



LATE REPORTS, URGENT BUSINESS and SUPPLEMENTARY INFORMATION

Audit Committee

Wednesday, 23 September 2009

The following reports were received too late to be included on the main agenda for this meeting and were marked 'to follow'. They are now enclosed, as follows:

Agenda Item Number	Page	Title	Reason for Late Report	Officer Responsible For Late Report
9	1 - 30	STATEMENT OF ACCOUNTS 2008/09	Document received after Agenda publication	Report of Head of Financial Services



INFRASTRUCTURE, GOVERNMENT
AND HEALTHCARE

**Report to those
charged with
governance
2008/09**

Lancaster City Council

23 September 2009

AUDIT

Content

The contacts at KPMG in connection with this report are:

Kevin Wharton

Director
KPMG LLP (UK)

Tel: 0161 246 4281
Fax: 0161 838 4040
kevin.wharton@kpmg.co.uk

Jillian Burrows

Senior Manager
KPMG LLP (UK)

Tel: 0161 246 4705
Fax: 0161 838 4040
jillian.burrows@kpmg.co.uk

Heather Garrett

Assistant Manager
KPMG LLP (UK)

Tel: 0161 246 4294
Fax: 0161 838 4040
heather.garrett@kpmg.co.uk

Executive summary

Page

2

Use of resources

4

Financial statements

6

Appendices

9

1. Proposed use of resources conclusion
2. Use of resources key findings
3. Use of resources specific risk reviews
4. Use of resources criteria and link to VFM conclusion
5. Proposed audit report
6. Audit differences
7. Recommendations
8. Audit reports issued
9. Declaration of independence and objectivity
10. Draft management representations letter
11. Audit fee

This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Kevin Wharton, who is the engagement director to the Council, telephone 0161 246 4281, email kevin.wharton@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, email trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

Section one

Executive summary

Scope of this report

The Audit Commission's Code of Audit Practice (the Code) requires us to summarise the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified and we report to those charged with governance (in this case the Audit Committee) at the time they are considering the financial statements. We are also required to comply with International Standard on Auditing (ISA) 260 which sets out our responsibilities for communicating with those charged with governance.

This report meets both these requirements. It summarises the key issues identified during our audit of Lancaster City Council's ('the Council's') financial statements for the year ended 31 March 2009. In addition, this report summarises our assessment of the Council's arrangements to secure value for money in its use of resources.

This report does not repeat matters we have previously communicated to you. A summary of all reports we have issued in the year is set out in Appendix Eight. Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Summary of findings

Use of Resources

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and regularly reviewing their adequacy and effectiveness.

We are required to conclude whether the Council has adequate arrangements in place to ensure effective use of its resources. This assessment draws on the findings from the new use of resources assessment framework introduced by the Audit Commission and our preliminary findings from the review of the Council's value for money arrangements.

The new use of resources framework assesses local authorities against three themes: managing finances, governing the business and managing resources. The Council has been assessed overall as performing adequately against these themes.

We have identified issues around the workforce planning element of our assessment, resulting in a level one score being issued for this KLOE. In addition, the Council is facing a number of financial pressures which need careful consideration by members. The Council needs to strengthen its focus on areas of priority for the Council, ensuring that resources are clearly directed in line with strategic plans. We will be monitoring the financial standing of the Council over the coming year.

Based on this, we have concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources, except for arrangements in relation to workforce planning and management.

Our findings are detailed in Section two of this report and our proposed conclusion is set out in Appendix One.

Financial statements

The Council is responsible for having in place effective systems of internal control which ensure the regularity and lawfulness of transactions, to maintain proper accounting records and to prepare financial statements that present fairly its financial position and its expenditure and income. It is also responsible for preparing and publishing an Annual Statement of Governance with its financial statements.

There were no material changes to the Council's financial statements submitted for audit. There were, however, a small number of presentational changes made.

Our findings are detailed in section three and our proposed opinion on the accounts is presented in Appendix Five.

Status of the audit

At the date of this report our audit of the financial statements is complete and we should be in a position to sign the financial statement upon receipt of your signed management representation letter. A draft version of this letter is provided at Appendix 10.

Section one

Executive summary (continued)

Declaration of independence and objectivity

In relation to the audit of Lancaster City Council for the year ending 31 March 2009, we confirm that there were no relationships between KPMG LLP and Lancaster City Council, its directors and senior management and its affiliates that may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix Nine in accordance with ISA 260.

Exercise of other powers

We have a duty under section 8 of the Audit Commission Act 1998 to consider whether, in the public interest, to report on any matter that comes to our attention in order for it brought to the attention of the public. In addition we have a range of other powers under the 1988 Act.

We have received one request for a public interest report. Our work is currently ongoing in relation to this in order for us to be able to reach a conclusion as to whether such a report is required.

Certificate

We are required to certify that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice. If there are any circumstances under which we cannot issue a certificate, then we are required to report them to you and to issue a draft opinion on the financial statements.

As noted above our work into the issues surrounding the request for a public interest report are ongoing. This may lead to a delay issuing our certificate of completion of the audit

Fees

Our fee for the audit is £124,000 (excluding certification of claims and returns). This has been contained within the fee agreed with you in our audit plan.

We have not performed any non-audit work.

Acknowledgements

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

Section two

Use of resources

We are required to conclude whether the Council has adequate arrangements to ensure effective use of its resources. This assessment draws on the new use of resources assessment framework introduced by the Audit Commission and our review of the Council's value for money arrangements.

The new framework assesses local authorities against three themes: managing finances, governing the business and managing resources and the Council has, overall, been assessed as performing adequately against these themes

Based on this, we concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources, except for its arrangements in relation to workforce planning and management.

Introduction

In our *Annual Audit and Inspection Plan 2008/09* we outlined the work streams which we complete to assess the adequacy of your arrangements which ensure that your resources are deployed effectively. Our conclusion is based on these work streams, our cumulative audit knowledge and any specific local risk work, as detailed below.

The new use of resources assessment

The Audit Commission introduced a new assessment this year. This assesses how well organisations are delivering value for money and providing sustainable outcomes for local people. This new assessment forms part of the Comprehensive Area Assessment (CAA) framework. It defines use of resources in a broader way than previously, embracing the use of natural, physical and human resources. It also places a new emphasis on commissioning services for local people. This is wider than the previous assessment which focused on systems and processes. As a consequence it is not possible to make direct comparisons with the previous year's assessment.

The assessment is based on three Key Lines of Enquiry (KLOEs) themes which cover:

- **Managing finances** - focusing on sound and strategic financial management;
- **Governing the business** - focusing on strategic commissioning and good governance; and
- **Managing resources** - focusing on the effective management of natural resources, assets and people.

The scoring of the themes ranges from one (performing inadequately) to four (performing exceptionally).

Findings

We have assessed the Council as an overall score of level two which means the Council is performing adequately.

The table below shows our Use of Resources assessment across the three themes.

KLOE	Theme Score
1 – Managing finances	2
2 – Governing the business	2
3 – Managing resources	1

The scores have been quality checked by KPMG's national quality control processes, through a local area based challenge process and nationally by the Audit Commission to ensure consistency in scoring with other auditors and authorities.

Appendix Two sets out our overarching findings from the use of resources assessment.

Section two

Use of resources (continued)

Other work

If we identify specific risks at the Council which may impact on our value for money conclusion, we are required to perform additional work to meet our responsibilities under the Code.

Our initial risk assessment was included in our *Annual Audit and Inspection Plan 2008/09*.

We identified the following areas for further review:

- Value for money
- Pay structure

We are currently in the process of agreeing our findings and report in respect of the Value for Money review with management. This report will be presented to the Audit Committee in due course.

The Council's work in relation to its pay structure is still ongoing. The next stage for the Council is to approve a pay structure and to begin implementation.

Use of resources (value for money) conclusion

We are required to give an annual conclusion on the adequacy of the Council's arrangements to ensure effective use of its resources. This is the use of resources or value for money (VFM) conclusion

For 2008/09, the KLOEs for the scored use of resources assessment directly map to the criteria for the VFM conclusion. The Audit Commission has specified which of the KLOEs will form the relevant criteria for the VFM conclusion and these are summarised in Appendix Four.

Based on our use of resources assessment and relevant local risk work set out above, we conclude that the Council has appropriate arrangements in place to ensure the effective use of its resources, except for its arrangements in relation to workforce planning and management.

Our proposed conclusion is set out in Appendix One.

Section three

Financial statements

The Council is responsible for having effective systems of internal control to ensure the regularity and lawfulness of transactions, to maintain proper accounting records and to prepare financial statements that present fairly its financial position and its expenditure and income. It is also responsible for preparing and publishing an Annual Statement of Governance with its financial statements.

We have completed our work on the 2008/09 financial statements. The Council's financial statements and supporting working papers were to a high standard, as in the previous year.

We have identified no issues in the course of the audit that are considered to be material.

Subject to receipt of your management representations letter, we anticipate issuing an unqualified audit opinion by 30 September 2009.

We will also report that the wording of your Annual Statement of Governance accords with our understanding.

Introduction

Our financial statements work can be split into four phases:

Stage	Tasks	Timing	Completed
Planning	<ul style="list-style-type: none"> Updating our business understanding and risk assessment Assessing the organisational control environment Issuing our accounts audit protocol 	December 2008 to February 2009	✓
Control evaluation	<ul style="list-style-type: none"> Reviewing the accounts production process Evaluating and testing controls over key financial systems Review of internal audit 	March to April 2009	✓
Substantive testing	<ul style="list-style-type: none"> Planning and performing substantive work Evaluating the accounts production and audit process Concluding on critical accounting matters Identifying audit adjustments Reviewing the Annual Governance Statement 	July to August 2009	✓
Completion	<ul style="list-style-type: none"> Declaring our independence and objectivity Obtaining management representations Reporting matters of governance interest Forming our audit opinion 	September 2009	-

There were no issues arising from our planning and interim stages of the audit that we wish to draw to your attention.

This report focuses on the substantive testing and completion stages.

Section three

Financial statements (continued)**Substantive testing – accounts production and audit process**

As part of our use of resources assessment we assess the Council's process for preparing the accounts and its support for an efficient audit. We considered these against three criteria:

Element	Commentary
Completeness of draft accounts	We received a complete set of draft accounts on 30 June 2009. Only a small number of presentational adjustments have been made to the financial statements.
Quality of supporting working papers	Our Accounts Audit Protocol, which we issued on 9 March 2009 and discussed with the Accountancy Services Manager, set out our working paper requirements for the audit. The quality of working papers provided was to a high standard and met the requirements specified in our Accounts Audit Protocol. Working papers were clearly documented and easy to follow.
Response to audit queries	The Council's staff responded to our additional queries in a timely and effective manner. This helped us to complete our audit in line with the agreed timescales.

Substantive testing – critical accounting matters

There was one key issue arising that we were required to address during the course of our audit:

- The Council, like many other authorities, had been significantly affected by the collapse of the Icelandic Banks in 2008. The Council had £6 million invested across three of the affected banks. This issue resulted in two main impacts on our audit:
 - For the 2009 accounts the Council was required to make a provision for potential losses from these investments. Guidance has been provided by CIPFA to assist authorities in accounting for these provisions. We have reviewed the calculations produced by the Council and we are satisfied that the Council has performed its calculations in accordance with the guidance issued by CIPFA.
 - The Audit Commission also mandated audit work to be completed by local authority auditors in relation to the governance arrangements in relation to treasury management activities. We are required to report the results of this work to the Audit Commission early in October.

Substantive testing – adjustments to the accounts

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

We did not identify any material misstatements, nor did we identify any issues that have not been adjusted by management.

We identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2008: A Statement of Recommended Practice* ('SORP').

We have provided a summary of both the corrected and uncorrected audit differences in Appendix Six.

Section three

Financial statements (continued)**Substantive testing – Annual Governance Statement**

We have reviewed the Annual Governance Statement and confirmed that

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE in June 2007; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We suggested three minor wording changes to the draft Annual Governance Statement, which management have now reflected in a revised statement.

Completion – declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Lancaster City Council for the year ending 31 March 2009, we confirm that there were no relationships between KPMG LLP and Lancaster City Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix Nine in accordance with ISA 260.

Completion – management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have included a copy of a representation letter as Appendix 10. We have provided a draft to the Head of Financial Services. We require a signed copy of your management representations before we issue our audit opinion.

For 2008/09 we are seeking specific assurance that sufficient and appropriate consideration has been given to potential impairments of the assets included in the accounts in light of the current macro economic climate and that, where any such impairment has been identified, it is reflected accordingly in the accounts. This includes compliance with the accounting policy for periodic revaluation of assets (under FRS 15), as well as the need for management to undertake a review of assets to determine whether there is any impairment to their value in accordance with FRS 11.

Completion – other matters

ISA 260 requires us to communicate "audit matters of governance interest that arise from the audit of the financial statements" to you which includes:

- material weaknesses in internal control identified during the audit;
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. issues relating to fraud, compliance with laws and regulations, subsequent events etc); and
- other audit matters of governance interest.

There are no others matters which we wish to draw to your attention.

Completion – opinion

Subject to receipt of your signed management representations letter, we anticipate issuing an unqualified audit opinion by 30 September 2009.

Our proposed opinion on the financial statements is presented in Appendix Five.

Appendix One: Proposed use of resources conclusion

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditor's Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice. Having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, we are satisfied that, in all significant respects, Lancaster City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009, except that it did not put adequate arrangements in place for workforce planning.

Kevin Wharton

(Senior Statutory Auditor)

for and on behalf of KPMG LLP

Chartered Accountants

Statutory Auditor

Manchester

30 September 2009

Appendices

Appendix Two: Use of resources key findings

This appendix summarises key messages from the use of resources assessment by theme and recommendations. The recommendations have been included in Appendix Six.

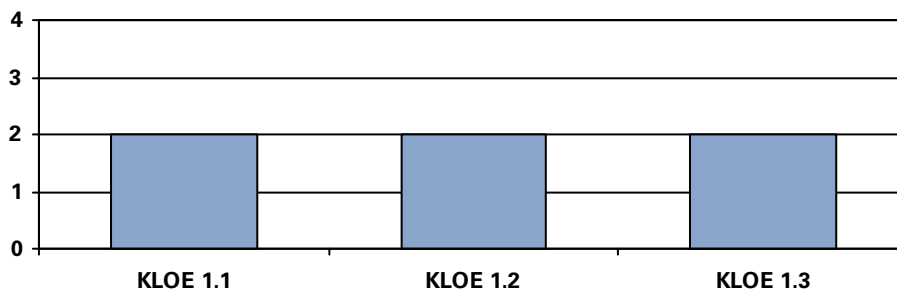
KLOE 1 – Managing finances: overall score 2

The Council has started to consider what its priority and non-priority areas are in order to set a balanced budget for the following three financial years. The Council has considered its contingencies and plans for dealing with these should they crystallise.

The Council has demonstrated that it generally has a sound understanding of its costs and performance, however, it has not been able to demonstrate the impact of this understanding.

Financial reporting and monitoring information is good. The Council's annual report is published in a timely manner after the financial year end. However, the Council needs to further demonstrate that it is consulting with stakeholders to understand their information needs and is acting upon feedback.

The scores by sub KLOE are summarised in the graph below:



As the Council has scored at level 2 for all criteria, it has met the requirements for the VFM conclusion.

KLOE 1.1 – Financial planning

Changes in political leadership during 2008/09, coupled with a tight financial position, has made it difficult for the Council to demonstrate that it is directing resources to priority areas. There is some evidence of:

- allocation of resources to priorities;
- outcomes of this investment; and
- effective stakeholder engagement in relation to corporate and financial planning.

The MTFS is loosely linked to other strategies within the Council and there is modelling of income and expenditure over the medium term, however this is not done for the longer term and there is no modelling of the balance sheet.

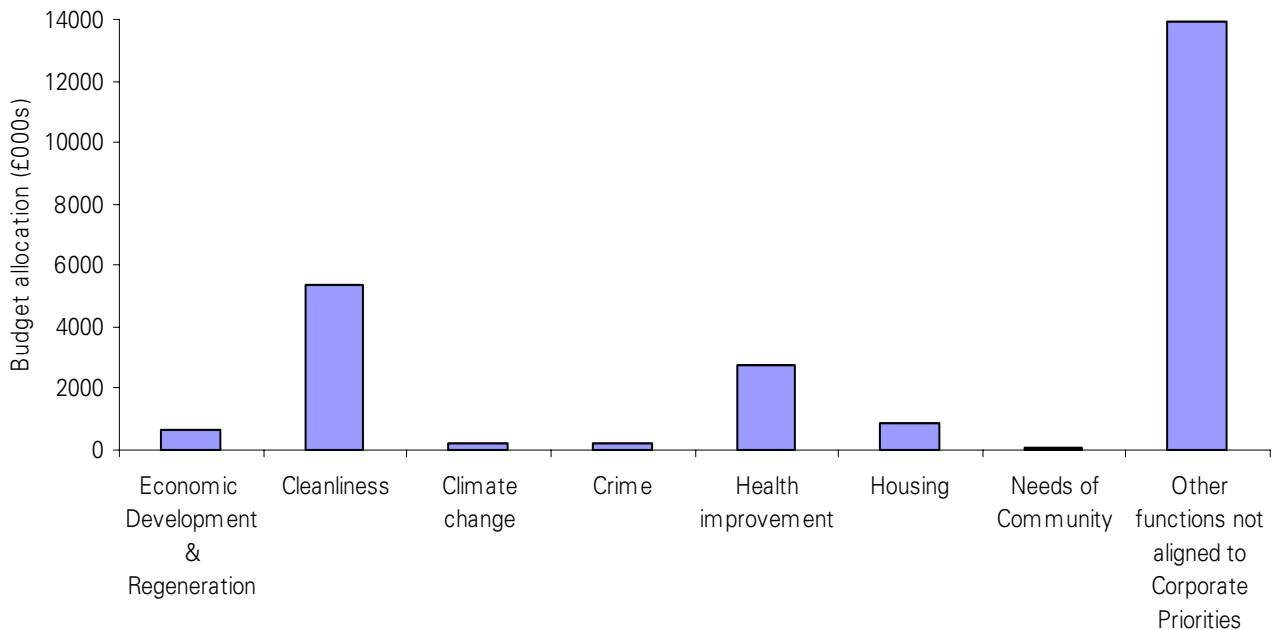
The Council faces a number of potential financial pressures, particularly surrounding Luneside East, going forward, but it has thought through its plans for these should they arise. Given these financial pressures and the likelihood of a cut in government spending the Council needs to make effective use of its financial planning process, including the better use of scenario planning and sensitivity analysis, to help inform strategic decisions about priority and non-priority services.

Recent reports to the Budget and Performance Panel indicate that the Council has allocated significant sums of resource to non-priority areas in 2009/10. This underlines the importance of the work that has recently started to review these allocated investments. The completion of this exercise is critical if the Council is to achieve the budget realignment which is required to secure financial balance in 2009/10 onwards, as well as to redirect resource to strategic priorities.

Appendices

Appendix Two: Use of resources key findings (continued)

Analysis of 2009/10 budget aligned to priority and non-priority areas:

**KLOE 1.2 – Understanding costs and achieving efficiencies**

The Council participates in a range of benchmarking exercises, in terms of both costs and performance. The Council can explain its costs for high spending areas of the business, such as Cultural Services. Evidence shows that services are, generally, high cost and high performance. The Council is targeting high spending areas for efficiencies as part of the 2009/10 budget setting process.

The Council also needs to complete its planned review around central recharges, so that it can fully understand its transaction costs and, therefore, benchmark information more effectively. The Council then needs to demonstrate that it has taken action which has resulted in an improvement in performance and/or costs. This will be critical to the achievement of higher scores.

KLOE 1.3 – Financial reporting

Financial monitoring and forecasting in the Council is satisfactory. Monitoring takes place at differing levels of the organisation from service to corporate levels.

Understanding of the information needs of stakeholders is an area for further development in terms of demonstrating that the views of stakeholders (both internally and externally) have impacted on reporting arrangements.

The accounts submitted for audit were of a good standard, with only presentational amendments necessary. The Council has not evidenced the impact that the reporting process has had.

Financial governance is good, with financial training provided to Members as required.

Appendices

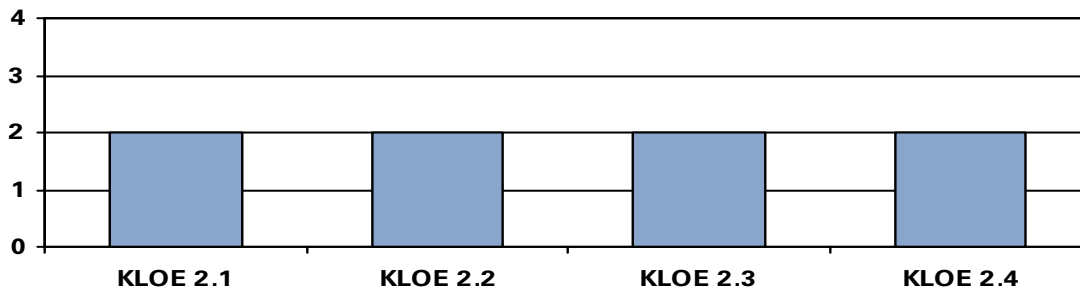
Appendix Two: Use of resources key findings (continued)**KLOE 2 – Governing the business: overall score 2**

The Council is starting to understand the needs of its community and the influence that this has on procurement and commissioning.

The Council has satisfactory data quality and security arrangements in place.

The Council has adequate governance arrangements in place. The Council's system of internal control is operating effectively.

The scores by sub KLOE are summarised in the graph below:



As the Council has scored at level 2 for all criteria, it has met the requirements for the VFM conclusion.

KLOE 2.1 – Commissioning and procurement

The Council has met the basic requirements of this KLOE, as it has:

- has assessed the needs of the District, in partnership through the LDLSP; and
- undertaken a range of public and stakeholder consultation to inform its understanding of the needs of the District and the Corporate Plan.

The plans to address the needs of the District are in their infancy. In addition, plans for future service models have yet to be developed and/or considered.

The Council has some good examples of procurement successes through its partnership with Team Lancashire.

KLOE 2.2 – Data quality and use of information

The Council has the framework in place to ensure that reliable data is available to support decision making. This includes robust data checking processes, guidance for staff involved in data quality and data sharing protocols.

The Council has started to encourage partners to adopt similarly robust processes via its leadership of the LSP Performance Management Framework group.

The Council has data security policies and processes in place, which have been widely communicated.

Performance indicator testing has identified a number of minor issues in relation to the accuracy of the data.

The Council now needs to consider how these arrangements impact on decision making and how this has affected service performance and/or cost.

KLOE 2.3 – Good governance

The Council has put the arrangements in place to meet the basic requirements of the KLOE. However, further work is needed in terms of refreshing ethical and governance information and raising greater awareness with members and officers.

The Council is yet to undertake an ethical audit, which means it does not have a baseline assessment of either officers' or Members' understanding of the Council's policies and practices. The Council needs this as a matter of urgency to assess the level of awareness of governance arrangements, so that corrective action can be taken as appropriate.

Partnership arrangements have been developing over the last three years. The Council now needs to start thinking about how these arrangements are influencing outcomes and value for money.

Appendix Two: Use of resources key findings (continued)**KLOE 2.4 – Risk management and internal control**

The Council has recently (at the end of 2008/09) revised its approach to risk management. The reason for this was to try to embed risk management throughout the Council, so that it is clear that the Council is considering risks in all decisions and to ensure that risk management is a continuous process.

The existing risk management and internal control arrangements have been assessed as adequate because:

- risk registers are in place at both the operational and strategic level;
- risks are assigned to officers to take responsibility; and
- there is a strong assurance framework in place to support the Annual Governance Statement.

There is still some work to be done around partnership risk, although significant progress is being made in this area through the development of the partnership risk model.

Counter fraud arrangements have recently been reviewed by Internal Audit. Implementing any actions arising from this work should help to strengthen the Council's arrangements.

Further work is needed in relation to reviewing partners' business continuity plans and undertaking sustainability assessments in decision making.

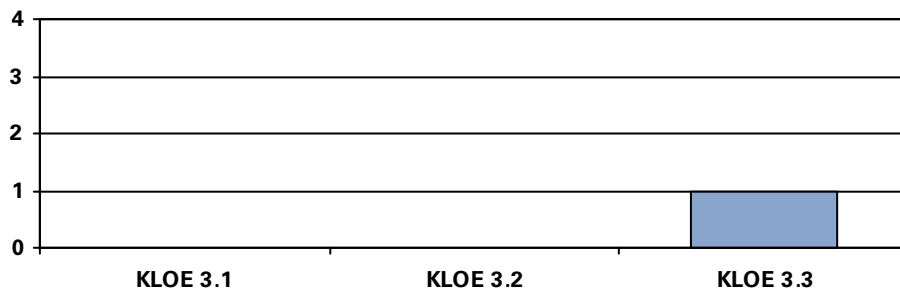
Appendices

Appendix Two: Use of resources key findings (continued)**KLOE 3 – Managing resources: overall score 1**

The first two KLOEs (use of natural resources and strategic asset management) did not form part of the Council's Use of Resources assessment in 2009. Therefore, the overall theme score is based upon the Council's performance and arrangements in relation to workforce planning.

The Council's arrangements in relation to workforce planning are underdeveloped. Further details are provided below.

The scores by sub KLOE are summarised in the graph below:



As the Council received a level one on the workforce planning KLOE we have been unable to issue an unqualified VFM conclusion, as the minimum requirement is level two.

KLOE 3.1 – Use of natural resources

This KLOE was not applicable to district councils in 2009.

KLOE 3.2 – Strategic asset management

This KLOE was not applicable to district councils in 2009.

KLOE 3.3 – Workforce planning

The Council's commitment to the fair pay project during 2008/09, coupled with high turnover of staff within the Human Resources section, has resulted in there being limited capacity in developing the Council's workforce planning.

Particular areas requiring further development are:

- linking service workforce planning to strategic plans, in both the medium and longer term;
- planning for future skills gaps;
- the Council's approach to equality and diversity; and
- demonstrating the Council is an employer of choice.

Appendix Three: Use of resources specific risk reviews

A summary of the reports issued in relation to specific risk reviews is set out below:

Report	Date issued
Value for Money review	Draft issued to management September 2009

This report is currently in draft and is with management for review and comment. We have, however, used the findings of this review to inform both our Use of Resources assessment and the VFM conclusion.

We will report the key findings and conclusions of this review to Audit Committee upon finalisation of the report.

Appendices

Appendix Four: Use of resources criteria and link to VFM conclusion

The Audit Commission has specified which of the use of resources KLOEs form the criteria for the VFM conclusion. These criteria are summarised below.

Use of resources KLOE	Relevance to the Council
Managing finances	
1.1 – Financial planning	✓
1.2 – Understanding costs and achieving efficiencies	✓
1.3 – Financial reporting	✓
Governing the business	
2.1 – Commissioning and procurement	✓
2.2 – Data quality and use of information	✓
2.3 – Good governance	✓
2.4 – Risk management and internal control	✓
Managing resources	
3.1 – Use of natural resources	X
3.2 – Strategic asset management	X
3.3 – Workforce planning	✓

Appendix Five: Proposed audit report

Independent auditors' report to the Members of Lancaster City Council

Opinion on the accounting statements

We have audited the accounting statements and related notes of Lancaster City Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Account, the Statement of Movement on the Housing Revenue Account, and the Collection Fund. The accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to Lancaster City Council, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to Lancaster City Council, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Lancaster City Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Head of Financial Services and auditors

The Head of Financial Services' responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounting statements and related notes present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008:

- the financial position of the Authority and its income and expenditure for the year;

We review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read other information published with the accounting statements and related notes and consider whether it is consistent with the audited accounting statements and related notes. This other information comprises only the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounting statements and related notes. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

Appendix Five: Proposed audit report (continued)

Opinion

In our opinion the accounting statements and related notes present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

Kevin Wharton

(Senior Statutory Auditor)

for and on behalf of KPMG LLP

Chartered Accountants

Statutory Auditor

Manchester

30 September 2009

Appendix Six: Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to the Audit Committee. We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Corrected audit differences

We have not identified any audit differences that have affected the primary financial statements.

There have been a small number of presentational adjustments to the notes to the primary financial statements, including the Fixed Asset note and the Officers' Emoluments note.

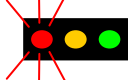

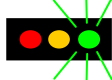
Uncorrected audit differences

We have not identified any audit differences that management have not amended.

Appendices

Appendix Seven: Recommendations

We have given each recommendation a risk rating (as explained below) and agreed what action management will need to take. We will follow up these recommendations next year.

Priority rating for recommendation		
<p>Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p> 	<p>Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p> 	<p>Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p> 

No.	Risk	Issue and recommendation	Management response	Officer and due date
1	● (two)	The Council is developing a system of knowledge capture for the next use of resources assessment. The Council should make effective use of this system.	This will be taken forward in preparing for the next Use of Resources assessment, and Officers will liase with the Council's external auditors to draw on good practice as appropriate.	Corporate Director (Finance & Performance) January 2010
2	● (one)	The Council's approach to workforce planning is underdeveloped. The Council needs to address the issues we have identified in our findings in Appendix Two in order to improve its arrangements for workforce planning to ensure effective use of its workforce.	Early stages of the work have been undertaken and there is an officer group working with the Chief Executive producing plans to ensure that the culture and systems of the Councils workforce fit with Council priorities. This work will be taken forward in 2010. In terms of equalities the Council remains committed to achieving the new Equality standard and is working with other Councils in Lancashire on this and Community Cohesion.	Chief Executive June 2010
3	● (two)	The Council faces significant financial pressures in the near future. The Council is currently undertaking a review of its existing budget allocation across key priorities and objectives. In order for the Council to achieve the budget realignment which is required to secure financial balance in 2009/10 onwards this review should be completed and necessary actions taken.	Review work is underway as outlined; the importance of the exercise, together with the informed decision-making that must follow, has been communicated (and will be re-emphasised) to all Members.	Corporate Director (Finance & Performance) March 2010

Appendices

Appendix Seven: Recommendations (Continued)

No.	Risk	Issue and recommendation	Management response	Officer and due date
4	● (two)	<p>There is a requirement under the Building (Local Authority Charges) Regulations 1998 for the Council to ensure that the income received from its charges fully recover the cost of carrying out its building control functions over a rolling three year accounting period. However, for the three year period to 31 March 2009, the Council has a deficit position, therefore breaching the Regulations. Given the current economic position, there is an increased risk to the Council of further deficits if the position is not monitored and managed closely.</p> <p>The Council should monitor its plan to address this deficit closely and take action as necessary to ensure that this deficit position is returned to a break-even or surplus position.</p>	<p>Action to redress the deficit position was included within the Council's approved Revenue Budget for 2009/10 and a restructure of the service is now underway, scheduled for consideration by Members in December 2009.</p>	<p>Head of Planning Services December 2009</p>

Appendices

Appendix Eight: Audit reports issued

A summary of the reports issued in the year to date is set out below.

Report	Date issued
Audit and Inspection Plan 2008/09	June 2008
Value for Money review	Draft report to officer September 2009

Appendix Nine: Declaration of independence and objectivity

Declaration of Independence and Objectivity 2008/09

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

“Auditors and their staff should exercise their professional judgement and act independently of both the Audit Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired”

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission’s *Annual Letter of Guidance and Standing Guidance* (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (‘Ethical Standards’).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 *Communication of Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor’s objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor’s network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor’s professional judgement, the auditor is independent and the auditor’s objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor’s objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Partner and the audit team.

General procedures to safeguard independence and objectivity

KPMG’s reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm’s required independence. KPMG’s policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual (‘the Manual’). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

Appendices

Appendix Nine: Declaration of independence and objectivity (cont'd)

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

Auditor Declaration

In relation to the audit of the financial statements of Lancaster City Council for the financial year ending 31 March 2009, we confirm that there were no relationships between KPMG LLP and the Lancaster City Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

Appendices

Appendix 10: Draft management representation letter

Dear KPMG LLP,

We understand that auditing standards require you to obtain representations from management on certain matters material to your opinion. Accordingly we confirm to the best of our knowledge and belief, having made appropriate enquiries of other members of the Authority, the following representations given to you in connection with your audit of the financial statements for Lancaster City Council for the year ended 31 March 2009.

All the accounting records have been made available to you for the purpose of your audit and the full effect of all the transactions undertaken by Lancaster City Council has been properly reflected and recorded in the accounting records in accordance with agreements, including side agreements, amendments and oral agreements. All other records and related information, including minutes of all management and Board meetings, have been made available to you.

We confirm that we have disclosed all material related party transactions relevant to the Authority and that we are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS 8 or other requirements.

We confirm that we are not aware of any actual or potential non-compliance with laws and regulations that would have had a material effect on the ability of the Authority to conduct its business and therefore on the results and financial position to be disclosed in the financial statements for the year ended 31 March 2009.

We acknowledge that we are responsible for the fair presentation of the financial statements in accordance with the Local Government Statement of Recommended Practice ("SORP") and wider UK accounting standards. We have considered and approved the financial statements.

We confirm that we:

- understand that the term "fraud" includes misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Misstatements resulting from fraudulent financial reporting involve intentional misstatements or omissions of amount or disclosures in financial statements to deceive financial statement users. Misstatements resulting from misappropriation of assets involve the theft of an entity's assets, often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation;
- are responsible for the design and implementation of internal control to prevent and detect fraud and error;
- have disclosed to you our knowledge of fraud or suspected fraud affecting the Authority involving:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
- have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others; and
- have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We confirm that the presentation and disclosure of the fair value measurements of material assets, liabilities and components of equity are in accordance with applicable reporting standards. The amounts disclosed represent our best estimate of fair value of assets and liabilities required to be disclosed by these standards. The measurement methods and significant assumptions used in determining fair value have been applied on a consistent basis, are reasonable and they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Authority where relevant to the fair value measurements or disclosures.

We confirm that there are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than that already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements.

Appendix 10: Draft management representation letter (continued)

With reference to the specific issues on which you have requested assurances from Members, we confirm that:

- For 2008/09 we consider that sufficient and appropriate consideration has been given to potential impairments of the assets included in the accounts in light of the current macro economic climate and that, where any such impairment has been identified, it is reflected accordingly in the accounts. This includes compliance with the accounting policy for periodic revaluation of assets (under FRS 15), as well as the need for management to undertake a review of assets to determine whether there is any impairment to their value in accordance with FRS 11.

Finally, no additional significant post balance sheet events have occurred that would require additional adjustment or disclosure in the financial statements, over and above those events already disclosed.

This letter was tabled at the meeting of the Audit Committee on 23 September 2009.

Yours faithfully

[Name of Executive Director signing letter on behalf of Lancaster City Council]

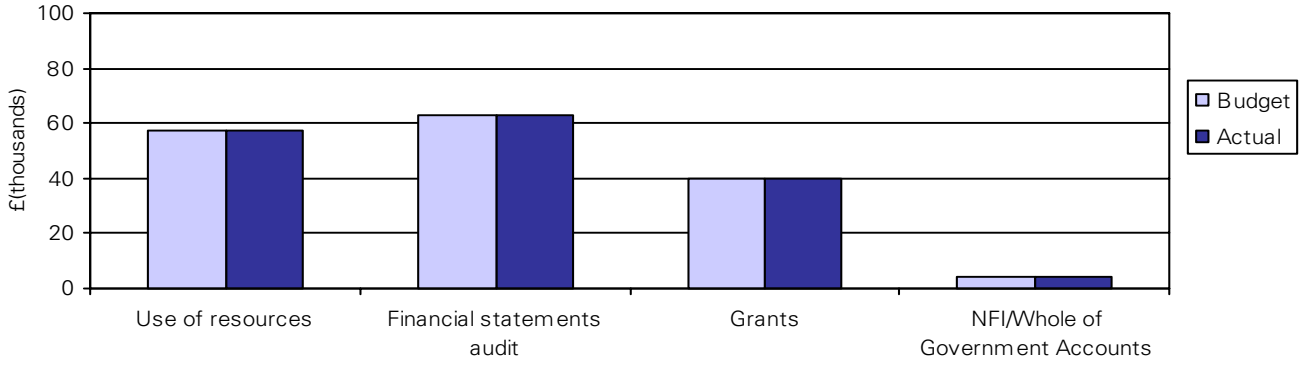
On behalf of Lancaster City Council

Appendices

Appendix 11: Audit Fee

To make sure that there is openness between us and your Audit Committee about the extent of our fee relationship with you, we have summarised below the out-turn against the 2008/09 agreed external audit fee:

External audit fee for 2008/09



The 'actual' figure quoted for grants is based on our latest estimate, as there are a number of grants still requiring certification.

Contact: Nadine Muschamp
Telephone: (01524) 582117
Fax: (01524) 582160
E-mail: nmuschamp@lancaster.gov.uk
Website: www.lancaster.gov.uk
Our Ref: HFS/LW

Financial Services

KPMG LLP
St James' Square
Manchester
M2 6DS

23 September 2009

Nadine Muschamp
Head of Financial Services

Town Hall
Dalton Square
LANCASTER LA1 1PJ

DX63531 Lancaster

Dear Sirs

I understand that auditing standards require you to obtain representations from management on certain matters material to your opinion. Accordingly I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers and members of the Authority, the following representations given to you in connection with your audit of the financial statements for Lancaster City Council for the year ended 31 March 2009.

All the accounting records have been made available to you for the purpose of your audit and the full effect of all the transactions undertaken by Lancaster City Council has been properly reflected and recorded in the accounting records in accordance with agreements, including side agreements, amendments and oral agreements. All other records and related information, including minutes of member meetings, have been made available to you.

I confirm that all material related party transactions relevant to the Authority have been disclosed and that I am not aware of any other such matters required to be disclosed in the financial statements, whether under FRS 8 or other requirements.

I confirm that I am not aware of any actual or potential non-compliance with laws and regulations that would have had a material effect on the ability of the Authority to conduct its business and therefore on the results and financial position to be disclosed in the financial statements for the year ended 31 March 2009.

I acknowledge that I am responsible for the fair presentation of the financial statements in accordance with the Local Government Statement of Recommended Practice ("SORP") and wider UK accounting standards. I have considered and approved the financial statements.

I confirm that I:

- understand that the term "fraud" includes misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Misstatements resulting from fraudulent financial reporting involve intentional misstatements or omissions of amount or disclosures in financial statements to deceive financial statement users. Misstatements resulting from misappropriation of assets involve the theft of an entity's assets, often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation;
- am responsible for the design and implementation of internal control to prevent and detect fraud and error;

- have disclosed to you my knowledge of fraud or suspected fraud affecting the Authority involving:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
- have disclosed to you my knowledge of any allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others; and
- have disclosed to you the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud.

I confirm that the presentation and disclosure of the fair value measurements of material assets, liabilities and components of equity are in accordance with applicable reporting standards. The amounts disclosed represent the best estimate of fair value of assets and liabilities required to be disclosed by these standards. The measurement methods and significant assumptions used in determining fair value have been applied on a consistent basis, are reasonable and they appropriately reflect the intent and ability to carry out specific courses of action on behalf of the Authority where relevant to the fair value measurements or disclosures.

I confirm that there are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than that already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements.

With reference to the specific issues on which you have requested assurances from Members, I confirm that:

- For 2008/09 I consider that sufficient and appropriate consideration has been given to potential impairments of the assets included in the accounts in light of the current macro economic climate and that, where any such impairment has been identified, it is reflected accordingly in the accounts. This includes compliance with the accounting policy for periodic revaluation of assets (under FRS 15), as well as the need for management to undertake a review of assets to determine whether there is any impairment to their value in accordance with FRS 11.

Finally, no additional significant post balance sheet events have occurred that would require additional adjustment or disclosure in the financial statements, over and above those events already disclosed.

This letter was tabled at the meeting of the Audit Committee on 23 September 2009.

Yours faithfully

Nadine Muschamp
Head of Financial Services

On behalf of Lancaster City Council