



Committee: AUDIT COMMITTEE
Date: WEDNESDAY, 28 JUNE 2006
Venue: MORECAMBE TOWN HALL
Time: 6.00 P.M.

A G E N D A

1. **Apologies for Absence**
2. **Appointment of Vice-Chairman**
3. **Minutes**
Minutes of the meeting held on 26th April 2006. (Previously circulated)
4. **Items of urgent business authorised by the Chairman**
5. **Proposed Revised Terms of Reference for Personnel Committee and Appeals Committee** (Pages 1 - 16)
Report of Head of Legal and Human Resources
6. **Annual Audit and Inspection Plan 2006-07** (Pages 17 - 44)
Report of Internal Audit Manager
7. **Statement of Accounts 2005/06** (Pages 45 - 106)
Report of Head of Financial Services
8. **Internal Audit Annual Report 2005-06** (Pages 107 - 116)
Report of Internal Audit Manager
9. **Statement on Internal Control and Corporate Governance 2005/06** (Pages 117 - 132)
Report of Internal Audit Manager
10. **Risk Management Progress and Proposed Work Plan** (Pages 133 - 136)
Report of Head of Financial Services
11. **Results of Internal Audit Work** (Pages 137 - 140)
Report of Internal Audit Manager

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

Councillors Malcolm Thomas (Chairman), Ian Barker, Jon Barry, Keith Budden, Alex Stone, David Whitaker and Geoff Wilson

(ii) Substitute Membership

Councillors Susan Bray, Shirley Burns, Chris Coates, John Gilbert, Janice Hanson, Ron Sands and Joyce Taylor

(iii) Queries regarding this Agenda

Please contact James Doble, Democratic Services - telephone (01524) 582057 or email jdoble@lancaster.gov.uk.

(iv) Changes to Membership, substitutions or apologies

Please contact Members' Secretary, telephone 582170, or alternatively email memberservices@lancaster.gov.uk.

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CHIEF EXECUTIVE
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Published on 19th June 2006

AUDIT COMMITTEE**PROPOSED AMENDMENTS TO THE TERMS OF
REFERENCE OF THE PERSONNEL COMMITTEE AND
APPEALS COMMITTEE
28TH JUNE 2006****Report of Head of Legal and Human Resources****PURPOSE OF REPORT**

To enable the Committee to consider the recommendations of the Personnel Committee on proposed changes to the Terms of Reference for Personnel Committee and Appeals Committee and to make recommendations to Council for the amendment of the Constitution.

This report is public

RECOMMENDATIONS

- (1) That the Committee consider the recommendations of the Personnel Committee and any views thereon expressed by members of the Appeals Committee.
- (2) That in accordance with Article 15 of the Constitution, Council be recommended to approve the proposed changes to the Terms of Reference for Personnel Committee and Appeals Committee and delegations to officers, as set out in Appendices C and D to the report to the Personnel Committee of the 30th May 2006.

1.0 Introduction

- 1.1 As Members will be aware, Article 15 of the Constitution provides for changes to the Constitution relating to responsibility for functions, to be approved by full Council after hearing recommendations from the Audit Committee.
- 1.2 At its meeting on the 30th May 2006, the Personnel Committee considered a report on proposed changes to its Terms of Reference and to the delegations to officers in respect of personnel matters. A copy of the report is attached. Members will note that the proposed changes are intended to give the Committee a more strategic role in terms of policy development with more day-to-day decisions delegated to the Chief Executive (Head of the Paid Service), and, where appropriate to Corporate Directors and Service Heads.

- 1.3 The report was referred in the first place to the Personnel Committee for its views to ensure that it was content with the proposed arrangements for delegations to officers. At the same time the report was copied to the Chairman of the Appeals Committee in view of the consequential changes to the terms of reference of that Committee.
- 1.4 In accordance with Option 3 in the report before it, the Personnel Committee recommended to this Committee the proposed amended terms of reference as set out in Appendices C and D, on the basis that any appeals would be dealt with by the full Personnel Committee of seven members (with the normal quorum of three as set out in the Constitution) rather than a sub-committee of three as suggested in option 4 of the report.
- 1.5 The Personnel Committee, however, resolved that this recommendation should be subject to the views of the members of the Appeals Committee being sought prior to consideration of the matter by the Audit Committee. In accordance with this resolution, a letter was sent to all members of the Appeals Committee on the 31st May 2006, inviting their comments. The Chairman of the Appeals Committee has indicated that she has no objections to the proposal. Any further comments received will be reported at the meeting.

2.0 Proposal Details

- 2.1 The Committee is requested to recommend Council to amend the Constitution in accordance with the recommendations of the Personnel Committee.

3.0 Details of Consultation

- 3.1 The recommendation has been made by the Personnel Committee, and the members of the Appeals Committee have been consulted.

4.0 Options and Options Analysis (including risk assessment)

- 4.1 The options and analysis were set out in the attached report to Personnel Committee.

5.0 Conclusion

- 5.1 The Committee is requested to consider the recommendation of the Personnel Committee.

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

There are no direct implications.

FINANCIAL IMPLICATIONS

There are no direct financial implications as a result of this report.

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

The report has been prepared by the Head of Legal and Human Resources.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

None

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Personnel Committee

Proposed Revised Terms of Reference for Personnel Committee and Appeals Committee 30th May 2006

Report of Chief Executive

PURPOSE OF REPORT

To seek Members' views on proposed changes to the Terms of Reference for Personnel Committee and Appeals Committee to be recommended to the Audit Committee with a view to amending the Council's Constitution.

This report is public

RECOMMENDATIONS

- (1) That the Committee request Audit Committee to recommend for approval by Council the proposed changes contained in Appendices C and D to the Terms of Reference for Personnel Committee and Appeals Committee and the delegations to officers.**
- 1.0 Introduction**
 - 1.1 It is some time since the Terms of Reference of the Personnel Committee and the delegations to officers in respect of staffing issues were reviewed.
 - 1.2 The proposed changes are intended to give the Committee a more strategic role in terms of policy development with more day-to-day decisions delegated to the Chief Executive (Head of the Paid Service), and, where appropriate to Corporate Directors and Service Heads.
 - 1.3 Any amendments to the Constitution in respect of such matters must be made by full Council on the recommendation of the Audit Committee. However, since the report contains recommendations about the delegation of certain human resources matters to officers, it was felt appropriate that the proposals should be reported in the first instance to this Committee, so that this Committee's views may be reported to Audit Committee on the 28th June 2006.
- 2.0 Proposal Details**

- 2.1 As Members will be aware, the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 set out various functions which are not to be the responsibility of a Council's executive. These include the power to appoint staff and to determine the terms and conditions on which they hold office (including procedures for their dismissal). The Personnel Committee was established to deal with these staffing issues, which would otherwise be the responsibility of full Council.
- 2.2 The current Terms of Reference of the Personnel Committee and delegations to officers are attached as **Appendix A** to this report. It is proposed to amend these Terms of Reference to emphasise that the work of the Committee will relate to more strategic staffing policy issues as follows:
1. Develop and review Council policy in respect of the Council's Human Resources. This will include:
 - Recruitment and retention
 - Disciplinary, grievance and harassment
 - Redeployment, redundancy and early retirement
 - Sickness absence
 - Employee developmentand other conditions of service policies
 2. Health and Safety policy
 3. To consider appeals against dismissal (other than Chief Officers), and appeals against grading and grievances by employees.
 4. To consider requests for voluntary early retirement and/or voluntary early redundancy where such requests are within Council policy.
 5. To make decisions in respect of redundancy and redeployment for JNC Chief Officer posts.
 6. To appoint to JNC Chief Officer posts
 7. To act as the "Investigating Committee" referred to in the JNC Conditions of Service for Chief Officers
 8. To determine applications by JNC Chief Officers in accordance with the provision of the Council's Parental Leave Scheme and Flexible Working Scheme.
 9. To consult with the workforce as employer representative on the Joint Consultative Committee.
 10. To consider and respond to consultation requests in respect of national pay negotiations.
- 2.3 It is proposed to delegate the following to the Chief Executive:
1. Control of the Council's Establishment – to establish new posts and approve minor structural reorganisations, and to assimilate members of staff on fixed

term or temporary contracts or in casual work situations into the permanent establishment

2. Determining the terms and conditions of service of Council employees within the policy set by the Personnel Committee
3. Determining regrading applications. (Appeals would be heard by the Personnel Committee.)
4. Applying the Council's Redeployment Policy including declaration of a redundancy situation and redeployment of staff (excluding JNC Chief Officer posts)
5. Determining Essential Car User Status
6. Payment of Honoraria
7. Extension to full or half sick pay
8. Release of preserved pension benefits in accordance with appropriate pension legislation, including Certificates of Material Change
9. Consideration of late transfers into the Local Government Pension Scheme

2.4 It is proposed to delegate the following to Service Heads (and Chief Executive and Corporate Directors as appropriate):

1. To extend the term of any fixed term or temporary contract
2. To change the designation of a post
3. To recruit to established permanent and temporary posts (below JNC Chief Officer level), and determine commencing salary and subsequent granting or withholding of incremental progression.
4. To determine applications in accordance with the provision of the Council's Attendance Management policies and Family Leave Schemes
5. To approve arrangements in accordance with the Parental Leave Scheme, Flexible Working Scheme and Family Leave Scheme.
6. To determine applications for car loans
7. Determination of ex gratia payments
8. To terminate employment in accordance with Council policy, and on grounds of permanent ill health
9. To determine action in sickness absence cases lasting six months or more
10. To take disciplinary action in accordance with Council policy (except JNC Chief Officers)

The above delegations to officers in paragraphs 2.3 and 2.4 would be subject to any decisions or actions being within the budget framework. Any financial considerations outside this would first need to be considered by Cabinet, and referred on to Council if necessary.

2.5 Proposed revised Terms of Reference for Personnel Committee and officer delegations, incorporating these changes, are attached at **Appendix C**.

2.6 Members will note that it is proposed that Personnel Committee, as the Committee responsible for staffing issues, should deal with appeals against dismissal (other than Chief Officers), and appeals against grading and grievances by employees. These are currently within the Terms of Reference of the Appeals Committee, and as a consequence it is proposed to amend the Terms of Reference of the Appeals Committee so as to delete those items. Revised Terms of Reference are attached at **Appendix D**.

3.0 Details of Consultation

3.1 This report is to seek the views of the Committee prior to a further report to Audit Committee, which is the body responsible for recommending such constitutional changes to full Council.

4.0 Options and Options Analysis (including risk assessment)

4.1 Option 1 is no change from the status quo. This would be an opportunity missed to clarify Member responsibility, to better allocate Terms of Reference between Personnel Committee and the Appeals Committee, and to delegate more routine staffing issues to Officers.

4.2 Option 2 would be to take some, but not all of the changes proposed.

4.3 Option 3 is to approve the Terms of Reference as set out in Appendices C and D.

4.4 Option 4 would be as Option 3, but with appeals to be heard by a new sub-committee of three Members of Personnel Committee rather than the full seven Member Committee. This is common practice in other Councils and would be less overwhelming for the staff bringing an appeal. Such a sub-committee would need to be appointed on a PR basis.

5.0 Conclusion

5.1 The Committee is recommended to request the Audit Committee to recommend to full Council the Terms of Reference as set out in Appendices C and D

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

There are no direct implications as a result of this report.

FINANCIAL IMPLICATIONS

There are no direct implications as a result of this report.

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

The Head of Legal and Human Resources has been involved in the preparation of the report.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

Part 3, Responsibility for Functions, Section 6 (Constitution)

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SECTION 6 – PERSONNEL COMMITTEE – Current Terms of Reference

Composition: 7 Members of the Council on PR basis, Chairman and Members of the Committee appointed by Council annually, to include at least one Member of the Cabinet. Changes can be made by Council during the course of the year. Where the Committee meets to appoint a Corporate Director, the Committee will comprise 13 Members on a PR basis, that is, the 7 Members plus 6 further Members appointed for this particular purpose.

All Members of the Committee and Members attending as Substitutes, must have attended a Member training session on racial awareness.

Terms of Reference:

- 1 Control and development of the conditions of service of Council employees.
- 2 Control of the Council's Establishment.
- 3 Determining the terms and conditions on which staff are to be appointed.
- 4 Appointment of Corporate Directors and Service Heads.
- 5 Acting as the "Investigating Committee" referred to in the JNC Conditions of Service.
- 6 Determining re-grading applications.
- 7 Developing and implementing all personnel policies and procedures.
- 8 Consultation with the workforce as the employer representative on the Joint Consultative Committee.
- 9 Consideration and response to consultation requests in respect of national pay negotiations

DELEGATIONS TO OFFICERS**To the Chief Executive**

To sanction emergency action, as set out in the rules of procedure for urgent business.

To the Chief Executive, Corporate Directors and Heads of Services:

- To appoint staff below the level of Head of Service.

To the Chief Executive and Corporate Directors:

- To award honoraria.
- Regulation of Investigatory Powers Act.

SECTION 7 - APPEALS COMMITTEE – Current Terms of Reference

Composition: 7 Members of the Council on PR basis, Chairman and Members of the Committee appointed by Council annually, to include at least one Member of the Cabinet. Changes can be made by Council during the course of the year. Since the Committee will hear appeals from the Personnel Committee, there should be no overlapping membership.

All Members of the Committee and Members attending as Substitutes, must have attended a Member training session on racial awareness.

Terms of Reference:

To consider appeals against dismissal and in respect of grading and grievances by employees of the Council.

The determination of any other appeal against any decision made by or on behalf of the Council.

DELEGATIONS TO OFFICERS

To the Chief Executive

To sanction emergency action, as set out in the rules of procedure for urgent business.

To the Chief Executive, Corporate Directors and Heads of Service:

- To hear appeals in accordance with the Council's Disciplinary and Grievance Policies and Procedures.

SECTION 6 – PERSONNEL COMMITTEE – Proposed Changes

Terms of Reference:

To deal with the appointment of staff and to determine the terms and conditions on which staff are employed. In particular the Committee will:

1. Develop and review Council policy in respect of the Council's Human Resources. This will include:

Recruitment and retention
Disciplinary, grievance and harassment
Redeployment, redundancy and early retirement
Sickness absence
Employee development

and other conditions of service policies
2. Be responsible for Health and Safety policy
3. Consider appeals against dismissal (other than JNC Chief Officers), and appeals against grading and grievances by employees.
4. Consider requests for voluntary early retirement and/or voluntary early redundancy where such requests are within Council policy.
5. Make decisions in respect of redundancy and redeployment for JNC Chief Officer posts.
6. Appoint to JNC Chief Officer posts.
7. Act as the "Investigating Committee" referred to in the JNC Conditions of Service for Chief Officers
8. Determine applications by JNC Chief Officers in accordance with the provision of the Council's Parental Leave Scheme and Flexible Working Scheme.
9. Consult with the workforce as the employer representative on the Joint Consultative Committee.
10. Consider and respond to consultation requests in respect of national pay negotiations.

DELEGATIONS TO OFFICERS

To the Chief Executive

1. Control of the Council's Establishment – to establish new posts and approve minor structural reorganisations, and to assimilate members of staff on fixed term or temporary contracts or in casual work situations into the permanent establishment
2. Determining the terms and conditions of service of Council employees within the policy set by the Personnel Committee
3. Determining regrading applications.
4. Applying the Council's Redeployment Policy including declaration of a redundancy situation and redeployment of staff (excluding JNC Chief Officer posts)
5. Determining Essential Car User Status
6. Payment of Honoraria
7. Extension to full or half sick pay
8. Release of preserved pension benefits in accordance with appropriate pension legislation, including Certificates of Material Change
9. Consideration of late transfers into the Local Government Pension Scheme
10. To sanction emergency action, as set out in the rules of procedure for urgent business

To the Chief Executive, Corporate Directors and Heads of Services:

1. To extend the term of any fixed term or temporary contract
2. To change the designation of a post
3. To recruit to established permanent and temporary posts (below JNC Chief Officer level), and determine commencing salary and subsequent granting or withholding of incremental progression.
4. To determine applications in accordance with the provision of the Council's Attendance Management policies and Family Leave Schemes
5. To approve arrangements in accordance with the Parental Leave Scheme, Flexible Working Scheme and Family Leave Scheme.
6. To determine applications for car loans
7. To determine ex gratia payments

8. To terminate employment in accordance with Council policy, and on grounds of permanent ill health
9. To determine action in sickness absence cases lasting six months or more
10. To take disciplinary action in accordance with Council policy (except JNC Chief Officers)

All the above delegations to officers are subject to any decisions or actions being within the budget framework. Any financial considerations outside this must first to be considered by Cabinet, and referred on to Council if necessary.

SECTION 7 - APPEALS COMMITTEE – Proposed Changes

Terms of Reference:

The determination of an appeal against any decision made by or on behalf of the Council, which does not fall within the Terms of Reference of another Committee.

DELEGATIONS TO OFFICERS

To the Chief Executive

To sanction emergency action, as set out in the rules of procedure for urgent business.

AUDIT COMMITTEE**28th June 2006****Annual Audit & Inspection Plan 2006/7****Report of Corporate Director (Finance & Performance)****PURPOSE OF REPORT**

To seek the Committee's endorsement to the 2006/07 Annual Audit & Inspection Plan

This report is public

RECOMMENDATION

- (1) That the Committee endorse the attached 2006/7 Annual Audit & Inspection Plan subject to any amendments made at the meeting.**

1.0 Introduction

- 1.1 Attached for the Committee's consideration is the 2006/7 Draft Annual Audit and Inspection Plan plus attachments from the Council's external auditor. The Plan maps out the programme of audit work planned for 2006/7 based on a risk assessment undertaken by the District Auditor that has regard to previous recent assessment and inspection work.
- 1.2.1 As in previous years, the Programme is delivered in partnership with the Council's own Internal Audit staff. The Plan clearly sets out what part of the programme will be undertaken by the District Auditor and that to be undertaken by Internal Audit.
- 1.3 Lastly, the Plan sets out the likely fee for undertaking the programme and a timetable of the reports the Council will receive throughout the period. In order to reduce audit fees, a number of specific actions will be undertaken and these are outlined in the Plan; where appropriate these have already been reflected in the fee put forward.
- 1.4 The Relationship Manager and/or his Audit Manager will attend to present the report.

CONCLUSION OF IMPACT ASSESSMENT

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

None arising from this report.

FINANCIAL IMPLICATIONS

The fee proposed within the Plan can be financed from the current budget provision for audit fees.

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has been consulted and has no comments to add.

LEGAL IMPLICATIONS

Legal Services have been consulted and have no comments to add.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no comments to add.

BACKGROUND PAPERS

None

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Audit and Inspection Plan

Date

Last saved: 15/06/2006 15:49:00

Audit and Inspection Plan

Lancaster City Council

Audit 2006/2007

Status of our reports to the Council

Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

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Introduction

- 1 This plan sets out the audit and inspection work that we propose to undertake in 2006/07. The plan has been drawn up from our risk-based approach to audit planning and reflects:
 - the Code of Audit Practice;
 - Audit and inspection work specified by the Audit Commission for 2006/07;
 - your local risks and improvement priorities; and
 - current national risks relevant to your local circumstances.
- 2 Your relationship manager will continue to help ensure further integration and co-ordination with the work of other inspectorates.

Our responsibilities

- 3 In carrying out our audit and inspection duties we have to comply with the statutory requirements governing them, and in particular:
 - the Audit Commission Act 1998;
 - the Code of Audit Practice (the Code) with regard to audit; and
 - the Local Government Act 1999 with regard to best value inspection and audit.
- 4 The Code defines auditors' responsibilities in relation to:
 - The financial statements of audited bodies; and
 - Audited bodies' arrangements for securing economy, efficiency and effectiveness in their use of resources. Auditors are now required to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources. We will give the first such conclusion by September 2006 as part of the 2005/06 audit.

The fee

- 5 For 2006/07 the Audit Commission has changed its fee scale structure and details are set out in the Commission's Work Programme and Fee scales 2006/07. Audit fees are based on a number of variables, including the type, size, location and complexity of the audited body and the national and local risks.
- 6 Inspection fees are based on the actual number of days included in the plan for each programmed activity.

The total fee estimate for the audit work planned for 2006/07 is £107,665 and the total fee estimate for inspection work planned for 2006/07 is £2,858, a combined total of £110,525. This compares with a total audit and inspection fee of £116,260 in 2005/06. In addition we estimate that we will charge approximately £42,310 for the certification of claims and returns. Further details are provided in Appendix 1.

- 7 The audit and inspection fees include all work identified in this plan unless specifically excluded. Further details are provided in Appendix 1 which includes specific audit risk factors, the assumptions made when determining the audit fee, specific actions Lancaster City Council could take to reduce its audit fees and the process for agreeing any additional fees.
- 8 Changes to the plan and the fee may be necessary if our audit risk assessment changes during the course of the audit. This is particularly relevant to work related to:
 - the opinion on the 2006/07 accounts since we have yet to audit the accounts for 2005/06 and detailed financial reporting requirements for 2006/07 are not yet known; and
 - work on selected performance indicators, since we have yet to assess your overall arrangements for securing the quality of this data and then to undertake a formal risk assessment under our new methodology.
- 9 We will formally advise you if any changes to the fee become necessary.

CPA and inspections

- 10 The CPA framework for District Councils from 2006 is currently subject to consultation. It is expected that the proposed methodology will be published during 2006 and that the opportunity for re-categorisation will be available for some councils during 2006/07.
- 11 If the new methodology identifies the need or opportunity for a revised corporate assessment for Lancaster City Council, we will discuss an amendment to this plan and agree an additional fee for completion of the work.
- 12 Following the Council's classification as a Fair council in 2004 we have applied the principles of strategic regulation recognising the key strengths/weaknesses in the Council's performance. During 2005 we reported that:
- The Council is addressing the areas of weakness identified in the corporate performance assessment of 2004. Stronger corporate governance arrangements are resulting in more productive decision making. Financial stability has been maintained through continued improvements in financial management and control. A consistent vision and clear priorities are providing a good strategic direction and attracting the commitment of staff, councillors and partners. Strengthened internal structures are supporting better analysis of weak areas so that the Council can focus its efforts and resources more efficiently. This is leading to improved outcomes in targeted service areas such as benefits; planning, housing and customer access.
 - Despite the Council's efforts, public satisfaction, when last tested, with its services overall was low especially in areas of local priority such as street cleaning. Whilst a number of changes are being made at a corporate level to support improvement, for example around performance management and workforce planning, these are not yet effectively and consistently in place across the Council. An environment inspection covering waste management is to be undertaken shortly as part of our agreed 2005/06 audit and inspection plan.
- 13 As a consequence our inspection activity for 2006-07 will focus on those areas highlighted below:

Table 1 Summary of inspection activity

Inspection activity	Reason/impact
Relationship Manager role	To act as the Commission's primary point of contact with the authority and the interface at the local level between the Commission and the other inspectorates, Government Offices and other key stakeholders.
Direction of Travel review	To provide focus for continuous improvement. Likely to be included in CPA scorecard.

Summary of key audit risks

- 14 This section summarises our assessment and the planned response to the key audit risks which may have an impact on our objectives to:
 - provide an opinion on your financial statements;
 - provide a conclusion on your use of resources;
 - provide a scored judgement on the use of resources to feed into the CPA process;
 - undertake audit work in relation to specified performance indicators to support the service assessment element of CPA; and
 - provide a report on the Council's best value performance plan (BVPP).
- 15 In assessing risk our approach to audit planning requires us to identify audit work that is relevant to your significant business risks that are not adequately controlled. The start point for this is the audited body's business risks. Business risks are defined by the Code of Audit Practice as "risks to the achievement of the audited bodies statutory functions and objectives".
- 16 To consider the significance of the risk we need to consider what the impact would be if the risk came to fruition both in terms of qualitative and quantitative measures.
- 17 If in our judgement risks are not likely to have a significant (or material) impact on the audited body then there is no further work required for us to do.
- 18 In order to identify such risks we have carried out the following:
 - reviewed your risk register
 - reviewed your corporate plan
 - reviewed budget documents - to identify new projects or risks, or general financial management risks
 - reviewed agenda papers/minutes of meetings - board/council/committees and officer groups
 - ongoing discussions with key officers at the Council
 - considered the issues raised within the Audit Commission's Auditor Briefing which highlights a number of national risks which may be relevant at Lancaster City Council
 - reviewed the results of the prior year audit work.
- 19 Our planned work takes into account information from other regulators, where available. Where risks are identified that are not mitigated by information from other regulators, or your own risk management processes, including Internal Audit, we will perform work as appropriate to enable us to provide a conclusion on your arrangements.

Value for money conclusion

- 20 The Code of Audit Practice requires us to issue a conclusion on whether you have proper arrangements in place for securing economy, efficiency and effectiveness in the use of your resources (the value for money conclusion). The Audit Commission has developed relevant criteria for auditors to apply in reaching our value for money conclusion as required under the Code of Audit Practice. These criteria are listed in Appendix 2. In meeting this responsibility, we will review evidence that is relevant to the Council's corporate performance management and financial management arrangements. We will give the first such conclusion by the end of September 2006 as part our audit of the 2005/06 accounts. This may influence our risk assessment for similar work to be carried out as part of the 2006/07 and we will keep you informed of any changes to this plan that may become necessary.

Use of resources judgement

- 21 Over and above the Code requirements described above, the Audit Commission requires auditors to make more qualitative assessments of the effectiveness of those arrangements in the form of a series of use of resources judgements. The key lines of enquiry (KLOEs) issued in June 2005 will be updated in Spring 2006 to reflect the lessons learned from the first year's experiences of applying the KLOEs, following a post implementation review of the assessment. Our fee estimate 2006/07 assumes that the KLOEs will be broadly similar to those used in 2005/06. If this changes we will discuss with you the implications, including any impact on the fee.
- 22 These judgements may also be used by the Commission as the basis for its overall use of resources judgement.
- 23 Using our cumulative knowledge and experience, including the results of previous work and other regulators' work, we have identified the following areas of audit risk to be addressed.

Table 2 Summary of use of resources audit risks

Audit risk	Response
<p>Financial Reporting - the following key improvement areas were identified:</p> <ul style="list-style-type: none"> • Continued efforts needed to meet earlier deadlines including any deadlines agreed with auditors • Ensuring accounts are free from all but trifling errors • Promoting external accountability through consultation on and publishing a summary of accounts. 	<p>As part of our annual use of resources assessment we will follow up what progress has been made in further strengthening financial reporting arrangements.</p>

Audit risk	Response
<p>Financial Management - a number of areas were identified for improvement including further development of medium term financial planning particularly with partners, budget monitoring particularly around partnerships and efficiency gains, improving performance measurement of the Council's assets and ensuring whole life costing is applied consistently to investment and disposal decisions.</p> <p>Implementation of the Council's plans for accessible services and the equal pay review will have a significant implication for the Council's financial plans which will need to be reflected in any future financial planning.</p> <p>The Council has a growing capital programme and a history of slippages on its programme. The risk of increased slippages and the knock on effect for achieving its objectives are thereby inherently increased. In addition prudential borrowing is now planned and it will be important to ensure that this is effectively managed.</p>	<p>We will review the Council's progress in strengthening financial management arrangements as part of our annual assessment of Use of Resources.</p> <p>We will review the extent to which the Council has been able to estimate the likely financial impact and the subsequent actions taken to ensure affordability in the medium to longer term as part of our annual use of resources work.</p> <p>We will review the position on management of the capital programme and the reasons for any slippages, and the way in which the Council is planning to record and control any prudential borrowing as part of our annual use of resources work.</p>
<p>Financial Standing - areas for improvement include setting and monitoring income collection targets for all categories of debt, reviewing the effectiveness of recovery actions and costs with arrears monitoring reports, identifying key indicators of financial health and setting targets for monitoring purposes and where target levels of reserves/balances are exceeded that opportunity costs and benefits are reported to members.</p>	<p>As part of our annual use of resources assessment we will follow up what progress has been made in further strengthening financial standing arrangements including how the Council continues to respond to new spending pressures as they arise.</p>

Audit risk	Response
<p>Internal Control - key areas for improvement included embedding risk management into corporate business planning processes and extending it to significant partnerships, further develop arrangements for the audit committee including supporting it to become more pro-active, ensure there are annual review processes for procedure for business critical systems, further development of fraud risk registers, and review the effectiveness of whistleblowing procedures.</p> <p>The Council was in the early stages of business continuity planning in 2005. This is a key area which needs to be developed to reduce risks to the Council to be able to sustain its delivery.</p> <p>In the recent management re-structure the monitoring officer role has been affected. It will be important that the monitoring officer function continues to be delivered appropriately within the Council.</p> <p>The ODPM have recently produced a national code of conduct for employees. The Council will need to review these and consider its own arrangements for ensuring the proper conduct of its employees in this context.</p> <p>There is a range of new responsibilities/requirements for local government relating to new legislation which the Council will need to respond to.</p>	<p>We will review the Council's progress in strengthening internal control arrangements as part of our annual assessment of Use of Resources.</p> <p>We will review the progress made in respect to business continuity planning as part of our annual use of resources work.</p> <p>We will review the impact of the change in arrangements for the monitoring officer role to ensure that they remain adequate.</p> <p>We will review how the Council has responded to the national code of conduct for employees and the adequacy of any changed arrangements which the Council has chosen to implement.</p> <p>We will review how the Council has responded to a range of legislation including the Race relations Act, Local Authorities Indemnities Act and new EU procurement directives.</p>

Audit risk	Response
<p>The Council is entering into various agreements relating to the regeneration of the West End of Morecambe. There are likely to be implications for the internal control of the organisation around these.</p> <p>High ethical standards are a cornerstone of good governance. The Council is considered to take this very seriously and has appropriate policies and procedures in place. We are unclear however, how well understood they are within the Council.</p>	<p>We will continue to keep track of development of the arrangements for regenerating the West End, reviewing their potential impact and the arrangements for managing any risks therein to inform our annual use of resources work.</p> <p>We will conduct a web based survey of members and officers focussing on compliance with codes of conduct, awareness and understanding of ethical and ethical behaviour.</p>
<p>VFM - key areas to strengthen include:</p> <ul style="list-style-type: none"> • obtaining further improvements in service performance and user satisfaction, • develop VFM comparisons across all service areas and undertake benchmarking of costs and quality • strengthen the emphasis on VFM in business planning and performance management arrangements including taking into account equity considerations, developing best practice approaches in procurement • continue to exploit the opportunities of ICT to enhance process efficiency across all service areas • strengthen monitoring of achievement of efficiency gains. <p>The Council is implementing a range of ambitious plans to improve services and the area of Lancaster District and Morecambe. These include significant changes to the way in which the Council is currently organised to deliver services and carries with it a need for a strong and effective approach to Human Resources, (HR) management to support those changes. Recently</p>	<p>We will review the Council's progress in strengthening VFM arrangements as part of our annual assessment of Use of Resources.</p> <p>We will review the new arrangements for the strategic management of HR focussing on how it is intended that these will best support the Council's plans for organisational and cultural change and plans for progressing workforce planning and ensuring fit for purpose HR policies are in place.</p>

Audit risk	Response
new arrangements have been made for the strategic management of HR and a new HR team manager has been appointed. Current issues include limited progress made in workforce planning, relatively high, (although reducing), sickness levels and the appropriateness of some key HR policies in the current environment.	
New systems in place surrounding the Local Area Agreement (LAA) for the Lancashire Area do not mitigate all of the risks arising from partnership working.	We will review the LAA arrangements covering governance and financial issues through the use of the Commission's risk diagnostic tool.

Performance information

- 24 In 2006/07, auditors are required to undertake audit work in relation to specified performance indicators to support the service assessment element of CPA, subject to the basis of the agreed methodology. This work will be risk based and will link at least in part to our review of the Council's overall arrangements to secure data quality (as required for our value for money conclusion). Our fee estimate includes an element for this work on the basis that we will assess Lancaster City Council as medium risk in relation to its performance indicators. For 2006/07 there are new requirements in respect of our audit of your performance indicators based on a three stage approach. We must:
- undertake a review of overall management arrangements to secure data quality
 - perform a completeness check of reported performance information, including an arithmetic check of calculations for CPA indicators
 - undertake data quality spot checks, comprising a more in-depth review of specified performance indicators.
- 25 This risk assessment may change depending on our assessment of your overall arrangements. When we have finalised our risk assessment we will update our plan including any impact on the fee.

Best value performance plan

- 26 We are required to report on whether or not you have complied with legislation and statutory guidance in respect of the preparation and publication of your Best Value Performance Plan (BVPP).

Financial statements

- 27 We will carry out our audit of the 2006/07 financial statements and follow the International Standards on Auditing (UK & Ireland).
- 28 We are also required to review whether the Statement on Internal Control has been presented in accordance with relevant requirements and to report if it does not meet these requirements or if the statement is misleading or inconsistent with our knowledge of the Authority.
- 29 On the basis of our preliminary work to date we have identified the following audit risks.

Table 3 Summary of Opinion risks

Opinion risks	Response
The 2006/07 financial statements will be based on the 2006 Statement of Recommended Practice (SORP). The draft SORP currently includes a number of significant amendments to the existing SORP, in particular around the capital financing charge, the consolidated revenue account, and the revaluation reserve.	We will work closely with the Council's Accountancy Section to ensure that it is fully aware of the proposed changes and will review the authority's closedown arrangements to ensure that there is sufficient resource in the plan to address the necessary changes. We will be holding local final accounts workshops which will focus on any proposed changes.
The Council is currently pursuing the creation of a third party company to manage the Storey Institute for Creative Industries. Depending on the relationship of the Council with the proposed company and the materiality of any interest the Council has in the company, there may be a requirement for the Council to prepare group accounts.	We will work closely with the Council's accountancy section to ensure that the accounting implications are properly considered and fully understood and will share examples of approaches to meet the SORP requirements in this regard.

- 30 Our fee estimate for 2006/07 is based on the assumption that the current standard of working papers will continue to improve and that internal audit will complete their planned work on key information systems to the agreed quality and by the agreed date and that the accounts will be prepared and fully supported by working papers by June 2007.
- 31 We have yet to undertake the audit of the 2005/06 financial statements and our 2006/07 financial statements audit planning will continue as the year progresses. This will take account of:
- the 2005/06 opinion audit;

- our documentation and initial testing of material information systems;
 - our assessment of the 2006/07 closedown arrangements; and
 - any changes in financial reporting requirements.
- 32 When we have finalised our risk assessment in respect of your financial statements, we will update our plan in advance of the audit detailing our specific approach, including any impact on the fee quoted above.

Whole of government accounts

- 33 The government is introducing whole of government accounts (WGA) in order to produce consolidated accounts for the whole public sector. WGA will include the accounts of local authorities and WGA data returns will be required for each authority. Audit requirements for the 2005/06 WGA returns have been established and the Audit Commission has written to the Council in relation to this work together with the fee implications. For 2006/07 the arrangements are not yet clear and the fee for auditing the 2006/07 returns is not included in this plan. We will discuss this with the Corporate Director (Finance and Performance) and the Chief Financial Officer when further details are available.

DRAFT

Claims and returns certification

34 We will continue to certify the Council's claims and returns.

- Claims for £50,000 or below will not be subject to certification.
- Claims between £50,001 and £100,000 will be subject to a reduced, light touch, certification audit.
- Claims over £100,000 have an audit approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced audit approach for these claims.

Charges for this work are based on skill-related fees scales set out in the Audit Commission's work programme and fee scales 2006/07. Based on this, and on the assumption that the number of grant claims will remain at a similar level and a continuing good control environment for the preparation of claims, we estimate that the fees for grant certification work will be around £42,310.

DRAFT

Voluntary improvement work

We are not proposing to do any voluntary improvement work at Lancaster City Council during 2006/07.

DRAFT

Other information

Outputs from the audit and inspection plan

- 35 The expected outputs from our planned audit and inspection work are listed in Appendix 3.

The team

Table 4

Name	Title
M Thomas	District Auditor and Relationship Manager
W Rossiter	Area Performance Lead
F Blatcher	Audit Manager
D Watson	Team Leader

- 36 We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing and ethical standards.
- 37 We comply with the ethical standards promulgated by the Auditing Practices Board and with the Commission's requirements in respect of independence and objectivity as set out at Appendix 4.

Appendix 1 - Audit and inspection fee

Table 5

Fee estimate	Plan 2006/07	Plan 2005/06
Audit		
Accounts	32,435	37,490**
Use of resources	75,230	67,420
Total audit fee	107,665	104,910
Inspection	0	*
Relationship management (net)	1,435	*
Service inspection (net)	0	*
Direction of travel (net)	1,423	*
Total inspection fee (net)	2,858	11,350
Total audit and inspection fee (net)	110,525	116,260
Certification of claims and returns	42,310	40,290
Voluntary improvement work	0	0

* Comparative information is not available for 2005/06 due to the changed fee structure.

** The 2005/06 accounts fee has been increased since the originally agreed plan due to the impact of the ISAs on the work required for the opinion

The total audit fee compared to the indicative fee banding equates to 3% per cent below mid-point.

- 38 The fee (plus VAT) will be charged in 12 equal instalments from April 2006 to March 2007.
- 39 The fee above includes all work contained in this plan except:
- any work required in relation to the Whole of Government Accounts (discussed in paragraph 35); and
 - any specific work required for CPA in 2006/07.

Specific audit risk factors

- 40 In setting the audit fee we have taken account of the following specific risk factors:

- issues highlighted as part of our Use of Resources assessment; and
- specific plans with a potential significant financial and organisational impact including accessible services and regeneration plans.

Assumptions

- 41 In setting the audit fee we have assumed:
- you will inform us of significant developments impacting on our audit;
 - Internal Audit meets the appropriate professional standards;
 - Internal Audit undertakes appropriate work on all material information systems that provide figures in the financial statements sufficient that we can place reliance for the purposes of our audit recognising the shift in requirements introduced by the International Standards on Auditing (ISA);
 - officers will provide good quality working papers and records to support the financial statements by the beginning of July
 - officers will provide requested information within agreed timescales;
 - officers will provide prompt responses to draft reports; and
 - your Performance Indicators will be adequately prepared and reviewed.
- 42 The key lines of enquiry (KLOEs) issued in June 2005 will be updated in Spring 2006 to reflect the lessons learned from the first year's experiences of applying the KLOEs, following a post implementation review of the assessment.
- 43 Where these requirements are not met or our assumptions change, we will be required to undertake additional work which is likely to result in an increased audit fee.
- 44 Changes to the plan will be agreed with you. These may be required if:
- new risks emerge;
 - additional work is required of us by the Audit Commission or other regulators; and
 - there are any changes to financial reporting requirement, professional auditing standards or legislation which results in additional work.

Specific actions Lancaster City Council could take to reduce its audit fees

The Audit Commission requires its auditors to inform a council of specific actions it could take to reduce its audit fees. In developing this plan, initial thoughts have already been shared with the Council's officers and the following reductions have been agreed and are reflected in the fee shown in Appendix 1:

- the Council is going to complete a self assessment of its progress on democratic renewal which will include a survey of members. This will reduce audit time needed to follow up on progress and impact since our original report and has reduced the fee by £5,500: The self assessment will be shared with us and will inform our review of the Council's direction of travel
 - actions are continuing to further improve the working papers provided and the quality of the Council's financial statements. We have estimated a further reduction of £5,500 although if there are issues this may need to be renegotiated.
- 45 Actions which are currently being taken and which could impact on audit fees in the future relate to ensuring effective quality assurance processes are in place to ensure the accuracy of performance information.

Process for agreeing any changes in audit fees

- 46 If we need to amend the audit or inspection fees during the course of this plan we will firstly discuss this with the Corporate Director (Finance and Performance). We will then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

Appendix 2 – Criteria to inform the auditor's conclusion on proper arrangements for securing economy, efficiency and effectiveness in the use of resources

Arrangements for establishing strategic and operational objectives

- 1 The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.

Arrangements for ensuring that services meet the needs of users & taxpayers, and for engaging with the wider community

- 2 The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.

Arrangements for monitoring and reviewing performance, including arrangements to ensure data quality

- 3 The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.
- 4 The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.

Arrangements for ensuring compliance with established policies, procedures, laws and regulations

- 5 The body has put in place arrangements to maintain a sound system of internal control.

Arrangements for identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working

- 6 The body has put in place arrangements to manage its significant business risks.

22 Audit and Inspection Plan | Appendix 2 – Criteria to inform the auditor’s conclusion on proper arrangements for securing economy, efficiency and effectiveness in the use of resources

Arrangements for ensuring compliance with the general duty of best value

- 7 The body has put in place arrangements to manage and improve value for money.

Arrangements for managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body

- 8 The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.
- 9 The body has put in place arrangements to ensure that its spending matches its available resources.
- 10 The body has put in place arrangements for managing performance against budgets.
- 11 The body has put in place arrangements for the management of its asset base.

Arrangements for ensuring that the audited body’s affairs are managed in accordance with proper standards of conduct, and to prevent and detect fraud & corruption

- 12 The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.

Appendix 3 – Planned outputs

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

Table 6

Planned output	Start date	Draft due date	Key contact
Audit and Inspection Plan	February 2006	April 2006	Audit Manager
BVPP opinion and PI audit memorandum	TBA	31st December 2006	Audit Manager
Report on financial statements to those charged with governance (ISA 260)	July 2007	September 2007	Audit Manager
Opinion on financial statements	July 2007	September 2007	Audit Manager
VFM conclusion	ongoing	September 2007	Performance Lead
Final accounts memorandum	July 2007	October 2007	Audit Manager
Ethical Governance survey output	TBA	TBA	Audit Manager
HR Management review	August 2006	November 2006	Performance Lead
Direction of Travel assessment for inclusion with 2005/06 annual audit and inspection letter	October 2006	TBA	Performance Lead
Annual audit and inspection letter	October 2007	TBA	District Auditor and Relationship Manager

Appendix 4 – The Audit Commission’s requirements in respect of independence and objectivity

- 1 Auditors appointed by the Audit Commission are subject to the Code of Audit Practice (the Code) which includes the requirement to comply with ISA UKIs when auditing the financial statements. Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm’s independence and the objectivity of the audit engagement partner and audit staff. Standards also place requirements on auditors in relation to integrity, objectivity and independence.
- 2 The standards define ‘those charged with governance’ as ‘those persons entrusted with the supervision, control and direction of an entity’. In your case the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.
- 3 Auditors are required by the Code to:
 - carry out their work with independence and objectivity;
 - exercise their professional judgement and act independently of both the Commission and the audited body;
 - maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
 - resist any improper attempt to influence their judgement in the conduct of the audit.
- 4 In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors’ functions under the Code. If the Council invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under s 35 of the Audit Commission Act 1998.
- 5 The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:
 - any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner or Regional Director;
 - audit staff are expected not to accept appointments as lay school inspectors;

- firms are expected not to risk damaging working relationships by bidding for work within an audited body’s area in direct competition with the body’s own staff without having discussed and agreed a local protocol with the body concerned;
- auditors are expected to comply with the Commission’s statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors’ conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors’ independence;
- auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission;
- auditors are expected to comply with the Commission’s policy for both the District Auditor/Partner and the second in command (Senior Manager/Manager) to be changed on each audit at least once every five years with effect from 1 April 2003 (subject to agreed transitional arrangements);
- audit suppliers are required to obtain the Commission’s written approval prior to changing any District Auditor or Audit Partner/Director in respect of each audited body; and
- the Commission must be notified of any change of second in command within one month of making the change. Where a new Partner/Director or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual’s relevant qualifications, skills and experience.

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AUDIT COMMITTEE

**STATEMENT OF ACCOUNTS 2005/06
28 JUNE 2006**

Report of Head of Financial Services

PURPOSE OF REPORT
This report seeks Members' approval of the draft Statement of Accounts for 2005/06 and outlines the audit process for information.
This report is public.

RECOMMENDATIONS

- (1) That the Committee considers the Accounts and any issues arising.
- (2) That the draft Statement of Accounts for the financial year ended 31 March 2006 be approved, and that the Chairman signs and dates the Accounts accordingly.

1 ACCOUNTS AND AUDIT REGULATIONS 2003

1.1 Each year Councils must make arrangements for the production, approval, inspection and audit of their accounts. The Account and Audit Regulations set out various requirements in relation to the process, and back in 2003 they were updated to provide for the following:

- Date of Approval
Previously Councils had to gain approval of their accounts by 30 September. This deadline has been brought forward on a phased basis and for accounts relating to 2005/06 onwards, the deadline is now 30 June.
- Signing of Accounts by Chairman
The intention behind this requirement is that the chairman's signature should represent the completion of the Council's approval process for its accounts. The requirement for him to sign does not relate to the role of the chief financial officer. That officer alone is responsible for certifying that the statement of accounts is a proper reflection of the Council's financial position.
- Inclusion of statement of internal control
This is the subject of an item elsewhere on the agenda.

– Publication of Accounts

The deadline for publication has also been brought forward and it is now 30 September.

2 APPROVAL AND AUDIT OF ACCOUNTS PROCESS

- 2.1 Under the Constitution, this Committee has specific authority to approve the Statement of Accounts. Subject to this approval being gained, the Chairman is asked to sign and date a copy of the accounts for the purpose outlined above.
- 2.2 The draft accounts are attached at **Appendix A**; should there be any further changes made prior to Committee, these will be reported into the meeting. Outline explanatory information on interpreting the accounts and the key issues arising are included in the 'Foreword' section, and Members may find this a useful overview and starting point in their deliberations.
- 2.3 The District Auditor will commence the audit of accounts on Tuesday 04 July. The four week public inspection period will commence on Monday 17 July, and the District Auditor will be available to answer local electors' questions relating to the accounts on Monday 14 August. In accordance with the Regulations, these dates are being advertised in the local press and on the website.
- 2.4 If any significant issues or 'non-trifling' matters arise during the audit these will need to be reported back for consideration by the Committee. In any event, the outcome of the audit will be included within the District Auditor's Annual Audit and Inspection Letter to the Authority, which will be reported to all Members in due course.
- 2.5 Once audited, the Statement of Accounts will be published by 30 September. If practicable summary information may also be made available as appropriate, through other existing Council publications and the website.

3 Details of Consultation

No other consultation, other than the public inspection period as set out.

4 Options and Options Analysis (including risk assessment)

Members could approve the accounts as set out, which would meet the statutory deadline, and could request further information. As the approval process represents, in the main, an acknowledgement that the draft accounts have been completed, there are no substantive alternative options put forward. If, however, Members have concerns or issues regarding the accounts, these may be noted and further information could be submitted to a future meeting.

5.0 Conclusion

- 5.1 The approval of the Accounts by the Committee would ensure that the statutory deadline is met. This represents a significant achievement by all those involved in the process.

CONCLUSION OF IMPACT ASSESSMENT

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

No implications directly arising.

FINANCIAL IMPLICATIONS

The Statement reflects the 2005/06 provisional outturn position, which is to be reported in more detail to Cabinet in July. Any further implications arising for current and future years are currently being assessed and will feed through into this year's corporate financial monitoring and/or the review of the Medium Term Financial Strategy.

DEPUTY SECTION 151 OFFICER'S COMMENTS

This report was prepared by the s151 officer as part of her responsibilities. Clearly the subject of the report is subject to external audit, the outcome of which will also be reported to Members.

LEGAL IMPLICATIONS

Legal Services have been consulted and have no comments to add.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no comments to add.

BACKGROUND PAPERS

Accounting and Audit Regulations 2003.

Contact Officer: Nadine Muschamp

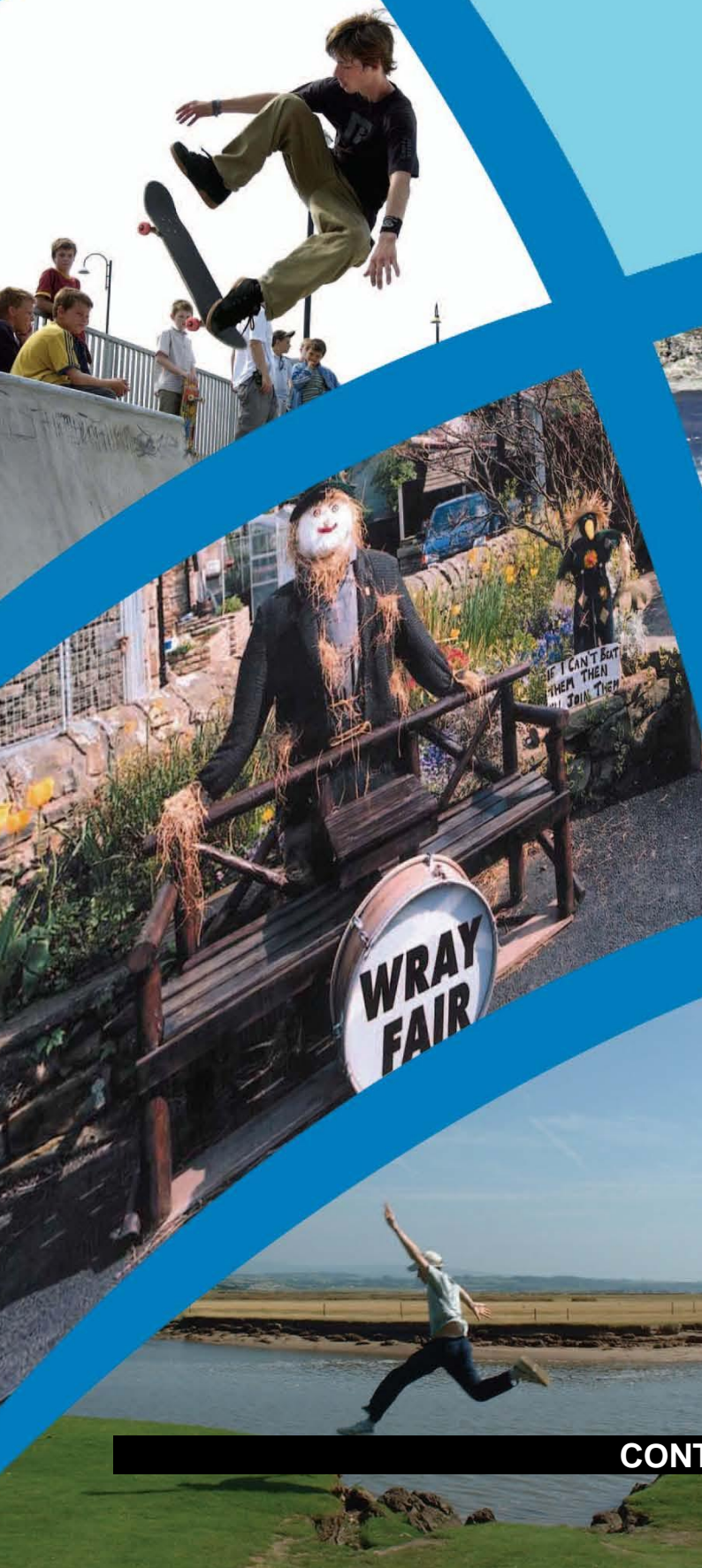
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E-mail: nmuschamp@lancaster.gov.uk

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Statement of Accounts



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LANCASTER

Promoting City, Coast & Countryside

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STATEMENT OF ACCOUNTS

EXPLANATORY FOREWORD

1 INTRODUCTION

This document sets out the City Council's annual accounts for the financial year ended 31 March 2006. The format follows the requirements for publication of financial information as set out by the Code of Practice on Local Authority Accounting. It includes a statement of the accounting policies adopted by the Authority, together with a brief explanation of the purpose of and links between the main accounting statements.

The purpose of this foreword is to provide an overall summary of the Council's financial position for 2005/06 and assist in the interpretation of the accounting statements.

2 REVENUE POSITION

2.1 Revenue Summary

The table below summarises the General Fund revenue income and expenditure for the financial year 2005/06.

Expenditure	2005/06 Original Estimate £000	2005/06 Revised Estimate £000	2005/06 Actual £000	Variance from Revised Estimate £000
Central Services to the Public	961	748	720	(28)
Cultural, Environmental and Planning Services	15,010	16,311	15,482	(829)
Highways, Roads & Transport Services	335	269	430	161
Housing Services	3,514	3,545	4,122	577
Corporate & Democratic Core	2,268	2,464	2,263	(201)
Unapportionable Central Overheads	473	(1,289)	(1,341)	(52)
Net Cost of General Fund Services	22,561	22,048	21,676	(372)
Corporate Income & Expenditure	(676)	(1,638)	(1,560)	78
Appropriations	(2,310)	(764)	(711)	53
Parish Precepts	245	245	245	--
Contribution to/(from) General Fund Reserve	(116)	(187)	54	241
BUDGET REQUIREMENT	19,704	19,704	19,704	--
Funded by :				
Revenue Support Grant	(8,888)	(8,888)	(8,888)	--
National Non Domestic Rates	(3,922)	(3,922)	(3,922)	--
Council Tax	(6,894)	(6,894)	(6,894)	--
Collection Fund Balance	--	--	--	--
TOTAL FUNDING	(19,704)	(19,704)	(19,704)	--

2.2 General Fund

The General Fund accounts for income and expenditure associated with the day to day running of all the services that the Council provides, with the exception of local authority housing (see section 2.3 below). The General Fund Revenue Budget for 2005/06 was originally approved by Council on 01 March 2005 at £19.704M (including £244,800 for precept payments to parishes) and assumed that balances would be £1.273M by 31 March 2006, though these were increased by a further £457,000 following the 2004/05 outturn.

Overall in 2005/06 there has been a net underspend of £241,000 against the Revised Budget. The main savings areas have been staff turnover, recycling and trade waste collection. However, net expenditure has also increased in areas such as Salt Ayre Sports Centre, searches and markets. As a result of all these changes the General Fund unallocated balance stands at £2.061M as at 31 March 2006, which is well in excess of the basic minimum £1M level. This is before consideration of any requests to carry forward budgets; if any are approved this will effectively reduce available unallocated balances.

2.3 Housing Revenue Account (HRA)

The Local Government and Housing Act 1989 requires Councils to maintain a separate ring-fenced account for the provision of local authority housing, which cannot be subsidised by the General Fund. This account, known as the Housing Revenue Account (HRA), deals with all the transactions involving the management of the Council's housing stock. Full details of this are included later within these accounts.

As at 31 March 2006, the working balance on the Housing Revenue Account amounted to £1.152M, representing an increase of £123,000 from the position as at the end of the previous year, and an increase of £122,000 on the estimated position. This increase is mainly due to reduced spending on repair and maintenance, additional investment interest, and a reduced contribution to the bad debt provision. Current Council Policy is to maintain housing balances at £350,000.

2.4 Former Direct Service Organisations

The remaining functions that still operate trading accounts include Building Maintenance and Highways, however Building Maintenance has been consolidated within Council Housing with effect from 01 April 2005.

For 2005/06 the financial performance of Highways was better than estimated, with a surplus of £230,000 against a budgeted surplus of £69,000. The Building Maintenance section's deficit was higher than estimated though, being £130,000 against a budgeted break even position.

3 CAPITAL POSITION

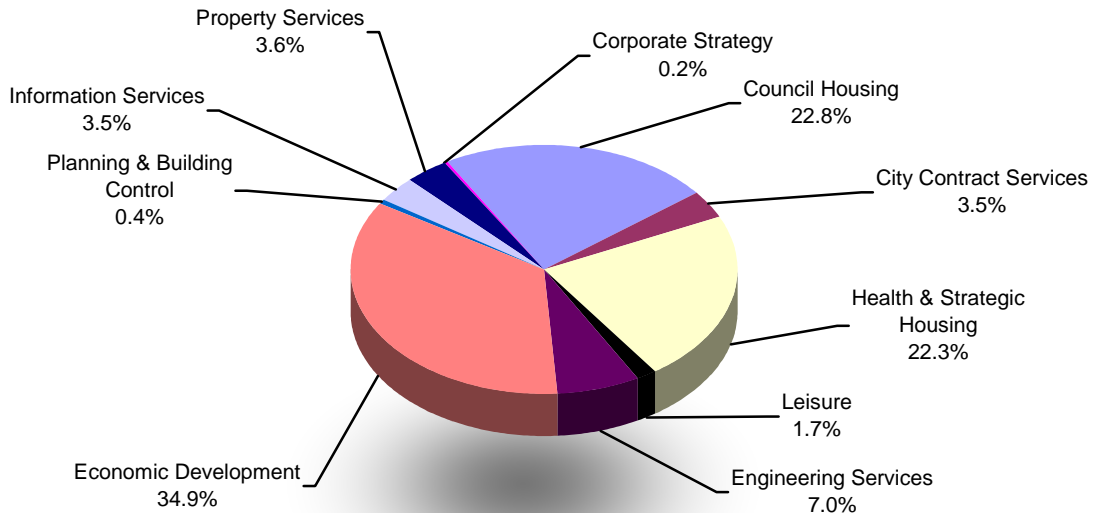
In 2005/06 the City Council spent £17.642M on capital schemes, and an analysis of the expenditure and funding is shown diagrammatically on the following page.

The Council's capital programme for 2005/06 was £22.351M, however due to delays in starting a number of schemes, £3.7M of this spend will need to be rolled forward into 2006/07.

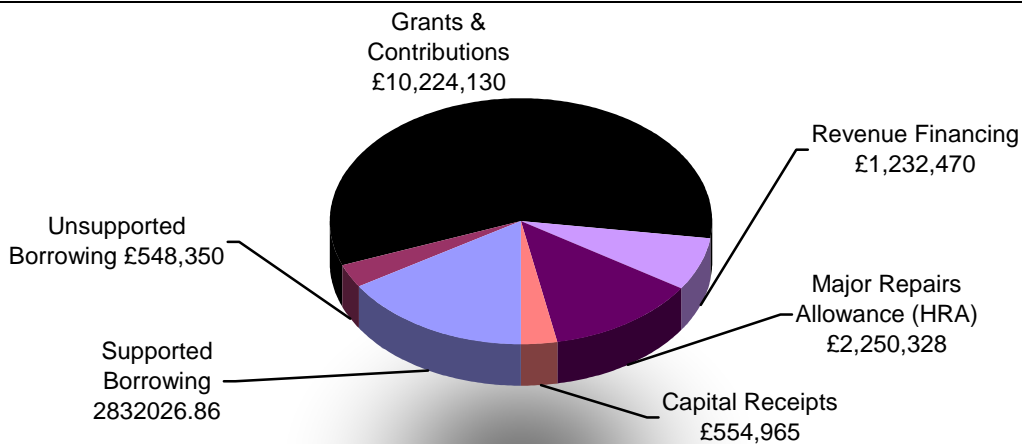
The capital programme is financed from a variety of sources such as capital receipts, grants, revenue, reserves and borrowing. The latter is in the form of "supported" or "unsupported" borrowing. Supported borrowing is where the Government provides support for the associated borrowing costs, and unsupported borrowing is where the Council can borrow money provided it can meet certain criteria, such as affordability, which are determined by the Prudential Code Framework.

In 2005/06 the cost of financing external borrowing was £2.6M, and the value of long term debt owed as at 31 March 2006 amounted to £44.8M, which is an increase of £3.3M on the previous year. The overall level of debt should be viewed in relation to the Council's long term assets, which had a net book value of £238M as at 31 March 2006.

Capital Expenditure Analysed by Service



Capital Funding Analysed by Source



4 PENSION LIABILITY

In accordance with recent changes to accounting practice, the Council must show the present surplus or deficit position on its share of the Pension fund. For Lancaster, the net position as at 31 March 2006 showed a liability of £33.031M compared to a liability of £34.983M for the previous financial year. This represents a decrease in liability of £1.952M.

The liabilities have been assessed on an actuarial basis using an estimate of the pensions that will be payable in future years, taking account of assumptions about mortality rates, salary levels etc., and clearly these may vary. Also it is emphasised that such estimated liabilities will not become due immediately or all at once, as they relate to estimated pensions payable to current scheme members on their normal retirement dates. The position represents simply a snapshot as at the end of the financial year, based on prevailing market and other economic conditions and assumptions. As such, it may fluctuate markedly from one year to the next.

Notwithstanding these points, however, the future costs and funding of pensions are national issues that are currently being considered by Government.

5 BEST VALUE PERFORMANCE PLAN

The production of the 2005/06 Statement of Accounts has again been produced one month earlier than the previous year, in line with statutory deadlines. As a result of this improvement it has been possible to provide final outturn figures for the 2005/06 Best Value Performance Plan, which will be presented to the Budget and Performance Panel on 25 July 2006.

6 CONCLUSION

During 2005/06 the Council continued to strengthen its overall financial position, in line with the improvements made in previous years. It has kept its net spending within budget and whilst there are some areas of overspending, the majority of underspends have been on controllable income and expenditure areas. As at 31 March 2006 balances were well above the basic minimum level, though in accordance with its stated policy most of the excess has already been identified to support future years' spending.

A more detailed report on the outturn position will be presented in due course to Cabinet and the Budget and Performance Panel. This scrutiny of the 2005/06 financial performance will then inform the review of the Council's Medium Term Financial Strategy, and the 2006/07 corporate financial monitoring process.

SUMMARY OF FINANCIAL STATEMENTS

Statement of Responsibilities

This explains the statutory responsibilities of the Council and its appropriate officers for the compilation and approval of the Statement of Accounts.

Statement of Accounting Policies

This explains the basis of the figures shown in the accounts. It sets out the policies that have been followed in dealing with major items to help with understanding the accounts.

Statement on the Systems of Internal Control and Corporate Governance

This sets out the framework within which internal control and corporate governance are managed and reviewed, and highlights any major weaknesses and corrective action.

Consolidated Revenue Account

This reports the costs for the year of the major functions for which the Council is responsible and compares that cost with the finance provided from Council Tax, redistributed Non Domestic Rates and Revenue Support Grant from Central Government.

Housing Revenue Account

This reflects a statutory obligation to account separately for local authority housing provision. It shows the major elements of housing revenue expenditure and how these are met by rents, subsidy and other income.

Collection Fund

This shows the transactions of the Council as a charging authority in relation to Non Domestic Rates, the Council Tax and any residual Community Charge. It illustrates the way in which these have been distributed to precepting authorities (such as the County Council and Police Authority) and the Council's own General Fund.

Consolidated Balance Sheet

This is fundamental to the understanding of the Council's year end financial position. It shows the balances and reserves at the Council's disposal and its long term indebtedness, the net current assets employed in the operations, and summarises information on fixed assets held. (It excludes Trust Funds).

Statement of Total Movements in Reserves

This statement brings together all the recognised gains and losses of the Authority during the year and identifies those which have and have not been recognised in the Consolidated Revenue Account. The statement separates the movements between revenue and capital reserves.

Cash Flow Statement

This consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

Group Accounts

This statement consolidates any material interests the Council may have in subsidiary and associated companies within one set of accounts.

It should be noted that Lancaster has no material interest in any companies and as such, there are no Group Accounts included in the Statement. Details of the Council's minority interests in any companies are shown in the notes to the Consolidated Balance Sheet.

Bequests, Endowments and Trust Funds

These show the accounts of various Funds for which the Council is Trustee.

AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT TO LANCASTER CITY COUNCIL

STATEMENT OF ACCOUNTS

STATEMENT OF RESPONSIBILITIES

1 THE AUTHORITY'S RESPONSIBILITIES

The authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Head of Financial Services;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the statement of accounts, with the Chairman of the appropriate Committee signing and dating the statement accordingly.

2 AUDIT COMMITTEE CHAIRMAN'S CERTIFICATE

I certify that the Statement of Accounts for the financial year 2005/06 was approved by the Audit Committee at its meeting held on 28 June 2006, prior to the audit being completed.

Cllr M Thomas

3 THE HEAD OF FINANCIAL SERVICES' RESPONSIBILITIES

The Head of Financial Services as Section 151 Officer is responsible for the preparation of the authority's statement of accounts in accordance with proper practices set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("the Code of Practice").

In preparing this statement of accounts, the Head of Financial Services has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code of Practice.

The Head of Financial Services has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

4 HEAD OF FINANCIAL SERVICES' CERTIFICATE

I certify that the Statement of Accounts presents fairly the financial position of the authority as at 31 March 2006 and the income and expenditure for the year then ended.



Nadine Muschamp, CPFA
Head of Financial Services

STATEMENT OF INTERNAL CONTROL AND CORPORATE GOVERNANCE

To be updated following approval of the statement by Audit Committee.

STATEMENT OF ACCOUNTING POLICIES

1 GENERAL

The accounts of the authority have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2004 : A Statement of Recommended Practice* (SORP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), and also with the supplementary guidance notes issued by CIPFA on the application of the Statement of Recommended Accounting Practice to local authorities.

The purpose of this statement is to explain the basis of the figures included in the accounts, as the view that they present can only be properly appreciated if these policies are explained fully. This statement provides this information.

2 ACCRUALS OF INCOME AND EXPENDITURE

All expenditure and income, both revenue and capital, has been accrued and accounted for in the period to which it relates.

3 FIXED ASSETS

3.1 Recognition

Expenditure on the acquisition of a tangible asset, or expenditure which adds to, and not merely maintains, the value of an existing asset, is capitalised and classified as a fixed asset, provided that the fixed asset yields benefits to the Authority and the services it provides for a period of more than one year. Generally where such expenditure is less than the de minimis level of £10,000, it is not capitalised, but is charged to revenue in the year in which it is incurred.

Assets acquired under finance leases are capitalised and included together with a liability to pay future rentals.

Where a fixed asset is acquired for other than a cash consideration or where payment is deferred, the asset is recognised and included in the balance sheet at fair value.

Capital expenditure incurred on fixed assets, which does not materially add to the value of the assets concerned, is charged in full to the relevant fixed asset with the excess of any cost over value being written off to the fixed asset restatement reserve.

3.2 Measurement

De minimis levels have been revised for 2005/06 and set so that assets of small value do not have to be included in the balance sheet. This is done on the grounds that their exclusion has no material effect.

Infrastructure assets and community assets are included in the balance sheet at historical cost, net of depreciation, where appropriate.

Properties regarded by the Authority as operational have been valued on the basis of open market value for the existing use or, where this could not be assessed because there was no market for the subject asset, the depreciated replacement cost.

Vehicles and moveable plant are regarded as operational, and are included in the balance sheet at depreciated replacement cost. Where depreciated replacement cost is not available, historic cost has been used as a proxy.

Properties regarded by the Authority as non-operational have been valued on the basis of open market value.

Fixtures, fittings and immovable plant are included in the valuation of the buildings.

3.3 Revaluations

Where an asset is included in the balance sheet at current value, it should be formally revalued at intervals of not more than five years and the revised amount included in the balance sheet.

The value at which each category of assets is included in the balance sheet is reviewed at the end of each reporting period and where there is reason to believe that its value has changed materially in the period, and that the change is likely to be other than temporary, the valuation is adjusted accordingly. Any such general reductions in asset values are disclosed as impairment changes.

3.4 Disposals

Income from the disposal of fixed assets is credited to the usable capital receipts reserve, and accounted for on an accruals basis. Where applicable, the proportion reserved for the repayment of external loans is credited to the capital financing reserve.

Where a fixed asset is disposed of for other than a cash consideration, or payment is deferred, an equivalent asset is recognised and included in the balance sheet at its fair value.

3.5 Depreciation

Depreciation is now provided for all relevant categories of fixed assets with a finite useful life, including council dwellings. For council dwellings the Major Repairs Allowance (MRA) is used as a proxy for depreciation.

For other assets, provision for depreciation is made by allocating the cost (or revalued amount) less estimated residual value of the assets as fairly as possible to the periods expected to benefit from their use. The depreciation methods used are the ones which are the most appropriate to the type of asset and their use in the provision of services.

The useful lives of assets are estimated on a realistic basis, reviewed regularly and, where necessary, revised.

Depreciation is not provided for freehold land (whether operational or non-operational). Depreciation is based on the amount at which the asset is included in the balance sheet, whether net current replacement cost or historical cost, and is calculated on the opening balance.

4 DEFERRED CHARGES

Following changes to the 2004 SORP the heading for deferred charges has been replaced with intangible assets, which brings the terminology in line with UK GAAP and recognises the requirements of FRS10 "Goodwill and Intangible Assets"

Deferred charges should be amortised to revenue over an appropriate period consistent with the consumption of the economic benefits controlled by the Local Authority. Because of the types of expenditure to which deferred charges usually apply, eg improvement grants, a local authority will seldom control the economic benefit arising from the expenditure and in such cases 100% of the deferred charge is amortised to revenue in the year the deferred charge is recognised.

5 INTANGIBLE ASSETS

In those cases where the authority does control the economic benefit arising from the expenditure then it is recognised as an asset in the balance sheet. Purchased intangible assets (eg software licences) are now capitalised as assets based on actual cost, and are amortised to revenue over a five year period.

6 BASIS FOR CHARGES FOR CAPITAL

Each service within the City Council is charged with a capital charge for all fixed assets used in the provision of that service. Such charges cover the annual provision for depreciation, where appropriate, plus a capital financing charge determined by applying a specified notional rate of interest to the net value at which the asset is included in the balance sheet.

7 DEBTORS AND CREDITORS

The revenue and capital accounts of the Council are maintained on an accruals basis in accordance with the Code of Accounting Practice and FRS 18. That is, sums due to or from the Council during the year are included whether or not the cash has actually been received or paid in the year. There are minor exceptions but these are not material compared with the total for the year.

8 STOCKS AND WORKS IN PROGRESS

Goods and materials chargeable to revenue, which have not been consumed by the end of the year, have been carried forward to be charged in the accounting period in which they are consumed. SSAP9 requires that stocks should be shown at the lower of cost or net realisable value. Stocks held in stores are shown in the accounts at their latest replacement cost net of provision for obsolescence / reduction in value, as an estimation of their net realisable value. Other stocks are shown at cost price.

Work in progress at the year end is included in the accounts at cost price.

9 OVERHEADS

Charges or apportionments covering all support service costs are made to all their users, including services to the public, divisions of services, trading undertakings, capital accounts, services provided for other bodies and other support services.

The cost of service management (comprising all management except corporate management) is in the same way apportioned to the accounts representing the activities managed.

The bases of apportionment adopted is consistent for all the heads to which apportionments are made.

The costs of corporate management and unapportionable central overheads are allocated to separate objective headings kept for these purposes and are not reapportioned to any other heading.

10 PROVISIONS FOR BAD AND DOUBTFUL DEBTS

Provision has been made for doubtful debts, and known uncollectable debts have been written off during the year.

11 RESERVES

Amounts set aside for purposes falling outside the definition of provisions are considered as reserves, and transfers to and from them are distinguished from service expenditure disclosed in the Statement of Accounts. No expenditure is charged directly to any reserve.

Capital reserves are not available for revenue purposes and certain elements of them can only be used for specific statutory purposes. The fixed asset restatement account, usable capital receipts, and capital financing account are examples of such reserves.

12 PENSIONS

The attributable assets (if any) of each scheme should be measured at their fair value at the balance sheet date. Scheme assets include current assets as well as investments. Any liabilities such as accrued expenses should be deducted. The attributable scheme liabilities should be measured on an actuarial basis using the projected unit method. The scheme liabilities comprise:

- i. any benefit promised under the formal terms of the scheme; and
- ii. any constructive obligations for further benefits where a public statement or past practice by the employer has created a valid expectation in the employees that such benefits will be granted.

The surplus/deficit in a scheme is the excess/shortfall of the value of the assets in the scheme over/below the present value of the scheme liabilities. An authority should recognise an asset to the extent that it is able to recover a surplus either through reduced contributions in the future or through refunds from the

scheme. An authority should recognise a liability to the extent that it reflects its legal or constructive obligation.

Any unpaid contributions to the scheme should be presented in the balance sheet as a creditor due within one year.

The change in the defined benefit asset or liability (other than that arising from contributions to the scheme) should be analysed into the following components:

- i. Periodic costs:
 - a. current service cost;
 - b. interest cost;
 - c. expected return on assets; and
 - d. actuarial gains and losses; and
- ii. Non-periodic costs:
 - a. past service costs; and
 - b. gains and losses on settlements and curtailments.

The current service cost should be included within Net Cost of Services (except in so far as the related employee remuneration is capitalised in accordance with the Code and Statute). The net of the interest cost and the expected return on assets should be included within Net Operating Expenditure. Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date should be recognised in the Statement of Total Movements for the period.

Past service costs should be recognised in Net Cost of Services on a straight-line basis over the period in which the increases in benefit vest. To the extent that the benefits vest immediately, the past service cost should be recognised immediately.

Losses arising on a settlement or curtailment not allowed for in the actuarial assumptions should be measured at the date on which the authority becomes demonstrably committed to the transaction and recognised in Net Cost of Service at that date. Gains arising on a settlement or curtailment now allowed for in the actuarial assumptions should be measured at that date on which all parties whose consent is required are irrevocably committed to the transaction and recognised in Net Cost of Services at that date.

13 INVESTMENT INTEREST

Interest is credited to the General Fund and the Housing Revenue Account based on the equated level of their respective fund balances.

14 INVESTMENTS

Current investments are shown in the Consolidated Balance Sheet at cost less any provision required for loss in value. Dividends on Longer Term Investments have been credited to revenue when paid. Details of the Council's holdings in any companies are set out in the notes to the Consolidated Balance Sheet.

15 GOVERNMENT GRANTS

Where the acquisition of a fixed asset is financed either wholly or in part by a government grant or other contribution, the amount of the grant or contribution is credited initially to the government grants-deferred account. Amounts are released to the asset management revenue account over the useful life of the asset to match the depreciation charged on the asset to which it relates.

Government grants and other contributions are accounted for on an accruals basis and recognised in the accounting statements when the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received.

16 LEASES

Rental payments under finance leases are apportioned between the finance charge and the principal element, i.e. the reduction of the liability to pay future rentals. The finance element of rentals is charged to the asset management revenue account.

Rentals payable under operating leases are charged to revenue on an accruals basis.

17 DEBT RESCHEDULING

Gains or losses arising on the repurchase or early settlement of borrowing are recognised in the consolidated revenue account in the periods during which the repurchase or early settlement is made. Where however the repurchase of borrowing is coupled with a refinancing or restructuring of borrowing with substantially the same economic effect when viewed as a whole, gains and losses are recognised over the life of the replacement borrowing. The balance of any outstanding premia is held on the balance sheet as deferred premium.

18 MINIMUM REVENUE PROVISION

In accordance with the requirements of the Local Government and Housing Act 1989 the Authority is required to set aside a minimum revenue provision for repayment of debt. This is the aggregate of 4% of the Adjusted Capital Financing Requirement at the beginning of the year for the General Fund. If depreciation does not equal this amount a transfer to/from the Capital Financing Account is required for the difference.

19 CAPITAL RECEIPTS

Previously, capital receipts from the disposal of assets were treated in accordance with the provisions of the Local Government and Housing Act 1989, whereby 75% of council house sales were set aside to repay debt, however Section 11 (2)(b) of the Local Government Act 2003 now requires all or part of these receipts to be pooled and paid to the Secretary of State.

Capital receipts other than from the sale of council houses can be fully utilised to finance capital expenditure. Capital receipts from asset sales are held in the usable capital receipts reserve until such time as they are required to fund other capital expenditure. There is a statutory de minimis level of £10,000 in respect of capital receipts and sums received up to this limit are credited into the appropriate revenue account.

20 VALUE ADDED TAX

VAT is fully recoverable from Customs and Excise except in certain exceptional cases. Consequently all expenditure, whether revenue or capital, is shown in the accounts as net of VAT.

21 EXCEPTIONAL ITEMS, EXTRAORDINARY ITEMS AND PRIOR YEAR ADJUSTMENTS

Exceptional items should be included in the cost of the service to which they relate or on the face of the consolidated revenue account if that degree of prominence is necessary in order to give a fair presentation of the accounts. An adequate description of each exceptional item should be given within the notes to the accounts.

Extraordinary items should be disclosed and described on the face of the consolidated revenue account after dealing with all items within the ordinary activities of the authority and should be explained fully in a note to the accounting statements.

The majority of prior period items arise from corrections and adjustments that are the natural result of estimates inherent in the accounting process. Such adjustments constitute normal transactions for the year in which they are identified, and should be accounted for accordingly. Material adjustments applicable to prior years arising from changes in accounting policies or from fundamental errors should be accounted for by restating the comparative figures for the preceding period in the statement of account and notes and adjusting the opening balance or reserves for the cumulative effect. The cumulative effect of the adjustments should also be noted at the foot of the Statement of Total Movement in Reserves of the current period. The effect of prior period adjustments on the outturn for the preceding period should be disclosed where practicable.

22 POST BALANCE SHEET EVENTS

Where a material post balance sheet event occurs which:

- provides additional evidence relating to conditions existing at the balance sheet date; or
- indicates that application of the going concern concept to a material part of the authority is not appropriate.

changes should be made in the amounts to be included in the Statements of Accounts.

The occurrence of a material post balance sheet event which concerns conditions which did not exist at the balance sheet date should be disclosed. The disclosure should state the nature of the event and, where possible, an estimate of the financial effect of the event.

23 FOREIGN CURRENCY TRANSLATION

Income and expenditure arising from a transaction denominated in a foreign currency should be translated into £ sterling at the exchange rate in operation on the date on which the transaction occurred; if the rates do not fluctuate significantly, an average rate for a period may be used as an approximation. Where the transaction is to be settled at a contracted rate, that rate should be used.

At each balance sheet date, monetary assets and liabilities denominated in a foreign currency should be translated by using the closing rate or, where appropriate, the rates of exchange fixed under the terms of the relevant transactions.

24 CONTINGENT ASSETS

Contingent assets should not be accrued in the accounting statements, they should be disclosed by way of notes if the inflow of a receipt or economic benefit is probable.

25 CONTINGENT LIABILITIES

Contingent liabilities should not be accrued in the accounting statements, they should be disclosed by way of notes if there is a possible obligation which may require a payment or a transfer of economic benefits.

CONSOLIDATED REVENUE ACCOUNT FOR THE YEAR ENDED 31 MARCH

2004/05 £000		EXP £000	INC £000	NET £000	Notes
	NET COST OF SERVICES				
905	Central Service to the Public	9,611	(8,892)	719	
14,943	Cultural, Environmental & Planning Services	24,127	(8,645)	15,482	
426	Highways, Roads & Transport Services	4,105	(3,675)	430	
6,366	Housing Services	46,219	(39,737)	6,482	
2,103	Corporate & Democratic Core	2,608	(345)	2,263	
350	Non Distributed Costs		(1,341)	(1,341)	
25,093	NET COST OF SERVICES	86,670	(62,635)	24,035	
	CORPORATE INCOME & EXPENDITURE				
235	Precept of Local Precepting Authorities	245		245	4
(405)	(Surpluses) / Deficits on trading undertakings	6,224	(6,840)	(616)	2
(5,598)	Asset Management Revenue Account		(5,467)	(5,467)	1
2,190	Contribution to pooled capital receipts	1,150		1,150	
193	Loss on the early settlement of borrowing	217		217	
(657)	Interest and investment income		(749)	(749)	
629	Pensions Interest Costs & Expected Return on Pensions Assets	946		946	10
21,680	NET OPERATING EXPENDITURE	95,452	(75,691)	19,761	
	APPROPRIATIONS				
198	(Deficit)/Surplus transferred to HRA			123	
168	Contribution to or (from) HRA Earmarked Reserves			268	
345	Contributions to or (from) General Fund Earmarked Reserves			620	
21	Contributions to or (from) DSO Earmarked Reserves			165	
(746)	Contributions to or (from) Capital Reserves			(1,143)	
(884)	Contribution to or (from) Pensions Reserve			1,006	10
(2,190)	Transfer from Usable Capital Receipts			(1,150)	
18,592	AMOUNT TO BE MET FROM GOVERNMENT GRANT AND LOCAL TAXPAYERS			19,650	
(6,503)	Demand on Collection Fund			(6,894)	
(8,613)	Revenue Support Grant			(8,888)	
(3,638)	Contribution from NNDR Pool			(3,922)	
(162)	(SURPLUS) / DEFICIT FOR YEAR			(54)	
(1,845)	Balance on General Fund brought forward			(2,007)	
(2,007)	Balance on General Fund carried forward			(2,061)	

DISCLOSURE NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

The Accounting Code of Practice (ACOP) on Local Authority Accounting requires the publication of additional financial information as notes to the Consolidated Revenue Accounts. The figures contained in these notes are either not shown separately on the face of the main financial statements, or they disclose information in relation to responsibilities and functions which the Council undertakes on behalf of other bodies.

1 ASSET MANAGEMENT REVENUE ACCOUNT

The purpose of the Asset Management Revenue Account is to ensure that capital charges do not impact on the level of Council Tax and that the Council's accounts are charged only with the true capital financing costs. The account is summarised below:

Transactions on the Asset Management Revenue Account		
Income	£000	£000
Capital Charges :		
General Fund	(4,209)	
Housing Revenue Account	(7,400)	
Government Grants Deferred	(474)	
		(12,083)
Expenditure		
Depreciation	4,050	
External Interest Charges	2,566	
		6,616
Balance to Consolidated Revenue Account		(5,467)

2 TRADING SERVICES

Trading services cover undertakings with the public or with other third parties, and include such activities as markets, trade refuse collection, industrial units and the remainder of the former Direct Service Organisations (DSO's) which have not been consolidated into their relevant service area.

The DSO's were set up originally to allow the Council to bid for work under the Compulsory Competitive Tendering (CCT) legislation. However, from 02 January 2000 this legislation was abolished and replaced by a new Best Value system designed to establish a continuing process of cost effective service improvements. Most of the former DSO activities have now been consolidated into the General Fund.

For 2005/06, the Council still operated trading accounts for Building Maintenance and Highways Contractor. Building Maintenance has been consolidated with Council Housing with effect from April 2005, and a review of the working arrangements under the Highways Partnership is due to take place in summer 2006/07.

	Income £000	Expenditure £000	2005/06 (Surplus) / Deficit £000	2004/05 (Surplus) / Deficit £000
General highway and sewer work	(1,718)	1,488	(230)	(75)
Other maintenance work	(2,442)	2,573	131	12
Trade refuse collection	(879)	575	(304)	(237)
Markets	(797)	1,060	263	183
Commercial Properties / Industrial Units	(1,071)	595	(476)	(288)
Total (Surplus) / Deficit on Trading Undertakings	(6,907)	6,291	(616)	(405)

3 LEASING AND OTHER LONG TERM COMMITMENTS

The following table summarises current operating lease obligations for future years.

Leased Assets – Rentals (excluding staff car leases)	
	Operating Leases £000
Total rentals paid in 2005/06	338
Outstanding undischarged leasing obligations:	
2006/07	344
2007/08	351

At 31 March 2006, 58 cars were leased for staff. The total cost in 2005/06 was £206,000 and after contributions by staff of £26,000 it resulted in a charge to the Authority of £180,000.

The Council had no outstanding obligations in respect of finance leases as at 31 March 2006, nor did it have any outstanding obligations arising from other long term contracts such as Private Finance Initiative agreements.

4 PARISH PRECEPTS

In line with previous years local parishes levied their own precept within their parish boundaries. In total the precepts levied amounted to £244,791.93. Full details of individual parish precepts are available from the Head of Financial Services at Lancaster Town Hall.

5 SECTION 137 EXPENDITURE

Section 137 of the Local Government Act 1972 enables a local authority to make contributions to charities operating in the UK and to not for profit making bodies providing public services in the UK. This expenditure is limited to £1.90 per head of relevant population as defined by statute. For Lancaster, this produces a spending limit for 2005/06 of £265,633.

Analysis	2004/05	2005/06
	£	£
Victim Support	4,400	4,400
Council for Voluntary Service	17,700	17,700
Lancaster DISC	5,500	5,500
Relate	6,400	6,400
Miscellaneous Grants	8,185	5,508
Twining	3,800	3,800
Total	45,985	43,308

6 PUBLICITY EXPENDITURE

The Council is required by Section 5(1) of the Local Government Act 1986 to provide details of its spending on Publicity. The Act does not provide a clear definition of Publicity, but the following analysis shows the elements of expenditure which are judged to be relevant.

2004/05	Section 5 Local Government Act 1986	2005/06
£000		£000
152	Promotions and Publicity	145
91	Recruitment Advertising	67
27	Other Advertising	29
270	TOTAL	241

7 BUILDING CONTROL TRADING ACCOUNT

The Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the building control function. Lancaster City Council sets charges for work carried out in relation to building regulations, with the aim of covering all costs incurred. However, certain activities performed by the Building Control Unit cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the building control unit for 2005/06 divided between the chargeable and non-chargeable activities.

2005/06	Chargeable	Non-Chargeable	Total Building Control
	£000	£000	£000
Expenditure			
Employee Expenses	282	115	397
Transport	21	9	30
Supplies & Services	96	4	100
Central & Support Recharges	104	20	124
TOTAL EXPENDITURE	503	148	651
Income			
Building Regulation Charges	(451)	-	(451)
Miscellaneous Income	(43)	-	(43)
TOTAL INCOME	(494)	-	(494)
(Surplus)/Deficit for Year	9	148	157

Comparatives for 2004/05

Expenditure	512	157	669
Income	(476)	--	(476)
(Surplus)/Deficit for Year	36	157	193

The 2005/06 deficit has resulted from increased investment in software applications aimed at streamlining processes within the Building Control function.

8 AGENCY SERVICES

The Council entered into the Lancashire Highways Partnership (LHP) on 01 July 2003 which replaced the work undertaken by the Council acting as highways agent for Lancashire County Council. The majority of LHP work is delivered through a single works contract with Lancashire County Engineering Services (LCES) in which City Contract Services (CCS) are involved as a sub-contractor. The only area of work falling outside the single works contract is Highways Grounds Maintenance, which is carried out by CCS and for which reimbursement is made subject to defined limits. Expenditure in this area of work amounted to £126,919, of which £72,900 was reimbursed by LCES and £54,019 was the contribution made by Lancaster City Council General Fund to provide a higher level of service in this area to its ratepayers. As stated previously, the operation of the LHP (and the Council's involvement) is currently being reviewed.

In accordance with recommended accounting practice, only the net cost of agency activities is shown (where applicable) in the Consolidated Revenue Account.

9 LOCAL AUTHORITIES (GOODS AND SERVICES) ACT 1970

Under the Act the Council is empowered to provide goods and services to other public bodies. The authority provided grounds maintenance, cleansing, trade refuse and other minor services for Lancashire County Council and various schools to the value of £214,507 during 2005/06. Charging for such services is based on full cost recovery, and the expenditure relating to these functions is included within the Consolidated Revenue Account.

10 PENSION COSTS

As part of the terms and conditions of employment of its employees, the Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments, and this commitment needs to be disclosed over the time that employees earn their future entitlement.

The Authority participates in one principal pension scheme.

The Local Government Pension Scheme for civilian employees, administered by Lancashire County Council – this is a funded scheme, meaning that the Council and employees pay contributions into a fund, those contributions being calculated at a level intended to balance the pensions liabilities with investment assets.

The Council recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge it is required to make against the Council Tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Consolidated Revenue Account after Net Operating Expenditure. The following transactions have been made in the Consolidated Revenue Account during the 2005/06 year in accordance with FRS 17.

Net Cost of Services:	£000
Current Service Costs	2,657
Past Service & Curtailment Costs	(1,726)
Net Operating Expenditure	
Interest Costs	6,206
Expected return on Assets in the scheme	(5,260)
Amounts to be met from Government Grants & Local Taxation	
Movement from Pensions Reserve	1,006
Actual amount charged against Council Tax for pensions in the year	--
Employer's contributions payable to the scheme	(2,883)
Overall cash impact of FRS 17 transactions	0

Note 21 to the Consolidated Balance Sheet contains details of the assumptions made in estimating the figures included in this note. Note 7 to the Statement of Total Movements in Reserves gives details on the expected return on pensions investments.

11 MINIMUM REVENUE PROVISION (MRP)

The Authority is required by statute to set aside a minimum revenue provision for the redemption of external debt. The method of calculating the provision is defined by statute. For 2005/06 the amount is £814,000 (2004/05 £678,000) as set out below.

	2004/05	2005/06
	£000	£000
Non-housing amount - 4% of opening Capital Financing requirement (adjusted re commutation)	678	814
Minimum Revenue Provision	678	814
Amount charged as depreciation (net)	(1,160)	(1,114)
Net credit to Consolidated Revenue Account	(482)	(300)

Following the introduction of the Major Repairs Allowance there is no longer a requirement for the Housing Revenue Account to set aside a minimum revenue provision.

In addition to the Minimum Revenue Provision, the Council has voluntarily set aside a further £140,000 in respect of financing costs associated with unsupported borrowing used to purchase vehicles during 2005/06.

12 OFFICERS' EMOLUMENTS

Regulation 7(2) of the Accounts and Audit Regulations require a specific disclosure of officers' annual remuneration in excess of £50,000. Only five officers of the Council received in excess of this amount during 2005/06.

Remuneration Band	No. of Employees	
	2004/05	2005/06
£50,000 - £59,999	1	1
£60,000 - £69,999	2	3
£70,000 - £79,999	1	0
£80,000 - £89,999	0	0
£90,000 - £99,999	1	0
£100,000 +	0	1

The emoluments are in respect of taxable pay and values associated with car benefits.

13 MEMBERS ALLOWANCES

The total amounts of allowances paid to Members are as follows.

Type of Allowance	2004/05	2005/06
	£	£
Basic Allowance	169,835	172,821
Special Responsibility Allowance	84,592	90,686
Carer Allowance	1,670	1,587
Total For All Members	256,097	265,094

Further details can be obtained by contacting the Head of Democratic Services at the Town Hall, Dalton Square, Lancaster.

14 EXCEPTIONAL ITEMS, EXTRAORDINARY ITEMS AND PRIOR YEAR ADJUSTMENTS

There have been no exceptional items, extraordinary items or prior year adjustments within the accounts.

15 RELATED PARTY TRANSACTIONS

Under the Accounting Code of Practice, the Council is required to disclose details of any material transactions with third parties. A number of these transactions have already been disclosed within the financial statements as follows:

- 1 Transactions with Central Government have been disclosed within both the Consolidated Revenue Account and the Cash Flow Statement, as well as in other notes to the accounts.
- 2 Transactions with the Lancashire Pensions Fund have been disclosed within the Statement of Accounting Policies and the notes to the Consolidated Revenue Account and Consolidated Balance Sheet.
- 3 Transactions with associated companies have been disclosed within the notes to the Consolidated Balance Sheet.

There are no other material transactions to disclose in respect of other Elected Members or Directors (including their close families), or regarding grants to voluntary and other organisations.

16 AUDIT COSTS

In 2005/06 Lancaster City Council incurred the following fees relating to external audit and inspection:

	2004/05	2005/06
	£	£
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	120,400	115,300
Fees payable to the Audit Commission in respect of statutory inspection	7,900	0
Fees payable to the Audit Commission for the certification of grant claims and returns	39,800	42,600
Fees payable in respect of other services provided by the appointed auditor	22,000	0
	190,100	157,900

The fees disclosed above do not account for accruals or prepayments; they represent purely the Audit & Inspection fees paid in the year.

HOUSING REVENUE ACCOUNT

The purpose of the Housing Revenue Account is to record the expenditure and income relating to Council dwellings. The Council is obliged by law to fund revenue expenditure on Council dwellings only from housing rent income.

The expenditure and income on the Housing Revenue Account is brought into the Consolidated Revenue Account in order to include it within the total cost of services provided by the Council. The surplus or deficit is then appropriated from the Consolidated Revenue Account to the Housing Revenue Account working balance.

2004/05 £000		2005/06		NOTES
		£000	£000	
	INCOME			
(9,530)	Dwelling Rents (gross)	(9,818)		
(147)	Non-Dwelling Rents (gross)	(154)		
(1,368)	Charges for services and facilities	(1,398)		
(8)	Contributions towards Expenditure	(8)		
-	HRA subsidy receivable	-		
(11,053)			(11,378)	
	EXPENDITURE			
3,037	Repairs and maintenance	3,049		
2,532	Supervision and management	2,891		
163	Rents, rates, taxes and other charges	186		
755	Negative Subsidy Payable to Secretary of State	488		7
131	Increased Provision for Bad or Doubtful Debts	104		
5,496	Cost of Capital Charge	5,190		
2,212	Depreciation and Impairments of Fixed Assets	2,210		5
12	Debt management Costs	12		
14,338			14,130	
3,285	NET COST OF SERVICES		2,752	
(4,587)	Net Income or Expenditure on the Asset Management Revenue Account		(4,322)	4
54	Pension Interest Cost and Expected Return on Assets		106	
(37)	Transfers to/from General Fund as directed by Secretary of State		(133)	10
207	Amortised Premiums and Discounts		207	
(125)	Investment Income		(129)	
(1,203)	NET OPERATING EXPENDITURE		(1,519)	
(105)	HRA Contributions to/(from) Pension Reserve		(82)	9
943	Revenue Contribution to Capital Expenditure		1,210	
-	Contribution to Minimum Repayment Provision		-	
(26)	Transfer to/(from) Major Repairs Reserve		(26)	
194	Transfers to/(from) Earmarked Reserves		294	
(197)	(SURPLUS)/DEFICIT FOR YEAR		(123)	
(832)	HRA balance brought forward		(1,029)	
(1,029)	HRA BALANCE CARRIED FORWARD		(1,152)	

NOTES TO THE HOUSING REVENUE ACCOUNT

1 As at 31 March 2006 the authority held the following dwellings:

Bedsits		121
1 Bedroom	Houses & Bungalows	650
	Flats & Maisonettes	506
2 Bedroom	Houses & Bungalows	516
	Flats & Maisonettes	686
3 Bedroom	Houses & Bungalows	1,311
	Flats & Maisonettes	7
4 or more bedroomed dwellings		84
TOTAL ALL DWELLINGS		3,881

The Balance Sheet value of assets held in the Housing Revenue Account was as follows:

	Bal b/fwd 1 st April 2005 £'000	Bal c/fwd 31 st March 2006 £'000
Operational Assets:		
Council Dwellings	152,562	141,569
Other land and buildings	410	374
	152,972	141,943
Non-operational Assets	432	835
TOTAL	153,404	142,778

Dwellings are valued on the basis of Existing Use Value (Social Housing). This basis was first introduced on 1st April 2001, following the introduction of Resource Accounting in the HRA, with values then being rebased annually, prior to a periodic full revaluation exercise which has now been undertaken to update all values to 1st April 2005. This has resulted in a decrease in asset values of £7,324,813, in the year, which is the major part of the net movement in asset values shown above. This is principally attributable to a difference between the accumulated values from the annual rebasing exercises, and those contained in the recent full revaluation. The Major Repairs Allowance of £2,183,948, for 2005/06 has been used as a proxy for depreciation on dwellings. Non-dwelling assets were also valued at 01 April 2005.

The vacant possession value of dwellings held on 01 April 2005 was £245,926,780. The difference between this and the EUV-SH valuation of £145,096,800 (i.e. the updated figure after the full valuation exercise effective as of 01 April 2005 but before depreciation, disposals etc) represents the economic cost to the Government of providing Council Housing at less than open market rents.

2 Movements on the Major Repairs Reserve for the year were as follows:

Summary of Movements on Major Repairs Reserve 2005/06	
	£'000
Opening Balance 01 April	2,165
Transfer to MRR – Depreciation	2,210
Transfer to HRA - Depreciation Adjustment	(26)
Capital Expenditure - Land	-
- Houses	(2,250)
- Other property.	-
Closing Balance 31 March	2,099

3 Capital expenditure of £4,025,000 was incurred during the year being £4,012,000 on improvements to dwellings and £13,000 on other property. This was financed as follows:

	£'000
Borrowing	-
Usable Capital Receipts	555
Direct Revenue Financing	1,200
Earmarked Reserves	10
Majors Repairs Reserve	2,250
Grants and Contributions	10
Movement in Capital Creditors	-
Total Capital Financing	4,025

Capital Receipts totalling £3,176,000 were received during the year from the following sources:

	£'000
Sale of dwellings	1,667
Sale of land	-
Repayment of Principal on Mortgages	36
Repayment of Right to Buy discounts	-
Total Capital Receipts	1,703

Previously under the Local Government and Housing Act 1989, 75% of council house sales were to be set aside for debt redemption, however the Local Government Act 2003 (section 11(2)(b)) now requires all or part of the receipt to be paid over to the Secretary of State. The aim is to preserve and strengthen the principle of redistributing the spending power generated by the sale of such assets.

4 The Cost of Capital Charges is a notional interest charge of £5,190,000 representing 3½% of the revalued opening asset values, which is credited to the Asset Management Revenue Account. Because this exceeds the actual interest payable on HRA-related debt which is £868,000, a compensating transfer of £4,322,000 is made from the Asset Management Revenue Account.

5 Total depreciation charges for the year were:

	£'000
Council Dwellings	2,184
Other land and buildings	16
Non-operational Assets	10

TOTAL	2,210
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- 6** No charges were made during the year in respect of deferred charges, however, charges of £81,800 were made for the impairment of fixed assets. The impairment charge does not impact on the Major Repairs Reserve.
- 7** The total Negative Housing Subsidy payable for the year 2005/06 was £483,000, the analysis of which is shown in the table below. However, the actual negative subsidy paid this year amounted to £488,000, this included a payment of £5,000 made to the ODPM in respect of 2004/05.

2005/06	£'000
Management Allowance	1,520
Maintenance Allowance	3,316
Major Repairs Allowance	2,184
Admissible Allowances	56
Anti-Social Behaviour Allowance	-
Charges for Capital	1,841
Rent Rebates	-
Notional Rent	(9,392)
Interest on Receipts	(8)
Government Grants	-
Total Housing Subsidy	(483)

- 8** Total arrears of rent at 31 March 2006 amounted to £305,000. Against this an amount of £378,000 was held as provision for bad debts (including rent arrears and all other debts outstanding to the Housing Revenue Account). This represents allowances of 95% for arrears from former tenants and 25% for arrears from current tenants and leaseholders, in addition to 95% of other outstanding debts.

9 CONTRIBUTION TO/FROM THE PENSION RESERVE

This is the second year in which the requirements of FRS17 have been applied to the Housing Revenue Account. As such, the current service cost has been included within the Net Cost of Services and the net of the interest cost and the expected return on assets included within Net Operating Expenditure. Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are recognised in the Statement of Total Movements for the period.

10 TRANSFERS TO/FROM GENERAL FUND AS DIRECTED BY SECRETARY OF STATE

Details of the transactions are as follows:

	£'000
Shared Amenities	(162)
Rent Rebates Compensation	29
TOTAL	(133)

11 EXCEPTIONAL ITEMS, EXTRAORDINARY ITEMS AND PRIOR YEAR ADJUSTMENTS

There have been no exceptional items, extraordinary items or prior year adjustments within the Housing Revenue Account.

COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT

This statement represents the transactions of the Collection Fund, a statutory account that must be kept separate from other Funds of the Council. The Collection Fund accounts independently for income relating to Council Tax and Non Domestic Rates on behalf of those bodies, including the Council's own General Fund, for whom the income has been raised. The costs of administering collection are accounted for in the General Fund.

2004/05 £000	INCOME	See Note	2005/06 £000
44,677	Council Tax Income from Council Tax	1	46,372
7,801	Transfers from General Fund: Council Tax Benefits		8,057
--	Council Tax Benefit Subsidy Limitation Contributions from other Local Authorities		--
38,751	Business Rates Income from Business Ratepayers	2	36,433
--	Contributions Towards previous year's Collection Fund deficit	5	--
--	Adjustment of previous years Community Charges	3	1
104	From Provisions for Council Tax Amounts Written Off		270
91,333	TOTAL INCOME		91,133

2004/05 £000	EXPENDITURE	See Note	2005/06 £000
38,939	Precepts and Demands Lancashire County Council		40,367
6,503	Lancaster City Council (including parish precepts)		6,894
4,229	Lancashire Police Authority		4,576
2,085	Lancashire Fire Authority		2,213
38,526	Business Rates Payment to National Pool		36,221
225	Cost of Collection Allowance		212
104	Council Tax Bad and Doubtful Debts Write-offs		270
310	Contribution to Provision for Non-Collection		282
90,921	TOTAL EXPENDITURE		91,035

2004/05 £000	FUND BALANCE	See Note	2005/06 £000
(412)	(Surplus)/deficit for year		(98)
123	(Surplus)/deficit as at 01 April (Brought forward)	4	(289)
(289)	(Surplus)deficit as at 31 March (Carried forward)	6	(387)

NOTES TO THE COLLECTION FUND ACCOUNT

The following notes are intended to explain figures contained on the Collection Fund Summary Income and Expenditure Account.

1 COUNCIL TAX

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into eight valuation bands estimating 01 April 1991 values for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Lancashire County Council, Lancaster City Council and the Lancashire Police Authority for the forthcoming year and dividing this by the Council Tax base.

The Council Tax base represents the number of chargeable dwellings in each banding (i.e. the number of properties, adjusted for discounts etc.) multiplied by a set proportion to give the number of Band D equivalents. The estimated collection rate is then applied to the Band D equivalent total, to give the Council's Tax Base for that year. For 2005/06 the numbers are as follows:-

	Chargeable Dwellings	Band D Equivalents
Band A	16,142	10,761
Band B	12,830	9,978
Band C	9,837	8,744
Band D	5,400	5,400
Band E	3,403	4,160
Band F	1,720	2,484
Band G	735	1,225
Band H	39	77
Total	50,106	42,829
<i>Collection Rate</i>		<i>99%</i>
Council Tax Base		42,400

2 BUSINESS RATES

The City Council collects National Non-Domestic Rates (NNDR) for its area. NNDR is based on rateable values set by the Inland Revenue, multiplied by a Uniform Business Rate set by Central Government. This was set at 41.5p per £ for 2005/06 (45.6p for 2004/05). The rateable value at 31 March 2006 was £87,508,701 (£96,587,845 for 2004/05). The total amount due, after adjusting for certain reliefs and other deductions, is paid into a central pool (the NNDR pool) managed by Central Government. The Government redistributes the sums paid into the pool back to local authorities' in proportion to population. Lancaster's share of the pool for 2005/06, paid directly to the Consolidated Revenue Account, amounted to £3,922 M.

3 ADJUSTMENTS FOR PREVIOUS YEARS' COMMUNITY CHARGES

Although Council Tax has replaced Community Charge from 01 April 1993, the Council continues to account for residual adjustments in relation to the Community Charges raised in earlier years. No adjustments were made to the Community Charge debit and no income has been collected in respect of the £555 deficit, therefore it has been written off to the bad debt provision during 2005/06.

4 DISTRIBUTION OF COLLECTION FUND (SURPLUSES) OR DEFICITS

Collection Fund Surpluses relating to Council Tax (i.e. excluding Community Charge items) are distributed to the billing and precepting authorities in proportion to the value of their respective precepts or demands on the Fund.

At 1 April 2005 the Council Tax surplus was shown as £289,000. During 2005/06 the following distributions were made to precepting authorities.

	£000
Lancaster City Council	(10)
Lancashire County Council	(75)
Lancashire Police Authority	(8)
Lancashire Fire Authority	(4)

5 DISTRIBUTIONS OF RESIDUAL COLLECTION FUND SURPLUSES OR DEFICITS

Lancaster City Council receives the full impact of surpluses and deficits relating to residual Community Charge transactions, unlike those relating to Council Tax, which are shared (see note 4 above).

At 1 April 2005 the residual Community Charge deficit was £555 which was written off in full during 2005/06, as mentioned above.

6 CLOSING (SURPLUS) / DEFICIT BALANCES ON THE COLLECTION FUND

Surpluses and deficits relating to Community Charge transactions (residual) are administered separately from those surpluses and deficits relating to Council Tax transactions, as highlighted in notes 4 and 5 above.

The movements in the Collection Fund during 2005/06 are summarised below.

	Residual Community Charge	Council Tax	TOTAL
	£000	£000	£000
(Surplus)/Deficit 01/04/05	--	(289)	(289)
Distributions in Year	--	97	97
Net Transaction in Year	--	(195)	(195)
(Surplus)/Deficit 31/03/06	--	(387)	(387)

Of the £387,000 surplus as at 31 March 2006, £338,000 is attributable to other Local Authorities as follows:

	£000
Lancashire County Council	(289)
Lancashire Police Authority	(33)
Lancashire Fire Authority	(16)

CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2006

This shows the financial position of the Council as a whole and summarises its assets and liabilities.

2004/05 £000		2005/06 £000	Notes
465	Intangible Assets	606	1
	Tangible Fixed Assets		2
	Operational Assets :		
152,562	Council Dwellings	141,569	
31,484	Other Land and Buildings	42,663	
3,339	Vehicles, Plant and Equipment	3,911	
19,587	Infrastructure	19,613	
3,922	Community Assets	4,897	
16,769	Non Operational Assets	22,884	
228,128	TOTAL FIXED ASSETS	236,143	
3	Long Term Investments	-	11
288	Long Term Debtors	225	12
1,582	Deferred Premium	1,361	
230,001	TOTAL LONG TERM ASSETS	237,729	
	Current Assets		
409	Stocks and Work in Progress	255	13
10,246	Debtors	11,568	14
6,500	Investments	10,200	
481	Cash and Bank	--	
	Current Liabilities		
(321)	Borrowing (Amounts due within one year)	(174)	16
(9,864)	Creditors	(11,292)	15
--	Bank Overdraft	(379)	
237,452	TOTAL ASSETS LESS CURRENT LIABILITIES	247,907	
(41,474)	Long Term Borrowing	(44,800)	
(223)	Deferred Liabilities	(223)	22
(109)	Deferred Credits	(70)	
(537)	Provisions	(556)	18
(34,983)	Liability related to defined benefit pension scheme	(33,031)	
160,126	TOTAL ASSETS LESS LIABILITIES	169,227	
128,926	Fixed Asset Restatement Account	126,632	
41,050	Capital Financing Account	40,512	
2,201	Usable Capital Receipts Reserve	2,474	
(34,983)	Pensions Reserve	(33,031)	21
15,019	Government Grants & Contributions Deferred	23,440	17
2,165	Major Repairs Reserve	2,099	
2,423	Earmarked Reserves	3,500	
2,007	Balances: General Fund	2,061	
1,029	Housing Revenue Account	1,153	
289	Collection Fund	387	
160,126	TOTAL EQUITY	169,227	

1 INTANGIBLE ASSETS

Intangible fixed assets result from expenditure of a capital nature which does not impact on the acquisition or enhancement of fixed assets owned by the City Council.

Software Licences	31/03/05	31/03/06
	£000	£000
Opening Balance	240	465
Amounts written off to Consolidated Revenue Account		
Expenditure during the year	365	367
Written off to Revenue in 2005/06	(140)	(226)
Closing Balance	465	606

Software Licences are held for the Salt Ayre Computerised Booking System, Local Land and Property Gazetteer, Housing Rents and Repairs System, Cash Receipting System, National Non Domestic Rating System, Asset Management System, PC based software and Customer Relationship Management System together with the software associated with Implementing Electronic Government. The cost is being written off over the five year life of the licences.

2 FIXED ASSETS

Movements in fixed assets during the year were as follows:

	Council dwellings	Other land and buildings	Vehicles plant and equipment	Infra-structure assets	Community assets	Non-Operational properties	TOTAL
	£000	£000	£000	£000	£000	£000	£000
Gross book value as at 01 April 2005	166,329	34,716	6,845	22,593	3,922	17,491	251,896
Additions		795	878	609	975	6,049	9,306
Disposals	(1,320)	(56)	(2,051)				(3,427)
Revaluations	(7,489)	11,299		126		112	4,048
Impairment		(332)					(332)
Transfers							
Gross book value as at 31 March 2006	157,520	46,422	5,672	23,328	4,897	23,652	261,491

Depreciation as at 01 April 2005	(13,767)	(3,232)	(3,506)	(3,006)	--	(722)	(24,233)
Depreciation for year (on straight line basis)	(2,184)	(528)	(276)	(709)		(46)	(3,743)
Depreciation on assets sold / Transferred		1	2,021				2,022
Balance as at 31 March 2006	(15,951)	(3,759)	(1,761)	(3,715)	--	(768)	(25,954)

Net book value as at 31 March 2006	141,569	42,663	3,911	19,613	4,897	22,884	235,537
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3 CAPITAL EXPENDITURE AND FINANCING

Capital expenditure incurred during the year was £17.642M. The following table sets out how this was funded.

2005/06	£000
Opening Capital Financing Requirement	43,133
Capital Investment	
Intangible Assets	51
Operational Assets	6,558
Non Operational Assets	6,049
Deferred Charges	3,373
Fixed Asset Restatement Account	1,611
Sources of Finance	
Capital Receipts	(555)
Government Grants, Contributions and Deferred Charges	(10,224)
Revenue Provision	(4,437)
Closing Capital Financing Requirement	45,559
<u>Explanation of Movements in Year</u>	
Increase in underlying need to borrow (supported by Government financial assistance)	(2,018)
Increase in underlying need to borrow (unsupported by Government financial assistance)	(408)
Increase in Capital Financing Requirement	(2,426)

4 CAPITAL COMMITMENTS

As at 31 March 2006 the Council was contractually committed to capital works, which amounted to approximately £14.285M. Major contracts included the following schemes:-

Capital Projects	£000
Poulton Homezone	750
Kitchen Renewals	631
Ryelands Regeneration	324
Morecambe Coastal Defence Works	11,163

5 MAJOR FIXED ASSETS

The Council is required to disclose details of the major fixed assets that support its functions. The following table shows the number of each type of asset.

	Number as at 31/03/05	Number as at 31/03/06
COUNCIL DWELLINGS	3,916	3,881
OPERATIONAL BUILDINGS		
Town Halls	2	2
Other Offices	9	10
Sports Centres with Pool	1	1
Depots	3	3
Surfaced Car Parks	17	17
Multi-Storey Car Parks	2	2
Cemeteries	7	7
Museums	3	0
Public Conveniences	11	9

	Number as at 31/03/05	Number as at 31/03/06
OPERATIONAL EQUIPMENT		
Vehicles	14	10
Heavy Plant	7	13
COMMUNITY ASSETS		
Community Centres	1	1
Parks	15	15
Playing Fields	6	6
NON OPERATIONAL ASSETS		
Commercial/Investment Properties	58	58

Following a review of asset values and de minimis levels for asset recognition there has been a reduction in the number of assets identified in the above table.

6 FIXED ASSET VALUATION

The freehold and leasehold properties which comprise the Authority's property portfolio were originally valued as at 01 April 1994 by the City Council's Head of Property Services, G J Cox, ARICS, in accordance with the Statements of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors, except that not all the properties were inspected. This was neither practicable nor considered by the valuer to be necessary for the purpose of the valuation.

Since then, all assets valued on a current value basis, are being revalued on a rolling five year programme. This is in accordance with the requirements of the Accounting Code of Practice.

A number of public conveniences have suffered impairment in value due to a change in operational circumstances. The assets in question are the public conveniences at the Arndale Centre and Bare Promenade in Morecambe, which have been demolished and closed respectively. The remaining value is the land value. This loss has been recognised in the relevant service revenue account, the Asset Management Revenue Account and the fixed assets.

New additions during the year have been included at historic cost, and these will be formally valued in the future, as part of the rolling revaluation exercise. Specific valuation bases are disclosed within the Statement of Accounting Policies.

The following statement shows the progress of the Council's rolling programme for the revaluation of fixed assets.

	Council dwellings	Other land and buildings	Vehicles plant and equipment	Infrastructure	Investment Properties	Non-Operational	TOTAL
	£000	£000	£000	£000	£000	£000	£000
Valued at Historical Cost	--	--	--	--	--	--	--
Valued at Current Value in :-							
1999/2000	--	(1,496)	--	--	(127)	--	(1,623)
2000/2001	--	2,438	--	--	369	--	2,807
2001/2002	(61,723)	135	--	--	277	--	(61,311)
2002/2003	14,146	(2)	(3)	--	--	--	14,141
2003/2004	31,635	2,376	--	--	--	798	34,809
2004/2005	42,786	818	--	--	--	2,499	46,103
2005/2006	(7,489)	11,299	--	126	--	112	4,048

TOTAL	19,355	15,568	(3)	126	519	3,409	38,974
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7 FINANCE LEASES

As at 31 March 2006 there were no assets held under finance leases.

8 PRIVATE FINANCE INITIATIVE (PFI)

The PFI is a mechanism by which private sector investment is used to assist in the delivery of public services, normally for large schemes such as new schools, etc. The Council has not entered into any PFI arrangements and therefore there are no PFI related assets as at 31 March 2006.

9 NET ASSETS EMPLOYED

This summary gives details of the net assets employed during the year analysed over the Council's major accounts, namely General Fund, Housing Revenue Account and the former Direct Service Organisations. It should be noted that the latter has been consolidated into the General Fund for 2005/06, in line with the move away from operating trading accounts (see Note 2 to the Consolidated Revenue Account for more details).

In addition, the 2004/05 comparatives have been restated to include the new FRS17 requirements, as previously mentioned in Note 10 to the Consolidated Revenue Account.

	31/03/05	31/03/06
	£000	£000
General Fund	17,864	37,723
Housing Revenue Account	142,515	131,842
	160,379	169,565
Proportion of Collection Fund Surplus/(Deficit) not attributable to the City Council	(253)	(338)
	160,126	169,227

10 RELATED COMPANIES

Local authorities with material interests in subsidiary and associated companies must prepare, as supplementary information, a summarised set of accounts. These Group Accounts comprise of the local authority itself and its interests in any companies that would be regarded as its subsidiaries or associates within the Companies Act.

Lancaster City has relevant interests in the following companies:

- Williamson Park
- Dukes Playhouse Ltd
- Heysham Mossgate (Community Facilities) Company Ltd

Copies of the accounts can be obtained from the Head of Financial Services, Town Hall, Dalton Square, Lancaster.

None of the Council's interests in the above Companies are considered material when the tests as set out in the Code of Practice are applied. Consequently no Group Accounts are required to be prepared for the 2005/06 financial year.

10.1 WILLIAMSON PARK LTD

The Company is limited by guarantee. The principal activity of the Company during the year was the preservation of the park and the provision of amenities for the public benefit.

The Company's financial accounting period ended on 31 January 2006. Consequently the information below differs slightly from the other financial information in this summary. The City Council provided revenue grant support of £158,900 and capital grant support of £15,000 to the Company during the Council's 2005/06 financial year (2004/05 £180,556).

	31/01/05	31/01/06
	£	£
Net assets	95,582	99,391
Profit/(Loss) before taxation	6,597	(3,841)
Profit/(Loss) after taxation	6,450	(3,841)

10.2 DUKES PLAYHOUSE LTD

The Company is limited by guarantee with no share capital. It is also a registered charity.

The principal activity and objective of the charity is to promote and advance artistic and aesthetic education and the public appreciation of the arts and manage a theatre, which is at the service of the whole community. The City Council provided grant support totalling £156,100 to the Company during the 2005/06 financial year (2004/05 £155,800). This included the provision of grant in lieu of rent free accommodation to the value of £13,500 (2004/05 £13,200).

	31/03/05	31/03/06
	£	£
Net Assets	337,877	323,834
Profit/(Loss) before taxation	36,175	17,312
Profit/(Loss) after taxation		

The 2004/05 profit was previously stated as £913 based on draft accounts, however the final audited accounts now show a profit of £36,175, which has been reflected in the above table.

10.3 HEYSHAM MOSSGATE (COMMUNITY FACILITIES) COMPANY LTD

The Company is limited by guarantee without share capital. The principal activity of the company is the development of community facilities in the Mossgate area of Heysham on a non-profit making basis.

	31/03/05	31/03/06
	£	£
Net Assets	355,112	Accounts not yet received
Profit/(Loss) before taxation	110,831	With Auditors
Profit/(Loss) after taxation		

11 LONG TERM INVESTMENTS

The Council holds one small investment consisting of :

	Cost Price	Nominal Value	Value at 31/03/06
	£	£	£
3% Lincoln Redeemable Stock	606	700	418
BALANCE SHEET VALUE OF ASSETS	606	700	418

12 LONG TERM DEBTORS

Long term debtors represent the value of long term loans granted by the Council to external organisations. The main element comprises mortgages granted to occupiers of council dwellings under the council house "right to buy" scheme, and mortgages granted to housing associations.

Also included within this item is a loan of £112,000 to the Buildings at Risk Trust (BART) approved by the Council on 26 April 1995 to enable the Victoria Pavilion (Winter Gardens) to be renovated. Under the terms of the loan agreement the money will be repayable from grant monies received by BART on the Phase II redevelopment of the complex.

In addition, the Council approved on 03 July 1998 a £200,000 loan repayable over 10 years to Morecambe Football Club, to assist in the development of a new stand. The balance outstanding at 31 March 2006 was £40,000.

13 STOCKS AND WORK IN PROGRESS

At 31 March 2006 the City Council held stocks and work in progress to the value of £255,000 (£409,000 2004/05), after allowing for the provision of £149,000 for obsolescence / reductions in value, and excluding internal work in progress of £165,000.

14 ANALYSIS OF DEBTORS

Since the Council's Balance Sheet represents assets at the end of the financial year (31 March 2006), there are outstanding monies owed to the Council in respect of the 2005/06 financial year which at that date were yet to be received as cash. The amount in the Consolidated Balance Sheet therefore, represents amounts owed **to** the Council, which had not been received at 31 March 2006.

The Council makes provision for outstanding monies which it anticipates will not be recovered. The amount in the Consolidated Balance Sheet is net of such provisions.

The Debtors balance as at 31 March 2006 is analysed as follows.

	31/03/05	31/03/06
	£000	£000
Government Departments	3,227	2,700
Other Local Authorities	1,039	856
Commercial Ratepayers	740	775
Council Taxpayers	4,631	4,693
Housing Rents	378	310
Sundry Debtors and Accruals	3,259	5,496
Provisions for Bad Debts	(3,028)	(3,262)
Total	10,246	11,568

15 ANALYSIS OF CREDITORS

Since the Council's Balance Sheet represents liabilities at the end of the financial year (31 March 2005), there are outstanding monies owed by the Council in respect of the 2005/06 financial year which at that date were yet to be paid. The amount in the Consolidated Balance Sheet therefore, represents amounts owed **by** the Council, which had not yet been paid as at 31 March 2006.

The Creditors balance as at 31 March 2006 is analysed as follows.

	31/03/05	31/03/06
	£000	£000
Government Departments	1,526	3,148
Other Local Authorities	673	899
Commercial Ratepayers	1,539	303
Council Taxpayers	510	685
Housing Rents	92	92

Sundry Creditors and Accruals	5,524	6,165
Total	9,864	11,292

16 BORROWING

The following tables show the Council's Capital Related Longer Term Borrowing by lender and maturity.

ANALYSIS OF LOANS BY TYPE	2004/05	2005/06
	£000	£000
Public Works Loan Board	41,795	44,974

LOAN MATURITY ANALYSIS	2004/05	2005/06
	£000	£000
Maturing in 1 - 2 years	174	--
Maturing in 2 - 5 years	--	--
Maturing in 5 – 10 years	--	--
Maturing in 10 – 15 years	--	4,000
Maturing in more than 15 years	41,300	40,800
TOTAL BORROWING (DUE AFTER ONE YEAR)	41,474	44,800
Maturing within one year	321	174
TOTAL BORROWING (DUE WITHIN ONE YEAR)	321	174

It should be noted that loan repayments due within one year have been classified on the balance sheet under Current Liabilities – Borrowing (Amounts due within one year).

17 DEFERRED GOVERNMENT GRANTS AND CONTRIBUTIONS

The balance on this account represents, in general terms, the value of capital grants and contributions that have been applied to finance the acquisition or enhancement of fixed assets held in the asset register. A proportion of the balance on this account is released to revenue in line with any depreciation charges on such assets. Where no depreciation charges are to be made for assets financed by grants and contributions, the related financing has been transferred to the capital financing account.

18 PROVISIONS SUMMARY

	Balance 01/04/05 £000	Expenditure £000	Transfers £000	Income £000	Balance 31/03/06 £000
Revenue Provisions:					
Insurance	400	(327)	252	53	378
Car Parking Deficit	80	--	--	--	80
Vehicle Replacements	--	--	41	--	41
Capital Provisions:					
General Fund Clawback	57	--	--	--	57
TOTAL	537	(327)	293	53	556

The closing balance on the Insurance Provision is in respect of outstanding insurance claims to be settled by the Council. The Council provides an element of self insurance whereby it pays varying levels of excess depending upon the type of insurance policy. The balance on the provision is assessed throughout the year to ensure it is sufficient to meet all anticipated claims. At the end of 2005/06 there was a total of 299 claims outstanding with an estimated value of £837,000, of which it is anticipated 45% will fall on the

Council. As a result the provision has been set at £378,000 with a further £110,000 in an insurance reserve.

The car parking deficit provision relates to the element of car parking income which could potentially be clawed back as part of the new decriminalised parking enforcement agreement with Lancashire County Council and Parkwise. At the present time the exact allocation of surpluses and deficits generated by on-street and off-street parking enforcement have still to be agreed.

A new vehicle provision has been created to cover future shortfalls in funding associated with timing differences when vehicles require replacement. The exact impact on the budget at the time of replacement is difficult to predict as it is dependent upon the procurement method used.

The capital Clawback provision is in respect of outstanding liabilities, where the Council has sold land originally financed by Derelict Land Grant. It is anticipated that the balance on this provision will be paid to English Partnerships during 2006/07, however the exact date has not been agreed as yet

19 CONTINGENT ASSETS AND LIABILITIES

Under the decriminalisation of parking arrangements with Lancashire County Council and Parkwise, it is possible that the Council may be able to recover some of the deficits incurred on the on-street parking account, although as highlighted earlier, the exact arrangements have not been finally agreed. This has therefore been treated as a contingent asset as at 31 March 2006. There were no other contingent assets or liabilities as at that date.

20 EURO COSTS

The adoption of operational and information systems to accommodate the Euro continues to be considered by the Council as part of its computing strategy. Undertakings from software suppliers are requested to the effect that systems upgrades will be received when the exact criteria for the operation of the Euro are resolved.

At present no expenditure has been specifically incurred or committed in respect of the Euro and no specific provision has been made for estimated future costs relating to its possible introduction. The Council will continue to monitor this position.

21 RETIREMENT BENEFITS

As part of the terms and conditions of employment of its officers and other employees, the Authority offers retirement benefits. Although these will not actually be payable until the employees retire, the Authority has a commitment to make payments that need to be disclosed on an ongoing basis as employees earn their future entitlement.

The Authority participates in one pension scheme:

The Local Government Pension Scheme, administered by Lancashire County Council – this is a funded scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level estimated to balance the pension liabilities with investment assets.

In 2005/06, pension costs have been charged to the consolidated revenue account on the basis of benefits earned by employees and the Council's resulting liability to pay those pension benefits at some future time in accordance with FRS 17. The costs of pensions payable in the year to retired officers is also included. As at 31 March 2006, the Authority had the following overall assets and liabilities for pensions as disclosed in the balance sheet :

	Local Government Pension Scheme	
	31 March 2006	31 March 2005
	£000	£000
Estimated liabilities in scheme	(132,216)	(114,767)
Estimated assets in scheme	99,185	79,784

Net asset/(liability)	(33,031)	(34,983)
------------------------------	-----------------	-----------------

Liabilities have been assessed on an actuarial basis using the projected unit method - an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The overall Pension Fund liabilities have been assessed by Mercer Human Resource Consulting Ltd., an independent firm of actuaries. The main assumptions used in their calculations are set out below, but it should be noted that as such, the position presented above represents an estimated snapshot position as at 31 March 2006, based on prevailing market and other economic conditions. Where relevant, assumptions were made for both the position at the beginning and end of the financial year, although the figures shown below represent the average assumptions applied for the year.

The figures quoted are based on a full valuation of the Pension Fund, which was carried out during 2004/05. The deficit for accounting purposes also includes liabilities in respect of added years enhancements for non-ill health early retirements, which are a charge directly on the authority's revenue account and not a charge to the Pension Fund.

The latest assessment took into account market movements up to 31 December 2005 and projected the likely position at 31 March 2006. It also took into account the funding methodology and assumptions considered appropriate, the length of any recovery plan and any smoothing mechanisms that might be adopted.

Local Government Pension Scheme		
Financial Assumptions	2005/06	2004/05
	%	%
Rate of inflation	2.9	2.9
Rate of increase in salaries	4.65	4.65
Rate of increase in pensions	2.9	2.9
Rate of discounting scheme liabilities	5.4	5.4

Expected rate of return on assets	2005/06	2004/05
	%	%
Equity investments	7.0	7.5
Government Bonds	4.3	4.7
Other Bonds	4.9	5.4
Property	6.0	6.5
Cash/Liquidity	4.5	4.75
Other assets	7.0	7.5

Split of assets between investment categories	2005/06		2004/05	
	£	%	£	%
Equity investments	63,974	64.5	51,858	65.0
Government Bonds	7,241	7.3	7,181	9.0
Other Bonds	15,572	15.7	11,968	15.0
Property	5,951	6.0	3,989	5.0
Cash/Liquidity	3,769	3.8	2,394	3.0
Other Assets	2,678	2.7	2,394	3.0
	99,185	100	79,784	100

The movement in the net pension liability for the year to 31 March 2006 is as follows :

Movement in Surplus during 2005/06	£000
Surplus / (Deficit) at Beginning of Year	(34,983)

Current Service Costs	(2,657)
Employer Contributions	2,883
Past Service Cost / Curtailment Cost	1,726
Net Interest / Return on Assets	(946)
Actuarial Gain or (Loss)	946
Surplus / (Deficit) at End of Year	(33,031)

The actuarial loss can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities as at 31 March 2006.

Statement of Actuarial Gains & (Losses)	£000	%
Differences between the expected and actual return on assets	13,587	(13.7% of assets)
Differences between actuarial assumptions about liabilities and actual experience	(2,461)	(1.9% of liabilities)
Changes in the demographic and financial assumptions used to estimate liabilities	(10,180)	(7.7% of liabilities)
	946	(0.7% of liabilities)

22 DEFERRED LIABILITIES AND DEFERRED CREDITS

Deferred liabilities consist of liabilities which are payable at some point in the future. The amount in the Balance Sheet represents balances held in respect of shared ownership and leasehold sheltered dwellings where the conditions of the lease include an option for the property to be sold back to the authority at a later point.

Deferred credits represent amounts due, by way of mortgages, from sales of properties in previous years.

STATEMENT OF TOTAL MOVEMENT IN RESERVES

The statement of total movements in reserves brings together all the recognised gains and losses of the Authority during the period and identifies those which have and have not been recognised in the Consolidated Revenue Account. The statement separates the movements between revenue and capital reserves.

	2005/06 £000	2004/05 £000
Surplus/(deficit) for the year:		
- General Fund	54	162
- Housing Revenue Account	123	197
<i>add back</i> Movements on specific revenue reserves (and suspense)	1,077	1,131
Deduct Appropriations from pension reserve	2,156	(884)
Appropriation Adjustment re Actual Contributions		(14)
Actuarial gains and (losses) relating to pensions	(204)	(16,459)
Total increase/(decrease) in revenue resources	3,206	(15,867)
Increase/(decrease) in usable capital receipts	273	1,030
Increase/(decrease) in unapplied capital grants and contributions	--	--
Total increase/(decrease) in realised capital resources	273	1,030
Gains/(losses) on revaluation of fixed assets	(1,670)	46,103
Impairment losses on fixed assets due to general changes in prices	--	--
Total increase/(decrease) in unrealised value of fixed assets	(1,670)	46,103
Value of assets sold, dispose of or decommissioned	(624)	(8,759)
Capital receipts set aside	555	1,760
Revenue resources set aside	(852)	(1,915)
Movement on Government Grants Deferred	8,431	4,341
Movement on Major Repairs Reserve	(66)	571
Total increase/(decrease) in amounts set aside to finance capital investment	8,068	4,757
Increase / (decrease) on the pensions reserve	(1,952)	17,357
TOTAL RECOGNISED GAINS AND LOSSES	7,301	44,621

NOTES TO THE STATEMENT OF TOTAL MOVEMENTS ON RESERVES

1 MOVEMENT IN REVENUE RESOURCES DURING 2005/06

	<i>General Fund Balances</i>	<i>HRA Balances</i>	<i>Earmarked Revenue Reserves</i>	<i>Pension Reserve</i>
	£000	£000	£000	£000
Surplus / (deficit) for 2005/06	54	123	--	--
Appropriation to / (from) revenue	--	--	1,077	2,156
Appropriation Adjustment re Actual Contributions	--	--	--	
Actuarial gains and (losses) relating to pensions	--	--	--	(204)
Total movement on reserve	54	123	1,077	1,952
Balance brought forward at 01 April 2005	2,007	1,029	4,588	(34,983)
Balance carried forward at 31 March 2006	2,061	1,152	5,665	(33,031)

Earmarked Revenue Reserves – monies set aside for specific policy purposes.

Pensions Reserve – a non-distributable reserve reflecting the net liability of the Council's proportion of the assets and liabilities in the pension scheme.

2 MOVEMENT IN REALISED CAPITAL RESOURCES DURING 2005/06

	<i>Usable Capital Receipts</i>	<i>Unapplied Capital Grants and Contributions</i>
	£000	£000
Amounts receivable	1,172	--
Amounts applied to finance new capital investment	(899)	--
Total increase/(decrease) in realised capital resources	273	--
Balance brought forward at 01 April 2005	2,201	--
Balance carried forward at 31 March 2006	2,474	--

The usable capital receipts reserve represents the balance of capital receipts available to finance capital expenditure in future years, after setting aside the statutory amounts for the repayment of external loans, and any amounts repayable to Government departments.

The Council does not hold any non-specific, unapplied capital grants and contributions as at 31 March 2006.

3 MOVEMENT IN UNREALISED VALUE OF FIXED ASSETS DURING 2005/06

	<i>Fixed Asset Restatement Account</i> £000
Gains/losses on revaluation of fixed assets	(1,670)
In year capital expenditure not resulting in valuation changes	
Impairment losses on fixed assets due to general changes in prices	
Total increase/(decrease) in unrealised capital resources	(1,670)

4 VALUE OF ASSETS SOLD, DECOMMISSIONED OR DISPOSED OF IN 2005/06

Amounts written off fixed asset balances for disposals in 2005/06	(624)
Total movement on reserve	(2,294)
Balance brought forward at 01 April 2005	128,926
Balance carried forward at 31 March 2006	126,632

The Fixed Asset Restatement Account represents mainly the difference between the valuation of assets under the previous capital accounting system, and the revaluation of assets as at 01 April 1994, in accordance with the current system of capital accounting.

In addition, the account is written down by both the net book value of assets as they are disposed of, and indirectly by any capital expenditure incurred on fixed assets which does not materially add to the value of the assets concerned. Also, the account is debited or credited with the deficits or surpluses arising on any other revaluation of assets undertaken, including deficits as a result of impairment. This account cannot be used to finance any revenue or capital expenditure.

5 MOVEMENTS IN AMOUNTS SET ASIDE TO FINANCE CAPITAL INVESTMENT DURING 2005/06

	<i>Capital Financing Account</i>	<i>Government Grants Deferred</i>	<i>Total</i>
	£000	£000	£000
Capital receipts set aside:			
- Reserved receipts	--	--	
- Usable receipts applied	555	--	
Less reduction in associated debtors	--	--	
Total net capital receipts set aside	555	0	555
Revenue resources set aside:			
- Capital expenditure financed from revenue	3,483	--	
- Reconciling amount for provisions for loan repayment	(4,335)	--	
Total revenue resources set aside	(852)	0	(852)
Grants applied to capital investment	--	10,214	
Less grants applied against deferred charges	--	(1,319)	
Less credits to the asset mgmt. revenue a/c	--	(474)	
Less transfer to Capital Finance Reserve	(241)	--	
Movement on government grants deferred	(241)	8,421	8,431
Total increase/(decrease) in amounts set aside to finance capital investment			8,134
Total movement on reserve	(538)	8,421	
Balance brought forward at 01 April 2005	41,050	15,019	
Balance carried forward at 31 March 2006	40,512	23,440	

The capital financing account contains the amounts which are required by statute to be set aside as a Provision for Credit Liabilities, less the amount charged as depreciation. It is also increased by the amount of capital receipts, other reserves and revenue contributions that have been used in the financing of capital expenditure. Again, this account cannot be used to support any other revenue or capital spending.

The Government Grants Deferred balance as at 31 March 2006 represents the amount of capital expenditure that has been financed by grant in recent years, less any amounts that have been applied to offset associated deferred charges or asset depreciation charges.

6 EARMARKED RESERVES

These represent monies which have been earmarked for specific spending purposes, and they can be used to meet both revenue and capital expenditure. Most of such reserves held by the Council have relatively small balances, however the major reserves are listed below:-

	Balance as at 31/03/06 £ 000
HRA Major Repairs Reserve	2,099
City Contract Services Reserves	286
Housing Revenue Account Reserves	1,308
Vehicle and Equipment Replacement	65
BEST Centre	94
Industrial Aid	166
Marsh Capital	47
Open Spaces	353
Building Regulations Reserve	150
Storm Damage	47
Job Evaluation	313
Access to Services	413
Insurance	110
Project Implementation	50
Other Minor Reserves	98
	5,599

7 PENSION RESERVE MOVEMENTS DURING 2005/06

The actuarial gains identified as movements on the Pension Reserve in 2005/06 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2006.

	<i>Local Government Pension Scheme</i>	
	£000	%
Differences between the expected and actual return on assets	13,587	(13.7% of assets)
Differences between actuarial assumptions about liabilities and actual experience	(2,461)	(1.9% of liabilities)
Changes in the demographic and financial assumptions used to estimate liabilities	(10,180)	(7.7% of liabilities)
	(946)	(0.7% of liabilities)

CASH FLOW STATEMENT

This consolidated statement summarises the inflows and (outflows) of cash arising from transactions with third parties for revenue and capital purposes.

	Notes	2004/05		2005/06	
		£000	£000	£000	£000
Revenue Activities					
Cash Outflows					
Cash paid to and on behalf of employees		(24,056)		(22,681)	
Other operating cash payments		(49,480)		(52,023)	
Housing Benefit paid out		(32,163)		(32,593)	
Non-Domestic Rates payments to National Pool		(37,093)		(36,902)	
Precepts paid to the County		(45,253)		(47,156)	
TOTAL PAYMENTS			(188,045)		(191,355)
Cash inflows					
Rents (after rebates)		2,028		2,174	
Council Tax receipts		52,722		55,354	
NNDR receipts		38,427		36,603	
NNDR receipts from National Pool		6,503		6,894	
Revenue Support Grant	2	8,613		8,888	
DSS grants for benefits	2	23,336		34,118	
Other government grants	2	115		936	
Cash received for goods and services		33,820		36,519	
Other operating cash receipts / payments		31,451	197,015	18,286	199,772
NET CASH INFLOW FROM REVENUE ACTIVITY	1		8,970		8,417
Returns on Investments and Servicing of Finance					
Cash outflows : Interest paid		(2,478)		(2,476)	
Cash inflows : Interest received		423	(2,055)	660	(1,816)
Capital Activities					
Cash outflows : Purchase of fixed assets		(9,164)		(13,965)	
Other capital cash payments		(3,945)		(3,768)	
TOTAL PAYMENTS		(13,109)		(17,733)	
Cash inflows : Sale of fixed assets		4,635		1,172	
Capital grants received		5,951		9,620	
Other capital cash receipts		0		0	
TOTAL RECEIPTS		10,586		10,792	
NET CASH OUTFLOW FROM CAPITAL ACTIVITIES			(2,523)		(6,941)
NET CASH INFLOW/OUTFLOW(-) BEFORE FINANCING	5		4,392		(340)
Management of Liquid Resources					
Net increase / decrease in short term deposits			(4,000)		(3,700)
Financing					
Cash outflows					
Repayments of amounts borrowed		(3,319)		(321)	
Cash inflows					
New Loans Raised		4,000	681	3,500	3,179

NET CASH INFLOW/OUTFLOW(-)	(3,319)	(521)
NET (INCREASE)/DECREASE IN CASH	1,073	(861)

NOTES TO THE CASH FLOW STATEMENT

1 RECONCILIATION OF REVENUE CASH FLOW

The (surplus)/deficit on the Consolidated Revenue Account includes transactions which do not result in cash flows. The following table identifies these transactions and reconciles the Consolidated Revenue Account surplus with the actual net revenue cash flows.

NOTE I: These figures are shown gross of provisions whereas they are shown net on the Consolidated Balance Sheet. Provisions are shown separately in the above reconciliation.

NOTE II: Debtors and creditors also exclude capital debtors and creditors, which are shown under capital transactions on the above reconciliation.

	2004/05		2005/06	
	£000	£000	£000	£000
General Fund Surplus / (Deficit)		162		54
Housing Revenue Account Surplus / (Deficit)		198		123
Collection Fund Surplus / (Deficit)		412		98
ADD				
Provision for Debt Redemption	678		954	
Write Down of Deferred Assets	222		222	
Direct Revenue Financing of Capital Expenditure	2,690		3,483	
Contribution from / (to) Earmarked Provisions	282		19	
Contribution from / (to) Earmarked Reserves	1,131	5,003	1,011	5,689
Decrease / (Increase) in Debtors	(1,003)		230	
Decrease / (Increase) in Stocks	63		154	
Increase / (Decrease) in Creditors	2,080	1,140	253	637
ADD				
Financing items shown elsewhere -				
External Interest Paid	2,478		2,476	
Finance Lease Interest Paid				
Interest Received	(423)	2,055	(660)	1,816
Revenue Activities Net Cash Flow		8,970		8,417

2 GOVERNMENT GRANTS

The Government grants shown on the Cash Flow Statement represent the cash received by the City Council and may differ from the actual amounts included within gross income figures in the City Council's Revenue Account, which is prepared on an accruals basis.

Government grants in cash terms are outlined below.

	2004/05	2005/06
	£000	£000
Revenue Support Grant	8,613	8,888
DSS Grants - Housing Benefits and Council Tax	23,336	34,118
Council Tax Collection		
Council Tax Preparation Grant		
Benefit Fraud Grant		
Benefit Administration Grant		
NNDR Administration		212
Planning Delivery Grant		579
LABGI		145
	31,949	43,942

3 MOVEMENT IN LONG TERM BORROWING

	As at 31/03/05 £000	As at 31/03/06 £000	Movement in Cash £000
Public Works Loans Board	41,474	44,800	3,326

4 MOVEMENT IN OTHER CURRENT ASSETS AND LIABILITIES

	As at 31/03/05 £000	As at 31/03/06 £000	Movement in Cash £000
Stocks and Work in Progress	409	255	154
Debtors	9,762	9,532	230
Creditors	(8,686)	(8,939)	253
TOTAL	1,485	848	637

5 RECONCILIATION OF THE NET CASH FLOW

The Cash Flow Statement summarises the inflows and outflows of cash arising from transactions with third parties. This movement in cash should be reflected in the increase or decrease in cash and cash equivalent between the 2004/05 and the 2005/06 Consolidated Balance Sheets.

The table below reconciles these movements in cash and cash equivalent:

	As at 31/03/05 £000	As at 31/03/06 £000	Movement in Cash £000
Short Term Borrowing	(320)	(174)	146
Long Term Borrowing	(41,474)	(44,800)	(3,326)
Temporary Investments	6,500	10,200	3,700
Cash in Hand and at Bank	481	(379)	(860)
TOTAL	(34,813)	(35,153)	(340)

BEQUESTS, ENDOWMENTS AND TRUST FUNDS

The Council is responsible for the administration of a number of trust funds on behalf of their specified trustees. These funds do not represent assets of the Council and are therefore not included in the Council's Balance Sheet.

At 31 March 2006 the Council was responsible for 43 of these Trust Funds, the balances of which are shown below.

Revenue Accounts	Balance b/f 01/04/05 £	Income £	Expenditure £	Balance c/f 31/03/06 £
Bequests and Endowments				
(a) Council sole trustee				
Ashton Memorial	--	1,333	1,333	--
Williamson Park	--	1,923	1,923	--
Other	1,605	1,142	1,060	1,687
(b) Council not sole trustee	7,577	465		8,042
School etc. Prize Funds				
(a) Council sole trustee	19,145	1,077		20,222
(b) Council not sole trustee	1,539	88		1,627
TOTAL	29,866	6,028	4,316	31,578

	Fund Balances £	Cash and Fund Investments £
Bequests and Endowments		
(a) Council sole trustee		
Capital		
Ashton Memorial	15,602	
Williamson Park	18,343	
Other	14,046	1,962
Revenue	1,687	
Cash and Debtors		47,716
(b) Council not sole trustee		
Capital	2,045	
Revenue	8,042	2,045
Cash and Debtors		8,042
School etc. Prize Funds		
(a) Council sole trustee		
Capital	2,496	
Revenue	20,222	874
Cash and Debtors		21,844
(b) Council not sole trustee		
Capital	358	
Revenue	1,627	
Cash and Debtors		1,985
TOTAL	84,468	84,468

It is a requirement of the Charity Commission for all Bequests, Endowments and Trust funds an Income and Expenditure account for the Trusts they are responsible for with an income under £10,000. This must be accompanied by a Balance sheet.

The Council consolidates all the Bequests, Endowments and Trusts into one account, these can be found below.

2004/05	Income & Expenditure Account	2005/06	
£		£	£
	Income		
6,000	Interest	6,009	
--	Capital	--	
6,000			6,009
	Expenditure		
1,341	Ashton Memorial	1,333	
287	William Smith Festival	284	
658	Whalley Playground	658	
100	Lune Bank Gardens	97	
1,925	Williamson Park	1,923	
17	War Memorial Fund	16	
4	Other	5	
4,332			4,316
1,668	Excess Income		1,693

2004/05	Balance Sheet	2005/06	
£		£	£
	Assets		
3,836	Investments	3,836	
1,622	Debtors	1,715	
77,298	Bank	78,917	
82,756			84,468
	Represented by:		
81,088	Reserves as at 31.03.2006	82,756	
1,668	Income in 2005/06	1,712	
82,756			84,468

Below is a list and description of Bequests & Endowments where the Capital value exceeds £1,000.

Ashton Memorial

The Ashton Memorial, a historic folly, was built in 1907 and given to the City of Lancaster by Lord Ashton. The building is open to the public on 362 days a year and has free access. The interest is passed on annually to the management company Williamson Park Ltd and is used for general maintenance of the building and annual upkeep ie decoration.

Williamson Park

The annual interest is used for the cutting, pruning, trimming, hedging and the general upkeep of the grounds within Williamson Park.

William Smith Festival

The annual interest is used to provide prizes etc. at the Annual Easter Festival for schoolchildren.

Whalley Playground

The annual interest is used for the upkeep, maintenance and supervision of the Whalley Playground.

Lune Bank Gardens

The annual interest is available for the upkeep of Lune Bank Gardens.

Crook of Lune

The interest is passed to Lancashire County Council contributing towards the Hermitage Field Access for all and environmental enhancement works.

The Council also holds a further 37 trust funds which have individual values of less than £1,000, and these are predominantly held for educational purposes.

AUDIT COMMITTEE**Internal Audit Annual Report 2005/06****28 June 2006****Report of Internal Audit Manager****PURPOSE OF REPORT**

To inform the Committee of the extent and outcome of Internal Audit work during the 2005/06 financial year and to present an annual Statement of Assurance regarding the Council's internal Control Framework.

This report is public

RECOMMENDATIONS

1. That the report be noted.
2. That the Controls Assurance Statement (paragraphs 2.10 to 2.14) be accepted and considered in relation to the proposed Statement on Internal Control & Corporate Governance (presented elsewhere on this agenda).

1.0 Introduction

- 1.1 The terms of reference of the Audit Committee include: *To receive the annual Internal Audit Report and Controls Assurance Statement* (the Constitution, part 3 section 8, TOR 11). Whilst the CIPFA Code of Practice for Internal Audit does not currently prescribe the production of an annual report and assurance statement, this is regarded as best practice within the profession. The report and assurance statement plays a significant role in contributing to the Council's responsibility to undertake an annual review of the Internal Control framework and publish a Statement on Internal Control.

2.0 Proposal Details

- 2.1 Internal Audit is established as a section of Financial Services, reporting functionally to the Head of Financial Services. Professionally, it operates to standards set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom and operates and reports in accordance with an approved Audit Charter.

Annual Audit Plan 2005/06

- 2.2 Internal Audit plans and assignments are developed on a strongly risk-based approach, seeking to identify and devote resources to the areas of greatest significance to the Council. The approved Internal Audit Plan for 2005/06 contained 34 audit assignments, and 960 days of Internal Audit work. The workload during 2005/06 also included the completion of 8 audits from the 2005/06 audit plan which were in progress at 31 March 2005. A summary of the final position for the year is set out in the following table, with a list of audit reports issued during the period attached at Appendix A.

Area of activity	Original Plan		Actual	
	No of Assignments	Days	No of Assignments	Days
Advice & Support	n/a	100	n/a	188
Planning & Monitoring	n/a	42	n/a	48
Computer Audit	2	40	1	18
Investigations	n/a	35	n/a	37
General Contingency	n/a	45	n/a	0
Follow Up Reviews	n/a	70	n/a	69
Financial Systems	18	238	14	169
Management Arrangements	15	320	13	315
Non-Audit Duties	n/a	5	n/a	4
Operational Audits	7	65	5	51
Totals	42	960	33	899

Explanation of Major Variances

- 2.3 Changes in demand for audit work and variations to the approved Plan were reported to and approved by Audit Committee during the year. The most significant factors causing changes to the original plan were:
- An intensive piece of work led by the Principal Auditor to gather information for and co-ordinate the Council's Use of Resources self-assessment in preparation for the Audit Commission's external assessment. This work (included in the "Advice and Support" heading) took 38 days.
 - During the Procurement Officer's period of maternity leave, cover for certain day-to-day activities was provided by the Principal Auditor, accounting for 12 days work.
 - Arrangements with Lancashire County Council to provide audit resources, particularly regarding Computer Audit work were delayed by staffing changes at County. Ten days work were provided at a cost of £3,000 out of the consultancy budget of £18,000.
- 2.4 In reviewing the plan during the year, the following adjustments were approved by the Audit Committee at its meeting on 25 January 2006:
- Postponing work on documenting and flowcharting the Income Management, Job Management, Asset Management and some aspects of Housing Benefits to the 2006/07 plan.
 - Postponing planned audits of partnership arrangements and fraud and corruption arrangements to the 2006/07 plan.

- Due to operational considerations in the services concerned, audits of licensing and of renewal (Strategic Housing) were postponed to the 2006/07 plan.

2.5 In terms of specific planned audit assignments, 33 audits were undertaken compared with 42 included in the approved plan or continuing from 2005/06 (76%). In terms of resources devoted to planned audit activity (including advice, support, follow-ups and investigations), the final outturn was 841 days against the approved plan of 913 days (92%). As indicated in §2.3, the main factors behind this shortfall were the delayed arrangements with Lancashire County Council and the provision of cover for the Procurement Officer's maternity leave.

Quality Considerations

2.6 Customer satisfaction with Internal Audit work is judged through managers' responses to a post-audit satisfaction survey sent out following the completion of each assignment. The questionnaire seeks views, expressed as scores on a range from 1 to 9, on sixteen aspects of the audit, covering aspects of communication and consultation, conduct, objectivity, reporting and impact of the work. Summary results from questionnaires returned over the past 24 months are demonstrated in Appendix B.

2.7 The summary represents the average scores obtained from 41 returned surveys. Against a target level of 8 for all aspects of the audit, only two have not been met (albeit marginally), these being questions 15 and 16 relating to risk management outcomes from the audit. This aspect of our work's effectiveness is therefore the priority for improvement and bears a direct relationship to the ongoing development of risk management arrangements throughout the Council.

2.8 At the time of writing, an Audit Commission report following a review of Internal Audit is being finalised and the results of this report will be presented to the next meeting of the Committee on 20 September 2006. It is also worth noting at this stage that, under a revision to the Accounts & Audit Regulations 2003, an annual review of Internal Audit will be expected. A report on options for fulfilling this requirement will also be presented to the next meeting of the Committee.

Results of Audit Work

2.9 In all cases, completed audit assignments have resulted in the production of a report and action plan, agreed by managers and submitted for consideration by the Audit Committee. There are ongoing arrangements for all reports to be revisited and a further follow-up report to be produced regarding progress made in implementing agreed actions.

Controls Assurance Statement

2.10 It must be recognised that Internal Audit cannot be expected to give total assurance that control weaknesses or irregularities do not exist.

This assurance statement is drawn from a) the results of individual internal audit assignments and b) the results of follow-up reviews into previously completed audits. The reports contributing to this assurance statement are set out in Appendix A, showing the date of issue and date that they were considered by the Audit Committee.

Results of Internal Audit Assignments

- 2.11 Our work on the Council's financial systems has indicated that indicated that effective internal financial controls exist to ensure the accuracy and integrity of the information they provide and no significant control weaknesses have been identified.
- 2.12 In the assurance work undertaken, Internal Audit activity during the year did not identify any control weaknesses of such significance that they would warrant disclosure in the Council's Statement on Internal Control & Corporate Governance. Where control weaknesses have been identified, remedial action has been agreed and arrangements are in place to monitor the implementation of those actions.
- 2.13 The support and proactive work undertaken by Internal Audit during 2005/06 has concentrated on a number of areas recognised by the Council as needing development, notably its Performance Management and Risk Management arrangements. In addition, Internal Audit has again been instrumental in reviewing and developing the Internal Control and Corporate Governance framework. All of these arrangements are key elements in the Council's review of the Internal Control and Corporate Governance framework and the current position is reflected in the evaluation undertaken and reported elsewhere on this meeting's agenda. Whilst Internal Audit has not produced a formal report in such areas, its views and knowledge have been fed into the evaluation process.

Results of Internal Audit Follow-Up Reviews

- 2.14 Previously issued audit reports are subject to follow-up, normally six months after the date of the final report. In all cases, the results of these follow-up exercises are reported to the Audit Committee, and under recently revised arrangements, the Committee is undertaking a more active role in monitoring (and challenging where appropriate), the progress made in implementing agreed actions.
- 2.15 As with newly issued audit reports, the follow-up procedure has not identified any continuing control weaknesses of such significance that they would warrant disclosure in the Council's Statement on Internal Control & Corporate Governance.

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 Internal Audit's assurance statement as a contribution to the overall assessment of the Internal Control and Corporate Governance Statement. No alternative options are identified.

5.0 Conclusion

- 5.1 The work of Internal Audit seeks to provide assurance to the Council as to the appropriateness and effectiveness of its internal control and corporate governance arrangements. During the 2005/06 financial year, Internal Audit's work has provided assurance in a variety of areas as well as incorporating a significant level input and contribution to the development of a number of key systems and processes.

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 from this report.

SECTION 151 OFFICER'S COMMENTS

The s151 Officer has been consulted and has no further comments.

LEGAL IMPLICATIONS

None arising from this report

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

Internal Audit Plan 2005/06
Internal Audit Files

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Ref: aud/ctte/aud/0506/28June06

Appendix A**Internal Audit Plan 2005/06 – Reports Issued**

Audit No	Title	Report Date	Reported to Audit Committee
Financial Systems Audits			
04/0568	Cash & Banking (Internet & Automated Telephone payments)	27/06/05	27/07/05
04/0588	Payroll - Salaried Employees and Officer Expenses	02/11/05	25/01/06
05/0600	NDR 2005/06	07/12/05	25/01/06
04/0584	Financial Management	27/01/06	26/04/06
05/0597	Treasury Management	20/02/06	26/04/06
05/0626	Housing Benefits 2005/06 (Claims Security)	25/04/06	28/06/06
05/0615	Council Tax 2005/06	02/05/06	28/06/06
05/0606	Income Tax and National Insurance	10/05/06	28/06/06
Computer Audits			
04/0587	Electronic Government 2004/05	17/08/05	25/01/06
Management Arrangements			
04/0585	DDA and Race Equality compliance in relation to recruitment	22/12/05	25/01/06
04/0571	Best Value	02/12/05	25/01/06
04/0575	Project Management	20/04/06	28/06/06
Operational Audits			
04/0567	Planning	13/04/05	27/07/05
05/0602	Arnside and Silverdale A.O.N.B. Unit	27/03/06	26/04/06
Follow Up Reports			
03/0526	Fraud & Corruption	26/05/05	27/07/05
03/0552	Leisure Management	01/06/05	27/07/05
03/0470	Salt Ayre Leisure Centre	01/06/05	27/07/05
04/0565	Housing Benefits & Council Tax Benefits	07/06/05	27/07/05
03/0505	Personnel Management	01/07/05	27/07/05
03/0524	Car Parking - Provision and Control	20/07/05	25/01/06
03/0538	Contaminated Land	20/07/05	25/01/06
03/0510	Economic Development - Marketing and Promotion	19/08/05	25/01/06

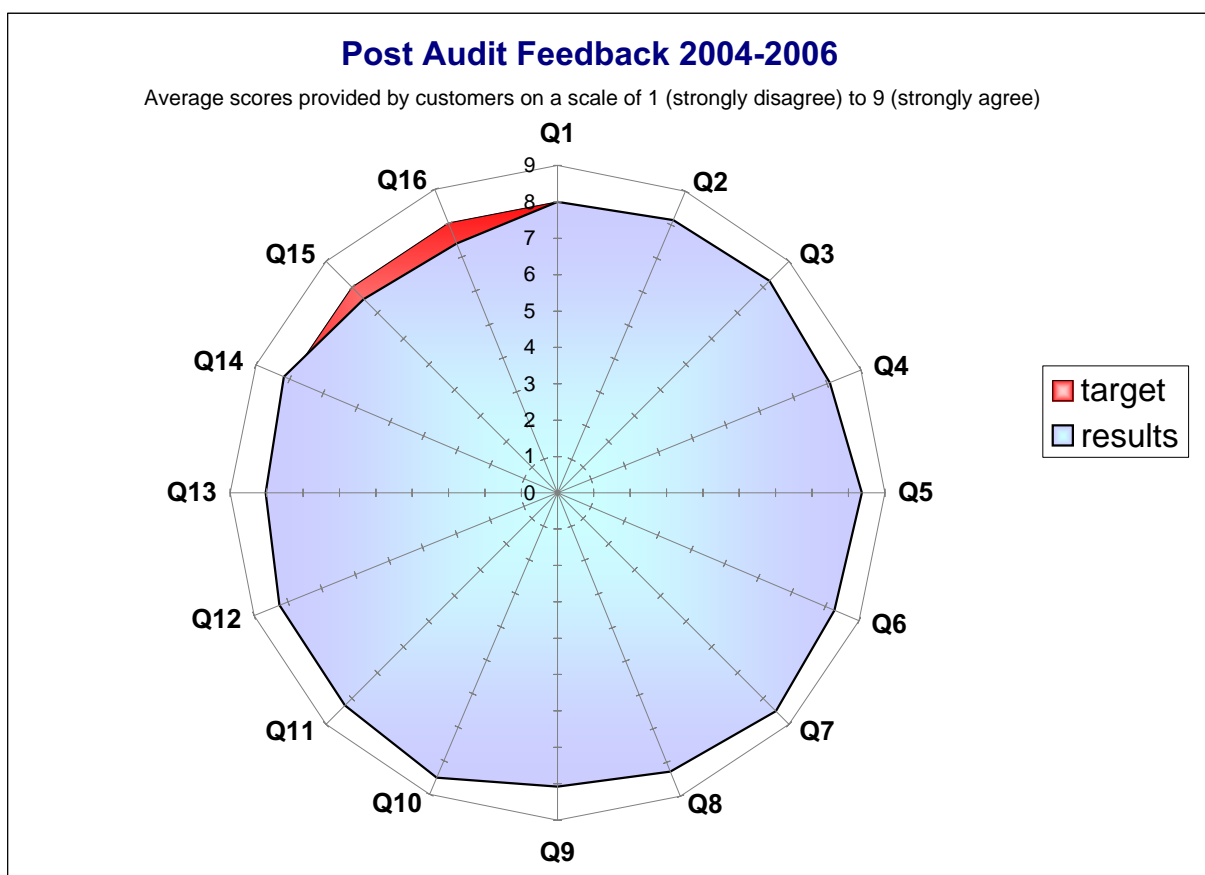
Follow Up Reports (contd)

04/0567	Planning	21/11/05	25/01/06
04/0560	Software Licensing	23/12/05	25/01/06
03/0537	City Centre Development and Management	06/01/06	26/04/06
03/0557	Ordering, Receiving and Payments	26/01/06	26/04/06
02/0496	Financial Management	27/01/06	26/04/06
04/0568	Cash and Banking (Internet and ATP)	14/02/06	26/04/06
03/0527	Vehicles and Plant	02/02/06	26/04/06

Proactive Audit Work 2005/06

05/0595	Performance Management	Contributing to the development of the newly adopted performance management framework.
05/0594	Risk Management Strategy Implementation	Continuing the implementation of the Risk Management strategy and the development of risk registers and management arrangements.
05/0593	Procurement Strategy Development	Contributing to the ongoing development of the strategy and implementation of revised procurement policies and processes.

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Questions:		Target	Actual	Priority for Action
Q1	I was given adequate notification of the audit	8	8.0	3
Q2	The audit work was undertaken at an agreed and convenient time.	8	8.1	7
Q3	The audit process and objectives were adequately explained to me	8	8.2	9
Q4	I was sufficiently involved in identifying and analysing risk and determining the scope of the audit	8	8.1	5
Q5	The work was conducted in my section in a proficient manner	8	8.4	14
Q6	The appropriate staff were consulted for the areas covered	8	8.3	11
Q7	The consultation was conducted in a professional manner	8	8.5	15
Q8	The results of the risk evaluation were discussed with the appropriate staff	8	8.3	11
Q9	The results and conclusions were based on sound and thorough analysis/evaluation of the major risks	8	8.1	5
Q10	I was sufficiently involved in discussing and agreeing the report and action plan	8	8.5	16
Q11	My views and comments were adequately presented in the final report	8	8.3	11
Q12	The final report presented a balanced and accurate picture of the results of the audit	8	8.2	9
Q13	The action plan was easy to agree and was based on practical and realistic recommendations	8	8.0	4
Q14	The final report was produced promptly	8	8.2	8
Q15	The audit has helped develop our identification and understanding of risk in this area	8	7.5	2
Q16	The audit has helped improve the way in which we manage risk in this area	8	7.4	1

Results are based on the responses provided by 41 respondees

Highlighted rows indicate Questions where the average 'score' falls below target.

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AUDIT COMMITTEE**Statement on Internal Control and Corporate Governance
2005/06****Report of Corporate Director (Finance & Performance)****PURPOSE OF REPORT**

To seek the Committee's approval for the draft Statement on Internal Control and Corporate Governance (SIC&CG) for the 2005/06 financial year.

This report is public

RECOMMENDATIONS

- (1) That the Statement on Internal Control and Corporate Governance for 2005/06 as set out at Appendix B be approved for signing by the Leader of the Council, Chief Executive, Section 151 Officer and Monitoring Officer.
- (2) That the approach taken to incorporate actions in relation to identified control issues into the Corporate Improvement Plan is endorsed.

1.0 Introduction

- 1.1 The terms of reference of the Audit Committee include: *To approve the annual Statement of Accounts, income and expenditure and balance sheet or record of payments and receipts under the Accounts and Audit Regulations* (the Constitution, part 3 section 8).
- 1.2 A report elsewhere on the agenda seeks Committee approval for the actual Statement of Accounts. This report outlines the elements needed in relation to the systems of internal control, a statement on which must be published alongside the financial statements.

Accounts & Audit Regulations 2003

- 1.3 Regulation 4 requires the Council to maintain a sound system of internal control, including risk management, and introduced a requirement for authorities to review the systems of internal control and publish an annual Statement on Internal Control (SIC) alongside the financial statements.
- 1.4 The Regulations simply state that the SIC should be 'prepared in accordance with proper practices'. In practice, CIPFA is the primary source of guidance on what constitutes proper practice.

2.0 Proposal Details

- 2.1 The draft Statement on Internal Control and Corporate Governance (SIC&CG) has been drawn up following a review of the Councils' framework (see § 2.2) by a Management Group, this year comprising the Corporate Director (Finance & Performance), the Head of Financial Services (s151 Officer), the Head of Legal and HR (the Monitoring Officer) and the Internal Audit Manager.

Internal Control & Corporate Governance Database

- 2.2 The review has again used the "Internal Control & Corporate Governance" database, maintained by Internal Audit, which comprises a framework of controls based on the guidance issued by CIPFA.
- 2.3 Members will recall that, at the last meeting of the Committee resolved that the "Good Governance Standard for Public Services" be used as a self-assessment tool in the preparation of the Council's annual statement on Internal Control and Corporate Governance. Following on from this self-assessment, the framework has been updated to include a number of additional elements of good governance identified in the Good Governance Standard. In all, the framework now comprises seventy-nine controls compared with sixty-seven in last year's exercise.
- 2.4 The results of the Management Group's evaluation exercise are demonstrated in the Overview Chart and Evaluation Reports attached at Appendix A.
- 2.5 The finally agreed framework consists of a set of sixty-seven internal control features within the following eight headings:
1. Statutory Obligations (5 controls)
 2. Corporate Objectives (6)
 3. Corporate Governance (18)
 4. Performance Management (6)
 5. Risk Management (15)
 6. Internal Control (15)
 7. Assurance (10)
 8. Statement on Internal Control (4)

Assurance

- 2.6 To provide evidence of assurance at each level, the database contains details of around 170 identified "sources" of assurance. These range from a record of official policy and strategy documents such as the Constitution to review reports such as Internal Audit and External Audit reports, to procedures such as one-to-one management meetings. Links between the sources of assurance and the relevant internal control feature are used to inform the evaluation.

Evaluation Results

- 2.7 It can be seen from the comparison with the 2004/05 overview chart that the Management Group feels that a great deal of progress has been made across most areas of the framework. The evaluation has employed a scoring scale of 1 (representing poorly developed arrangements) to 9 (highly effective arrangements), with a target level of 7 currently set for all elements. On this basis, it is judged that the target level has been met or exceeded in 47 (60%) of the 79 controls.

The Draft Statement on Internal Control & Corporate Governance

- 2.8 CIPFA guidance states that the SIC '*...represents the end result of the review of internal control, including the process of risk management, that should be embedded throughout the activities of the authority. As such, production of the SIC should not be conducted as an 'add-on' end of year activity. It should explain the nature of control, and any material changes in control, exercised through the whole of the accounting period.*
- 2.9 Drawing on the results of the evaluation exercise, the Management Group has developed the draft SIC&CG attached at Appendix B. The timescale for the production of the Statement is now in line with that for the approval of the financial accounts (i.e. 30 June 2006) and the Statement must be approved at a meeting of the Council or delegated committee (i.e. the Audit Committee). The Statement itself follows the statutorily prescribed format, with the following headings:
1. Scope of Responsibility
 2. The Purpose of the System of Internal Control
 3. The Internal Control Environment
 4. Review of Effectiveness
 5. Significant Internal Control Issues
- 2.10 As well as addressing the requirements of the Accounts and Audit Regulations, the publication of a Statement on Internal Control and Corporate Governance (as opposed to a Statement on Internal Control) complies with both:
- a) the existing Local Government Statement of Recommended Practice (SORP), which calls for a Statement on Internal Financial Controls (SIFC); and
 - b) the CIPFA/SOLACE framework for Corporate Governance, which suggested that a wider corporate governance assurance statement be included with the financial statements.

Signatories to the Statement

- 2.11 The statutory requirement is that the most senior officer (Chief Executive or equivalent) and the most senior member (Leader or equivalent) should sign the Statement. They must be satisfied that the document is supported by reliable evidence and accurately reflects the internal control environment. This emphasises that the document is about all corporate controls and is not confined to financial issues. As the statement covers the requirements to produce a statement on Corporate Governance and on Internal Financial Control, it is recommended that the S151 Officer and Monitoring Officer also sign the statement (as has been the case for previous years).

Action Plan

- 2.12 A separate action plan has not been drafted. To ensure a cohesive approach to such improvements, actions relating to the "Significant Internal Control Issues" identified in section 5 of the statement have been incorporated into the Council's draft Improvement Plan, which was considered by Council on 14 June 2006.

3.0 Details of Consultation

3.1 Not applicable.

4.0 Options and Options Analysis (including risk assessment)

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

5.0 Conclusion

5.1 The draft Statement on Internal Control and the results of the review undertaken by the Management Group reflect the developments and progress made by the Council during the last twelve months. Adoption of the actions in the draft Action Plan will help maintain this progress and contribute, not only to a further improved position for 2006/07, but also to the quality of other assessments, for example the Audit Commission's Use of Resources assessment.

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

There are no direct financial implications arising from this report. The draft SIC&CG highlights that overall, it is felt that effective financial controls are in place.

SECTION 151 OFFICER'S COMMENTS

The s151 Officer has been involved in the process of producing the draft SIC&CG and has no further comments.

LEGAL IMPLICATIONS

Legal Services have been consulted and have no further comments.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

Accounts and Audit Regulations 2003.

Contact Officer: Derek Whiteway

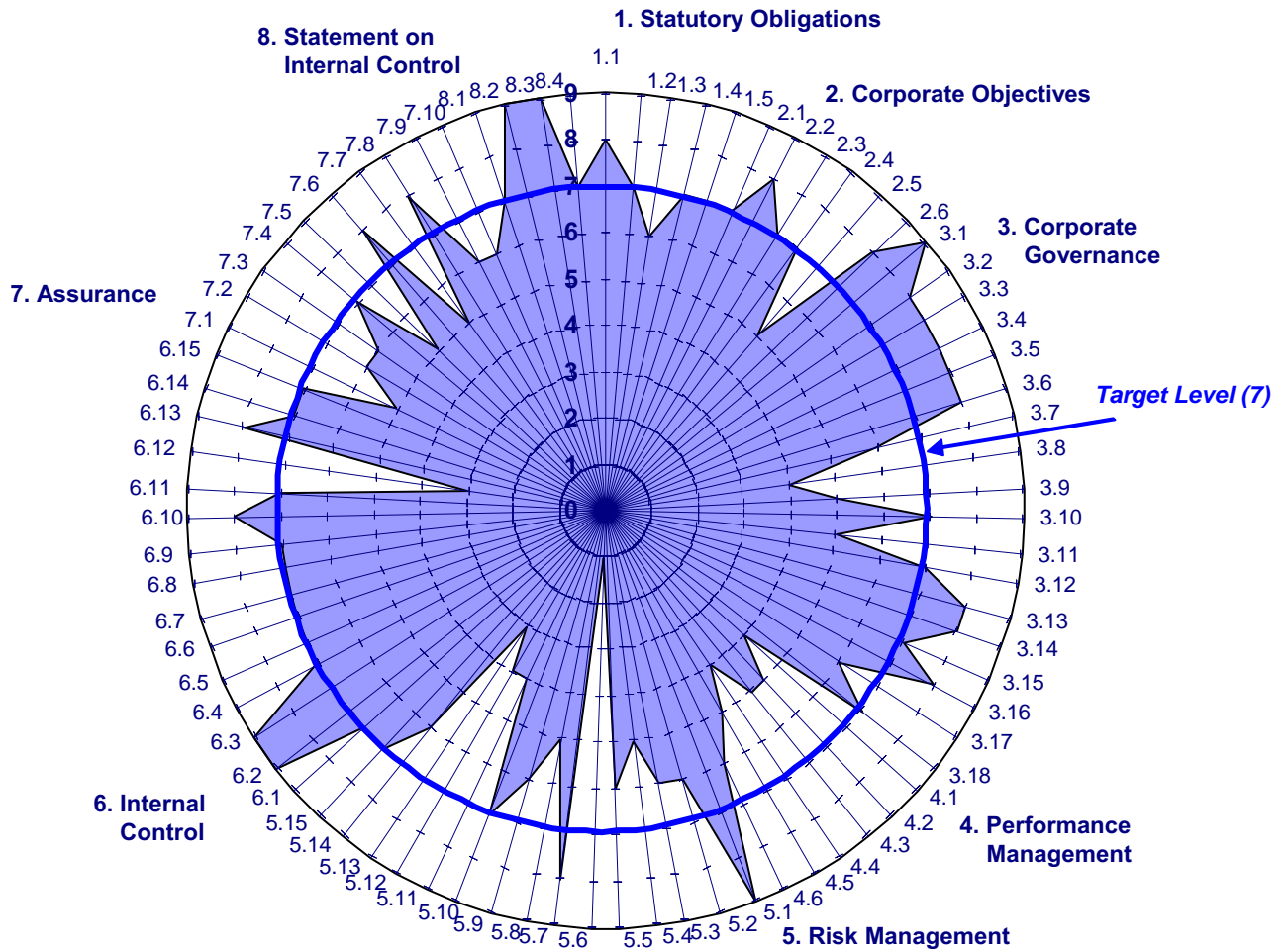
Telephone: 01524 582045

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Ref: [aud/cttee/audit/2006/280506/sic&cg](#)



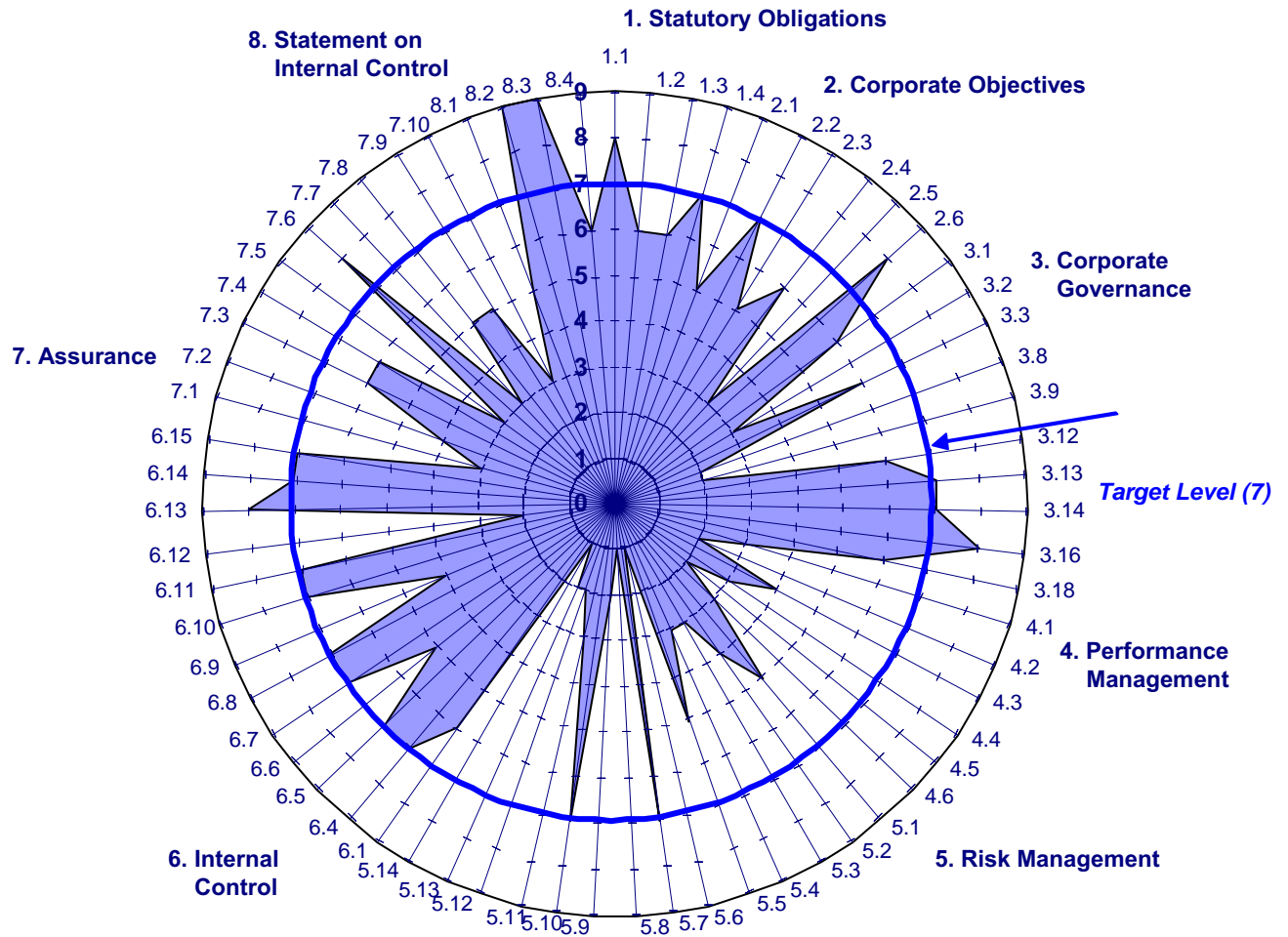
Internal Control & Corporate Governance Framework Overview 2005/06 (Management Group Evaluation)



The chart maps the scores produced by the Management Group for each of the 79 internal control features in the framework on a scale of 1 to 9. The filled area represents the extent to which the Council's arrangements are judged to provide effective control (i.e. the larger the filled area, the better) and a general "target" level of 7 has currently been set.

Where larger areas of white are displayed within the target circle, the greater the scope and need to improve arrangements.

**Internal Control & Corporate Governance Framework
Overview 2004/05 (Provided for Comparison)**



The chart maps the scores produced by the Management Group for each of the 67 internal control features in the framework on a scale of 1 to 9. The filled area represents the extent to which the Council's arrangements are judged to provide effective control (i.e. the larger the filled area, the better) and a general "target" level of 7 has currently been set.

Where larger areas of white are displayed within the target circle, the greater the scope and need to improve arrangements.

Please note that direct comparison with 2005/06 is not possible due to the addition of new controls.

Management Group Evaluation

1 Statutory Obligations		Score	1 2 3 4 5 6 7 8 9
1.1	Responsibilities for statutory obligations are formally established and a senior officer is responsible for ensuring compliance.	8	
1.2	Statutory obligations are communicated to and understood by all relevant people in the organisation.	7	
1.3	Effective procedures exist to identify, evaluate, communicate, implement, comply with, and monitor legislative change.	6	
1.4	Effective action is taken where areas of non-compliance are found either in mechanism or legislation.	7	
1.5	Members meet regularly on a formal basis to set the strategic direction of the Authority and to monitor service delivery.	7	
2 Corporate Objectives		Score	1 2 3 4 5 6 7 8 9
2.1	Consultation with stakeholders on priorities and objectives.	7	
2.2	The authority's priorities and organisational objectives have been agreed (taking into account feedback from consultation).	8	
2.3	Priorities and objectives are aligned to principal statutory obligations and relate to available funding.	7	
2.4	Resources are allocated according to corporate priorities.	7	
2.5	Objectives are reflected in departmental plans and are clearly matched with associated budgets.	5	
2.6	The authority's objectives are clearly communicated to staff and to all stakeholders.	8	
3 Corporate Governance		Score	1 2 3 4 5 6 7 8 9
3.1	Code of corporate governance established.	9	
3.2	Review and monitoring arrangements in place.	8	
3.3	Committee charged with governance responsibilities.	8	
3.4	Proper balance of power and authority.	8	
3.5	The roles and responsibilities of members, together with the terms of their remuneration and its review, are clearly defined in writing.	8	
3.6	The Chief Executive is made responsible to the authority for all aspects of operational management.	8	
3.7	The roles and responsibilities of all senior officers, together with the terms of their remuneration and its review, are clearly defined in writing.	6	
3.8	Governance training provided to key officers and all members.	4	
3.9	Staff, public and other stakeholder awareness of corporate governance.	5	
3.10	The Authority has made and performed to an explicit commitment to openness in all of its dealings.	7	
3.11	The Authority builds effective relationships with partners, public agencies and the private/voluntary sectors. Outsourcing is considered where it is efficient and effective.	5	

Management Group Evaluation

3 Corporate Governance		Score	1 2 3 4 5 6 7 8 9
3.12	Encourage community/stakeholder engagement and establish clear and effective channels of communication with all sections of the community and stakeholders.	7	
3.13	The authority maintains an objective and professional relationship with its external auditors and statutory inspectors and puts in place arrangements for effective implementation of agreed actions.	8	
3.14	Clear, documented and understood management processes for policy development, implementation and review and for decision making, monitoring and control, and reporting.	8	
3.15	Members are properly trained for their roles and have access to all relevant information, advice and resource as necessary to enable them to carry out their role effectively.	7	
3.16	Services are delivered by trained and experienced people.	8	
3.17	The Authority is flexible to adapt and accommodate change and to meet user needs. Key stakeholders and users are consulted.	6	
3.18	Appropriate procedures to ensure the openness, integrity and accountability of officers and members.	7	
4 Performance Management		Score	1 2 3 4 5 6 7 8 9
4.1	Standards and targets for performance in the delivery of services are set on a sustainable basis with a view to continuous improvement and with reference to equality policies.	4	
4.2	Comprehensive and effective performance management systems operate routinely.	5	
4.3	Key performance indicators are established and monitored. Performance against agreed standards and targets is reported and comprehensive and understandable performance plans are developed.	5	
4.4	The authority knows how well it is performing against its planned outcomes.	4	
4.5	Knowledge of absolute and relative performances achieved is used to support decisions that drive improvements in outcomes.	5	
4.6	The authority continuously improves its performance management.	6	
5 Risk Management		Score	1 2 3 4 5 6 7 8 9
5.1	There is a written strategy and policy for managing risk.	9	
5.2	The authority has implemented clear structures and processes for risk management which are successfully implemented.	6	
5.3	The authority has developed a corporate approach to the identification and evaluation of risk which is understood by all staff.	6	
5.4	The authority has well defined procedures for recording and reporting risk.	5	
5.5	The corporate/departmental risk register(s) includes expected key controls to manage principal risks.	6	
5.6	Key risk indicators have been drawn up to track the movement of key risks and are regularly monitored and reviewed.	1	
5.7	The authority has well-established and clear arrangements for financing risk.	8	
5.8	The authority has developed a programme of risk management training for relevant staff.	5	

Management Group Evaluation

5 Risk Management		Score	1 2 3 4 5 6 7 8 9
5.9	The corporate risk management board (or equivalent) adds value to the risk management process.	6	
5.10	A corporate risk officer has been appointed with the necessary skills to analyse issues, offer options and advice and support decision making and policy formulation.	7	
5.11	Managers are accountable for managing their risks.	4	
5.12	Risk management is embedded throughout the authority.	4	
5.13	Risks in partnership working are fully considered.	3	
5.14	Where employed, risk management information systems meet users' needs.	6	
5.15	There are effective arrangements for the review of risk management and internal control, including internal audit.	7	
6 Internal Control		Score	1 2 3 4 5 6 7 8 9
6.1	Financial management arrangements ensure public funds are properly safeguarded and are used economically, efficiently and effectively.	7	
6.2	A senior officer is made responsible to the Authority for the provision of proper financial management, advice and an effective system of internal financial control.	9	
6.3	There is an internal audit function.	9	
6.4	Written financial regulations are in place which have been formally approved, regularly reviewed and widely communicated to all relevant staff.	7	
6.5	There are written contract standing orders in place which have been formally approved, regularly reviewed and widely communicated to all relevant staff.	7	
6.6	There is a whistleblowing policy in place which has been formally approved, regularly reviewed and widely communicated to all staff.	7	
6.7	There is a counter fraud and corruption policy in place which has been formally approved, regularly reviewed and widely communicated to all relevant staff.	7	
6.8	There are codes of conduct in place which have been formally approved and widely communicated.	7	
6.9	A register of interests is maintained, regularly updated and reviewed.	7	
6.10	A scheme of delegation has been drawn up and has been formally approved and communicated to all relevant staff.	8	
6.11	A corporate procurement policy has been drawn up, formally approved and communicated to all relevant staff.	7	
6.12	Business/service continuity plans have been drawn up for all critical service areas.	3	
6.13	The authority's internal control framework is subject to regular independent assessment.	8	
6.14	A corporate health and safety policy has been drawn up, formally approved, is subject to regular review and has been communicated to all relevant staff.	7	
6.15	A corporate complaints policy/procedure has been drawn up, formally approved, communicated to all relevant staff, the public and other stakeholders and is regularly reviewed.	7	

Management Group Evaluation

7 Assurance		Score	1 2 3 4 5 6 7 8 9
7.1	The authority has determined appropriate internal and external sources of assurance.	5	
7.2	Appropriate key controls on which assurance is to be given have been identified and agreed.	6	
7.3	Mechanism established for collecting SIC assurances.	6	
7.4	Department heads provide assurance statements that key controls are in place and have been in operation for the period concerned.	7	
7.5	External assurance reports are collated centrally.	5	
7.6	Internal Audit reports regularly to the Audit Committee and the Head of Internal Audit provides an annual report, including an opinion on the internal control framework.	8	
7.7	Responsibilities for the evaluation of assurances are clearly defined throughout the organisation.	5	
7.8	A 'SMART' (Specific, Measurable, Achievable, Realistic and Time-bound) action plan is drawn up and approved.	8	
7.9	Actions are communicated and responsibilities for implementation within agreed timescales are assigned.	6	
7.10	Ongoing review of progress and of continuing appropriateness of action.	6	
8 Statement on Internal Control		Score	1 2 3 4 5 6 7 8 9
8.1	Annual reporting of the Authority's activities and achievements, financial position and performance.	7	
8.2	Responsibilities for the compilation, signing and reporting of the Statement on Internal Control in accordance with statutory requirements have been assigned.	9	
8.3	There is a timetable for the production and publication of the Statement on Internal Control that meets the statutory deadline.	9	
8.4	The Statement on Internal Control is reviewed, challenged and approved by the authority.	7	

STATEMENT ON INTERNAL CONTROL AND CORPORATE GOVERNANCE 2005/06

1. SCOPE OF RESPONSIBILITY

Lancaster City Council is responsible for ensuring that its 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. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Lancaster City Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk. To this end the Council has adopted a Constitution and Code of Corporate Governance which is consistent with CIPFA/SOLACE¹ framework – *Corporate Governance in Local Government: A Keystone for Community Governance*. A full copy of the [Council's Constitution](#) is available on the Council's website.

Regulation 4 of the Accounts and Audit Regulations (2003) requires audited bodies² to conduct a review at least once a year of the effectiveness of its internal control and risk management systems and to publish a statement on internal control (SIC) each year with the financial statements.

2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

Effective systems of internal control are based on an ongoing risk management process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives; to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically.

3. THE INTERNAL CONTROL ENVIRONMENT

The system of internal control has been in place at Lancaster City Council for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts and, except for the details of significant control issues set out in section 5, accords with proper practice.

The following sets out the key elements of the Council's internal control environment:

- The Council has adopted a constitution (recently revised), which sets out how we operate, how decisions are made and the procedures followed to ensure that these are efficient, transparent and accountable to local people.

¹ *The "Chartered Institute of Public Finance & Accountancy" and the "Society of Local Authority Chief Executives."*

² Those bodies whose accounts are audited in accordance with Section 2 of the Audit Commission Act 1988

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- The facilitation of policy and decision making, in line with the Council's overall budget and policy framework, is established through the Council's Cabinet, with any key decisions (as defined in the Constitution) outside of this framework being referred to the Council as a whole. The Council publishes a Forward Plan containing details of key decisions made on behalf of the Council by Cabinet and by senior officers under their delegated powers.
- The adopted Code of Corporate Governance sets out how the values of openness, inclusivity, integrity and accountability are applied to the Council's activities, in line with the principles and requirements of the CIPFA/SOLACE³ framework – *Corporate Governance in Local Government: A Keystone for Community Governance*.
- A [Risk Management Policy](#) and [Strategy](#), updated in July 2005, sets out the framework for managing risk throughout the Council. Senior officers of the Council have primary responsibility to effectively manage strategic and operational business risks relating to their Service. The process of identifying, assessing and managing these risks is underpinned by the ongoing development of the Council's Risk Register and the supervisory activities of the Risk Management Group.
- The Council seeks to ensure the economical, effective and efficient use of resources and continuous improvement in the way in which it exercises its functions, through reviews carried out by Cabinet's Star Chamber, its Internal Audit and Best Value review teams and those conducted by our external auditors and other external agencies.
- For 2005/06, the Corporate Director (Central Services) was the Council's designated Monitoring Officer, with responsibility for promoting and maintaining high standards of financial conduct and for ensuring compliance with established policies, procedures, laws and regulations. The Monitoring Officer is required to report any actual or potential breaches of the law or maladministration to full Council and supports The Standards Committee in its function of promoting and maintaining high standards of conduct of Councillors and co-opted Members.
- The Council's commitment to high standards of conduct and integrity is supported by our established codes of conduct for employees and elected Members and probity is maintained through our Anti-Fraud and Corruption [Policy](#) and [Strategy](#) and the [Whistleblowing Policy](#).
- The financial management of the Council is conducted in accordance with rules set out in the Financial Regulations and Procedures within the Constitution. The Council also has in place a three-year Medium Term Financial Strategy to support the key priorities and objectives set out in the Council's Corporate Plan, and the Head of Financial Services has statutory duties for the financial administration and stewardship of the Council, in accordance with Section 151 of the Local Government Act 1972.
- Internal Audit operates to the standards set out in the '*CIPFA Code of Practice for Internal Audit in Local Government 2003*' and the Council has established an objective and professional relationship with its external auditors and other statutory inspectors.

³ The "Chartered Institute of Public Finance & Accountancy" and the "Society of Local Authority Chief Executives."

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- The Council's performance management framework is driven by our Corporate Plan which focuses attention on our corporate priorities and objectives, which are in turn cascaded into Service business plans and individual employee appraisals and action plans.
- The Council sets out its approach to partnering in service delivery and in construction projects through the introduction of the [Framework for Partnership Working](#) and the [Procurement through Partnering Guidelines](#) published in November 2004. These documents set out clear guidance on how the Council will meet the strategic objective of delivering better services to citizens through the creation of sustainable partnerships between the Council and suppliers in the public, private and voluntary sectors and the carrying out of major projects, including construction.

4. REVIEW OF EFFECTIVENESS

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the systems of internal control. The review of the effectiveness of internal control is informed by the work of internal auditors and senior managers of the Council who have responsibility for the development and maintenance of the systems of internal control, and also by comments made by the Council's external auditors and other review agencies and inspectorates in their annual audit letter and other reports.

The following are the main processes applied in maintaining and reviewing the effectiveness of the systems of internal control and governance:

- The Audit Committee and the Corporate Director (Central Services), in his role as the Council's Monitoring Officer, have a duty to monitor and review the operation of the Constitution to ensure that its aims and principles are given full effect. A function of full Council is to adopt and change the Constitution following recommendation(s) from the Monitoring Officer and/or Audit Committee
- The Council's Overview and Scrutiny Committee has responsibility to consider and, if necessary, 'call-in' decisions made by Cabinet and the Budget and Performance Panel reviews the Council's budget and performance at both a strategic and service level
- The Audit Committee has responsibility for reviewing the Internal Control & Corporate Governance Framework and the Council's assurance statement on corporate governance is now incorporated within this Statement of Internal Control and Corporate Governance.
- The Audit Committee also reviews the adequacy of internal controls and risk management arrangements, monitoring the performance of Internal Audit and agreeing the external audit plan
- Internal Audit is responsible for providing assurance on the effectiveness of the Council's systems of internal control, including arrangements for risk management and governance. Internal Audit's role is to assist managers by evaluating the control environment, providing assurance wherever possible and agreeing actions to optimise levels of control. The Council's external auditors place reliance on the work of Internal Audit in fulfilling their statutory duties and regularly inspect Internal Audit work

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- The Internal Audit Manager is responsible for submitting an annual report to the Audit Committee detailing the performance of Internal Audit for the previous financial year, and giving an opinion on the effectiveness of the Council's systems of internal control
- The Council's performance management arrangements have been fundamentally reviewed during the year, with a new framework being adopted from 1st April 2006. The new arrangements provide clearer roles and responsibilities for managers and elected members, particularly Cabinet portfolio holders and scrutiny members of the Budget and Performance Panel. Ongoing development and implementation of the new computerised corporate performance management system is continuing to improve the scope and quality of information and decision making.
- In tandem with performance management developments, the ongoing development of corporate and service-level risk registers is providing improved information and focus on the key risks facing the Council, again serving to improve the overall decision making process.
- [The Comprehensive Performance Assessment](#) (CPA) carried out by the Audit Commission in 2003/04 assessed the Council as a 'Fair' performing authority, placing it in the middle of a range of possible scores from Poor to Excellent. The report identified areas for improvement, particularly around prioritisation and performance management. The Council has continued to address these, as well as other priority action areas, through our Corporate Improvement Plan.
- In April 2006, the Audit Commission, in its [Annual Audit Letter](#), reported that the Council was addressing the weaknesses in the CPA and had strengthened its arrangements in a range of areas, including financial management and control, corporate governance, its internal structures and had particularly set a good strategic direction through its vision and priorities. The Commission's views drew on assessments of the Council's "Direction of Travel" and its "Use of Resources", in which it judged us to be "consistently above minimum requirements – performing well".

5. SIGNIFICANT INTERNAL CONTROL ISSUES

Work carried out by both our external and internal auditors has indicated that effective internal financial controls exist within the Council's main financial systems to ensure the accuracy and integrity of the information they provide and no significant control weaknesses have been brought to our attention.

From assurances provided from the review of the effectiveness of our systems of internal control and the corporate governance framework, it is our opinion that they accord with proper practice and are working effectively.

Whilst the Council has received praise from the Audit Commission and other external inspectors and peers we recognise that more needs to be done in order to address any significant issues affecting the Council and to ensure continuous improvement of our already considerable governance controls, and to that end we will:

- **Improve our delivery of customer-focussed services** by continuing to improve how we undertake consultation and community engagement, contributing to more focussed business planning and allocation of resources.
- **Improve decision making** by fully implementing new performance management arrangements and improving the scope and quality of performance information.
- **Manage risk more effectively** by fully implementing the risk management strategy and embedding risk management processes throughout the Council and its main partnerships. Also by drawing up service continuity plans for all critical service areas to provide compliance with the Civil Contingencies Act.
- **Improve the Value For Money** we provide by continuously challenging and reviewing the efficiency with which we manage the organisation and provide our services.
- **Resource and implement action plans** through the development of our workforce planning arrangements to ensure that our staff have the necessary skills and training to deliver services.
- **Continue to develop the effectiveness of governance arrangements** by increasing staff, elected Member and stakeholder awareness of our standards and by continuing to build effective relationships with our partners.

I Barker
Leader of the Council

M Cullinan
Chief Executive

R Muckle
Corporate Director Central Services
(Monitoring Officer)

N Muschamp
Head of Financial Services
(Section 151 Officer)

Draft

AUDIT COMMITTEE**Risk Management Progress and Proposed Work Plan
28 June 2006****Report of Head of Financial Services****PURPOSE OF REPORT**

To inform Audit Committee of the progress made to date with the risk management programme and to seek Members' endorsement of the amended work plan for the forthcoming year.

This report is public.

RECOMMENDATIONS

- 1 That the progress made to date with the risk management programme be noted.**
- 2 That the amended work plan be approved.**

1.0 INTRODUCTION

- 1.1 Through the adoption of a Code of Corporate Governance, the Council has committed to ensuring that risk management plays an integral part in the sound governance of the Council.
- 1.2 The intention of a risk management policy is to promote the achievement of the Council's aims through the implementation of its risk management strategy. Audit Committee approved a revised risk management policy and strategy on 27 July 2005. This report informs the Committee of the progress made since the last meeting on 26 April 2006, and outlines the key specific tasks for the next financial year.

2.0 PROGRESSOPERATIONAL RISK REGISTERS

- 2.1 To date, preliminary training sessions have been held with Planning, Leisure and Information Services. Having considered objectives in the service's business plan, risks were identified and scored. This data has been recorded on the risk

management system and reports have been produced. The next stage of the process, for these services, is to have a second training session, involving the service's senior managers.

- 2.2 Corporate Strategy are currently developing the Escendency performance management system and are holding similar workshops with Services. In order that a co-ordinated approach can be taken, and so that the risk management and performance management links can be enforced, it is the intention that these workshops should be combined.

INSURANCE & RISK: THE VIABILITY OF A SELF FUNDING OPTION

- 2.4 The Council has always purchased traditional insurance cover as a way of transferring its insurable risks. There is, however, another method of financing these risks, namely a total self funding option. At present, the Council has a £10,000 excess on liability claims, a £2,500 excess on material damage claims and a £500 excess on motor claims. As such, the Excess Provision Fund was created 14 years ago to finance the cost of the claims within this excess.
- 2.5 In order to consider the viability of a total self funding option, it is necessary to consider the cost/benefit of total self funding against the cost/ benefit of the current insurance arrangements.
- 2.6 Such an outline exercise was undertaken recently and the findings reported to Finance Star Chamber on 3 May 2006. The options were considered and it seemed apparent that maintaining the existing insurance arrangements was probably the most cost effective option. However, a major factor that needs to be taken into account is the cost of appropriate reinsurance. The brokers have been asked to undertake a full broking exercise to provide a more accurate quotation for the Aggregate Stop Loss and Excess of Loss policies. Only once these figures are known more accurately, could a well informed decision be made. Also, the uncertainty posed by the employment of external claims handlers must be taken into account when deciding which option provides best value. The vested interest that the insurers' claims handlers have, adds some weight to the option of maintaining existing arrangements.
- 2.7 In addition to considering the viability of the total self funding option, the Risk and Insurance Manager regularly considers other "alternative risk transfer" options. For instance, at renewal, quotations are regularly sought for increasing the levels of excesses on each policy. The resultant possible premium saving is then compared to the claims history and the expected average cost of claims. To date, none of the options offered have been economically viable, but this exercise will continue to be taken as part of each renewal exercise.
- 2.8 Also, over the past two years, several large Public Sector services in the South have "pooled" their insurable risks and created a mutual insurance company. Whilst this is not considered a viable option for an authority the size of Lancaster, the Risk and Insurance Manager will continue to monitor the progress of this developing area of the insurance market.

BENCHMARKING

- 2.9 The Risk and Insurance manager is currently working with the North West Insurance Officer Group (NWIOG) to set up its own benchmarking service for insurance and risk management. This will be similar to the service offered by CIPFA but, hopefully, as it is being designed by local authority risk managers, it should be more relevant. This should then assist the Council towards developing sound governance procedures and ensuring Value for Money in these areas.

3 FUTURE WORK PLAN

3.1 Good progress has been made with the work plans approved by Audit Committee at previous meetings. This has meant there has been significant headway made with the Council's risk management arrangements and internal control environment.

- Partnership working

The Risk and Insurance Manager is to work with Internal Audit to ensure that sound risk management principles are applied throughout the partnership process; that process being scoping for a new partnership, setting the partnership up and then running the partnership successfully.

- Operational risk registers

As stated earlier, all Services needed to be trained and have their risks identified, assessed and mitigated in the form of the operational risk register, to support service performance. A co-ordinated approach will be taken with Corporate Strategy as they roll out of the Escendency performance management system.

- Strategic risk register

The Corporate Plan and associated KPIs were finalised by Council on 23 May 2006. The risks now need to be reassessed where necessary and updated accordingly.

- Project Initiation documents

Work needs to be done to improve project initiation documents and ensure that risks are adequately assessed from the outset of a project. This aspect will be incorporated into other work ongoing to establish a corporate, consistent approach to project management.

3.2 The work plan for the forthcoming year is thus as follows. Members are asked to support the programme and/or indicate any other aspects that may wish to be considered.

Task	PROVISIONAL Target Date
Develop robust risk management procedures for partnership working.	1 August 06
Complete operational risk registers for each service.	31 December 06
Reassess the risks associated with 2006/07 Corporate Plan.	30 June 06
Ensure that project initiation documents include an adequate risk assessment.	TBC
Develop and deliver further appropriate training.	31 March 07

CONCLUSION OF IMPACT ASSESSMENT

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

None directly arising.

FINANCIAL IMPLICATIONS

No other financial implications arising directly other than as outlined in the report.

SECTION 151 OFFICER'S COMMENTS

The s151 Officer has been consulted and has no comments to add.

LEGAL IMPLICATIONS

Legal Services have been consulted and have no comments to make.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no comments to add.

BACKGROUND PAPERS

Risk Management Policy and Strategy
Audit Committee Terms of Reference (The Constitution)

Contact Officer: Lynne Armistead

Telephone: 01524 582141

E-mail: larmistead@lancaster.gov.uk

Ref:

Audit Committee**Results of Internal Audit Work****28th June 2006****Report of Internal Audit Manager****PURPOSE OF REPORT**

To inform the Committee of the results of Internal Audit work for the period.

This report is public

RECOMMENDATIONS

(1) That the report is noted.

1.0 Introduction

1.1 Part of the Audit Committee's terms of reference is:

"To receive and review the findings of both Internal and External Audit examinations and to ensure that management takes appropriate action to implement agreed recommendations and to remedy any internal accounting, organisational or operational control weaknesses identified." (Constitution part 3, section 7, § 10)

2.0 Results of Internal Audit Work to 31 May 2006

2.1 At the completion of each audit, the summary report and action plan and the summary report for each follow-up review are issued to Members for consideration. For each audit, a combined report including the Summary Report and Action Plan has also been posted on the Council's Intranet under Services→Financial Services →Internal Audit→Audit Reports.

2.2 If there are any specific questions about a report, or more detailed information is required, it would help if Members could contact the Internal Audit Manager on telephone number 582045 or email dwhiteway@lancaster.gov.uk prior to the meeting.

2.3 The 'headline messages' arising from the following audit reports are attached to this report as Appendix A:

New Audit Reports

<u>Audit Title</u>	<u>Report Date</u>
04/0575 Project Management	20 Apr 2006
05/0626 Housing Benefits 2005/06 (Claims Security)	25 Apr 2006
05/0615 Council Tax 2005/06	02 May 2006
05/0606 Income Tax and National Insurance	10 May 2006
05/0616 Main Accounting 2005/06	16 May 2006

Follow-Up Reviews – none issued during this period

3.0 Matters Arising from Audit Reviews

3.1 The above reviews have not highlighted any issues which might warrant the Audit Committee’s attention or further consideration. The most significant outcome in corporate terms is that a programme for the implementation of a project management methodology is now underway under the direction of a corporate project management group headed by the Corporate Director(Finance & Performance).

4.0 Details of Consultation

4.1 Not applicable

5.0 Options and Options Analysis (including risk assessment)

5.1 Not applicable

CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)	
None identified	
FINANCIAL IMPLICATIONS	
None arising from this report	
SECTION 151 OFFICER’S COMMENTS	
The s151 Officer has been consulted and has no further comments	
LEGAL IMPLICATIONS	
None arising from this report	
MONITORING OFFICER’S COMMENTS	
The Monitoring Officer has been consulted and has no further comments.	
BACKGROUND PAPERS	Contact Officer: Derek Whiteway Telephone: 01524 582045 E-mail: dwhiteway@lancaster.gov.uk Ref: aud/audcomm/260406
Internal Audit Files	

Appendix A - Results of Internal Audit Work

Audit Committee Date – Wednesday, 28th June 2006

1. New Audit Reports

04/0575 Project Management Arrangements (issued on 20/04/06)

Headline messages:

- Need to build on existing good practice with consistent principles and methodology.
- An approach needs to be developed that can be applied consistently to all types of project, proportionate to its significance, complexity and risk.
- Any adopted methodology should not be seen as burdensome or bureaucratic, but must be flexible enough to deliver a successful project outcome.
- A culture of learning from experience in projects needs to be cultivated.
- The organisational structure must deliver effective corporate performance management, as well as individual project management.
- Guidance and training are vital aspects of successfully implementing a methodology.

05/0626 Housing Benefits 2005/06 (Claims Security) (issued on 25/04/06)

Headline messages:

- Risks relating to Claims Security are well managed.
- The Service aims for continuous improvement through proactive performance monitoring and reviews of procedures.

05/0615 Council Tax 2005/06 (issued on 02/05/06)

Headline messages:

- The Council Tax system is very well managed with procedures in place to ensure that Council Tax bills are correct and despatched promptly.
- The Authority's Council Tax arrangements are compliant with statutory requirements.
- Good arrangements have been made for the treatment of discounts and exemptions.
- The Authority takes appropriate, prompt recovery action.
- The Main Accounting System accurately records Council Tax transactions.
- Quality control checks are to be introduced into current procedures in order to reduce the risk of errors or misappropriation.

05/0606 Income Tax and National Insurance (issued on 10/05/06)

Headline messages:

- Supporting documents are comprehensive and well maintained
- The payroll system records information for all employees in respect of pay, Income Tax, National Insurance, benefits and deductions.
- Statutory returns are correctly completed and submitted to the Inland Revenue by the due dates.
- Responsibility for tax planning and control has been allocated to a specific officer who is to introduce effective tax management arrangements.

05/0616 Main Accounting 2005/06 (issued on 16/05/06)

Headline messages:

- Controls over transferring balances via journal are good.
- Feeders from subsidiary systems to the main accounting system are well managed.
- Procedures are in place to reconcile/balance subsidiary systems to the main accounting system.
- Work is ongoing to integrate the Academy Non-Domestic Rating and Powersolve Main Accounting systems.
- Full integration of the Academy Housing Benefits system and Powersolve would enhance control.
- Work continues to resolve problems reconciling the Task Stores system to the Powersolve General Ledger.
- Exchequer Services are to bring the cash and bank reconciliations up to date and bring the management of the Unidentified Income suspense account in line with other suspense accounts.