Assurance Manager post is being provided by the Head of Governance (CAE) from Wyre Council. A rolling one year contract is currently in place, with the next review being due in August 2019.
	o) Define the nature of consulting services?	Y			This is documented in the job description that is referred to in the service level agreement between Lancaster City Council and Wyre Council.
	p) Recognise the mandatory nature of the PSIAS?	Y			See Audit Charter
	Does the chief audit executive (CAE) periodically review the internal audit charter and present it to senior management and the board for approval?	Y			An annual review is undertaken in September.
	Does the CAE attend audit committee meetings?	Y			See minutes of Audit Committee indicating attendees.



Ref	Conformance with the Standard	Y	P	N	Evidence
	Does the CAE contribute to audit committee agendas?	Y			See minutes of Audit Committee.
<b>3.2</b>	<b>1100 Independence and Objectivity</b>				
	Does the CAE have direct and unrestricted access to senior management and the board?	Y			The Internal Audit and Assurance Manager (CAE) reports directly to the Executive Team and attends all the Audit Committee meetings to present reports. There is also an annual opportunity for the CAE to have a periodic private discussion with the Audit Committee.  See Audit Charter
	Does the CAE have free and unfettered access to, as well as communicate effectively with, the chief executive or equivalent and the chair of the audit committee?	Y			Access rights and reporting lines are documented in the Audit Charter. The Chairman of the Audit Committee attends regular pre-meeting briefings.
	Are threats to objectivity identified and managed at the following levels:				
	a) Individual auditor?	Y			Audit staff complete a declaration of interests annually. The option exists for audit work to be bought in from other Local Authorities if there is a threat to objectivity.

Ref	Conformance with the Standard	Y	P	N	Evidence
					See Audit Charter
	b) Engagement?	Y			The Internal Audit and Assurance Manager (CAE) will consider any threats to objectivity at the start of each audit.  See Audit Charter
	c) Functional?	Y			See Audit Charter
	d) Organisation?	Y			Internal Audit has limited responsibilities outside audit responsibilities, thus protecting its independence and objectivity.  See Audit Charter
	<i>1110 Organisational Independence</i>				
	Does the CAE report to an organisational level equal or higher to the corporate management team?	Y			The Internal Audit and Assurance Manager (CAE) reports directly to the Section 151 Officer who attends the Executive Team meetings.  See Audit Charter
<b>LGAN</b>	Does the CAE report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities?	Y			The Internal Audit and Assurance Manager (CAE) reports directly to the Section 151 Officer who attends the

Ref	Conformance with the Standard	Y	P	N	Evidence
					Executive Team meetings.  See Audit Charter.
<b>LGAN</b>	Have reporting and management arrangements been put in place that preserve the CAE's independence and objectivity?  This is of particular importance when the CAE is line managed by another officer of the authority.	Y			The audit work programme includes an opportunity for the Internal Audit and Assurance Manager (CAE) to meet with the Audit Committee in private.
<b>LGAN</b>	Does the CAE's position in the management structure:				
	a) Reflect the influence he or she has on the control environment?	Y			The Internal Audit and Assurance Manager (CAE) is one of a number of Heads of Service who together with the 3 Executive Directors and the Deputy Director form the council's Leadership Team.
	b) Provide the CAE with sufficient status to ensure that audit plans, reports and action plans are discussed effectively with the board?	Y			Reporting lines are set out in the Audit Charter.
	c) Ensure that he or she is sufficiently senior and independent to be able to provide credibly constructive challenge to senior management?	Y			
	Does the CAE confirm to the board, at least annually, that the internal audit activity is organisationally independent?	Y			Documented in the Audit Charter which is presented to the Audit Committee in February annually. See Audit Charter,

Ref	Conformance with the Standard	Y	P	N	Evidence
	The following examples can be used by the CAE when assessing the organisational independence of the internal audit activity:				Internal Audit Annual report and Audit Committee Minutes.
	The board:				
	a) approves the internal audit charter	Y			Annually in February.
	b) approves the risk-based audit plan	Y			Annually in February.
	c) approves the internal audit budget and resource plan	Y			The audit plan is considered annually in February.
	d) receives communications from the CAE on the activity's performance (in relation to the plan, for example)	Y			The Audit Committee receives a 6 month progress report in November where they are provided with an update on audit plan progress. Copies of Audit reports are sent to all members of the Audit Committee for information upon completion of each piece of audit work.
	e) approves decisions relating to the appointment and removal of the CAE			N	The appointment / dismissal of the Internal Audit and Assurance Manager (CAE) is not reflected in the council's Constitution as an elected member responsibility and falls to the Section 151 Officer who is responsible for maintaining an adequate internal audit function. Any decision, however, would be presented to the Audit Committee for

Ref	Conformance with the Standard	Y	P	N	Evidence
					<p>noting.</p> <p>The Audit Committee work programme allows an opportunity for a private discussion with the External Auditor which would allow them to comment on the performance of the Internal Audit and Assurance Manager (CAE), if appropriate.</p>
	<p>f) seeks reassurance from management and the CAE as to whether there are any inappropriate scope or resource limitations.</p>	Y			<p>The Audit Committee have the opportunity to question the Internal Audit and Assurance Manager (CAE) and the Section 151 Officer at the meeting when the audit plan is presented and progress reports are provided.</p>
	<p>Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the CAE?</p>	Y			<p>The Section 151 Officer who attends Executive Team meetings has regular 1-1's with the Internal Audit and Assurance Manager (CAE). The CAE's performance appraisal is completed by the Director of Corporate Services. The Director of Corporate Services is appraised by the Chief Executive. It is at these appraisals where the Internal Audit Manager's (CAE) performance would be discussed if there were any issues.</p>

Ref	Conformance with the Standard	Y	P	N	Evidence
	Is feedback sought from the chair of the audit committee for the CAE's performance appraisal?			N	<p><b>Action</b></p> <p><b>Feedback on the Internal Audit and Assurance Manager's (CAE) performance will be provided by the Chairman of the Audit Committee prior to the annual performance appraisal of the Internal Audit and Assurance Manager.</b></p>
	<i>1111 Direct Interaction with the Board</i>				
	Does the CAE communicate and interact directly with the board?	Y			The Internal Audit Manager (CAE) attends a pre-audit meeting with the Chairman of the Audit Committee and also attends all Audit Committee Meetings.
	<i>1120 Individual Objectivity</i>				
	Do internal auditors have an impartial, unbiased attitude?	Y			Feedback is sought following each audit and these are used to monitor the auditors approach.
	Do internal auditors avoid any conflict of interest, whether apparent or actual?	Y			<p>Auditors will complete annual declaration of interests.</p> <p>Compliance with the Internal Audit Charter / Code of Ethics.</p>

Ref	Conformance with the Standard	Y	P	N	Evidence
					Audit Staff are aware that they need to report any suspected conflicts of interests if they arise during an audit review. There have been no conflicts of interest recorded to date.
	<i>1130 Impairment to Independence or Objectivity</i>				
	If there has been any real or apparent impairment of independence or objectivity, has this been disclosed to appropriate parties (depending on the nature of the impairment and the relationship between the CAE and senior management/the board as set out in the internal audit charter)?	N/A	N/A	N/A	There has been no impairment of independence or objectivity.
	Have internal auditors assessed specific operations for which they have been responsible within the previous year?	N/A	N/A	N/A	There has been no impairment of independence or objectivity.
	If there have been any assurance engagements in areas over which the CAE also has operational responsibility, have these engagements been overseen by someone outside of the internal audit activity?	N/A	N/A	N/A	There has been no impairment of independence or objectivity.
<b>LGAN</b>	Are assignments for ongoing assurance engagements and other audit responsibilities rotated periodically within the internal audit team?		P		Due to the size of the audit team, this is not achievable. However, the use of other Local Authorities Internal Audit Teams can be used where appropriate.

Ref	Conformance with the Standard	Y	P	N	Evidence
<b>LGAN</b>	Have internal auditors declared interests in accordance with organisational requirements?	Y			The Audit Section complete annual declaration of interests.  Staff are provided with the Internal Audit Charter / Code of Ethics. Both documents are on the intranet.
<b>LGAN</b>	Where any internal auditor has accepted any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties (other than as may be allowed by the organisation's own policies), has this been declared and investigated fully?	Y			There have been no declarations of gifts and hospitality received in 2018/19.  Audit staff are reminded annually of the council's procedures in respect of receiving gifts and hospitality.
<b>LGAN</b>	Have any instances been discovered where an internal auditor has used information obtained during the course of duties for personal gain?	Y			There have been no instances where an auditor has used information obtained during the course of duties for personal gain.
<b>LGAN</b>	Have internal auditors disclosed all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice, subject to any confidentiality agreements?	Y			See declaration of interest.
<b>LGAN</b>	Have internal auditors complied with the Bribery Act 2010?	Y			Audit staff have been supplied with a copy of the Bribery Act and the key principles have been embedded into the council's Counter Fraud practices.
	If there has been any real or apparent impairment of	N/A	N/A	N/A	The council's Internal Audit Team do not



Ref	Conformance with the Standard	Y	P	N	Evidence
	independence or objectivity relating to a proposed consulting services engagement, was this disclosed to the engagement client before the engagement was accepted?				undertake any consultancy work.
	Where there have been significant additional consulting services agreed during the year that were not already included in the audit plan, was approval sought from the board before the engagement was accepted?	N/A	N/A	N/A	The council's Internal Audit Team does not undertake any consultancy work.
<b>3.3</b>	<b>1200 Proficiency and Due Professional Care</b>				
	<i>1210 Proficiency</i>				
	Does the CAE hold a professional qualification, such as CMIIA/CCAB or equivalent?	Y			The Internal Audit and Assurance Manager (CAE) is a fully Certified Chartered Auditor (CIA). She also holds a Qualification in Internal Audit Leadership (QIAL).
	Is the CAE suitably experienced?	Y			The Internal Audit and Assurance Manager has 18 years' experience in internal audit including the County Council, 2 District Councils, experience in auditing the Police and Fire Authority, schools and residential establishments.
<b>LGAN</b>	Is the CAE responsible for recruiting appropriate internal audit staff, in accordance with the organisation's human resources	Y			Recruitment is undertaken in accordance with Council's established HR policies

Ref	Conformance with the Standard	Y	P	N	Evidence
	processes?				and practices.
<b>LGAN</b>	Does the CAE ensure that up-to-date job descriptions exist that reflect roles and responsibilities and that person specifications define the required qualifications, competencies, skills, experience and personal attributes?	Y			Last updated in 2018 as part of a service restructure. Reviewed as part of the annual appraisal process.
	Does the internal audit activity collectively possess or obtain the skills, knowledge and other competencies required to perform its responsibilities?	Y			The Internal Audit and Assurance Manager (CAE) will ensure audit staff have the relevant qualification and experience to ensure they can carry out their responsibilities.
	Where the internal audit activity does not possess the skills, knowledge and other competencies required to perform its responsibilities, does the CAE obtain competent advice and assistance?	N/A	N/A	N/A	The Internal Audit and Assurance Manager (CAE) and Auditor have the necessary qualifications and skill set to carry out any audit work. However if a piece of work was to be carried out that would require a specialist auditor skill set, an external audit organisation would be contacted.
	Do internal auditors have sufficient knowledge to evaluate the risk of fraud and anti-fraud arrangements in the organisation?	Y			The use of TIS online and CIFPA control risk matrices help assist in evaluating the risk of fraud. The knowledge and expertise of the Corporate Fraud Team is available if required.  The Internal Audit and Assurance

Ref	Conformance with the Standard	Y	P	N	Evidence
					Manager (CAE) has attended an external course in respect of conducting internal investigations.
	Do internal auditors have sufficient knowledge of key information technology risks and controls?	Y			The council can use the expertise of Lancashire County Council auditors where appropriate.
	Do internal auditors have sufficient knowledge of the appropriate computer-assisted audit techniques that are available to them to perform their work, including data analysis techniques?	Y			No specific auditing software tools are being used. In-house training and development has been undertaken in recent years to ensure that auditors have sufficient competence in using available technology (e.g. Excel) to assist in conducting their audits.
	<i>1220 Due Professional Care</i>				
	Do internal auditors exercise due professional care by considering the:				
	a) Extent of work needed to achieve the engagement's objectives?	Y			The Auditor will discuss and agree the scope, objectives and risks at the start of each audit with the client. See Audit Briefs.
	b) Relative complexity, materiality or significance of matters to which assurance procedures are applied?	Y			The audit plan considers time, cost, complexity and the assurances it requires from each audit.

Ref	Conformance with the Standard	Y	P	N	Evidence
	c) Adequacy and effectiveness of governance, risk management and control processes?	Y			<p>Guidance, information and advice is available to the auditor when designing tests to ensure adequacy and effectiveness of governance, risk management and control.</p> <p>CIPFA risk matrices and the TIS online subscription are frequently used to ensure all risk areas are considered and subsequent controls have been identified. Audit staff have access to several CIPFA publications which assist with the consideration of audit, governance and risk. Namely;</p> <ul style="list-style-type: none"> <li>• CIPFA – Delivering Good Governance in Local Government</li> <li>• PSIAS – Local Government Application Note for the UK Public Sector; and</li> <li>• Audit Commission – Protecting the Public Purse</li> </ul>
	d) Probability of significant errors, fraud, or non-compliance?	Y			<p>At the start of the audit, the auditor will have a set up meeting with the auditee to discuss potential risks. If any further risks, fraud etc. are highlighted during the audit, the scope would be amended</p>

Ref	Conformance with the Standard	Y	P	N	Evidence
					to include the work required.  The Auditor will also be alert to any non-compliance issues raised by officers.
	e) Cost of assurance in relation to potential benefits?	Y			All work is risk based. If additional work is required, the Auditor will agree this with the Internal Audit and Assurance Manager (CAE) subject to a cost/benefit analysis being undertaken.
	Do internal auditors exercise due professional care during a consulting engagement by considering the:				
	a) Needs and expectations of clients, including the nature, timing and communication of engagement results?	N/A	N/A	N/A	There are no such engagements undertaken presently.
	b) Relative complexity and extent of work needed to achieve the engagement's objectives?	N/A	N/A	N/A	
	c) Cost of the consulting engagement in relation to potential benefits?	N/A	N/A	N/A	
	<i>1230 Continuing Professional Development</i>				
<b>LGAN</b>	Has the CAE defined the skills and competencies for each level	Y			The council establishment has one level of auditor at Grade 4 with the support of

Ref	Conformance with the Standard	Y	P	N	Evidence
	of auditor?				the Internal Audit and Assurance Manager (CAE). A further 20 days were outsourced to Fylde Council during 2018/19 and 50 days are in the 2019/20 plan to outsource work to Lancashire County Council.
<b>LGAN</b>	Does the CAE periodically assess individual auditors against the predetermined skills and competencies?	Y			<p>Each audit report is reviewed by the Internal Audit and Assurance Manager to ensure the audit has been conducted in accordance with professional standards and requirements of any auditing publications.</p> <p>The skills and competencies of the Auditor are annually reviewed as part of the council's performance appraisal scheme. It is understood that all Fylde/Lancashire County Council auditors also have performance appraisals where their skills and competencies are assessed.</p>
	Do internal auditors undertake a programme of continuing professional development?	Y			Both the Internal Audit and Assurance Manager (CAE) and the Auditor undertake CPD in accordance with their professional qualification requirements.
	Do internal auditors maintain a record of their professional	Y			HR maintains a list of all courses that have been attended by Audit staff.

Ref	Conformance with the Standard	Y	P	N	Evidence
	development and training activities?				
<b>3.4</b>	<b>1300 Quality Assurance and Improvement Programme</b>				
	Has the CAE developed a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated?	Y			<p>The QAIP includes both internal; and external assessments.</p> <p>The internal assessments include the following;</p> <ul style="list-style-type: none"> <li>• An annual self-assessment of the effectiveness of the audit service using the PSIAS;</li> <li>• Feedback on the Internal Audit Manager (CAE) is sought annually prior to their performance appraisal;</li> <li>• 6 monthly monitoring of the internal audit activity to the Audit Committee; and</li> <li>• Day-to-day monitoring of compliance with the Definition of Internal Auditing and the Code of Ethics documented within the Sections Audit Charter and also in the PSIAS.</li> </ul> <p>External assessments include:</p> <ul style="list-style-type: none"> <li>• A 5 yearly independent</li> </ul>
	Does the QAIP assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement?	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence
					<p>assessment of compliance to the PSIAS;</p> <ul style="list-style-type: none"> <li>• Annual review of the council's Annual Governance Statement as part of the Financial Accounts audit;</li> <li>• Regular attendance at the Audit Committee with the opportunity to meet in private with the Committee; and</li> <li>• External Auditors and Audit Committee Members reviewing and challenging internal audit reports.</li> </ul>
	Does the CAE maintain the QAIP?	Y			The Internal Audit and Assurance Manager (CAE) maintains the QAIP. All aspects of the programme are routinely monitored.
<b>LGAN</b>	If the organisation is a 'larger relevant body' in England, does it conduct a review of the effectiveness of its internal audit at least annually, in accordance with the Accounts and Audit (England) Regulations 2011 section 6(3)?	Y			The review is conducted by the Internal Audit and Assurance Manager (CAE) and is scrutinised by the Section 151 Officer.
	<i>1310 Requirements of the Quality Assurance and Improvement Programme</i>				



Ref	Conformance with the Standard	Y	P	N	Evidence
	Does the QAIP include both internal and external assessments?	Y			<p>A self- assessment is performed annually. In addition, an external review of the effectiveness of the internal audit function is carried out every 5 years, in accordance with the requirements of the PISIAS. Lancaster's peer review took place in March 2018.</p> <p>The External Auditor will also review the work of the internal audit service as part of the work they complete in respect of the ISA 260 – Report to those charged with Governance.</p>
	<i>1311 Internal Assessments</i>				
<b>LGAN</b>	Does the CAE ensure that audit work is allocated to staff with the appropriate skills, experience and competence?	Y			Whilst this is limited due to the size of the audit team, additional resource would be bought in if required.
	Do internal assessments include ongoing monitoring of the internal audit activity, such as:				
	a) Routine quality monitoring processes?	Y			All audit work is subject to a full review before the report is published. This includes a full review of working papers, evidence found, testing completed and validity of recommendations.

Ref	Conformance with the Standard	Y	P	N	Evidence
					An annual review using the checklist within the Local Government Application Note is undertaken. This is subject to an external assessment every 5 years.
	b) Periodic assessments for evaluating conformance with the PSIAS?	Y			An annual review using the checklist within the Local Government Application Note is undertaken. This is subject to an external assessment every 5 years. Lancaster's last external peer review having taken place in March 2018.
LGAN	Does ongoing performance monitoring include comprehensive performance targets?	Y			<p>The Auditor is set targets / objectives annually as part of the performance appraisal scheme. Performance against these targets/objectives is monitored regularly.</p> <p>The Audit Committee receives six monthly updates on completion of the audit plan.</p> <p>Reporting timescales are published in the Audit Charter.</p> <p>The use of external providers (Wyre/Fylde/Lancashire County Council) assists with benchmarking the quality of</p>

Ref	Conformance with the Standard	Y	P	N	Evidence
					internal audit reports.
<b>LGAN</b>	Are the performance targets developed in consultation with appropriate parties and included in any service level agreement?	Y			Agreed performance targets would be documented in service level agreements if applicable.
<b>LGAN</b>	Does the CAE measure, monitor and report on progress against these targets?	Y			The audit plan is monitored day-to-day with a report being considered by Audit Committee every six months.
<b>LGAN</b>	Does ongoing performance monitoring include obtaining stakeholder feedback?	Y			An email requesting feedback on how the audit was conducted, whether it met expectations, and whether it was of value etc. is sent to the client at the end of each audit review. Any areas of concern would be followed up the Internal Audit and Assurance Manager (CAE).
	Are the periodic self-assessments or assessments carried out by people external to the internal audit activity undertaken by those with a sufficient knowledge of internal audit practices? Sufficiency would require knowledge of the PSIAS and the wider guidance available such as the Local Government Application Note and/or IIA practice advisories, etc.	Y			The periodic self-assessment is undertaken by the Internal Audit and Assurance Manager (CAE) and reviewed by the Section 151 Officer.  In order to comply with PSIAS and the Local Government Application Note; an external assessment must be carried out once every 5 years. Lancaster's peer

Ref	Conformance with the Standard	Y	P	N	Evidence
					review assessment took place in March 2018 whereby the overall judgement was that Lancaster conforms against each thematic area of the LGAN.
<b>LGAN</b>	Does the periodic assessment include a review of the activity against the risk-based plan and the achievement of its aims and objectives?	Y			The peer review used the checklist recommended in CIPFA's Code of Practice. The assessment also included a review of the annual internal audit report which documents the achievement of the audit plan and its wider aims and objectives documented in the Audit Charter.
	<i>1312 External Assessments</i>				
	Has an external assessment been carried out, or is planned to be carried out, at least once every five years?	Y			The external assessment was completed in March 2018.
<b>LGAN</b>	Has the CAE considered the pros and cons for the different types of external assessment (ie 'full' or self-assessment plus 'independent validation')?	Y			The proposal from the Lancashire District Chief Auditors group which has been agreed by Audit Committee is to continue with the self-assessment and use peer reviews to obtain the independent external validation.

Ref	Conformance with the Standard	Y	P	N	Evidence
					<p>Lancaster's first external (peer review) assessment was in March 2018 and the report was presented to Audit Committee in May 2018.</p> <p>The annual self-assessment will be carried out by the Internal Audit and Assurance Manager (CAE), scrutinised by the Section 151 Officer and presented to the Audit Committee. It should be noted that the Council's External Auditor who attends each Audit Committee will receive the self-assessment as part of the agenda and will therefore have the opportunity to challenge the content.</p>
	<p>Has the CAE discussed the proposed form of the external assessment and the qualifications and independence of the assessor or assessment team with the board?</p>	Y			<p>The Audit Committee agree that an external self-assessment will be carried out by the Internal Audit and Assurance Manager (CAE), scrutinised by Section 151 Officer and presented to the Audit Committee and that every 5 years the review will be independently validated by a peer review. Lancaster's peer review assessment was in March 2018. A memorandum of understanding (MoU) and templates were used for all external assessments. The report template allows for the assessment team to state their</p>

Ref	Conformance with the Standard	Y	P	N	Evidence
					qualifications and independence.
<b>LGAN</b>	Has the CAE agreed the scope of the external assessment with an appropriate sponsor, such as the chair of the audit committee, the CFO or the chief executive?	Y			These requirements form the basis of the 'Memorandum of Understanding'.
	Has the CAE agreed the scope of the external assessment with the external assessor or assessment team?	Y			
	Has the assessor or assessment team demonstrated its competence in both areas of professional practice of internal auditing and the external assessment process? Competence can be determined in the following ways: a) experience gained in organisations of similar size b) complexity c) sector (ie the public sector) d) industry (ie local government), and e) technical experience. Note that if an assessment team is used, competence needs to be demonstrated across the team and not for each individual member.				
	How has the CAE used his or her professional judgement to decide whether the assessor or assessment team demonstrates	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence
	sufficient competence to carry out the external assessment?				
	Does the assessor or assessment team have any real or apparent conflicts of interest with the organisation? This may include, but is not limited to, being a part of or under the control of the organisation to which the internal audit activity belongs.			N	
	<i>1320 Reporting on the Quality Assurance and Improvement Programme</i>				
	Has the CAE reported the results of the QAIP to senior management and the board?	Y			The Internal Audit Annual Report reports the results of the QAIP to Audit Committee. The results of the internal assessment of the internal audit function are scrutinised by the Section 151 Officer and presented to the Audit Committee.
	Note that:				
	a) the results of both external and periodic internal assessment must be communicated upon completion	Y			The internal assessment is reported to Audit Committee annually in May/June. The last External Assessment took place in March 2018 and the results were presented to Audit Committee in May 2018.
	b) the results of ongoing monitoring must be communicated at	Y			An update on the progress made in

Ref	Conformance with the Standard	Y	P	N	Evidence
	least annually				respect of the actions highlighted as a result of the last review was communicated to the Audit Committee.  Both the Internal Audit Annual Report and the Internal Audit Charter refer to the QAIP and its ongoing monitoring.
	c) the results must include the assessor's or assessment team's evaluation with regards to the degree of the internal audit activity's conformance with the PSIAS.	Y			Conformance with PSIAS is documented and Lancaster's peer review assessment, which took place in March 2018, reported that Lancaster conforms against each thematic area of the LGAN.
	Has the CAE included the results of the QAIP and progress against any improvement plans in the annual report?	Y			The QAIP is reported in the annual report. No gaps have been highlighted following the assessment of the internal audit service that need reporting in the internal audit annual report or the Annual Governance Statement for 2018/19.
	<i>1321 Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing'</i>				
	Has the CAE stated that the internal audit activity conforms with the PSIAS only if the results of the QAIP support this?	Y			The self-assessment is reviewed by the Section 151 Officer and reported to the Audit Committee.



Ref	Conformance with the Standard	Y	P	N	Evidence
	<i>1322 Disclosure of Non-conformance</i>				
	Has the CAE reported any instances of non-conformance with the PSIAS to the board?	N/A	N/A	N/A	There are no instances of non-conformance with the PSIAS.
	Has the CAE considered including any significant deviations from the PSIAS in the governance statement and has this been evidenced?	N/A	N/A	N/A	There are no significant deviations that require reporting in the AGS.
<b>4</b>	<b>Performance Standards</b>				
<b>4.1</b>	<b>2000 Managing the Internal Audit Activity</b>				
	Do the results of the internal audit activity's work achieve the purposes and responsibility of the activity, as set out in the internal audit charter?	Y			This is demonstrated by achievement of the audit plan, the annual audit report, the annual governance statement and also feedback from clients.
	Does the internal audit activity conform with the <i>Definition of Internal Auditing</i> and the <i>Standards</i> ?	Y			It can be demonstrated through a number of documents, namely; <ul style="list-style-type: none"> <li>• Audit plan</li> <li>• Audit Charter / Code of Ethics</li> <li>• Audit Reports / working papers</li> <li>• Client Feedback</li> </ul>

Ref	Conformance with the Standard	Y	P	N	Evidence
					<ul style="list-style-type: none"> <li>Annual audit report</li> <li>Annual Governance Statement</li> </ul>
	Do individual internal auditors, who are part of the internal audit activity, demonstrate conformance with the <i>Code of Ethics</i> and the <i>Standards</i> ?	Y			The Auditor has been provided with the Audit Charter / Code of Ethics. Conformance to these ethics is monitored through the performance appraisal scheme.
	Does the internal audit activity add value to the organisation and its stakeholders by				
	a) Providing objective and relevant assurance?	Y			Internal audit reports provide objective and relevant assurance. If control weaknesses are identified, action plans are put in place to facilitate improvement.
	b) Contributing to the effectiveness and efficiency of the governance, risk management and internal control processes?	Y			Every audit review will give consideration to these areas. Action plans / risk registers will be formulated if weaknesses are identified or improvements are required.
	<i>2010 Planning</i>				
	Has the CAE determined the priorities of the internal audit activity in a risk-based plan and are these priorities consistent with the	Y			The audit plan is formulated following discussions with Senior Managers,

Ref	Conformance with the Standard	Y	P	N	Evidence
	organisation's goals?				consideration of the council's corporate plan and ambitions.
	Does the risk-based plan take into account the requirement to produce an annual internal audit opinion?	Y			The audit plan is formulated taking into consideration the areas on which the Internal Audit and Assurance Manager (CAE) is required to provide assurance in the annual audit report.
	Does the risk-based plan take into account the organisation's assurance framework?	Y			The audit plan considers the council's strategic risk registers, business plan, priority projects / objectives and also any emerging threats, opportunities for fraud etc.
	Does the risk-based plan incorporate or is it linked to a strategic or high-level statement of:				
	a) How the internal audit service will be delivered?	Y			Documented in the Audit Charter / Code of Ethics.
	b) How the internal audit service will be developed in accordance with the internal audit charter?	Y			Development of the Internal Audit Service will be identified as part of this self-assessment and as part of the 5 year external assessment.  Progress on meeting improvements is monitored through the performance

Ref	Conformance with the Standard	Y	P	N	Evidence
					appraisal system.
	c) How the internal audit service links to organisational objectives and priorities?	Y			The audit plan is formulated after reviewing the council's business plan which lists the key objectives and actions for the organisation as a whole.
	Does the risk-based plan set out how internal audit's work will identify and address local and national issues and risks?	Y			<p>The Internal Audit Strategy and Risk Based Audit Plan.</p> <p>Local and national risks are identified through the following;</p> <ul style="list-style-type: none"> <li>• Strategic / operational risk workshops</li> <li>• Networking and attendance at group auditor meetings;</li> <li>• Meetings with the External Auditor; and</li> <li>• Reading and research.</li> </ul> <p>The Audit Committee are given the opportunity to comment on the work in the plan and discuss emerging risks either locally or nationally.</p> <p>The Audit Brief (scoping document) for each audit will identify and address individual risks, be it locally or nationally.</p>

Ref	Conformance with the Standard	Y	P	N	Evidence
	In developing the risk-based plan, has the CAE taken into account the organisation's risk management framework and relative risk maturity of the organisation?	Y			Both strategic and operational risks are considered when developing the audit plan.
	If such a risk management framework does not exist, has the CAE used his or her judgement of risks after input from senior management and the board and evidenced this?	N/A	N/A	N/A	
<b>LGAN</b>	Does the risk-based plan set out the:				
	a) Audit work to be carried out?	Y			The audit plan lists the nature of the audit work.
	b) Respective priorities of those pieces of audit work?	Y			The plan itself does not list the priority of the work to be completed, however at the start of the year the audits will be prioritised and a start date will be agreed between the Internal Audit and Assurance Manager (CAE), Auditor and the Head of Service.
	c) Estimated resources needed for the work?	Y			This is documented in the audit plan.
<b>LGAN</b>	Does the risk-based plan differentiate between audit and other types of work?	Y			The audit plan is separated into sections, i.e. IT audits, financial systems work, Service specific, project assurance, monitoring, operational audits, business plan work and other areas of work

Ref	Conformance with the Standard	Y	P	N	Evidence
					including risk management, counter fraud and information governance.
<b>LGAN</b>	Is the risk-based plan sufficiently flexible to reflect the changing risks and priorities of the organisation?	Y			A contingency / investigation resource is set aside. The plan is regularly monitored and flexed if required.
	Does the CAE review the plan on a regular basis and has he or she adjusted the plan when necessary in response to changes in the organisation's business, risks, operations, programmes, systems and controls?	Y			The plan is flexible. If any new risks emerge during the year or new systems are implemented the contingency will be used initially. If this resource has already been used it may be that some work on the audit plan may slip to the next year. Any changes or deviation from the audit plan will be reported to the audit committee.
	Is the internal audit activity's plan of engagements based on a documented risk assessment?	Y			The process that is undertaken to formulate the audit plan is an annual assessment.
	Is the risk assessment used to develop the plan of engagements undertaken at least annually?	Y			The risk assessment is completed annually prior to completion of the audit plan and then repeated if adjustments to the audit plan are to be made.
<b>LGAN</b>	In developing the risk-based plan, has the CAE also considered the following:				

Ref	Conformance with the Standard	Y	P	N	Evidence
	a) Any declarations of interest (for the avoidance for conflicts of interest)?	Y			Audit staff complete an annual declaration of interest. There have been no conflicts of interests recorded in 2018/19.
	b) The requirement to use specialists, eg IT or contract and procurement auditors?	N/A	N/A	N/A	The Auditor has the necessary knowledge and skill set to carry out any audit. However if a piece of work was to be carried out that would require a specialist auditor skill set, an external audit organisation would be contacted.
	c) Allowing contingency time to undertake ad hoc reviews or fraud investigations as necessary?	Y			A contingency / investigation resource is set aside.
	d) The time required to carry out the audit planning process effectively as well as regular reporting to and attendance of the board, the development of the annual report and the CAE opinion?	Y			Time to plan each audit is factored into the number of days allocated for each piece of work. Attendance at Audit Committee, development of the annual report and other Internal Audit and Assurance Manager (CAE) activities is listed separately on the audit plan.
	Is the input of senior management and the board considered in the risk assessment process?	Y			Senior Management input is requested when drafting the audit plan. It is then submitted to the Audit Committee at which point their input is also requested.

Ref	Conformance with the Standard	Y	P	N	Evidence
	Does the CAE identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinion and any other conclusions?	Y			<p>The annual audit report is scrutinised by the Section 151 Officer and is presented to the Audit Committee for consideration. The document would be amended accordingly, recognising comments made, recommendations, changes etc.</p> <p>In regards to audit report opinions, the overall opinions are based on the findings of each audit, which are graded using a set framework. Auditees can challenge the audit opinion and provide reasons in support of why they think the opinion should be changed. This will be done at the draft stage of the reporting process.</p>
	Does the CAE take into consideration any proposed consulting engagement's potential to improve the management of risks, to add value and to improve the organisation's operations before accepting them?	Y			It is hoped that shared good practice will take place between the two organisations in relation to risk management, internal control and information governance.
	Are consulting engagements that have been accepted included in the risk-based plan?	Y			The risk based plan has been amended to make provision for the 20 days that Fylde Council will spend on-site at Lancaster City Council.
	<i>2020 Communication and Approval</i>				



Ref	Conformance with the Standard	Y	P	N	Evidence
	Has the CAE communicated the internal audit activity's plans and resource requirements to senior management and the board for review and approval?	Y			Members of the Executive Team and Senior Managers are involved in the production of the annual audit plan. The draft audit plan is submitted to the Audit Committee in February/March for approval.
	Has the CAE communicated any significant interim changes to the plan and/or resource requirements to senior management and the board for review and approval, where such changes have arisen?	Y			A six monthly update is provided for the Audit Committee which includes any deviations from the audit plan.
	Has the CAE communicated the impact of any resource limitations to senior management and the board?	Y			Resource limitations would be reported to the Executive Team and the Audit Committee where appropriate as part of the update report.
	<i>2030 Resource Management</i>				
	Does the risk-based plan explain how internal audit's resource requirements have been assessed?				The internal audit resource requirements are documented in the Audit Charter. The Audit Committee are presented with the audit plan. They are aware of the size of the audit section and have the opportunity to challenge the plan if they feel there is insufficient coverage.

Ref	Conformance with the Standard	Y	P	N	Evidence
					The External Auditors have not indicated they are uncomfortable with the internal audit resource available.
<b>LGAN</b>	Has the CAE planned the deployment of resources, especially the timing of engagements, in conjunction with management to minimise abortive work and time?	Y			The Auditor will agree the timing of engagements with relevant Heads of Service to ensure that it is convenient prior to the start of each audit.
<b>LGAN</b>	If the CAE believes that the level of agreed resources will impact adversely on the provision of the internal audit opinion, has he or she brought these consequences to the attention of the board? This may include an imbalance between the work plan and resource availability and/or other significant matters that jeopardise the delivery of the plan or require it to be changed.	Y			There is an opportunity for the Internal Audit and Assurance Manager (CAE) to comment on sufficiency of resources where appropriate; although it is considered that the resource available is currently sufficient to deliver the audit plan. The team is small; however, this is supported by the arrangements with Fylde Council to provide 20 days in 2018/19 and Lancashire County Council (LCC) to provide a further 50 days in 2019/20.
	<i>2040 Policies and Procedures</i>				
	Has the CAE developed and put into place policies and procedures to guide the internal audit activity?	Y			Standardised working papers and a reporting format has been developed. The council's intranet (ELSIE) is used to

Ref	Conformance with the Standard	Y	P	N	Evidence
					store key documents that guide audit activity i.e. Audit Charter / Code of Conduct, Risk Management Policy and other CIPFA guidance. The Auditor has been issued with the PSIAS and CIPFA's Application Note.
<b>LGAN</b>	Has the CAE established policies and procedures to guide staff in performing their duties in a manner than conforms to the PSIAS? Examples include maintaining an audit manual and/or using electronic management systems.	Y			Internal audit policies and procedures have been reviewed to ensure conformity to PSIAS. A standardised Automated Working Papers database also aids conformance with PSIAS.
<b>LGAN</b>	Are the policies and procedures regularly reviewed and updated to reflect changes in working practices and standards?	Y			Most policies/procedures are annually reviewed and presented to Audit Committee.
	<i>2050 Coordination</i>				
	Does the risk-based plan include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources?	Y			Other streams of assurance such as external inspections are considered, e.g. RIPA, Taxi Licencing and Food Safety etc. these are gathered through manager's completion of the annual assurance mapping declarations and these are used to inform the annual audit plan.

Ref	Conformance with the Standard	Y	P	N	Evidence
LGAN	Has the CAE carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance?	Y			Basic assurance mapping has been carried out by the Auditor to identify sources of external assurance which is documented and updated annually.
	Does the CAE share information and coordinate activities with other internal and external providers of assurance and consulting services?	Y			Regular meetings are held with External Audit to update them on the work currently being carried out by internal audit.
LGAN	Does the CAE meet regularly with the nominated external audit representative to consult on and coordinate their respective audit plans?	Y			Both internal and external audit plans are shared and communicated publically at Audit Committee.  Quarterly meetings are held with the External Auditor and the Section 151 Officer to discuss the progress made in implementing the audit plan.
	<i>2060 Reporting to Senior Management and the Board</i>				
	Does the CAE report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan?	Y			The Internal Audit Manager (CAE) will update the Section 151 Officer on a regular basis.  Six monthly audit update reports are submitted to the Audit Committee.  Annual Governance Review and AGS.

Ref	Conformance with the Standard	Y	P	N	Evidence
					<p>The Audit Chairman and the External Auditor will receive verbal updates on any frauds / whistleblowing cases.</p> <p>The Audit Committee receives internal audit's Audit Charter / Code of Ethics annually which covers its purpose, authority and responsibility.</p>
	<p>Does the periodic reporting also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board?</p>	Y			<p>Significant risk exposures are currently being reflected in the draft Strategic Risk Register. Governance issues are considered along with the annual agreement of the AGS. Gifts and hospitality registers are also reviewed by Audit Committee and the Monitoring Officer.</p>
	<p>Is the frequency and content of such reporting determined in discussion with senior management and the board and are they dependent on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board?</p>	Y			<p>An agreed work programme is in place documenting when reports are submitted to Audit Committee. Where actions are considered to be important or urgent, more regular update reports are requested by Audit Committee and the relevant officer is invited to attend committee.</p> <p>Specific topical reports to Executive Team e.g. RIPA, Staff Benefits Policy.</p>

Ref	Conformance with the Standard	Y	P	N	Evidence
	<i>2070 External Service Provider and Organisational Responsibility for Internal Auditing</i>				
	Where an external internal audit service provider acts as the internal audit activity, does that provider ensure that the organisation is aware that the responsibility for maintaining and effective internal audit activity remains with the organisation?	Y			This would be documented in any service level agreement.
<b>4.2</b>	<b>2100 Nature of Work</b>				
	Does the internal audit activity evaluate and contribute to the improvement of the organisation's governance, risk management and internal control processes?	Y			The audit plan is formulated to ensure it contributes to the improvement of the organisations governance, risk management and internal control processes. Audit reviews will cover the governance and the key risks of the service as well as the key controls. Annual Governance Review and AGS
	Does the internal audit activity evaluate and contribute to the improvement of the above using a systematic and disciplined approach and is this evidenced?	Y			A structured set of audit working papers are used to conduct, test and report on pieces of audit work to ensure a systematic and consistent approach is maintained.
	<i>2110 Governance</i>				

Ref	Conformance with the Standard	Y	P	N	Evidence
	Does the internal audit activity:				
	a) Promote appropriate ethics and values within the organisation?	Y			<p>All reported concerns are followed up e.g. members exerting influence.</p> <p>Local Code of Corporate Governance</p> <p>Raising Concerns Policy</p> <p>Code of Conduct for Employees</p> <p>Audit Charter</p> <p>In 2018 ethical governance surveys were conducted to promote behaviours and values and identify gaps in knowledge and understanding.</p>
	b) Ensure effective organisational performance management and accountability?	Y			<p>Managers are held accountable for actions in audit reports and findings from previous audit reports are followed up by the audit team.</p> <p>Performance management is scheduled in the audit plan as required.</p> <p>Performance Management has been raised in the AGS minor action plan which will be monitored by Internal Audit and the Executive Team.</p>

Ref	Conformance with the Standard	Y	P	N	Evidence
	c) Communicate risk and control information to appropriate areas of the organisation?	Y			<p>Risk based audit reports are issued to the staff responsible for the area being audited. The Annual Audit Report and the Annual Governance Statement reflect on both internal control and risk.</p> <p>Overall there are weaknesses in the risk management arrangements across the organisation and this has been reported in the 2018/19 Annual Governance Statement.</p>
	d) Coordinate the activities of and communicate information among the board, external and internal auditors and management?	Y			<p>All audit reports are issued to clients and published on the Intranet and available for all staff / members to view.</p> <p>External Auditor communication is presented to Audit Committee.</p> <p>Regular updates are presented to council on the work of Audit Committee</p>
	Does the internal audit activity assess and make appropriate recommendations for improving the governance process as part of accomplishing the above objectives?	Y			<p>Governance issues will be reviewed as part of the audit as is risk management, health and safety and performance management.</p>
	Has the internal audit activity evaluated the:				



Ref	Conformance with the Standard	Y	P	N	Evidence
	a) design	Y			The ethical governance survey aims to test knowledge on key policies and procedures and identify gaps allowing targeted future training. An ethical governance survey was carried out in 2018 and an action plan has been produced.
	b) implementation, and	Y			
	c) effectiveness of the organisation's ethics-related objectives, programmes and activities?	Y			
	Has the internal audit activity assessed whether the organisation's information technology governance supports the organisation's strategies and objectives?	Y			A number of days are set aside in the audit plan to cover IT governance if required.
<b>LGAN</b>	Has the CAE considered the proportionality of the amount of work required to assess the ethics and information technology governance of the organisation when developing the risk-based plan?	Y			The number of IT audit days can be adjusted accordingly.  An ethical governance survey was included in the 2018/19 work programme and has recently been completed. An action plan has been produced which will be implemented during the course of 2019/20.
	<i>2120 Risk Management</i>				
	Has the internal audit activity evaluated the effectiveness of the organisation's risk management processes by determining that:				

Ref	Conformance with the Standard	Y	P	N	Evidence
	a) Organisational objectives support and align with the organisation's mission?		P		Documented in the Council Plan – However these have not been evaluated by Internal Audit.
	b) Significant risks are identified and assessed?		P		The council's corporate plan 'Our Council Plan 2018-2022' has been used to identify and assess significant strategic risks. However, operational risks have not been documented as yet.
	c) Appropriate risk responses are selected that align risks with the organisation's risk appetite?		P		The Council is in the process of developing mitigating actions to address significant risks in the strategic risk register.
	d) Relevant risk information is captured and communicated in a timely manner across the organisation, thus enabling the staff, management and the board to carry out their responsibilities?		P		Strategic risks have been drafted and presented to Audit Committee. Risk management has been highlighted as an area requiring further work in the 2018/19 annual Governance Statement.
	Has the internal audit activity evaluated the risks relating to the organisation's governance, operations and information systems regarding the:				
	a) Achievement of the organisation's strategic objectives?	Y			The audit plan has identified a number of pieces of work which will involve evaluating the risks of key strategic projects; e.g a project assurance role in

Ref	Conformance with the Standard	Y	P	N	Evidence
					relation to Canal Quarter.
	b) Reliability and integrity of financial and operational information?	Y			Financial and operational information is tested for reliability and integrity as part of individual audits.
	c) Effectiveness and efficiency of operations and programmes?	Y			If assurance work has been completed, the effectiveness and efficiency will be reported on accordingly in final reports and overall in the Annual Audit Report.
	d) Safeguarding of assets?	Y			The safeguarding of council's assets is considered as part of individual audits Asset Management, White Lund Nursey etc.
	e) Compliance with laws, regulations, policies, procedures and contracts?	Y			Compliance with law, regulations, policies, procedures and contracts is considered as part of individual audits.
	Has the internal audit activity evaluated the potential for fraud and also how the organisation itself manages fraud risk?	Y			The council takes part in the NFI process.  The Internal Audit and Assurance Manager (CAE) regularly tests compliance to the council's counter fraud polices.  Information concerning potential

Ref	Conformance with the Standard	Y	P	N	Evidence
					<p>fraudulent activity is shared (National reports and Lancashire Audit Group).</p> <p>The Corporate Enquiry Team will focus on investigating corporate fraud including fraudulent claims for council tax support, falsely claimed council tax and business rate discounts and exemptions and council tax and business rate avoidance cases.</p>
	Do internal auditors address risk during consulting engagements consistently with the objectives of the engagement?	N/A	N/A	N/A	There are no such engagements undertaken presently.
	Are internal auditors alert to other significant risks when undertaking consulting engagements?	N/A	N/A	N/A	There are no such engagements undertaken presently.
	Do internal auditors successfully avoid managing risks themselves, which would in effect lead to taking on management responsibility, when assisting management in establishing or improving risk management processes?	Y			The Audit Section facilitate the audit process, identify risk areas and make recommendations to mitigate risks etc. within audit reports. Appropriate officers will be made responsible for ensuring that risks identified are managed during the year.

Ref	Conformance with the Standard	Y	P	N	Evidence
	<i>2130 Control</i>				
	Has the internal audit activity evaluated the adequacy and effectiveness of controls in the organisation's governance, operations and information systems regarding the:				
	a) Achievement of the organisation's strategic objectives?	Y			These areas are covered as part of the audit planning process.
	b) Reliability and integrity of financial and operational information?	Y			Audits of key financial systems are conducted every 2/3 years unless there is any major changes to controls.
	c) Effectiveness and efficiency of operations and programmes?	Y			Strategic objectives / projects are risk managed at Head of Service level.
	d) Safeguarding of assets?	Y			Feedback from the Insurance Officer is used to evaluate adequacy of the safeguarding of council assets.
	e) Compliance with laws, regulations, policies, procedures and contracts?	Y			Compliance with laws, regulation, polices, procedures and contracts are considered in each audit review.
	Do internal auditors utilise knowledge of controls gained during consulting engagements when evaluating the organisation's control processes?	N/A	N/A	N/A	There are no such engagements undertaken presently.

Ref	Conformance with the Standard	Y	P	N	Evidence
<b>4.3</b>	<b>2200 Engagement Planning</b>				
	Do internal auditors develop and document a plan for each engagement?	Y			An Audit Brief document is developed and agreed for each audit review.
	Does the engagement plan include the engagement's:				
	a) Objectives?	Y			Each of these criteria are documented in the Audit Brief or through records held within the audit working papers system.
	b) Scope?	Y			
	c) Timing?	Y			
	d) Resource allocations?	Y			
	Do internal auditors consider the following in planning an engagement, and is this documented:				
	a) The objectives of the activity being reviewed?	Y			
	b) The means by which the activity controls its performance?	Y			
	c) The significant risks to the activity being audited?	Y			
	d) The activity's resources?	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence
	e) The activity's operations?	Y			Each of these criteria are either documented in the Audit Brief or through records held within the audit working papers system or through pre-audit meeting notes.
	f) The means by which the potential impact of risk is kept to an acceptable level?	Y			
	g) The adequacy and effectiveness of the activity's governance, risk management and control processes compared to a relevant framework or model?	Y			
	h) The opportunities for making significant improvements to the activity's governance, risk management and control processes?	Y			
	Where an engagement plan has been drawn up for an audit to a party outside of the organisation, have the internal auditors established a written understanding with that party about the following:				
	a) Objectives?	N/A	N/A	N/A	Audits carried out for Preston City Council under the Revenues and Benefits Shared Service Agreement follow the same process and therefore the required criteria are documented in the Audit Brief.
	b) Scope?	N/A	N/A	N/A	
	c) The respective responsibilities and other expectations of the internal auditors and the outside party (including restrictions on distribution of the results of the engagement and access to engagement records)?	N/A	N/A	N/A	

Ref	Conformance with the Standard	Y	P	N	Evidence
	For consulting engagements, have internal auditors established an understanding with the engagement clients about the following:				
	a) Objectives?	N/A	N/A	N/A	There are no such engagements undertaken presently.
	b) Scope?	N/A	N/A	N/A	
	c) The respective responsibilities of the internal auditors and the client and other client expectations?	N/A	N/A	N/A	
	For significant consulting engagements, has this understanding been documented?	N/A	N/A	N/A	
	<i>2210 Engagement Objectives</i>				
	Have objectives been agreed for each engagement?	Y			Documented in the Audit Brief.
	Have internal auditors carried out a preliminary risk assessment of the activity under review?	Y			This is completed whilst formulating the Audit Brief. Auditors will review previous audits, risk registers and other intelligence before undertaking each review. Risk profiles may also be used to assist in identifying further key risks.
	Do the engagement objectives reflect the results of the preliminary risk assessment that has been carried out?	Y			The Audit Brief document identifies the core risk and the objective.



Ref	Conformance with the Standard	Y	P	N	Evidence
	Have internal auditors considered the probability of the following, when developing the engagement objectives:				
	a) Significant errors?	Y			The preliminary risk assessment will ensure each of these are covered.
	b) Fraud?	Y			
	c) Non-compliance?	Y			
	d) Any other risks?	Y			
	Have internal auditors ascertained whether management and/or the board have established adequate criteria to evaluate and determine whether objectives and goals have been accomplished?	Y			The Audit Briefs are shared with Audit Committee members allowing such an evaluation to be undertaken when the audit report is published.
	If the criteria have been deemed adequate, have the internal auditors used the criteria in their evaluation of governance, risk management and controls?	Y			A control matrix is used to evidence that all risks identified have been tested and that adequate controls are in place.
	If the criteria have been deemed inadequate, have the internal auditors worked with management and/or the board to develop appropriate evaluation criteria?	N/A	N/A	N/A	There are no instances where the criteria have been deemed inadequate.
<b>LGAN</b>	If the value for money criteria have been referred to, has the use of all the organisation's main types of resources been	Y			The 'value for money' aspect of any service / control is considered during

Ref	Conformance with the Standard	Y	P	N	Evidence
	considered; including money, people and assets?				each review.  If there has been any work on VFM this will be documented within the report.
	Do the objectives set for consulting engagements address governance, risk management and control processes as agreed with the client?	Y			The job description for the Internal Audit and Assurance Manager (CAE) sets out the requirements of the role; in particular around governance, risk management and internal control.
	Are the objectives set for consulting engagements consistent with the organisation's own values, strategies and objectives?	Y			In addition the job description refers to compliance with the PSIAS which the organisation complies with.
	<i>2220 Engagement Scope</i>				
	Is the scope that is established for the engagement sufficient to satisfy the engagement's objectives?	Y			Agreed at the start of the audit. If during the audit the scope has to be extended to ensure the objectives of the audit are met, this is agreed with the Internal Audit and Assurance Manager (CAE) as it is likely to have resource implications.
	Does the engagement scope include consideration of the following relevant areas of the organisation:				

Ref	Conformance with the Standard	Y	P	N	Evidence
	a) Systems?	Y			The Audit Brief document identifies the systems, records, premises and personnel the auditor will require assess to.
	b) Records?	Y			
	c) Personnel?	Y			
	d) Premises?	Y			
	Does the engagement scope include consideration of the following relevant areas under the control of outside parties, where appropriate:				
	a) Systems?	N/A	N/A	N/A	
	b) Records?	N/A	N/A	N/A	
	c) Personnel?	N/A	N/A	N/A	
	d) Premises?	N/A	N/A	N/A	
	Where significant consulting opportunities have arisen during an assurance engagement, was a specific written understanding as to the objectives, scope, respective responsibilities and other expectations drawn up?	N/A	N/A	N/A	There have been no such consulting opportunities that have arisen during an assurance engagement.
	Where significant consulting opportunities have arisen during an	N/A	N/A	N/A	

Ref	Conformance with the Standard	Y	P	N	Evidence
	assurance engagement, were the results of the subsequent engagement communicated in accordance with the relevant consulting Standards?				
	For a consulting engagement, was the scope of the engagement sufficient to address any agreed-upon objectives?	N/A	N/A	N/A	There are no such engagements undertaken presently.
	If the internal auditors developed any reservations about the scope of a consulting engagement while undertaking that engagement, did they discuss those reservations with the client and therefore determine whether or not to continue with the engagement?	N/A	N/A	N/A	
	During consulting engagements, did internal auditors address the controls that are consistent with the objectives of those engagements?	N/A	N/A	N/A	
	During consulting engagements, were internal auditors alert to any significant control issues?	N/A	N/A	N/A	There are no such engagements undertaken presently.
	<i>2230 Engagement Resource Allocation</i>				
	Have internal auditors decided upon the appropriate and sufficient level of resources required to achieve the objectives of the engagement based on:				

Ref	Conformance with the Standard	Y	P	N	Evidence
	a) The nature and complexity of each individual engagement?	Y			This is agreed when formulating the annual audit plan. The Internal Audit and Assurance Manager (CAE) is notified of any changes to the nature of the work, time constraints and resources available once the terms of reference have been agreed.
	b) Any time constraints?	Y			
	c) The resources available?	Y			
	<i>2240 Engagement Work Programme</i>				
	Have internal auditors developed and documented work programmes that achieve the engagement objectives?	Y			The auditor will plan the work required to meet the objectives of the audit. Standard templates are in place for this purpose.
	Do the engagement work programmes include the following procedures for:				
	a) Identifying information?	Y			The Detailed Analysis and Testing Schedules will document the objective, the information required, the testing completed, the findings and the overall conclusions and recommendations.
	b) Analysing information?	Y			
	c) Evaluating information?	Y			
	d) Documenting information?	Y			
	Were work programmes approved prior to implementation for each engagement?	Y			After the Audit Committee have approved the annual audit plan for the

Ref	Conformance with the Standard	Y	P	N	Evidence
					forthcoming year, the Auditor will agree the work programme for each quarter with the Internal Audit and Assurance Manager (CAE).
	Were any adjustments required to work programmes approved promptly?	Y			Occasionally, work programmes are adjusted to take into consideration urgent work or investigations
<b>4.4</b>	<b>2300 Performing the Engagement</b>				
	Have internal auditors carried out the following in order to achieve each engagement's objectives:				
	a) Identify sufficient information?	Y			Checks are made during a full audit review by the Internal Audit and Assurance Manager (CAE) that the objectives of the audit have been achieved and that there is sufficient evidence to support any findings, conclusions and the overall opinion. Review notes are provided to the Auditor after each review if further work is required or certain areas require clarification and these maintained for evidence.
	b) Analyse sufficient information?	Y			
	c) Evaluate sufficient information?	Y			
	d) Document sufficient information?	Y			
	<i>2310 Identifying Information</i>				

Ref	Conformance with the Standard	Y	P	N	Evidence
	Have internal auditors identified the following in order to achieve each engagement's objectives:				
	a) Sufficient information?	Y			Review notes will show if further information is required to support findings or if evidence is not relevant or reliable.
	b) Reliable information?	Y			
	c) Relevant information?	Y			
	d) Useful information?	Y			
	<i>2320 Analysis and Evaluation</i>				
	Have internal auditors based their conclusions and engagement results on appropriate analyses and evaluations?	Y			Confirmed by the Internal Audit and Assurance Manager (CAE) for each audit performed by the Auditor.
<b>LGAN</b>	Have internal auditors remained alert to the possibility of the following:				
	a) intentional wrongdoing	Y			The key risks around these areas are identified at the start of the audit.
	b) errors and omissions	Y			The Auditor is experienced in the areas she is required to audit throughout the
	c) poor value for money	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence
	d) failure to comply with management policy, and	Y			council and remains alert to any weaknesses / control failings.
	e) conflicts of interest	Y			
	when performing their individual audits, and has this been documented?	Y			Documented in standardised working papers.
	<i>2330 Documenting Information</i>				
	Have internal auditors documented the relevant information required to support engagement conclusions and results?	Y			Standardised reports are used to document conclusions and findings along with a management action plan.
<b>LGAN</b>	Are working papers sufficiently complete and detailed to enable another experienced internal auditor with no previous connection with the audit to ascertain what work was performed, to re-perform it if necessary and to support the conclusions reached?	Y			A file review is conducted by the Internal Audit and Assurance Manager (CAE) to ensure working papers are referenced correctly and the file contains sufficient evidence to support any findings and the overall opinion.
	Does the CAE control access to engagement records?	Y			Access rights are documented in the Audit Charter. The audit reports state that the working papers can be viewed on request.
	Has the CAE obtained the approval of senior management and/or legal counsel as appropriate before releasing such records to external parties?	N/A	N/A	N/A	Audit files have not been released to external parties other than the council's External Auditor.



Ref	Conformance with the Standard	Y	P	N	Evidence
	Has the CAE developed and implemented retention requirements for all types of engagement records?	Y			Information Asset Registers document the required retention periods for all audit records.
	Are the retention requirements for engagement records consistent with the organisation's own guidelines as well as any relevant regulatory or other requirements?	Y			Retention periods are consistent with organisational and regularity guidelines. At present audit files are retained for 7 years (6 plus current) in accordance with the Government Classification Scheme.
	<i>2340 Engagement Supervision</i>				
	Are all engagements properly supervised to ensure that objectives are achieved, quality is assured and that staff are developed?	Y			File reviews, feedback and performance appraisals are used to ensure that training or development issues are highlighted.
	Is appropriate evidence of supervision documented and retained for each engagement?	Y			File reviews and performance appraisal documents are retained evidencing supervision.
<b>4.5</b>	<b>2400 Communicating Results</b>				
	Do internal auditors communicate the results of engagements?	Y			Audit reports are issued as appropriate to Directors, Heads of Service and key operational staff, with the Audit Committee and the External Auditor reviewing all audit reports.

Ref	Conformance with the Standard	Y	P	N	Evidence
	<i>2410 Criteria for Communicating</i>				
	Do the communications of engagement results include the following:				
	a) The engagement's objectives?	Y			A standardised report format is used ensuring that each of the criteria is communicated. This can be demonstrated through the Audit Working Papers system records.
	b) The scope of the engagement?	Y			
	c) Applicable conclusions?	Y			
	d) Recommendations and action plans, if appropriate?	Y			
<b>LGAN</b>	Has the internal auditor discussed the contents of the draft final report with the appropriate levels of management to confirm factual accuracy, seek comments and confirm the agreed management actions?	Y			A closure meeting is arranged with the relevant officers to agree factual accuracy, findings and agree actions.
<b>LGAN</b>	If recommendations and an action plan have been included, are recommendations prioritised according to risk?	Y			Lancaster recommendations are given a priority risk rating of 1 to 3. Level 1 recommendations require immediate action and level 3 recommendations have no set timescales and include suggestions for improvements / efficiencies in service delivery.

Ref	Conformance with the Standard	Y	P	N	Evidence
					Fylde Council do not prioritise actions  Lancashire County Council recommendations are prioritised as high, medium or low and appropriate timescales can be agreed with the auditor.
<b>LGAN</b>	If recommendations and an action plan have been included, does the communication also state agreements already reached with management, together with appropriate timescales?	Y			The action plan identifies the management response and timescales for action.
<b>LGAN</b>	If there are any areas of disagreement between the internal auditor and management, which cannot be resolved by discussion, are these recorded in the action plan and the residual risk highlighted?	Y			The management response would identify areas of disagreement where appropriate.
<b>LGAN</b>	Do communications disclose all material facts known to them in their audit reports which, if not disclosed, could distort their reports or conceal unlawful practice, subject to confidentiality requirements?	Y			Evidence is disclosed in support of the audit conclusion subject to confidentiality requirements.
<b>LGAN</b>	Do the final communications of engagement results contain, where appropriate, the internal auditor's opinions and/or conclusions, building up to the annual internal audit opinion on	Y			The internal auditor's opinion and conclusions are clearly visible.

Ref	Conformance with the Standard	Y	P	N	Evidence
	the control environment?				
	When an opinion or conclusion is issued, are the expectations of senior management, the board and other stakeholders taken into account?	Y			Closure meetings are held with clients and audit reports are scrutinised by the Section 151 Officer and reported to the Audit Committee.
	When an opinion or conclusion is issued, is it supported by sufficient, reliable, relevant and useful information?	Y			Confirmed by the Internal Audit and Assurance Manager (CAE) who reviews all audit files.
	Where appropriate, do engagement communications acknowledge satisfactory performance of the activity in question?	Y			Satisfactory performance would be reflected in the overall conclusion issued.
	When engagement results have been released to parties outside of the organisation, does the communication include limitations on the distribution and use of the results?	Y			The engagement results are not released to parties outside of the organisation other than the council's External Auditors.
<b>LGAN</b>	If the CAE has been required to provide assurance to other partnership organisations, has he or she also demonstrated that their fundamental responsibility is to the management of the organisation to which they are obliged to provide internal audit services?	N/A	N/A	N/A	Internal Audit have not been asked to provide assurance to any partnership organisations.
	<i>2420 Quality of Communications</i>				

Ref	Conformance with the Standard	Y	P	N	Evidence
	Are communications:				
	a) Accurate?	Y			<p>All documents are reviewed by the Internal Audit and Assurance Manager (CAE). Review notes are provided to correct any work that does not meet quality standards.</p> <p>Closure meetings are also used to agree factual accuracy of the report and findings.</p> <p>Feedback is used to ensure auditees are happy with how the audit was conducted.</p> <p>The client is provided with an opportunity to challenge whether they consider the report to be constructive as part of the closure meeting and again by attending Audit Committee if appropriate.</p> <p>The timeliness of reports is monitored and reported to Audit Committee.</p>
	b) Objective?	Y			
	c) Clear?	Y			
	d) Concise?	Y			
	e) Constructive?	Y			
	f) Complete?	Y			
	g) Timely?	Y			
	<i>2421 Errors and Omissions</i>				
	If a final communication has contained a significant error or omission, did the CAE communicate the corrected information to	Y			The closure meeting is designed to identify and resolve any significant errors or omissions, however the report would

Ref	Conformance with the Standard	Y	P	N	Evidence
	all parties who received the original communication?				be re-issued where necessary.
	<i>2430 Use of 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing'</i>				
	Do internal auditors report that engagements are ' <i>conducted in conformance with the PSIAS</i> ' only if the results of the QAIP support such a statement?	Y			Reported as part of the internal audit report annually in May.
	<i>2431 Engagement Disclosure of Nonconformance</i>				
	Where any non-conformance with the PSIAS has impacted on a specific engagement, do the communication of the results disclose the following:				
	a) The principle or rule of conduct of the <i>Code of Ethics</i> or <i>Standard(s)</i> with which full conformance was not achieved?	N/A	N/A	N/A	No specific engagements have been impacted on by non-compliance with the PSIAS.
	b) The reason(s) for non-conformance?	N/A	N/A	N/A	
	c) The impact of non-conformance on the engagement and the engagement results?	N/A	N/A	N/A	
	<i>2440 Disseminating Results</i>				

Ref	Conformance with the Standard	Y	P	N	Evidence
	Has the CAE determined the circulation of audit reports within the organisation, bearing in mind confidentiality and legislative requirements?	Y			Reporting arrangements are documented within the Audit Charter.
	Has the CAE communicated engagement results to all appropriate parties?	Y			Audit reports are issued as appropriate to Directors, Heads of Service, key operational staff with the Audit Committee and the External Auditor receiving all audit reports. The Audit Working Papers also has a pre-populated distribution list.
	Before releasing engagement results to parties outside the organisation, did the CAE:				
	a) Assess the potential risk to the organisation?	N/A	N/A	N/A	Engagement results have not been released to parties outside the organisation other than the council's External Auditors.
	b) Consult with senior management and/or legal counsel as appropriate?	N/A	N/A	N/A	
	c) Control dissemination by restricting the use of the results?	N/A	N/A	N/A	
	Where any significant governance, risk management and control issues were identified during consulting engagements, were these communicated to senior management and the board?	N/A	N/A	N/A	There are no such engagements undertaken presently.

Ref	Conformance with the Standard	Y	P	N	Evidence
	<i>2450 Overall Opinion</i>				
	Has the CAE delivered an annual internal audit opinion?	Y			Presented to Audit Committee in June 2018.
	Does the annual internal audit opinion conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control?	Y			See report presented to Audit Committee in June 2018.
	Does the annual internal audit opinion take into account the expectations of senior management, the board and other stakeholders?	Y			The Annual Audit report is scrutinised by the Section 151 Officer and presented to Audit Committee for consideration.
	Is the annual internal audit opinion supported by sufficient, reliable, relevant and useful information?	Y			See report presented to Audit Committee in June 2018.
	Does the communication identify the following:				
	a) The scope of the opinion, including the time period to which the opinion relates?	Y			All areas are documented in the Annual Audit report.
	b) Any scope limitations?	Y			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
	c) The consideration of all related projects including the reliance on other assurance providers?	Y			



Ref	Conformance with the Standard	Y	P	N	Evidence
	d) The risk or control framework or other criteria used as a basis for the overall opinion?	Y			there are no major weaknesses in the areas reviewed.
	Where a qualified or unfavourable annual internal audit opinion is given, are the reasons for that opinion stated?	N/A	N/A	N/A	Where a qualified or unfavourable opinion was given this would be fully explained in the annual audit report.
	Has the CAE delivered an annual report that can be used by the organisation to inform its governance statement?	Y			See Annual Governance Statement and section entitled 'review of effectiveness'.
	Does the annual report incorporate the following:				
	a) The annual internal audit opinion?	Y			See annual audit report considered by the Audit Committee in June 2018.
<b>LGAN</b>	b) A summary of the work that supports the opinion?	Y			
<b>LGAN</b>	c) A disclosure of any qualifications to the opinion?	N/A	N/A	N/A	
<b>LGAN</b>	d) The reasons for any qualifications to the opinion?	N/A	N/A	N/A	
<b>LGAN</b>	e) A disclosure of any impairments or restriction in scope?	Y			
<b>LGAN</b>	f) A comparison or work actually carried out with the work planned?	Y			

Ref	Conformance with the Standard	Y	P	N	Evidence
	g) A statement on conformance with the PSIAS?	Y			
LN	h) The results of the QAIP?	Y			
LGAN	i) Progress against any improvement plans resulting from the QAIP?	Y			
LGAN	j) A summary of the performance of the internal audit activity against its performance measures and targets?	Y			Internal review feedback is referred to along with a comparison of the work actually carried out compared to that planned.
	k) Any other issues that the CAE judges is relevant to the preparation of the governance statement?	N/A	N/A	N/A	
<b>4.6</b>	<b>2500 Monitoring Progress</b>				
	Has the CAE established a process to monitor and follow up management actions to ensure that they have been effectively implemented or that senior management have accepted the risk of not taking action?	Y			A robust procedure is in place for following up management actions.
	Where issues have arisen during the follow-up process, has the CAE considered revising the internal audit opinion?	N/A	N/A	N/A	Whilst no significant issues have arisen to date, up-to-date action plans would be provided with new actions required / dates etc. The audit opinion would not be changed until the next full review.

Ref	Conformance with the Standard	Y	P	N	Evidence
	Do the results of monitoring management actions inform the risk-based planning of future audit work?	Y			If there has been little progress made in implementing recommendations, it is highly likely that the audit will feature on the next years audit plan.
	Does the internal audit activity monitor the results of consulting engagements as agreed with the client?	N/A	N/A	N/A	There are no such engagements undertaken presently.
<b>4.7</b>	<b>2600 Communicating the Acceptance of Risks</b>				
	If the CAE has concluded that management has accepted a level of risk that may be unacceptable to the organisation, has he or she discussed the matter with senior management?	N/A	N/A	N/A	The Internal Audit and Assurance Manager (CAE) has not concluded this to date but would refer the matter to the Section 151 Officer.
	If, after discussion with senior management, the CAE continues to conclude that the level of risk may be unacceptable to the organisation, has he or she communicated the situation to the board?	N/A	N/A	N/A	The Internal Audit and Assurance Manager (CAE) has not concluded this to date but would if appropriate refer the matter to the Audit Committee.

**AUDIT COMMITTEE****Internal Audit Annual Report 2018-19****12 June 2019****Report of the Internal Audit and Assurance Manager****PURPOSE OF REPORT**

To approve the Internal Audit Annual report for 2018/19.

**This report is public**

**RECOMMENDATIONS**

1. **That the Internal Audit and Assurance Manager's (IAAM) Internal Audit Annual Report for 2018/19 be accepted and considered by the Committee as a key source of assurance which will be reported in the Annual Governance Statement (AGS), which is to be considered by the Committee later in the agenda.**

**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's 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 2018/19 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 risk management should be reported in the Council's AGS for the year 2018/19 as an area requiring attention.

<p><b>CONCLUSION OF IMPACT ASSESSMENT</b>                  (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</p> <p>This report has no direct impact on these areas.</p>	
<p><b>FINANCIAL IMPLICATIONS</b></p> <p>None arising directly 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 arising directly 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>Internal Audit Plan 2018/19</p>	<p><b>Contact Officer:</b> Joanne Billington</p> <p><b>Telephone:</b> 01524 582028</p> <p><b>E-mail:</b> jbillington@lancaster.gov.uk</p> <p><b>Ref:</b></p>

**INTERNAL AUDIT ANNUAL REPORT 2018/19**

The Internal Audit and Assurance Section is responsible to the Head of Financial Services (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 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.





The allocation of audit days for 2018/19 was originally 464 days. However, following the resignation of the Deputy IAAM in December 2018 and a discussion around the risks in each instance, a decision was made to roll six audits to the following 2019/20 audit plan. In addition, two pieces of work (20 days) were completed by Fylde Council covering council housing; asbestos management and pre-employment checks at a daily rate of £365.

Internal feedback is requested after each audit review. All feedback received in 2018/19 indicated that the work of internal audit continues to be highly regarded.





## Audit Work Performed in 2018 / 2019

Summarised below are the reviews that have been performed and reports issued in 2018/19. Final reports are published in full on the Council's Intranet site.






### Lancaster City Council

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.




### Fylde and Preston City Council

Level of assurance	Image	Definition
Full		There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives.
Substantial		While there is basically a sound system of control, there are some minor weaknesses, which may put some of the system objectives at risk.
Moderate		While there is basically a sound system of control, there are some more significant/serious weaknesses, which may put some of the system objectives at risk.
Limited / None		There are significant weaknesses in key areas in the systems of control, which put the system objectives at risk and leaves the system open to significant error or abuse.






2017/18 Audit Plan Work Finalised in 2018/19

TITLE	STATUS	Level of Assurance	Summary
<b>Budgetary Control</b>	<b>Final Report Issued October 2018</b>	<b>Substantial</b> 	Substantial assurance has been given on the basis that good controls are in place to ensure that budgets are set, monitored and controlled effectively. However, controls surrounding the appointing and training of Responsible Spending Officers need to be strengthened to ensure that they have the understanding, knowledge and skills to facilitate effective financial management and are fully conversant with their roles and responsibilities. Actions have been agreed to address this.
<b>Main Accounting</b>	<b>Final Report Issued July 2018</b>	<b>Substantial</b> 	Substantial assurance has been given on the basis that arrangements for ensuring the accurate, authorised and efficient recording of financial transactions in the general ledger are robust, with only minor issues identified for improvement.
<b>Salt Ayre Leisure Centre</b>	<b>Final Report Issued April 2018</b>	<b>Substantial</b> 	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, however the majority of these were addressed during the course of the audit, staff being keen to make improvements necessary. Actions have been agreed to address the small number of issues which remain outstanding, all of which are planned for implementation by the end of the financial year.
<b>Housing Benefit E-Claim</b>	<b>Final Report Issued May 2018</b>	<b>Substantial</b> 	Substantial assurance has been awarded on the basis that the processes surrounding the online housing benefit e-claim form are sufficiently robust and the module is fit for purpose.
<b>Procurement and Contract Management Arrangements</b>	<b>Final Report Issued September 2018</b>	<b>Limited</b> 	Limited assurance has been given on the basis that there are a number of significant control weaknesses that need to be addressed. Procurement and contract management arrangements require improvement with a view to ensuring that the council maximises savings and quality of service, while ensuring that all parties involved in the contract fully understand their obligations and responsibilities and fulfil them as efficiently and effectively as possible.






			A further follow-up review is therefore to be carried out in June 2019.
<b>Performance Management</b>	<b>Final Report Issued May 2018</b>	<b>Limited</b> 	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 some recent revisions to its key elements. Consistent quarterly reporting has now been introduced, but 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.  A further follow-up review has now been completed. See below.
<b>Learning and Development</b>	<b>Final Report Issued May 2018</b>	<b>Limited</b> 	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.  A further follow-up review is therefore to be carried out in July 2019.
<b>2018/19 Audit Plan Work</b>			
<b>TITLE</b>	<b>STATUS</b>	<b>Level of Assurance</b>	<b>Summary</b>
<b>Treasury Management</b>	<b>Final Report Issued December 2018</b>	<b>Substantial</b> 	Substantial assurance has been provided on the basis that the council's arrangements for ensuring compliance with CIPFA principles and recommendations on Treasury Management are robust, and associated risks are well managed.

<b>Disabled Facilities Grant</b>	<b>Final Report Issued May 2018</b>	<b>Substantial</b> ✓	Substantial assurance has been given as robust arrangements and processes are in place for administering grants in accordance with legislation. Effective arrangements are also in place to maximise increased funding allocations.
<b>Pre-Employment Checks</b>	<b>Draft Report Issued</b>	<b>Substantial</b> ✓	This piece of work was carried out by Fylde Council. Their work established that the controls in place in relation to the pre-employment checks are generally operating effectively and that the 1 <sup>st</sup> line of defence is reliable. Members of the HR Team are knowledgeable and experienced, and have developed a comprehensive recruitment policy, procedures and guidance for managers to follow. There are a couple of minor improvements which should be considered and for this reason, a substantial assurance rating has been awarded.
<b>Election Accounts</b>	<b>Final Report Issued September 2018</b>	<b>Substantial</b> ✓	Substantial assurance has been given on the basis that good controls were in place in relation to the financial administration of both the County Council and the Parliamentary elections that took place in 2017.
<b>Council House – Gas Safety</b>	<b>Final Report Issued October 2018</b>	<b>Substantial</b> ✓	Substantial assurance has been given on the basis that good arrangements are in place to ensure the council, as a landlord, complies with the requirements of the Gas Safety Regulations. An effective gas safety maintenance programme has been developed, and arrangements for ensuring gas safety checks take place are robust. There is scope to further strengthen arrangements in relation to record keeping, and there is potential to improve the efficiency of current procedures through the use of a more automated system. Actions have been agreed to address these issues.
<b>Council Tax Lancaster</b>	<b>Final Report Issued March 2019</b>	<b>Substantial</b> ✓	Substantial assurance has been given on the basis that the Authority has good systems and processes in place to ensure that council tax transactions are appropriate, correct and effectively managed. There is scope to strengthen arrangements further in relation to evidencing the checks carried out when determining liability, discounts and exemptions and controls surrounding the suspense account. Actions have been agreed to address these issues.
<b>Housing Benefit Lancaster</b>	<b>Final Report Issued August 2018</b>	<b>Substantial</b> ✓	Substantial assurance has been given on the basis that manual payments made between 16/07/18 and 03/08/18 have been calculated and administered in accordance with guidance provided.

<b>Creditors</b>	<b>Final Report Issued May 2019</b>	<b>Limited</b> 	Limited assurance has been given on the basis that there are some significant control issues that have been identified that need to be resolved to ensure that creditor transactions are appropriate, correct and effectively managed. An action plan addressing all concerns raised has been produced and is to be delivered as part of the ongoing 'purchase to pay' lean process review currently being carried out in partnership with consultants - Ad Esse.  A further follow-up review is therefore to be carried out in August 2019.
<b>Payroll</b>	<b>Draft Report Issued</b>	<b>Limited</b> 	Limited assurance has been given on the basis that there are a number of significant control weaknesses that need to be addressed. Actions are in the process of being agreed which when implemented will address all concerns raised.  A further follow-up review is therefore to be carried out in Oct/Nov 2019.
<b>Council Housing – Asbestos Management</b>	<b>Final Report Issued May 2019</b>	<b>Moderate</b> 	This piece of work was carried out by Fylde Council. Their work established that the controls in place in relation to asbestos management are generally operating effectively and that the 1st line of defence is reliable. Staff in the Repairs and Maintenance Section are knowledgeable, experienced and well trained in managing the risk of asbestos, and have developed comprehensive asbestos policy, procedures and guidance for both managers and staff to follow. The review highlighted some areas for improvement and for this reason, a Moderate assurance rating has been awarded.  A further follow-up review is therefore to be carried out in August 2019.
<b>White Lund Nursery Income Management</b>	<b>Final Report Issued July 2018</b>	<b>Limited</b> 	Limited assurance has been given on the basis that the lack of clear policies and procedures, roles and responsibilities and appropriate training for staff working at the Nursery, leave the council vulnerable to inappropriate/unauthorised transactions taking place and/or theft of income.  A further follow-up review has now been completed. See below.
<b>Dog Seizure and Kennelling Service</b>	<b>Final Report Issued November 2018</b>	<b>Limited</b> 	Limited assurance has been given on the basis that there are a number of significant control weaknesses that need to be addressed. Policies and procedures covering dog seizure and kennelling arrangements need to be

			fully reviewed with a view to ensuring that arrangements are clear, open and transparent and can be consistently applied. A number of actions have therefore been agreed which when implemented will address all concerns identified during the course of the review. A further follow-up review is therefore to be carried out in June 2019.
<b>Insurance</b>	<b>Fieldwork in Progress</b>	<b>Unknown</b>	A report will be published in July 2019
<b>VAT</b>	<b>Fieldwork in Progress</b>	<b>Unknown</b>	A report will be published in July 2019

<b>Follow-up work completed in 2018/19</b>			
<b>TITLE</b>	<b>STATUS</b>	<b>Level of Assurance</b>	<b>Summary</b>
<b>White Lund Nursery</b>	<b>Final Report Issued March 2019</b>	<b>Limited</b> 	Whilst the majority of agreed actions have been implemented effectively and considerable work has been completed to introduce training manuals and strengthen procedures and processes, there are still a number of issues surrounding the consistency of their application, and for that reason a limited assurance opinion has been provided.  A further follow-up review is therefore to be carried out in July 2019.
<b>Asset Management</b>	<b>Final Report Issued December 2018</b>	<b>Limited</b> 	Whilst there has been good progress with implementation of the agreed action plan, a number of key actions are still in the process of being implemented. Therefore, the level of assurance which can be provided at present remains at limited. Revised target implementation dates have been agreed to take into account work in progress, which once complete should result in substantial assurance being provided.  A further follow-up review is therefore to be carried out in July 2019.

<b>Performance Management</b>	<b>Final Report Issued December 2018</b>	<b>Limited</b> 	<p>Whilst there has been good progress with implementation of the agreed action plan, a number of key actions are still in the process of being implemented, or have yet to be addressed. Therefore, it is Internal Audit's view that the level of assurance which can be provided at present remains at limited.</p> <p>A further follow-up review is therefore to be carried out in July 2019.</p>
<b>Other work completed in 2018/19</b>			
<b>TITLE</b>	<b>STATUS</b>	<b>Level of Assurance</b>	<b>Summary</b>
<b>Canal Quarter – Health Check</b>	<b>No Report Issued</b>	<b>N/A</b>	Internal Audit attended a number of officer group meetings in a project assurance role. Regular health checks will continue once the project is underway.
<b>Pest Control</b>	<b>Position Statement Issued</b>	<b>N/A</b>	Whilst Pest Control was identified as a piece of work to be completed in the 2018/19 Audit Plan, the service had recently undergone an external assessment which had provided adequate assurances and therefore an audit was not considered necessary.
<b>Council Housing Voids</b>	<b>Position Statement Issued</b>	<b>N/A</b>	The Council commissioned an external body to carry out an extensive lean system review. A comprehensive action plan was produced and Internal Audit will monitor the implementation of the actions periodically.
<b>Ethical Governance Survey</b>	<b>No Report Issued</b>	<b>N/A</b>	An ethical governance survey has recently been completed by the Internal Audit Team to test staff knowledge and understanding of the Council's key counter fraud policies. An action plan of the findings and any subsequent actions required to address any gaps in knowledge and understanding will be published in July 2019.

**Other audit work undertaken:**

**Investigations**

There have been no internal investigations carried out by Internal Audit or the Corporate Enquiry Team during 2018/19.

**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. 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**

The Council's Information Governance (IG) Team continue to work on compliance with the General Data Protection Regulations which came into force on the 25 May 2018. Whilst a considerable amount of work has been completed, the team are still working through the comprehensive action plan and the Information Governance Manager has highlighted that there is still a lot of work to be completed to ensure the Council is GDPR compliant.

This year, the IG Team have had to respond to Council Departments numerous requests for assistance with essential project work. This has taken resource away from the IG action plan. In addition, the team have had to dedicate a significant amount of resource on management of the Council's FOI Requests as the Council has seen a 20% increase in FOI requests from 2017/18 to 2018/19.

**Counter Fraud and Corruption Policies**

The Council has a number of counter fraud polices in place across the organisation, namely; Raising Concerns at Work, Gifts, Hospitality and Registering Interests Policy, Anti-Money Laundering, Corporate Prosecution Policy. Whilst some of these polices are managed and reviewed by the Internal Audit Team and the Corporate Enquiry Team, and are therefore subjected to regular review and approval by the Audit Committee, a number of the council's counter-fraud polices sit with other services, e.g. Human Resources and Democratic Services and therefore may not be subject to regular review.

Given the Audit Committee have delegated responsibility for ensuring adequate counter fraud arrangements are in place throughout the organisation, and Internal Audit is an independent, objective body, it is in my opinion that all the council's counter fraud polices, should sit with either the Internal Audit Team or the Corporate Enquiry Team to ensure they are regularly updated, approved and rolled out to all staff. This has been highlighted as a weaknesses in the 'minor issues' action plan of the Annual Governance Statement for 2018/19.

### **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 May 2019 (and is attached later in this agenda) using the 'Public Sector Internal Audit Standards' and 'Local Government Guidance Note' issued by CIPFA. Although overall compliance has been achieved, one minor observation has been made and this will be addressed immediately. In addition, there are a number of 'partial' completed actions in relation to risk management. Actions in relation to risk will be documented in more detail in the Annual Governance Statement minor issues action plan and will be subsequently monitored by the Executive Team and Internal Audit.

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 (peer review), 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 in March 2018. The peer review team (Allerdale Borough Council and Burnley Borough Council) concluded that the Internal Audit Team are fully compliant with the PSIAS. The report was presented to the Audit Committee in May 2018. Only four minor areas were identified, all of which have been considered and implemented where appropriate.

### **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 following the external validation in March 2018 and the self-assessment in May 2019, there are no deviations to report in the 2018/19 Annual Governance Statement.

**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 which contribute to the overall audit opinion. 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.



<b>Assurance Level</b>	<b>Number of Audits</b>
Maximum	0
Substantial	11
Limited / Moderate	11
Minimal / None	0
Draft	2
Fieldwork	2
No report Issued / Position statement	4
Rolled to 2019/20 Audit Plan	6
<b>Total</b>	<b>36</b>

### **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. A number of audits have been given an overall assurance of 'limited'. However, follow-up reviews have been timetabled to ensure that agreed recommendations have been implemented.

It should be noted that at the time of publishing this audit opinion, two audit reviews (VAT and Insurance) had yet to be finalised. 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.

### **Risk Management**

Work is currently underway to strengthen the Council's risk management processes across the organisation. Whilst the Risk Management Policy and Strategy has not been refreshed or approved by the Audit Committee since 2014, there are some good examples across the organisation, where it can be demonstrated that the Council has applied robust risk management processes into their decision making. In addition, the Executive Team have also recently drafted a Strategic risk register which was presented to the Audit Committee Team in February 2019. Recognising that there is still a considerable amount of work to ensure risk management is thoroughly embedded across the organisation, the Internal Audit and Assurance Manager will work with the Corporate Director over the next 12 months to identify a number of key activities which will be documented and monitored through the Corporate Services plan. It is also recommended that risk management is reported in the Annual Governance Statement as an area of significant concern.

**AUDIT COMMITTEE****Annual Governance Statement 2018/19****12 June 2019****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 2019 following a review of the Council's governance arrangements.

**This report is public**

**RECOMMENDATIONS**

**(1) That the Annual Governance Statement (AGS) for 2018/19 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 In 2016, The Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) 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 was in the process of reviewing its own local Code of Governance to reflect the contents of the 2016 Framework. Following the recent senior management restructure it has been agreed that the Annual Governance statement will continue to be formulated by the Head of Internal Audit and Assurance with assistance from a number of key officers across the organisation.
- 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 number of meetings 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 meetings with key officers, assurance mapping statements from service managers and a further evaluation of the draft AGS at the Executive Team, 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 issue (risk management) 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:**

None arising directly from this report.

**SECTION 151 OFFICER'S COMMENTS**

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

**LEGAL IMPLICATIONS**

The Acting 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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**E-mail:** jbillington@lancaster.gov.uk  
**Ref:**

# Annual Governance Statement

## 2018/19

### 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;

#### The Council, Cabinet and Leader

- Provide leadership, develop and set policy
- Develop and set policy to maintain the Council's standing
- Support the Council'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 Council's Section 151 Officer is responsible for safeguarding the Council's financial position and ensuring value for money
- The Acting 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

- The Overview and Scrutiny Committee reviews Council policy and can challenge decisions
- The Budget and Performance panel reviews operational and financial performance
- The 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 (however it is noted that this needs reviewing to ensure reflects the 2016 Framework);
- 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 2018/19.

### **PRINCIPLE A**

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

- A Code of Conduct for both members and staff is in place
- A values and behaviours framework was launched in 2018
- Members values and behaviours are encompassed in the members Code of Conduct
- A register of interests policy is in place for both staff and members
- Council meeting minutes show any declarations made
- A gifts and hospitality policy and register is in place for both staff and Members
- There is an effective standards committee in place
- Effective counter fraud policies are in place
- The Council has a 'Raising Concerns' Policy in place
- Annual Performance Appraisals take place and all staff have attended the launch of the new values and behaviours
- A robust complaints procedure is in place
- An ethical governance survey was completed in 2018
- Guidance procedures for external funding and accountable bodies are documented within the Financial Regulations
- The Council's 'Statement of Business Ethics' communicates commitment to ethical values to external suppliers
- The Council has a Procurement Policy in place
- There are effective policies and procedures in place for dealing with unacceptable behaviours for both officers and Members

- All allegations concerning breaches of the code of conduct by members are investigated by the Monitoring Officer
- Staff appointments are made taking into account the Council's values and behaviours
- The Council has an agreed overview and scrutiny work programme
- The Council complies with CIPFA's Role of the Chief Financial Officer and the role of the Head of Audit in Local Government
- The Constitution includes terms of references, defines decision making powers and describes roles and functions
- Up-to-date job descriptions are in place for key roles; i.e. Chief Executive, Section 151 officer and the Monitoring Officer
- Training is provided for regulatory committees on a regular basis.
- Legal and financial advice is given in advance of decision making
- Compliance to specific legislation, law or guidance is documented in decision making documents
- Limits of lawful activity are recognised by the ultra vires doctrine

### **PRINCIPLE B**

#### **Ensuring openness and comprehensive stakeholder engagement**

- The Council Plan is published to all staff, elected members, partners and the community
- An annual 'Narrative Report' is published and accompanies the Statement of Accounts
- The Section 151 publishes annual accounts within statutory deadlines to the community to report on the organisations activities, achievements and its financial position and performance
- The Council is compliant with the Local Government Transparency Code 2015
- An Overview and Scrutiny and Budget and Performance Panel report is published annually
- The Council publishes all key decisions on its website
- A Freedom of Information publication scheme is in place
- Standardised report pro-formas for decision making are in place and a published timetable of reporting deadlines for committees is published on-line
- The Council is committed to ensuring that appropriate consultation and engagement takes place e.g. regular consultation forums took place as part of the Salt Ayre re-development project
- The Council publishes all current and closed consultations on its website
- Customer feedback forms are in place at Salt-Ayre Leisure Centre
- The Council has a Consultation Strategy 2018 – 2022 and an annual consultation plan
- Key partnerships are reviewed as and when required through the audit plan
- Internal Audit are invited to sit on project working groups to ensure key risks are identified and mitigated where possible

- The Council has a number of communication guidance documents in place e.g. the Intranet Policy and the Plain English and Style Guide
- The Council complies with publication dates for reports and the 'forward plan'
- A up-to-date stakeholder database is in place
- Robust arrangements are in place for both the shared service arrangements with Revenue and Benefits and the Corporate Enquiry Team
- An annual stakeholder event was held to consult on the Council's 'Ambitions' as set out in the Corporate Plan
- An annual special stakeholder meeting was held with the Budget and Performance Panel
- A consultative forum was held for all public services in relation to the Council budget
- The Council's vision, strategic plans, priorities and targets are developed in consultations with the local community and other key stakeholders
- The Council has an on-going resident's survey to monitor satisfaction in the local area and the Website includes a 'have your say section'.
- The Council has recently carried out a Council Tax Support consultation with members of the public

### **PRINCIPLE C**

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

- The Council Plan 2018-22 was approved by Full Council in July 2018 and contains a clear statement of the council's vision
- Corporate key performance indicators are reported quarterly to Cabinet and the Budget and Performance Panel
- A 'Narrative Report' is published within the Statement of Accounts to reflect the Council's key achievements
- There are effective arrangements in place to deal with failure in service delivery via the Council's corporate complaints procedure
- The Medium Term Financial Plan, Revenues Estimates and Capital Programme are designed to deliver the strategic priorities
- The Council has a capital programme of works
- The Council has an approved Capital Investment Strategy
- Individual capital projects are equality impact assessed
- All key decisions are required to consider fair access to services
- The Council has produced a Local Plan which is currently being examined by the Planning Inspectorate
- Procedures are in place to address conflicting interests e.g. the call-in procedure



## **PRINCIPLE D**

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

- Effective mechanisms are in place for documenting evidence for decisions and recording the criteria, rational and consideration on which decisions are based
- Limits of lawful activity are recognised by the ultra vires doctrine and managers strive to use their powers under the council's scheme of delegation to the full benefit of the community
- Proper, professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making
- Member and Officer briefings have taken place for more complex areas of decision making e.g. Canal Quarter, Eden Project and the Local Plan
- The Council's Plan and Ambitions document is refreshed annually and reviewed by the Council's Executive Team
- The Council considers public surveys, demographic information and public health reports when developing the Council Plan
- The MTFs, Revenue Estimates and Capital Programme are soundly configured to meet the requirements of the Council Plan and Ambitions document and are published annually. They are key documents for forecasting budget requirements and planning ahead
- The MTFs sets out the framework for corporately managing the Council's resources in the years ahead and an efficiency programme compliments the MTFs ensuring sustainability going forward
- Corporate Key Performance Indicators are in place and are reported quarterly to Cabinet and the Budget and Performance Panel
- A 'Narrative Report' is published within the Statement of Accounts to reflect the Council's key achievements
- The Statement of Accounts which include the Annual Governance Statement is reported to the Audit Committee
- Budgeting guidance and protocols are in place and reviewed annually by the Audit Committee
- Both Capital and Revenue bids considered 'social value'

## **PRINCIPLE E**

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

- The Council is member of APSE and regularly benchmarks a number of Council services e.g. Street Cleansing, Council Housing, Internal Audit, Waste Management, Pest Control and Salt Ayre
- The Council has received both blue and green flag status for its clean beaches and parks and open spaces

- The Council has been successful in securing numerous Local Government achievement awards during 2018/19 in relation to effective service delivery e.g. Pest Control Team of the year and Service of the Year and Rising Star
- Member's allowances were reviewed by the Independent Remuneration Panel during 2018/19 with a full review being carried out every four years prior to elections
- The Chief Executive and Section 151 Officer regular attend Lancashire Leaders and Lancashire Chief Finance Officer meetings
- The Chief Executive is responsible and accountable to the Authority for all aspects of operational management and has regular appraisals with the Leader
- The Section 151 Officer is responsible to the Authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control
- There is an established pay and grading structure for employees referred to as the Job Evaluation system and a process for appeals
- There is a clearly defined management structure and a scheme of delegation to officers, which is underpinned by the Members' Code of Conduct and a Protocol for Officer and Member relations
- Financial Regulations and Financial Procedure Rules are reviewed annually by the Audit Committee
- All new members receive a full corporate induction and have personal development plans in place
- A Landlord Forum and a Council Housing Tenants forums are in place to encourage public participation
- The Authority ensures that statutory officers have the skills, resources and support necessary to effectively perform their roles
- An induction programme is provided for all new staff and Members
- All staff have attended mandatory 'Our Values training' to ensure the Council delivers top quality services
- Human Resources Business Partners work with Service Managers to ensure adequate succession planning takes place
- There is an established pay and grading structure in place for employees
- Approximately 85% of staff have had an annual performance appraisal which is linked to corporate and service priorities
- Internal Audit will regularly ensure implemented Human Resources policies are working as intended
- The Council has a number of policies and incentives to support the Health and Wellbeing agenda e.g. Agile Working, Absence Management, discounted gym membership and the Cycle to Work Scheme.

**PRINCIPLE F****Managing risks and performance through robust internal control and strong financial management**

- The Council has a risk management policy in place which was approved by the Audit Committee in 2015. In addition, the Council has recently drafted a Strategic risk register which was presented to the Audit Committee in February 2019
- Information asset registers and privacy notices are now in place and reviewed by Internal Audit as part of individual service reviews
- The Council has an Overview and Scrutiny Committee and a Budget and Performance Panel which have been set clear roles and responsibilities
- Agreed Key Performance Indicators are reported quarterly to Cabinet and the Budget and Performance Panel and a 'Narrative Report' is published within the Statement of Accounts
- There are effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based
- There is a calendar of dates for submitting, publishing and distributing timely reports to the Council's committees
- An effective Internal Audit Service is resourced and maintained and all Audit reviews are conducted under the Auditing Practices Board Guidelines and in line with Public Sector Internal Audit Standards (PSIAS)
- In accordance with the Accounts and Audit Regulations 2015, an annual assessment of the Council's systems of internal audit is carried out each year using the PSIAS and the checklist provided in the Local Government Application Note published by CIPFA. A recent PSIAS peer review resulted in a full compliance opinion being given
- The Head of Internal Audit and Assurance has developed a Quality Assurance Improvement Programme to ensure the continual improvement of the Internal Audit Service
- An Audit Committee is in place, which is independent of the Executive and the Overview and Scrutiny function
- The Head of Internal Audit and Assurance is a certified and chartered auditor (CIA, CMIIA) and also holds a Qualification in Internal Audit Leadership (QIAL)
- The implementation of internal audit report recommendations is monitored by the Head of Internal Audit and Assurance and the Audit Committee
- The Council has a number of counter-fraud policies in place which assist against fighting fraud and corruption
- The Council has a Money Laundering Policy in place which is reviewed by the Audit Committee
- The Council's Annual Governance Statement is prepared in compliance with CIPFA's 'delivering good governance in Local Government

- The Council uses an on-line e-learning portal to promote the General Data Protection Regulations (GDPR) and information security and is mandatory for all new starters
- The Council has a designated Data Protection Officer and an up-to-date Data Protection Policy in place. The Council continues to work towards ensuring it is fully compliant with GDPR
- Secure arrangements are in place for the transfer of sensitive data (SFTP and encryption tools available within Office 365)
- The Council has both a records management policy and a confidential waste policy in place
- Key performance data is reviewed for accuracy by Internal Audit as part of individual service reviews
- The Revenue and Benefit software has been upgraded to re-inforce GDPR principles and automate a deletion process
- Those making decisions are provided with information that is fit for purpose, relevant, timely and gives clear explanations of technical and financial issues and their implications
- Budget monitoring reports are issued to budget holders on a regular basis
- Financial Regulations and Financial Procedures Rules are regularly reviewed and any changes are presented to the Audit Committee for approval
- Registers of interests are maintained for both officers and elected Members
- The External Auditors issued an unqualified value for money conclusion for the 2018/19 financial year

### **PRINCIPLE G**

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

- The Council is compliant with the Local Government Transparency Code 2015
- A 'Narrative Report' is published within the Statement of Accounts to reflect the Council's key achievements
- The Council's website is accurate and user friendly
- The Council has an on-line Planning Application Policy
- Annual presentations are delivered for elected Members concerning the Council's finances as part of the production of the Revenue Estimates, the Capital Programme and the update of the MTFS
- The Council publishes a Funding the Future Strategy
- The Annual Governance Statement is collated by Internal Audit and is supported by relevant officers. An action plan is monitored by the Executive Team and the Audit Committee
- Executive update reports are prepared annually and the Leader of the Council presents a report to every meeting of the Full Council
- An effective internal audit function is resourced and maintained enabling them to deliver an annual internal audit opinion

- The Council ensures that all audit recommendations are subject to a follow-up audit ensuring that recommendations are acted upon
- The Council complies with both the Public Sector Internal Audit Standards and CIPFA's Statement on the role of the Head of Audit (2010)
- In accordance with the Audit and Account Regulations 2015, an annual assessment of the effectiveness of the internal audit function is completed annually
- The Audit Committee work programme provides the opportunity for the Head of Internal Audit and Assurance to have a private and confidential discussion with the Audit Committee Members
- The council has a RIPA Policy in place and officers who use social media to carry out surveillance have received relevant training
- Key partnerships are periodically reviewed through the Internal Audit Plan
- Arrangements for accountability when working with suppliers and partners are documented within the Procurement Strategy

### **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 2018/19 Internal Audit Annual Report stated that the council has in place satisfactory controls to be able to maintain an adequate and effective internal control environment. The report did however make reference to the concerns around risk management and that significant work was still required to ensure risk management was embedded into working practices across the organisation.

##### External Audit Assurance

The Council's external auditor 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 by KPMG in July 2018, the auditor issued an unqualified opinion on the Council's financial statements for 2017/18 and reported that the Council's Annual Governance Statement complied with the guidance issued by CIPFA/SOLACE ('Delivering Good Governance in Local Government') published in April 2016. They 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 priority recommendations as a result of their 2017/18 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 2018/19 is set out in the table below;

<b>Indicator</b>	<b>Performance in 2018/19</b>
Formal reports issued by the Section 151 Officer or Monitoring Officer	No formal reports have been issued by the Section 151 Officer or the Monitoring Officer.
Number of data incidents reported to the Data Protection Officer (DPO)	41 incidents were reported to the DPO in 2018/19
Number of Data Breaches reported to the Information Commissioner's Office (ICO)	Of the 41 incidents reported to the DPA, only 2 were reported to the ICO
Outcomes from Standards Committee or Monitoring Officer investigations	5 breaches of the code of conduct were reported to the Standards Committee in 2018/19
Proven frauds carried out by councillors or members of staff	There has been no proven frauds carried out by councillors or members in 2018/19
Objections received from local electors	There have been no objections to registrations received from local electors in 2018/19
Local Government Ombudsman (LGO) referrals upheld	No referrals have been upheld by the LGO or the Housing Ombudsman in 2018/19

## **4.0 CONCLUSION AND SIGNIFICANT GOVERNANCE ISSUES**

- 4.1 Following the Annual Governance meetings it was identified that reasonable progress has been made during 2018/19 in relation to areas that were raised in the 2017/18 Annual Governance Statement (AGS), namely; Business Planning, Performance Management, Information Governance, Staffing Capacity and the Council's Constitution and that any further work and actions will be monitored through the 'minor governance issues' reporting framework documented at paragraph 5.1.
- 4.2 In relation to risk management, there are a number of good examples across the organisation where it can be demonstrated that robust risk management has been applied to its decision making processes. In addition, The Executive Team have also drafted a Strategic Risks Register which has been presented to the Audit Committee. However, it is still felt that more work is required, to ensure risk management is embedded throughout the organisation. The Internal Audit and Assurance Manager will work with the Corporate Director to identify a number of key activities which will be documented and monitored through the Corporate Services plan.

- 4.3 In addition, areas of concern were raised during 2017/18 surrounding the Council's decision making arrangements which lead to a member resolution being made to ensure that Section 151 and Monitoring Officer advice is sought at the appropriate time in all future decision making. Discussions with both the Section 151 Officer and the Monitoring Officer have confirmed that they no longer have any major concerns in this area.

## **5.0 MINOR GOVERNANCE ISSUES**

- 5.1 A number of minor governance issues were identified following the Annual Governance meetings with key officers. These have been documented in an action plan which will be monitored by Internal Audit and reported to the Executive Team on a quarterly basis and the Audit Committee as part of the six monthly progress report.

## **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 number of meetings are 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 these meetings, 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 2019 is satisfactory.

---

**Councillor Erica Lewis**

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 2019 is satisfactory.

---

**Kieran Keane**

Chief Executive of Lancaster City Council



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5 April 2019

Mr Daniel Bates  
Lancaster City Council  
Interim Head of Financial Services  
Lancaster City Council  
Town Hall  
Dalton Square  
Lancaster  
LA1 1PJ

Dear Mr Bates

## **Fee for the audit of the accounts of Lancaster City Council for the year ending 31 March 2020**

We are writing to set out our fee for the audit of the accounts of Lancaster City Council for the year ending 31 March 2020.

### **Proposed fee for the audit**

The scale fee for the audit published by Public Sector Audit Appointments Limited (PSAA) in respect of the year ending 31 March 2020 is £44,959. This compares to the published fee scale for 2018/19 of £44,959.

We do not propose any variations to the scale fee.

### **Work programme**

Our audit work will be undertaken under the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

The Code sets the overall scope of the audit, requiring the auditor to give an opinion on the financial statements of a principal body subject to audit under the 2014 Act, and a conclusion on the arrangements for value for money.

The audited body is responsible for putting in place appropriate arrangements to support the proper conduct of public business, and for ensuring that public money is safeguarded, properly accounted for and used with due regard to value for money.

The Code requires that the auditor's work should be risk-based and proportionate. We tailor our work to reflect local circumstances and their assessment of audit risk. We do this by assessing the significant financial and operational risks facing an audited body, and evaluating the arrangements it has put in place to manage those risks.

This is the second year of our appointment. Based on our work to date on the 2018/19 audit, we have not identified planned pieces of risk-based value for money work.

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Once we have completed our detailed planning and risk assessment procedures, we will present our initial audit plan to those charged with governance and provide an explanation for any variances to the published scale rate set out in this letter and following the approval process described below.

**Assumptions on which the fee is based**

The 2019/20 scale fee and our proposed fee is based on the following assumptions:

- there are no significant changes (compared to that applying to 2018/19 and reflected in the published fee scale for that year) in NAO guidance for auditors, professional standards, or CIPFA/LASAAC financial reporting requirements that would affect materially the amount of audit work to be undertaken for our 2019/20 audit;
- the authority is able to provide us with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes; and
- audit risk and complexity are similar to the level identified and reflected in the scale fee for 2019/20, including that: the authority maintains a strong control environment; and our detailed risk assessment work does not identify the need to undertake pieces of risk-based value for money work.

The proposed fee does not include fees for considering objections or any special investigations, such as those arising from disclosures under the Public Interest Disclosure Act 1998. These will be charged as a variation to the scale fee using the procedure described below.

From 2018/19, certification work is no longer covered by PSAA's audit contract and is therefore not within the scope of this letter. Where such work is requested, a separate tripartite engagement between the relevant department, the audited body and a reporting accountant is needed.

The fees exclude value added tax (VAT), which will be charged at the prevailing rate of 20 per cent on all work done.

**Variations to the proposed fee**

Where it becomes clear that the amount of work required is significantly different to that which would be expected based on these assumptions (and reflected in the above fees), we will request a variation to the proposed fee.

We will first discuss the reasons for the additional fee with you and then submit a request to PSAA for a variation in the fee. PSAA has the power to determine the audit fee payable, which may vary from the prescribed scale fee, where it concludes that substantially more or less audit work was required than envisaged by the scale fee.

We look forward to working with the authority over the coming years.

Yours sincerely



**Deloitte LLP**

**AUDIT COMMITTEE****Counter Fraud Annual Report 2018/19****12 June 2019****Report of the Corporate Fraud Manager****PURPOSE OF REPORT**

To inform the Committee of the extent and outcome of counter fraud work during the 2018/19 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 1<sup>st</sup> 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 2018/19 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 1<sup>st</sup> 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 (1.0 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
- 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 & Customs, Police and Immigration when appropriate. The team has signed up to joint working with the DWP on cases involving Council Tax Support and national benefits. The project commenced on 29<sup>th</sup> April 2019.

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, participating in Operation GENGA, a multi agency project to help tackle serious and organised crime. This demonstrates our commitment to tackle fraud on a larger scale and other related crimes in partnership with external agencies

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

2.8 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;
- Providing best practice examples of process, forms and procedures.

2.9 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	2018/19	£110,000	£156,687.11

Financial Source	Overpayments	Weekly Savings
Council Tax Support	£14,792.80	£438.57
Housing Benefit	£38,881.97	£1,463.81
Council Tax	£37,812.00	£1,017.37
Business Rates	£65,200.34	£560.08
<b>Totals</b>	£156,687.11	£3,479.83 (X52 = £180,951.16)

- 2.10 From 1<sup>st</sup> April 2018 to 31<sup>st</sup> March 2019 the Corporate Enquiry Team identified overpayments of £156,687.11.
- 2.11 From 1<sup>st</sup> 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 £3,479.83, multiplied by 52 gives total “future” savings for 2017/18 of £180,951.16.
- 2.12 The Corporate Enquiry Team has participated in the annual National Fraud Initiative (NFI) 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. In February 2019 the team commenced work on the biennial NFI exercise, including other datasets such as benefits, payroll, pension, student loan and licencing.
- 2.13 The team now review 100% of all “right to buy” applications for Council Housing properties made to the Council.
- 2.14 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.
- 2.15 Surveillance is only authorised in appropriate cases where considered necessary and proportionate, in line with the Regulation of Investigatory Powers Act (RIPA). No surveillance took place during 2018/19. From 10<sup>th</sup> June 2019 the legislation governing surveillance changes to the Investigatory Powers Act (IPA).
- 2.16 The team undertook a pro-active drive relating to false claims for Small Business Rate Relief (SBRR). This involved working with a Preston based company, Destin Solutions, to use open

source data to identify false claims for relief, where the business also occupied undeclared premises elsewhere. These drives contributed to an increase in Business Rates overpayments from £1,722.23 in 2017/18 to £65,200.34 in 2018/19. The CET is now recognised nationally as being at the forefront of business rates fraud investigation and was highly commended for this work in the “Prevent” category of the Fighting Fraud and Corruption Locally Awards in March 2019. The team also successfully prosecuted a Lancaster Business Rates fraud case, which is believed to have been only the second Business Rates fraud prosecution undertaken in the country.

- 2.17 A new fraud case management system was introduced in June 2018, resulting in lower costs in this area of approximately £7,000 per year.

**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 None – the report is for noting.

<p><b>CONCLUSION OF IMPACT ASSESSMENT</b> (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><b>FINANCIAL IMPLICATIONS</b></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.</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 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><b>Contact Officer:</b> Andrew Taylor  <b>Telephone:</b> 01772 906013  <b>E-mail:</b> a.taylor@preston.gov.uk  <b>Ref:</b></p>