



**Committee:** AUDIT COMMITTEE  
**Date:** WEDNESDAY, 20 SEPTEMBER 2006  
**Venue:** MORECAMBE TOWN HALL  
**Time:** 6.00 P.M.

**A G E N D A**

1. **Apologies for Absence**
2. **Minutes**  
Minutes of the meeting held on 28<sup>th</sup> June 2006 (previously circulated)
3. **Items of urgent business authorised by the Chairman**
4. **Statement of Accounts 2005/06** (Pages 1 - 38)  
Report of Head of Financial Services
5. **Accounts & Audit (Amendment) (England) Regulations 2006** (Pages 39 - 42)  
Report of Internal Audit Manager
6. **Audit Commission Report – Review of Internal Audit** (Pages 43 - 70)  
Report of Internal Audit Manager
7. **Internal Audit Monitoring** (Pages 71 - 78)  
Report of Internal Audit Manager
8. **Results of Internal Audit Work** (Pages 79 - 84)  
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](mailto:jdoble@lancaster.gov.uk).

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

Please contact Members' Secretary, telephone 582170, or alternatively email [memberservices@lancaster.gov.uk](mailto:memberservices@lancaster.gov.uk).

MARK CULLINAN  
CHIEF EXECUTIVE  
TOWN HALL,  
LANCASTER LA1 1 PJ

Published on 11<sup>th</sup> September 2006

**AUDIT****STATEMENT OF ACCOUNTS 2005/06  
20 SEPTEMBER 2006****Report of Head of Financial Services****PURPOSE OF REPORT**

This report updates Members on the outcome of the audit of the draft Statement of Accounts for 2005/06, and the auditor's conclusion in respect of the Council's arrangements regarding the use of resources.

**This report is public.**

**RECOMMENDATIONS**

- (1) That Committee considers the attached annual governance report for 2005/06, and that the Chairman signs and dates the letter of representation as included at Appendix 6 accordingly.

**REPORT**

- 1.1 At the last Committee meeting held on 28 June the draft Statement of Accounts for 2005/06 were presented for approval, together with information on the audit process; the District Auditor commenced the audit of accounts on Tuesday 04 July.
- 1.2 The audit is now substantially complete and an annual governance report is included at **Appendix A** for Members' consideration. The report is in accordance with new arrangements that have been introduced this year; more background information is included at **Appendix B**.
- 1.3 The District Auditor will be attending the meeting to present his report but in summary, the main conclusions are as follows:
- It is anticipated that an unqualified opinion on the 2005/06 Accounts will be issued. Whilst a number of adjustments have been made to the accounts since they were presented to Committee in June, no material adjustments were required and there has been no impact on the Council's balances position. Only two recommendations are made, in connection with fixed asset valuations and building control surpluses.
  - An unqualified conclusion on value for money is also expected. In essence this means that the Auditor is satisfied that the Council has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources.

- 1.4 In view of the tighter statutory timetable for the production of the accounts, and the new requirements regarding use of resources' assessments, the Head of Financial Services feels that the outcome of the governance report represents a significant achievement, and this is also reflected in the report itself.
- 1.5 Another new requirement for 2005/06 relates to the signing of the letter of representation. Previously only the Head of Financial Services signed the letter, but now the Chairman's signature is also expected. This is on the basis that all those charged with governance should be aware of the representations on which the auditor relies, in expressing his opinion on the Accounts.
- 1.6 Once the governance report has been considered and the letter of representation signed, it is expected that the District Auditor will finalise his statements in order that the final audited Accounts can be published by the deadline of 30 September.

**CONCLUSION OF IMPACT ASSESSMENT**

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

No implications directly arising.

**FINANCIAL IMPLICATIONS**

There are no financial implications directly arising.

**DEPUTY SECTION 151 OFFICER'S COMMENTS**

This report was prepared by the s151 officer as part of her responsibilities.

**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

**Telephone:** 01524 582117

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

**Ref:**

# **Annual governance report**

**Lancaster City Council**

**Audit 2005/06**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our reports to the Authority**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

### **Copies of this report**

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

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## Purpose of this report

- 1 We are required by the Audit Commission's statutory Code of Audit Practice for Local Government bodies (the Code) to issue a report to those charged with governance summarising the conclusions from our audit work. For the purposes of this report, the Authority's Audit Committee is considered to fulfil the role of those charged with governance and references to the Audit Committee should be read as such.
- 2 We are also required by professional auditing standards to report to the Audit Committee certain matters before we give our opinion on the financial statements. The section of this report covering the financial statements fulfils this requirement.
- 3 This is our annual governance report covering the audit of the Authority for the year ended 31 March 2006 and is presented by the District Auditor.
- 4 The principle purposes of the report are:
  - to reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and the Audit Committee;
  - to share information to assist both the auditor and those charged with governance to fulfil their respective responsibilities; and
  - to provide the Audit Committee with recommendations for improvement arising from the audit process.
- 5 The Audit Commission has circulated to all audited bodies a Statement of Responsibilities of Auditors and Audited Bodies that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement.

## Scope of the report

- 6 In undertaking our audit, we comply with the statutory requirements of the Audit Commission Act 1998 and the Code. Auditors' responsibilities are to review and report on, to the extent required by the relevant legislation and the requirements of the Code:
  - the Authority's financial statements; and
  - whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 7 Our risk assessment and planned response to the key audit risks was summarised in our audit and inspection plan. A summary of our responsibilities and audit approach is included in Appendix 1. The annual governance report summarises the significant findings, conclusions and recommendations arising from our audit work. The results of our inspection work, and our separate grant claims' certification programme, will be reported in the Relationship Manager Letter later in the year.



- 8** We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 2. Appendix 3 provides information about the fee charged for our audit and Appendix 4 sets out the requirements in respect of independence and objectivity.

## Key messages

### Financial statements

- 9 Our work on the financial statements is now substantially complete. We anticipate being able to issue an unqualified opinion by 22 September 2006 (a draft report is attached at Appendix 5).

### Use of resources

- 10 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is now substantially complete. We anticipate being able to issue an unqualified conclusion on the use of resources by 22 September 2006 (a draft report is attached at Appendix 5).

## Financial statements

- 11 We are required to give an opinion on whether the Authority's financial statements present fairly:
- the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended.

## Status of the audit

- 12 Our work on the financial statements is now substantially complete.

## Matters to be reported to the Audit Committee

- 13 We have the following matters to draw to the Audit Committee's attention.

### Expected modifications to the auditor's report

- 14 On the basis of our audit work, we currently propose to issue an unqualified audit report. A draft audit report is attached at Appendix 5.

### Uncorrected misstatements

- 15 There are no uncorrected misstatements.

### Adjusted misstatements

- 16 To assist you in fulfilling your governance responsibilities, we are required to consider reporting adjusted misstatements to you where these are material. Whilst a number of adjustments have been made to the accounts, there were no material adjustments required. We therefore draw your attention to the list of the most significant misstatements that management has adjusted in Table 2 below. A complete listing of all amendments has been provided to officers.

**Table 1 Adjusted misstatements in the financial statements**

Details of significant adjustments made to the financial statements

Issue	Value of misstatement £	Impact on surplus/(deficit)
An asset was disposed of during 2005/06 and whilst the capital receipt has been accounted for correctly, the asset itself has not been written out of fixed asset values.	60,950	nil

Issue	Value of misstatement £	Impact on surplus/(deficit)
One asset within the ownership of the Council was not included within the fixed asset register and the fixed asset values within the balance sheet.	110,000	nil
A correction to an asset value was treated incorrectly as an impairment resulting in an incorrect value on the Fixed Asset Restatement Account and the Capital Financing Account within the balance sheet.	81,800	nil

### Qualitative aspects of accounting practices and financial reporting

- 17 Our audit includes consideration of the qualitative aspects of the financial reporting process, including matters that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. We wish to report the following matters to you.
- The tighter statutory timetable for the production of the accounts and the completion of their audit has presented a challenge for all concerned. It is therefore a significant achievement that no material errors have been identified whilst the quality of supporting working papers was also improved.
  - We have previously raised issues around the arrangements for ensuring that asset registers are complete and values up to date. This year a full reconciliation has been undertaken between the registers maintained for financial purposes and those used by property services, which whilst identifying some small differences between the two, has provided significant assurance over the material correctness of asset values including the completeness of the five yearly re-valuation programme.
  - Asset re-valuations however do not currently state the valuer's assessment of asset lives. This is non-compliant with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 (the SORP) and could lead to inappropriately calculated depreciation charges to services, (although there would be a net nil impact on the consolidated revenue account).

#### **Recommendations**

*R1 Future fixed asset valuations should be required to include an assessment of asset lives as well as value.*

## Material weaknesses in internal control identified during the audit

- 18 Our audit did not identify any material weaknesses in the systems of accounting and financial controls which we should report to you.
- 19 We have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed.

## Matters specifically required by other auditing standards

- 20 Other auditing standards require us to communicate with you in other specific circumstances including:
- where we suspect or detect fraud;
  - where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
  - non-compliance with legislative or regulatory requirements and related authorities.

We wish to report the following matter to you:

- The Building Act 1984 and the Building (Local Authority Charges) Regulations 1998 (SI 1998/3129) require local authorities to set fees for building regulation work such that they will cover their costs and achieve a break even position over a three year period. The Council's accounts have shown a surplus on building control activities for some years now. At the end of 2005/06 the surplus stood at £149,746. A new partnership arrangement is being entered into to deliver building control work and this includes a plan to reduce the current surplus down to a more or less break even position by 2009/10. The Council is therefore working to address their need to comply with these regulations. However this will not meet the 3 year rule.

### **Recommendations**

*R2 The Council's legal team should consider the actions being taken effecting future building control surpluses and advise on whether any additional action is needed to reduce any risks around non-compliance with relevant legislative requirements.*

## Any other matters of governance interest

- 21 Finally, we are required to report any other matters that we believe to be of governance interest. We report these matters in Table 2 below.

## Table 2 Other matters of governance interest

There are a number of other matters that we would like to bring to the attention of those charged with governance

Area	Auditor responsibility	Impact
Statement of internal control (SIC)	The auditor reviews the SIC for compliance with the requirements of proper practice as specified by CIPFA and consistency with other information from the audit of the financial statements.	Appropriate arrangements are in place to produce the SIC. The information in the SIC is consistent with our knowledge of the Council. The statement acknowledges that there are weaknesses in the system of internal controls and action is being taken to address these.
Whole of Government Accounts' consolidation pack	The auditor is responsible for issuing a report on the consistency of the Authority's consolidation pack with the statutory financial statements.	Work is ongoing to complete this review and will be reported to the Chief Financial Officer and Department for Communities and Local Government by 6th October 2006.

### Letter of representation

- 22 We obtain written representations from management as an acknowledgement of its responsibility for the fair presentation of the financial statements and as audit evidence on matters material to the financial statements. The text of the required letter of representation is included at Appendix 6.

### Next steps

- 23 We are drawing these matters to the Audit Committee's attention so that:
- you can consider them before the financial statements are approved and certified; and
  - the representation letter can be signed on behalf of the Authority and those charged with governance before we issue our opinion on the financial statements.

## Use of resources

### Value for money conclusion

- 24** The Code requires us to issue a conclusion on whether we are satisfied that the Authority has proper arrangements in place for securing economy, efficiency and effectiveness in its use of your resources (the value for money conclusion). In meeting this responsibility, we will review evidence that is relevant to the Authority's corporate performance management and financial management arrangements. Our work in reaching the value for money conclusion is integrated with our work on the use of resources assessment. The use of resources assessment is a qualitative assessment of the effectiveness of the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources. The five areas included in this assessment are; financial statements, financial management, financial standing, internal control and value for money.
- 25** In arriving at our conclusion we have considered the results of our work previously reported to the Council and have considered information gained through the ongoing audit process to understand the extent to which events may have changed. In addition we have reviewed the Council's arrangements to ensure the quality of its performance data using a new data quality tool introduced by the Audit Commission in 2006. Specific previous work considered as part of this assessment includes:-
- Use of Resources assessment 2005
  - Direction of Travel 2005 (reported in 2004/05 annual audit and inspection letter)
  - Performance Management 2004/2005
  - Access to Services Inspection 2004/05
  - Environment Inspection 2005/06
- 26** We have substantially completed our work in relation to the value for money conclusion and there are no matters which we wish to draw to the attention of the Audit Committee. Key areas for improvement have already been summarised in our most recent annual audit and inspection letter published in March 2006, and we are aware that these areas have been included within the Council's improvement and corporate plans. We anticipate being able to issue an unqualified conclusion on the use of resources by 22 September 2006 (a draft report is attached at Appendix 5).

## Use of auditors' statutory powers

- 27 Auditors are required to consider the exercise of certain statutory powers during the course of the audit, as summarised in Table 5 below.

**Table 3 Use of statutory powers**

Insert text

<b>Issue</b>	<b>Auditor responsibility</b>	<b>Impact</b>
Section 8 reports	Section 8 of the Act requires that auditors should consider whether, in the public interest, they should report on any matter that comes to their attention in the course of the audit so that it may be considered by the body concerned or brought to the attention of the public.	There have been no section 8 reports in respect of the financial year 2005/2006.
Section 11 recommendations	To consider whether a written recommendation should be made to the audited body requiring it to be considered and responded to publicly.	There have been no s11 recommendations.
Best value	To consider whether to recommend that the Audit Commission should carry out a best value inspection of the Authority under section 10 of the Local Government Act 1999 and/or that the Secretary of State should give a direction under section 15 of that Act.	Our work in respect of the Authority's 2005/2006 Best Value Performance Plan (BVPP) was reported in the 2005 annual audit and inspection letter. No recommendations were made to the Audit Commission or the Secretary of State.



## Closing remarks

- 28 This report has been discussed and agreed with the Council's Corporate Director (Finance and Performance) and Head of Financial Services. A copy of the memorandum will be presented at the Audit Committee on 20th September 2006.
- 29 The report makes two recommendations. An action plan is included at Appendix 7. Management will provide responses in due course and report back to the Audit Committee the agreed actions together with indicative target dates for the implementation of recommendations.
- 30 The Authority has taken a positive and constructive approach to our audit and I would like to take this opportunity to express my appreciation for the Authority's assistance and co-operation.

**Michael Thomas**  
**District Auditor**

September 2006

# Appendix 1 – Audit responsibilities and approach

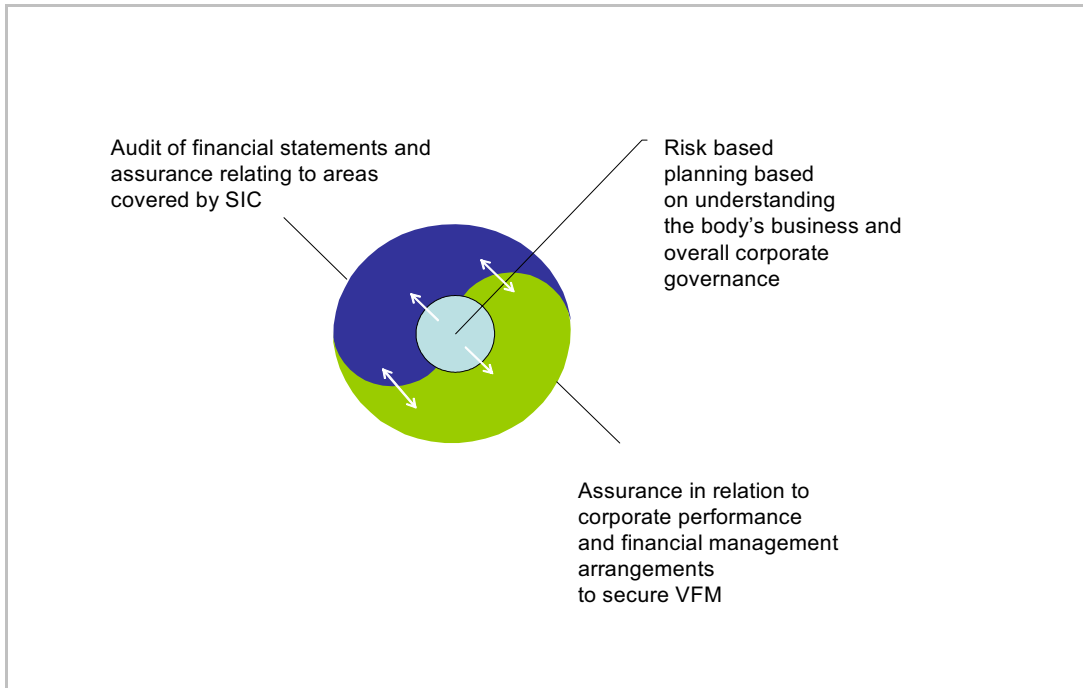
## Audit objectives

- 1 Our objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on the significant risks that are relevant to our audit responsibilities.

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### Figure 1 Code of Audit Practice

Code of practice responsibilities



## Approach to the audit of the financial statements

- 2 In our approach to auditing the financial statements, we adopt a concept of materiality. Material errors are those which might be misleading to a reader of the financial statements. We seek, in planning and conducting our audit of the accounts, to provide reasonable assurance that your financial statements are free of material misstatement. In planning our work we considered the arrangements of the Authority which had most impact on our opinion. These included:
  - the standard of the overall control environment and internal controls;
  - reliance on internal audit;
  - the likelihood of material misstatement occurring from of material information systems; or a material error failing to be detected by internal controls;
  - any changes in financial reporting requirements; and
  - the effectiveness of procedures for producing the financial statements and supporting material.
- 3 The results of the above feed into our risk assessment which determines the level and type of testing undertaken on each element of the financial statements. The keys risks that we identified include:
  - pension liabilities and assets accounting; and
  - capital accounting.

## Approach to audit of arrangements to secure value for money

- 4 The scope of these arrangements is defined in paragraph 20 of the Code as comprising:
  - corporate performance management; and
  - financial management arrangements.
- 5 Our conclusion is informed and limited by reference to relevant criteria covering specific aspects of audited bodies' arrangements, specified by the Code.

- 6 In planning audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, considered and assessed relevant significant business risk. Significance is defined by the Code as 'a matter of professional judgment and includes both quantitative and qualitative aspects of the risk'.
- 7 The potential sources of assurance when reaching the value for money conclusion include:
  - the Authority's whole system of internal control as reported in its statement on internal control;
  - results from statutory inspections or the work of other regulators, for example, corporate assessments, service assessments (whether by the Commission or other regulators), etc.;
  - work specified by the Audit Commission, for example, the use of resources assessments, and data quality work;
  - links to the financial statements' audit, including review of internal audit, the SIC and budgetary control arrangements; and
  - other work necessary to discharge our responsibilities.

## Appendix 2 – Audit reports issued

**Table 4**

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit and inspection plan	April 2005	April 2005	Audit Committee
Annual governance report	September 2006	September 2006	Audit Committee
Opinion on financial statements	September 2006	September 2006	The Authority
Value for money conclusion	September 2006	September 2006	The Authority
Final accounts memorandum	October 2006		Management
Use of resources assessments	October 2005	March 2006*	Audit Committee
BVPP report	October 2005	December 2005	The Authority
Performance indicators		February 2006	Management
Performance Management Follow up	July 2006	Work now delayed to tie in with direction of travel and to be reported as part of this work.	Audit Committee

*\* A change in the national timetable resulted in a different timescale for the use of resources assessment than originally planned.*

## Appendix 3 – Fee information

**Table 5**

<b>Fee estimate</b>	<b>Plan 2005/06</b>	<b>Actual 2005/06</b>
Audit	£	£
Accounts*	31,990	37,490
Use of resources	67,420	67,420
Total audit fees**	99,410	104,910
Voluntary improvement work*	0	0

\* An increase of £5,500 on the audit fee was requested and agreed with officers to cover work required new International Standards in Auditing (UK and Ireland) which came into effect in 2005/06. Auditors have a responsibility under the Code of Audit Practice to carry out an opinion audit and in doing this, compliance with International Standards on Auditing (UK & Ireland) is both a professional obligation and, under the Code, a statutory responsibility. However, the extra work required by the ISAs (UK & I) was originally unclear and could not be reflected in the fee scales agreed by the Audit Commission for 2005/06 in March 2005.

\*\* The outturn on inspection and grant certification fees will be reported in the Relationship Manager Letter

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

- 1** We are required by the standard to communicate following matters to the Audit Committee:
  - the principal threats, if any to objectivity and independence identified by the auditor, including consideration of all relationships between the Authority, directors and the auditor;
  - any safeguards adopted and the reasons why they are considered to be effective;
  - any independent partner review;
  - the overall assessment of threats and safeguards; and
  - information about the general policies and processes for maintaining objectivity and independence.
- 2** 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.

## Appendix 5 – Independent auditor’s report to Lancaster City Council

### Opinion on the financial statements

- 3 We have audited the financial statements of Lancaster City Council for the year ended 31/3/2006 under the Audit Commission Act 1998, which comprise the Consolidated Revenue Account, the Housing Revenue Account, the Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, and the Cash Flow Statements and the related notes. These financial statements have been prepared under the accounting policies set out within them.
- 4 This report is made solely to Lancaster City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

### Respective responsibilities of the Chief Finance Officer and auditors

- 5 The Chief Finance Officer’s responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.
- 6 Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).
- 7 I report to you my opinion as to whether the financial statements presents fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005.
- 8 We review whether the statement on internal control reflects compliance with CIPFA’s guidance. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.



- 9 We read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

### **Basis of audit opinion**

- 10 We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.
- 11 We planned and performed our audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

- 12 In my opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the Authority as at 31/3/2006 and its income and expenditure for the year then ended.

Auditor: Michael Thomas

Address: Audit Commission, Aspinall House, Middlebrook, Aspinall Close, BL6 6QQ

Date: September 2006

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

### **Authority’s Responsibilities**

- 13 The authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements.
- 14 Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority’s assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

### **Auditor’s Responsibilities**

- 15 We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for (principal local authorities/other local government bodies). I report if significant matters have come to my attention which prevent me from concluding that the authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.
- 16 We are required by section 7 of the Local Government Act 1999 to carry out an audit of the authority’s best value performance plan and issue a report:
  - certifying that we have done so;
  - stating whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
  - where relevant, making any recommendations under section 7 of the Local Government Act 1999.

## **Conclusion**

- 17 We have undertaken our audit in accordance with the Code of Audit Practice and I am satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, in all significant respects, Lancaster City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006.

## **Best Value Performance Plan**

- 18 I issued my statutory report on the audit of the authority's best value performance plan for the financial year 2005/06 on 9th December 2006. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

## **Certificate**

- 19 I certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Auditor: Michael Thomas

Address: Audit Commission, Aspinall House, Middlebrook, Aspinall Close, BL6 6QQ

Date: September 2006

## Appendix 6 – Letter of representation

Michael Thomas  
District Auditor  
3rd Floor  
Sumner House  
St Thomas' Road  
Chorley  
PR7 1HP

20 September 2006

### **Lancaster City Council - Audit for the year ended 31 March 2006**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers and members of Lancaster City Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2006.

I acknowledge my responsibility under the relevant statutory authorities for preparing financial statements that give a true and fair view and for making accurate representations to you. I confirm that the Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

#### **Supporting records**

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all relevant Member meetings, have been made available to you.

#### **Related party transactions**

I confirm the completeness of the information provided regarding the identification of related parties. The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

#### **Contingent liabilities**

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

- there is no significant pending or threatened litigation;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements;
- no financial guarantees have been given to third parties.

**Law, regulations and codes of practice**

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

**Irregularities**

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements;
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

**Post balance sheet events**

Since the date of approval of the financial statements by the Audit Committee, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

Signed on behalf of Lancaster City Council:

Signature

Signature

Name

Name

Position

Position

Date

Date

## Appendix 7 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R1 Future fixed asset valuations should be required to include an assessment of asset lives as well as value.	3				
9	R2 The Council's legal team should consider the actions being taken effecting future building control surpluses and advise on whether any additional action is needed to reduce any risks around non-compliance with relevant legislative requirements.	3				



28 July 2006

Nadine Muschamp  
Chief Financial Officer  
Lancaster City Council  
Town Hall  
Dalton Square  
Lancaster  
LA1 1PJ

**Mobile** 0797 4755795  
**Email** f-blatcher@audit-  
commission.gov.uk

Dear Nadine

## **New reporting arrangements and your letter of representation**

### **Reporting changes**

You may already be aware of changes being made in the way in which we report the results of our work to the Council, particularly in relation to the provision of a conclusion on the Council's value for money, (VFM), arrangements. The attached note explains in more detail the way in which we expect to report to the Council as a result. It would be useful if this note were shared with the Council's Audit Committee to ensure they understand what reports they can expect from us in the near future together with their purpose.

The key changes are:

- the introduction of an annual governance report to be presented to the Audit Committee in September, (20<sup>th</sup> September this year). This will include our draft proposed audit opinion on the accounts and conclusion on the VFM arrangements. This report replaces the former SAS610 report and now includes the key evidence used to support our VFM conclusion
- a change in style to our annual letter which will be a more high level, concise report covering only the key issues arising from the audit and inspection programme and including the results of the direction of travel assessment.

### **Letter of representation**

The annual governance report also includes an additional change to reflect the international standards for auditing, (ISA), requirements around the provision of the letter of representation. ISA 580 states that "it is usually appropriate for the auditor to request that the management representation letter be discussed and agreed by those charged with governance and signed on their behalf by the chairman and secretary, before they approve the financial statements, to ensure that all those charged with governance are aware of the representations on which the auditor intends to rely in expressing the auditor's opinion on those financial statements".

Audit Commission, 2nd Floor, Aspinall House, Aspinall Close, Middlebrook, Horwich,  
Bolton, BL6 6QQ  
T 01204 877300 F 01204 877301 [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

For this reason the proposed letter of representation is included as an appendix to our annual governance report. Our expectation is that the members will receive a revised statement of accounts, (where appropriate), together with our annual governance report and the proposed letter of representation in September. The Chair of the Audit Committee would then be expected to sign the letter of representation following discussion of these items.

I would therefore be grateful if you could share the contents of this letter and the attached note with the Chair of the Audit Committee. I would be happy to discuss this further with yourself and the Chair if this would be considered helpful.

Yours sincerely

Fiona Blatcher  
*Audit Manager*





# Reporting by auditors

What reports to expect from your auditor under the *Code of Audit Practice 2005* for local government bodies

## Introduction

This leaflet tells you:

- about the *Code of Audit Practice 2005* and auditors' responsibilities;
- about changes to the way auditors report; and
- what reports you should expect to receive, their purpose and timing.

## Code of Audit Practice 2005

The Audit Commission Act 1998 requires the Commission to prepare a *Code of Audit Practice* which is approved by Parliament. The *Code of Audit Practice* sets out the way in which auditors must carry out their work.

The *Code of Audit Practice 2005* (the Code) was published in March 2005 and applies to audit work that relates to financial years ending on or after 31 March 2006. A copy of the Code can be obtained from the Commission's website at **[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)**

One of the Commission's main objectives in producing the Code was to encourage better and clearer reporting of the results of audits.

## Auditors' responsibilities

Auditors are responsible for carrying out an annual audit in accordance with the Audit Commission Act 1998 and the Code.

The audit is defined by the Code as covering:

- the accounts; and
- the use of resources.

The principal outputs of the audit are an opinion on the accounts, and a conclusion whether the auditor is satisfied that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In supporting these outputs, the Code specifically requires auditors to report to the audited body in such a way as to enable its members/directors and management to understand:

- the nature and scope of the audit work;
- any significant issues arising from auditors' work;
- the nature and grounds for any concerns they have; and
- where appropriate, any action that needs to be taken by the audited body to secure improvement.

Auditors' responsibilities are set out in the Commission's *Statement of Responsibilities of Auditors and of Audited Bodies*, a copy of which is sent to every audited body. It can also be found on the Commission's website at **[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)**

## Changes to the way auditors report

In order to meet the Commission's objective of encouraging better and clearer reporting of the results of audits, the Code has introduced more specific guidance for auditors on reporting.

As well as establishing some general principles of reporting for auditors to follow, the Code has also made changes to the reports that the audited body can expect to receive.

The main changes are:

- the introduction of an enhanced *Report to Those Charged with Governance* which will cover all the auditor's responsibilities under the Code and will incorporate the report on the audit of the accounts required by professional auditing standards;
- the introduction of the auditor's value for money conclusion which may be unqualified (if the auditor is satisfied with the arrangements), qualified (if the auditor is satisfied but with some exceptions), or adverse (if the auditor is not satisfied with the arrangements), and will appear in the audit report after the opinion on the accounts; and
- the annual audit letter (where issued by the auditor) will become a high-level, concise report covering only the key issues arising from the audit.

For those local government bodies where the Commission has inspection responsibilities, the auditor is not required to issue an annual audit letter. Instead, the auditor will provide information to the relationship manager on the key issues arising from the audit work undertaken. This will enable the relationship manager to prepare and send to the audited body, on behalf of the Commission, an annual audit and inspection letter.

By improving the way in which auditors report the results of their work, the Commission also hopes to enhance the value of local audit work to the audited body.

## Reports you should expect to receive, their purpose and timing

Report	Purpose and timing
Audit planning document(s)	To set out how auditors intend to carry out their responsibilities in light of their assessment of risks. The auditor should present the audit planning document(s) to the audit committee or equivalent as soon as possible after the start of the relevant financial year.
Reports on individual aspects of audit work	To report, as promptly as possible, the results of matters arising from specific elements or parts of the audit. This may be in the form of a written report, letter or

Report	Purpose and timing
	<p>memorandum, or a presentation. Examples might include a report on a specific business risk issue or the use of resources assessment (where applicable).</p>
<p><b>Report to those charged with governance (may also be known as the annual governance report)</b></p>	<p>To present the findings, conclusions and recommendations from the audit. The report will cover the audit of the accounts and work on arrangements to secure economy, efficiency and effectiveness in the use of resources. The report will cross-refer to other reports issued during the year, but will not repeat the key issues unless they are likely to result in a qualification of the opinion on the accounts or the value for money conclusion. Where a qualified opinion or conclusion is proposed, the report will explain the form of qualification to be used. The auditor should present the report to the audit committee or equivalent in advance of, and to support, the issue of the audit report and certificate.</p>
<p><b>Audit report and certificate</b></p>	<p>To formally report on and conclude the audit. Comprises the opinion on the accounts, the regularity opinion (for probation boards), the value for money conclusion, reference to the best value</p>

performance plan (BVPP) report (for best value authorities), any other matters reported by exception (for example, reference to a public interest report), and the audit certificate which closes the audit. The full audit report and certificate must be published by the audited body with the financial statements.

---

**Annual audit letter**

To communicate the key issues arising from the audit to the audited body and key external stakeholders, including members of the public. The annual audit letter will continue to be addressed to all members/directors of the audited body, but it will be a high-level, concise document prepared in clear language and accessible to a wider audience. The issue of the annual audit letter normally marks the end of the audit process.

---

**Annual audit and inspection letter**

For local government bodies where the Commission has inspection responsibilities, the auditor will provide information to the relationship manager on the key issues arising from the audit work undertaken. This will enable the relationship manager to prepare and send to the audited body, on behalf of the Commission, an annual audit and inspection letter.

---

## Other reports

In addition to the above reports, section 8 of the Audit Commission Act requires auditors to consider whether they should report, in the public interest, on any matter that comes to their attention during the audit. Auditors may issue a public interest report where they consider a matter is sufficiently important to be brought to the notice of the audited body or the public as a matter of urgency.

## Further information

For further information on reporting by auditors, or to discuss the specific reporting arrangements at your audited body, please contact your appointed auditor in the first instance.

Audit Commission  
1st Floor, Millbank Tower,  
Millbank, London SW1P 4HQ  
Tel: 020 7828 1212 Fax: 020 7976 6187  
Textphone (minicom): 020 7630 0421  
[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)



<b>AUDIT</b>
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**Accounts & Audit (Amendment) (England) Regulations  
2006  
20 September 2006**

**Report of Internal Audit Manager**

<b>PURPOSE OF REPORT</b>
To seek the Committee's approval for a course of action to meet new statutory requirement that Councils undertake an annual review of the effectiveness of their Internal Audit functions.
<b>This report is public</b>

**RECOMMENDATIONS**

- (1) **That, pending the receipt of practical guidance from CIPFA on the new requirement, an in-principle decision is made to informally pursue the potential for establishing reciprocal, "peer review" arrangements with neighbouring authorities.**
- (2) **That on the receipt of further clarification or guidance on this matter, the Internal Audit Manager should report back to the Committee on developments, with a view to formalising the approach for future years.**

**1.0 Introduction**

- 1.1 From 1 April 2006 the Accounts and Audit regulations have been amended by the Accounts and Audit (Amendment) (England) Regulations 2006. These include a new requirement under regulation 6 (3) for Councils to 'at least once in each year, conduct a review of the effectiveness of the system of Internal Audit'. New Regulation 6(4) goes on to say – 'The findings of the review referred to in paragraph (3) shall be considered, as part of the consideration of the system of internal control'.

**2.0 Proposal Details**

- 2.1 Elsewhere on this agenda is the Audit Commission's report into its review of the Council's Internal Audit function as part of the 2005/06 audit. The Audit Commission undertakes such detailed reviews on a three-yearly basis, with brief overview/update reviews in intervening years. The detailed review and report just completed is, in itself, considered sufficient to fulfil the new requirement for the current year (2006/07). In future years, however, when the Audit Commission is not due to carry out a detailed review of Internal Audit's effectiveness, the Council must consider what additional work it will require to be able to gain sufficient assurance as to the effectiveness of Internal Audit.

2.2 CIPFA has indicated that it will seek to provide guidance to authorities on the nature and scope of such reviews; however this has not yet been forthcoming. Any developments will be reported verbally at the meeting. In the meantime, the Committee’s in-principle views are being sought.

2.3 A variety of options available are set out and analysed in section 4 of this report. All of these options will be set in the context of Internal Audit developing its strategy/business planning and performance management as recommended by the Audit Commission in the recent review.

**3.0 Details of Consultation**

3.1 Consultation has been carried out with the Council’s External Audit Manager on the nature and extent of annual review likely to be acceptable under the new regulations.

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

4.1 The main options identified are:

Option	Cost/Resource Implications	Level of Assurance Provided
a) rely on existing reviews, including the Audit Commission’s opinions and ongoing performance reporting by the Internal Audit Manager	None	Lowest, except in years when the Audit Commission undertakes a detailed review.
b) option a) plus an annual internal self-assessment against agreed professional standards/criteria	Internal resource, no additional cost	Some additional assurance, though not independently provided.
c) option a), plus peer review agreed with a neighbouring authority using against agreed professional standards/criteria.	Internal resource in providing peer review to our “partner” authority/authorities	Additional, more independent assurance.
d) option a) plus an annual review commissioned from a private body qualified in undertaking such work (Accountancy firm/consultancy)	Estimated cost in region of £2,000 to £3,000	Fully independent assurance

4.2 With an undertaking being made to strengthen Internal Audit’s performance management reporting in line with a new Strategic/Business Plan, it might be expected that any formal external review could be minimised. It is not at this stage clear whether the Audit Commission’s annual updates of their reviews of Internal Audit will be sufficient to meet the new requirement.

4.3 Within the Lancashire Districts, some trialling of a peer review approach has been undertaken, along with an ongoing process benchmarking exercise to help respective Internal Audit sections identify and compare themselves with good practice elsewhere. As with the Audit Commission's work, it is still uncertain whether, or to what extent, peer reviews between groups of authorities will meet the new requirement. Arrangements with neighbouring authorities have the benefit that each participant will be familiar with the applicability of professional and organisational standards in our particular sector and environment. This "familiarity" could in itself, however, be viewed as providing a barrier to identifying innovative approaches.

4.4 It is almost certain that commissioning a review from a private organisation will meet the requirement in terms of the independent assurance that it will provide. It might also be expected that such an approach could also have the benefit of bringing a wider range of experience/knowledge to the exercise, helping identify innovative approaches/solutions, thereby helping develop the effectiveness of the Internal Audit function.

**5.0 Officer Preferred Option**

5.1 Taking account of the above options, the fact that the Council's obligations for 2006/07 have been fulfilled, and the expectation of guidance from CIPFA, the officer preferred option at this juncture is to informally pursue the potential for reciprocal, "peer review" arrangements with neighbouring authorities, whilst monitoring developments.

**6.0 Conclusion**

6.1 The new requirement within the Accounts & Audit Regulations that each authority should undertake an annual review of the effectiveness of its Internal Audit function has been fulfilled for the current year (2006/07) by the Audit Commission's detailed review. Arrangements need to be considered for future years, though an in-principle decision, pending the production of guidance by CIPFA is the proposed route.

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

Not applicable

**FINANCIAL IMPLICATIONS**

Future financial implications, currently estimated to be in the region of £2,000 to £3,000 would arise should the Committee support in principle the option of commissioning an external annual review of Internal Audit from a private firm. For all other options, resource implications would be handled within existing staffing arrangements.

**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**

Accounts & Audit (Amendment) (England)  
Regulations 2006

**Contact Officer:** Derek Whiteway  
**Telephone:** 01524 582045  
**E-mail:** dwhiteway@lancaster.gov.uk  
**Ref:** aud/comm/aud/060920



## **Audit Commission Report – Review of Internal Audit 20 September 2006**

### **Report of the Internal Audit Manager**

#### **PURPOSE OF REPORT**

To inform the Committee of, and seek its views on, the results of a review of the Council's Internal Audit function, carried out by the Audit Commission as part of its 2005/06 audit.

**This report is public**

#### **RECOMMENDATIONS**

- (1) That the Committee accepts and comments as appropriate on the Audit Commission's report and the action plan devised in response to the recommendations made.**
- (2) That the Internal Audit Manager should report to a future meeting of the Committee on the progress made with implementing agreed actions.**

#### **1.0 Introduction**

- 1.1 As part of its responsibilities to review local authorities' internal control arrangements, the Audit Commission is required to review and comment on an annual basis on the effectiveness of Internal Audit arrangements. In practice, this takes the form of a detailed review every three years, with an overview/update being carried out in intervening years. The Commission's 2005/06 audit included a detailed review, the focus for which was the CIPFA 2003 Code of Practice for Internal Audit in Local Government in the United Kingdom.

#### **2.0 Proposal Details**

- 2.1 The Audit Commission's report is attached to this report as Appendix A. It is proposed that the Committee accepts and endorses the report, making any comments as appropriate, and endorses the recommendations and associated action plan.

2.2 The report is very positive about the quality of the Internal Audit function and it is pleasing that the Audit Commission's conclusions and opinions indicate that it is operating to organisational and professional standards which enable the Commission to:

- be able to place reliance on Internal Audit's work for the purposes of its own audit;
- consider internal audit to be an effective part of the Council's arrangements for ensuring economy, efficiency and effectiveness through its role in the Council's systems of internal control; and
- consider that Internal Audit demonstrate good practices in many areas and are well respected within the Council.

2.3 Notwithstanding the positive conclusions reached, the Audit Commission has identified a number of areas where further improvements could be made to help Internal Audit to fully meet the organisational and operational standards that are set out in the CIPFA Code. The most significant of these relate to:

- the development and approval of an audit strategy in line with CIPFA standards, setting out how Internal audit will be delivered and developed;
- consideration of the extent to which controls are compliance tested; and
- extension of the existing quality assurance arrangements.

2.4 The report and action plan have been agreed with the Council's External Audit Manager by the Internal Audit Manager and the Head of Financial Services. Arrangements are being made to implement the agreed actions (as set out in pages 14 to 23 of the report).

2.5 One of actions, relating to a new requirement under the Accounts & Audit (Amendment) Regulations 2006 that local authorities undertake an annual review of the effectiveness of their Internal Audit functions, is the subject of a report elsewhere on this agenda.

### **3.0 Details of Consultation**

3.1 Not applicable.

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

4.1 The options available to the Committee are either to accept and endorse the Audit Commission's report and the resulting action plan as presented, or to revise and/or request further consideration of any aspect of the review and agreed actions.

### **5.0 Conclusion**

5.1 The Audit Commission's report into its review of the Internal Audit function provides assurance that it is operating to high organisational and operational standards, and sets out a number of areas in which further improvements may be made to the service provided.

**CONCLUSION OF IMPACT ASSESSMENT**

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

Not applicable

**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**

None

**Contact Officer:** Derek Whiteway  
**Telephone:** 01524 582045  
**E-mail:** dwhiteway@lancaster.gov.uk  
**Ref:** aud/comm/aud/060920

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# **Review of Internal Audit**

**Lancaster City Council**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our reports to the Council**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

### **Copies of this report**

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 0560 566.

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

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## Summary report

### Introduction

- 1 The Code of Audit Practice (CoAP) requires us to review and report on:
  - the Council's financial statements and its statement of internal control; and
  - whether the audited body has made proper arrangements for securing economy, efficiency and effectiveness.

In undertaking our work the Code also requires us to seek to place maximum reliance on the work of internal audit whenever possible. Internal audit has a key role to play in relation to both our work on the financial statements and the Council's arrangements for securing economy, efficiency and effectiveness.

- 2 Every three years we undertake a detailed review of internal audit against professional standards to:
  - ensure that planned reliance on internal audit work is still appropriate; and
  - review the effectiveness of internal audit as part of the Council's arrangements for internal control.
- 3 The emphasis is on ensuring that internal audit meets the professional and statutory requirements, set out in CIPFA's 2003 Code of Practice for Internal audit in Local Government in the United Kingdom ('CIPFA Code'). The CIPFA Code provides standards for internal audit in the following areas, which were the focus for our review.

---

**Table 1 CIPFA Internal audit Code Areas**

<b>Organisational standards</b>	<b>Operational standards</b>
1. Scope of Internal audit	6. Audit Strategy
2. Independence	7. Management of Audit Assignments
3. Audit Committee or Equivalent	8. Due Professional Care
4. Relationships with management, Other Auditors, and Other Review Bodies	9. Reporting
5. Staffing, Training and Development	10. Quality Assurance

*Source: 'CIPFA Code of Practice for Internal Audit in Local Government in the UK'*

## Audit approach

- 4 In order to make an assessment of Internal audit's performance against these professional standards we carried out an appraisal of their arrangements and procedures by drawing on a number of sources of information including:
  - our cumulative knowledge of the Council;
  - Internal Audit documentation, including a review of a sample of specific jobs; and
  - discussions with the Internal Audit Manager and Principal Internal Auditor.

## Main conclusions

- 5 Overall, the extent and quality of coverage by Internal audit means that we can place reliance on their work for the purposes of our audit. We consider internal audit to be an effective part of the Council's arrangements for ensuring economy, efficiency and effectiveness through its role in the Council's systems of internal control. Internal audit demonstrate good practices in many areas and are well respected within the Council.
- 6 We have identified good working practices, including:
  - an automated working papers system which ensures consistency of approach and review stages, standardises the format of the final audit reports and includes other automated elements such as the generation of emails to service managers at key points;
  - reporting - the inclusion of hyperlinks in sections of the audit reports allows readers to easily link actions required and evidence to support conclusions; and
  - clarity of approach to fraud and corruption linked to the specific identification of fraud risks within risk registers.
- 7 We have identified a number of areas where further improvements could be made to help internal audit to fully meet the organisational and operational standards that are set out in the CIPFA Code. The most significant of these relate to:
  - the development and approval of an audit strategy in line with CIPFA standards, setting out how Internal audit will be delivered and developed;
  - consideration of the extent to which controls are compliance tested; and
  - extension of the existing quality assurance arrangements.

## The way forward

- 8 The recommendations arising from the review of internal audit are detailed in the attached Action Plan. The implementation of these should strengthen the Council's controls and help achieve full compliance with the CIPFA code of Practices.

# Detailed Report

## Organisational standards

### Scope of Internal Audit

*The scope of Internal Audit is adequate, properly communicated and understood throughout the organisation.*

- 9 The Council has set down the purpose, authority, and responsibility of Internal audit within the Internal audit Charter. Arrangements to communicate the internal audit charter throughout the Council are in place, ensuring that its role is clear to both internal audit and its clients. The charter clearly outlines the responsibility for systematic review and evaluation of the internal control environment, with procedures in place to identify new developments and significant changes that affect that environment.
- 10 The internal audit manual and charter do not currently fully reflect the coverage and activities of internal audit and it would be helpful to update these to include clarification of the scope and limit of internal audit's role in consultancy work and advice.

### Independence

*Arrangements are in place to ensure that internal audit is sufficiently independent although there are potential issues about the degree of their involvement in risk management.*

- 11 Internal Audit is managed by the Internal Audit Manager who reports directly to the Head of Financial Services who has sufficient status within the organisation's management structure to facilitate effective discussion and implementation of audit work. The Internal Audit Manager also has direct access to the Chief Executive where necessary. Audit priorities are determined following a risk assessment in consultation with management.
- 12 The Council has made arrangements to be advised on the discharge of responsibilities in respect of Internal Audit via an Audit Committee. Internal Audit report to this committee on a regular basis presenting the internal audit plan, reporting progress against that plan, key issues arising from completed assignments and reporting on the systems of internal control within the organisation.

- 13 Corporate arrangements are in place for positions deemed politically sensitive to declare any potential conflicts of interest which they may have that will affect their ability to remain independent and objective. Our review confirmed that both the internal audit manager and principal auditor make annual declarations in line with Council requirements.
- 14 Whilst organisationally arrangements are in place to protect the independence of Internal audit, the team do become heavily involved in the development of management processes from time to time, for example the Council's approach to procurement, risk management and project management. In particular internal audit remain heavily involved in the risk management of the authority including maintaining registers and assisting services to identify risks.
- 15 This approach has been very helpful in the short-term providing the Council with much needed capacity in this area. In the longer-term however, it is not ideal, potentially making it less likely that service managers will take ownership and creating potential difficulties for internal audit to independently evaluate risk assessments and the effectiveness of risk management.

### **Audit Committees**

*Appropriate arrangements are in place for internal audit to report to those charged with governance.*

- 16 The Internal Audit Manager attends all committee meetings, and provides progress reports to the Audit Committee including copies of all assignments completed during the period.
- 17 To increase operational manager accountability a review of items taken to Committee has been made. A summary of assignments completed will be reported with full reports mailed to members at the point of distribution. Internal audit's reports to the Audit Committee will detail the main issues identified and internal audit will provide further explanations on requests from the Committee. Attendance and reports from operational managers to explain any issues identified through audit work will be required.
- 18 The Audit Committee Terms of Reference was last reviewed and updated in 2003. Subsequently the Accounts and Audit regulations introduced the requirement for Councils to produce a wider statement on internal control. The Audit Committee have taken on a role in helping to provide assurance for this statement but this is not yet reflected in the terms of reference.

### **Relationships**

*Robust relationships with management and external bodies are in place and maintained.*

- 19 The internal audit terms of reference set out the principles for liaison with management when planning audit work. Auditees are asked to complete a post audit satisfaction survey and high satisfaction ratings are recorded by most auditees in this respect.



- 20 The CIPFA code of practice states that the organisation should define the respective roles and responsibilities of management and Internal audit in respect of fraud and corruption. If internal audit does not consider that line management have made appropriate decisions in this respect, then this should be reported to those charged with governance. The principles and arrangements for liaison with external agencies are clearly defined within the Anti Fraud and Corruption Strategy.
- 21 A good working relationship exists between ourselves and the Internal Audit Manager. Regular dialogue is maintained, and a joint audit working arrangements protocol is in place.

### **Staffing, training and development**

*Internal Audit is adequately resourced with staff who have received appropriate training and development.*

- 22 Internal audit currently has adequate resources, including a mix of skills and experience, to enable it to meet its work objectives efficiently and effectively. A skills gap in relation to IT audit has been identified which has been resourced via the purchase of external audit experience. For 2004/05, 86 per cent of the planned days were delivered. The shortfall was largely due to maternity leave. A budget to buy in additional resources as and when needed now exists which should help with short-term shortfalls in the future. For 2005/06 there was a reduced shortfall in planned days delivered with 92 per cent being delivered.
- 23 A significant proportion of the planned assignments (24 per cent) were not completed in 2005/06 largely due to the role the audit team took on co-ordinating the Council's use of resources assessment, delays in obtaining external input for IT and providing cover for maternity leave of the Council's procurement officer. As in previous years re-consideration of the Internal Audit planned programme took place to take account of these changes and decisions were taken with the Audit Committee over what work could be delayed and re-prioritised. Given the inherent necessity to re-consider plans and the arrangements in place to do so, we are not concerned about the level of non-delivery against the plan this year, although if this were a continuing trend then there may be a need to review the level of internal audit resource and the extent of advice/consultancy work provided by them.
- 24 The complement for the internal audit team is 3.8 whole-time equivalent staff and the Internal Audit Manager. The Internal Audit Manager is a CIPFA qualified Accountant and all other audit staff are fully qualified accounting technicians.
- 25 The opportunity to continue professional development is encouraged and provided for within the departments training budget. Structured personal development reviews are used to identify any training needs and training plans are in place for all staff.

## Operational standards

### Audit Strategy

*A formally reported audit strategy does not exist although consideration has been given to the elements which would form such a strategy and an annual plan is presented to members.*

- 26 The Code of practice expects that an audit strategy will be produced setting out how the Internal audit service will be delivered and developed. This should include:
- how the service will be provided, ie internally, externally or a mixture;
  - how Internal Audit will contribute to the assurance required for the annual statement of internal control, including how it will contribute to the review of governance arrangements, risk management processes and key internal control systems;
  - the overall level of resources and skills required for its delivery; and
  - the relative allocation of audit resource between assurance and fraud related or consultancy work.

The strategy should be approved by the organisation.

- 27 Currently there is no such formal strategy submitted to members for approval although the above elements have been considered by the Internal audit Manager as part of the management of his service and the production of the annual plan. The production of a formal strategy and its submission to the Audit Committee would have the added advantage of ensuring that members have also clearly considered the above elements in determining how the internal audit service is provided.
- 28 An Internal Audit annual plan is developed and approved by members each year. The plan takes account of known risks and is drawn up following discussions with the Head of Financial services and the management team. Changes to the annual audit plan in respect of individual reviews are agreed in conjunction with service managers and approval is given by the Audit Committee.
- 29 The annual plan identifies assignments to be completed and resources required. It also shows details of any gaps in resources and action to be taken to address the shortfall. A detailed monthly plan is used which is reviewed and discussed with audit staff at team meetings.

## Management of audit assignments

*Effective arrangements are in place to manage audit assignments.*

- 30 Internal audit apply a risk based approach to planning assignments based upon information gathering and evaluation of controls. Assignment briefs are prepared and agreed for all audits. These clearly define the scope, objectives and timing for all projects. Work undertaken at each stage of the assignment is designed to provide the evidence needed to support the audit opinion.
- 31 The Internal Audit manual details the audit process ensuring a consistent approach. An in house automated working papers system has been developed which is used to record all audit work and automatically generates the final report and action plan. The system also acts as a prompt for follow up assignments to be completed six months after the original work was completed. Full system guidance procedures have been produced.
- 32 All audit documents are required to be retained in line with statutory requirements. Internal audit follow corporate policy for the retention of hard copy papers but have yet to develop a policy covering the automated working paper system.
- 33 The CIPFA code states that the head of Internal Audit should control access to audit records and should obtain the approval of relevant management before releasing records to external parties. The growth of partnership arrangements increases the likelihood of the need to share internal audit documents and reports with external parties. Currently the audit manual does not refer to the arrangements for releasing documents to external parties.
- 34 Recommendations made by Internal Audit are included as part of the final report within an agreed action plan. Progress against each agreed action is monitored and where inaction is noted written explanations are obtained. Reports to audit committee highlight areas of inaction and requests by members are made for further explanations from service managers. The process could be strengthened by the formalisation of escalation procedures for any areas of inaction. This would help ensure that the risk of not taking action is understood and accepted at a senior level.

## Due professional care

*Arrangements are in place to ensure due professional care is maintained. There is scope for improvement in the areas of compliance testing and the review of detailed work undertaken.*

- 35 Auditors carry out their work with competence and diligence and a high level of client satisfaction is indicated.
- 36 The internal audit manual contains corporate policies governing ethics with all staff having signed an acknowledgement of understanding and acceptance. Each member of the audit team is also issued with a copy of the CIPFA code of practice which details the code of ethics for internal auditors.

- 37 The CIPFA code states that appropriate methodologies should be in place to identify intentional wrong-doing, errors, and omissions, inefficiency, waste, lack of economy, ineffectiveness, failure to comply with management policy and conflicts of interest. Our review of IA's approach and individual jobs indicates that a greater focus of work is placed on the identification of risks and the controls in place to reduce that risk, than with compliance testing to confirm their operation. The review of a sample of assignments selected identified that compliance with procedures and policy is not always tested and it is not clear how IA have decided which controls to compliance test. There is therefore a residual risk that the approach would not identify compliance failures.
- 38 A review process exists to ensure the quality of assignments although this is currently limited to key stages; agreeing the risks and scope of the work and the final report. The internal audit manager has taken the view that a review of the detailed work completed on each job is not necessary given the experience of the staff involved. To ensure the continuing relevance of such a judgement it would be helpful if a small sample of jobs were fully reviewed in detail each year.

## Reporting

*Effective reporting arrangements are in place. There is scope to more clearly identify the relative importance of specific recommendations made.*

- 39 The primary purpose of reporting is to provide management with an opinion on the adequacy of the internal control system and to inform management of significant findings, conclusions and recommendations.
- 40 Internal Audit uses an agreed reporting style generated by the automated working papers system, which leads to a consistent approach to reporting. Procedures ensure that reports cover relevant and important weaknesses, ensuring all aspects of the assignment link and support the conclusions made within the report. All reports are agreed with the relevant service managers before being issued. This includes agreeing responsibilities and timescales.
- 41 The Chief Internal Auditor prepares and presents interim reports throughout the year to the Audit Committee with an annual report following the year-end. These reports outline issues of concern, emerging issues and provide the Committee with an opinion on the overall adequacy and effectiveness of the internal control environment. A comparison of actual work undertaken against work planned is also included.
- 42 Currently the recommendations reported within individual reports are not prioritised. The allocation of priorities to agreed action would:
- help inform the formulation of the SIC by quickly identifying any significant weaknesses identified via audit work;
  - enable the audit committee to assess the importance of any action or inaction on specific recommendations; and
  - allow follow up assignments to be agreed on the basis of risk.

## Quality assurance

*Quality assurance processes require further development*

- 43 Existing arrangements include a system of review at key stages of each assignment and the use of client feedback questionnaires. The results of this process are not currently reported to the Audit Committee and there are no pre-set performance measures which are reported on other than reports on completion of the audit programme. The Internal Audit Manager should develop a quality assurance programme to provide assurance that the work of Internal Audit is compliant with the CIPFA Code of Practice and achieves its objectives.
- 44 The CIPFA code requires that internal quality reviews should appraise:
- quality of audit work;
  - quality of supervision;
  - compliance with CIPFA CoP;
  - compliance with IA Manual;
  - how it benefits the organisation; and
  - achievement of performance measures.

The results of such reviews should be periodically reported to the audit committee.

- 45 From 1 April 2006 the Accounts and Audit regulations have been amended by the Accounts and Audit (Amendment)(England) Regulations 2006. These include a new requirement under regulation 6 (3) for Councils to 'at least once in each year, conduct a review of the effectiveness of the system of internal audit'. New Regulation 6(4) goes on to say – 'The findings of the review referred to in paragraph (3) shall be considered, as part of the consideration of the system of internal control.'
- 46 The objective here is that all bodies when considering the Statement of Internal Control review the operation of the internal audit function. The Council will need to consider during the year how they will meet this requirement. We understand that CIPFA may produce some further guidance on this.

## Appendix 1 – Action Plan

Issue	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Organisational Standards</b>						
<b>Terms of Reference and Audit Manual</b>						
There are a number of areas within the formal framework which would benefit from greater clarification and further expansion to reflect actual practice.	<p>R1 <i>The Internal Audit manual should be updated to include:</i></p> <ul style="list-style-type: none"> <li>• clarification of the scope and limit of any consultancy role;</li> <li>• a policy for the retention of all audit documents including electronic working papers;</li> <li>• arrangements for obtaining necessary management approvals for the release of Internal audit documents to external parties; and</li> <li>• the escalation procedures for any areas of inaction on audit recommendations.</li> </ul>	Low	Internal Audit Manager and Principal Auditor.	Yes	Scope and limit of consultancy role may change from year to year. Escalation procedures will include the Audit Committee's review of risk reports and requests for managers' reports into implementation of agreed actions.	December 2006

Issue	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<p><i>R2 The Audit Committee Terms of Reference should be updated to reflect the Committee's role in providing assurance for the statement on internal control.</i></p>	<p>Low</p>	<p>Internal Audit Manager</p>	<p>Yes</p>	<p>This will be reported to the Audit Committee in September 2006 with a recommendation to Council.</p>	<p>December 2006</p>

16 Review of Internal Audit | Appendix 1 – Action Plan

Issue	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<p><b>Independence</b></p> <p>Internal audit is heavily involved in the risk management of the authority including maintaining registers and assisting services to identify risks. This approach has been very helpful in the short-term providing the Council with much needed capacity in this area. In the longer term however, it is not ideal, potentially making it less likely that service managers will take ownership and creating potential difficulties for internal audit to independently evaluate risk assessments and the effectiveness of risk management.</p>	<p>R3 Consider the degree of internal audit involvement in risk management and consider re-allocating responsibility in the longer term. This could help with embedding risk management as well as enabling internal audit to fulfil a clear audit role in terms of risk management.</p>	<p>Medium</p>	<p>Internal Audit Manager</p>	<p>Yes</p>	<p>A programme has been established to have risk registers fully implemented and managers trained by 31 Dec 2006. This will enable Internal Audit's role to be redefined for the 2007/08 audit plan.</p>	<p>March 2007</p>





18 Review of Internal Audit | Appendix 1 – Action Plan

Issue	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<ul style="list-style-type: none"> <li>the overall level of resources and skills required for its delivery; and</li> <li>the relative allocation of audit resource between assurance and fraud related or consultancy work.</li> </ul> <p>The strategy should be approved by the organisation. Currently there is no such formal strategy submitted to members for approval although the above elements have been considered by the Internal Audit Manager as part of the management of his service and the production of the annual plan. The production of a formal strategy and its submission to the Audit Committee would have the added advantage of ensuring that members had also clearly considered the above elements in determining how the Internal Audit service is provided.</p>						

<p><b>Due professional care</b></p>	<p>The CIPFA Code states that appropriate methodologies should be in place to identify intentional wrong-doing, errors, and omissions, inefficiency, waste, lack of economy, ineffectiveness, failure to comply with management policy and conflicts of interest. Our review of assignments selected identified areas where compliance with procedures and policy has not been tested and it is not clear how Lancaster have decided which controls to compliance test. There is therefore a residual risk that the approach would not identify compliance failures.</p>	<p>R5</p>	<p><i>Ensure that the methodologies used include an appropriate level of compliance testing and decisions not to comply test are clearly documented.</i></p>	<p>High</p>	<p>Internal Audit Manager and Principal Auditor</p>	<p>Yes</p>	<p>It is recognised that recent audit emphasis has meant a reduction in compliance testing. Changes to the audit approach in relation to risk and risk registers will provide greater emphasis on focussed compliance testing.</p>	<p>March 2007</p>
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20 Review of Internal Audit | Appendix 1 – Action Plan

Issue	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<p>A review process exists to ensure the quality of individual pieces of work but this is currently limited to key stages; agreeing the risks and scope of the work and the final report. The internal audit manager has taken the view that a review of the detailed work completed on each job is not necessary given the experience of the staff involved. To ensure the continuing relevance of such a judgement it would be helpful if a small sample of jobs were fully reviewed in detail each year.</p>	<p><i>R6 A small sample of jobs covering all staff should be reviewed in detail to confirm ongoing compliance with standards.</i></p>	<p>High</p>	<p>Internal Audit Manager and Principal Auditor</p>	<p>Yes</p>	<p>Sample review of jobs will be carried out. Also a system of post-completion review of individual assignments, feeding into the EDPA process.</p>	<p>December 2006</p>

Issue	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Reporting</b>						
<p>Currently audit recommendations are not prioritised. The allocation of priorities to agreed actions would:</p> <ul style="list-style-type: none"> <li>• help inform the formulation of the SIC;</li> <li>• enable the Audit Committee to assess the importance of any action or inaction; and</li> <li>• allow follow up assignments to be agreed on the basis of risk.</li> </ul>	<p>R7 <i>Develop and implement an approach to enable prioritisation of agreed actions included within final reports.</i></p>	<p>Medium</p>	<p>Internal Audit Manager and Principal Auditor</p>	<p>Yes</p>	<p>The approach to reporting will be reviewed to make the most of available risk information, so as to identify 'priorities'.</p>	<p>March 2007</p>

Issue	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<p><b>Quality Assurance</b></p> <p>Existing arrangements include a system of review at key stages of each assignment and the use of client feedback questionnaires. The results of this process are not currently reported to the Audit Committee and there are no pre-set performance measures which are reported on other than reports on completion of the audit programme. The CIPFA Code requires that a provision for internal quality reviews should be made and that this should appraise:</p> <ul style="list-style-type: none"> <li>• quality of audit work;</li> <li>• quality of supervision;</li> <li>• compliance with CIPFA Code of Practice;</li> <li>• compliance with Internal audit Manual;</li> <li>• how it benefits the organisation; and</li> <li>• achievement of performance measures.</li> </ul>	<p>R8 A full coverage quality review should be undertaken annually which meets the CIPFA standards on quality assurance. This should include the setting and monitoring of performance measures. The results of the quality assurance review should be reported to the audit committee. Implementation of recommendation 6 would assist with this.</p>	<p>High</p>	<p>Internal Audit Manager</p>	<p>Yes</p>	<p>Relevant and SMART performance measures will be developed in tandem with the production of a Strategic Plan (see R4).</p>	<p>March 2007</p>

<p>From 1 April 2006 the Accounts and Audit regulations have been amended by the Accounts and Audit (Amendment) (England) Regulations 2006. These include a new requirement under regulation 6 (3) for Councils to ‘at least once in each year, conduct a review of the effectiveness of the system of Internal Audit’. New Regulation 6(4) goes on to say – ‘The findings of the review referred to in paragraph (3) shall be considered, as part of the consideration of the system of internal control’.</p> <p>The Council will need to consider during the year how they will meet this requirement.</p>	<p><b>R9</b> <i>The Audit Committee should consider how it will comply with the new requirement within the Accounts and Audit regulations to annually review the effectiveness of Internal Audit.</i></p>	<p>High.</p>	<p>Internal Audit Manager.</p>	<p>Yes.</p>	<p>A report will be taken to the Audit Committee in September 2006 setting out the options for complying with this requirement.</p>	<p>September 2006</p>
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## Internal Audit Monitoring 20 September 2006

### Report of Internal Audit Manager

#### PURPOSE OF REPORT

To advise Members of the latest monitoring position regarding the 2006/07 Internal Audit Plan.

**This report is public**

#### RECOMMENDATIONS

- (1) That the current monitoring position is noted.
- (2) That, in the light of identified over-runs (set out in paragraphs 2.4 to 2.6), the Internal Audit Manager continues to monitor the programme, seeking approval for any adjustments necessary from the next meeting of the Committee and, if more urgent action is required, reporting in the interim to the Chairman.

#### 1.0 Introduction

- 1.1 The 2006/07 Internal Audit Plan was approved by the Audit Committee at its meeting on 26 April 2006. This report is based on the monitoring position as at 18 August 2006.

#### 2.0 Proposal Details

- 2.1 A detailed monitoring exercise was undertaken by the Internal Audit team on 19 July 2006 and this has been updated for the purposes of this report to the 18<sup>th</sup> August 2006. Taking account of work to complete audit assignments from the 2005/06 plan, this still represents a relatively early position statement.
- 2.2 A monitoring report as at 18 August 2006 is attached as Appendix A. In summary, the position as that date was as follows:

Days originally planned (approved audit plan)	924
Adjustments to the plan (provisional)	+5
Revised plan	929
Days undertaken to 18 August 2006-08-18	312
Days remaining	617

- 2.3 The provisional adjustment of an additional 5 days reflects work on the audit of contract final accounts, provision for which was omitted from the plan approved by the Committee in April.
- 2.4 At this time, progress with the main elements of the plan is good. The one area that needs to be considered at this stage is the impact of ongoing work being undertaken by Internal Audit staff in supporting a number of corporate initiatives/projects, notably:
- the implementation of a corporate project management methodology;
  - development of the procurement strategy; and
  - implementation of the corporate risk management strategy.
- 2.5 At 18 August, these three pieces of work (covered by the heading “Project Support” on page 1 of the attached monitoring report) had accounted for 57.6 days against an approved budget of 60 days. Whilst all three projects are included in the Council’s Improvement Plan, the most significant element to date has been the work being undertaken by the Principal Auditor in coordinating the development and implementation of the corporate project management methodology, which has taken 32.6 days so far. Excellent progress has been made with this piece of work, which is seen as crucial to the Council’s continued improvement and the accomplishment of targets set out in the Improvement Plan.
- 2.6 Along with the other project support work, it is currently envisaged that, if Internal Audit staff are to continue in their current roles, the final outturn for this section of the plan is likely to be around 100 days, compared with the approved budget of 60. At this stage in the plan, it would be too early to contemplate drawing on the General Contingency (45 days) or committing to any postponements or reductions in budget for other planned activities. It is therefore recommended that the Committee give its approval for Internal Audit to continue to support these projects, and that the Internal Audit Manager continues to monitor the position and reports in more detail to the next meeting of the Committee.

### **3.0 Details of Consultation**

- 3.1 Not applicable

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

- 4.1 In terms of the anticipated budget over-runs identified, the main options are:
- a) Allocate days from the General Contingency of 45 days;
  - b) Adjust the plan by reducing allocations of time to other activities; and
  - c) Continue to monitor progress and develop proposals to address the situation in the next round of monitoring and reporting to the Committee.
- 4.2 At this relatively early stage in the year, it is probably too soon to consider allocating time from the General Contingency, or making a commitment to changing the remainder of the programme.

**5.0 Officer Preferred Option**

5.1 The officer preferred option is therefore option c) - that of continuing to monitor progress, developing proposals to address the over-runs and reporting to the next meeting of the Committee. There is a possible drawback in this, in that the next meeting of the Committee is scheduled for four months time, on 24 January 2007 which would leave little time to implement significant changes to the plan. Consequently, if ongoing monitoring indicates that more urgent review is necessary, it is proposed that the Internal Audit Manager agree this with the Head of Financial Services and report the action taken to the Chairman.

**6.0 Conclusion**

6.1 At present, good progress is being made with the 2006/07 Internal Audit Plan and no major difficulties are envisaged. With regard to ongoing Internal Audit involvement in a number of significant corporate projects, it is proposed that this work be continued, with the position and implications for the remainder of the plan being monitored and managed for the time being.

<p><b>CONCLUSION OF IMPACT ASSESSMENT</b>  <b>(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</b></p> <p>Not applicable</p>	
<p><b>FINANCIAL IMPLICATIONS</b></p> <p>None arising from this report</p>	
<p><b>SECTION 151 OFFICER'S COMMENTS</b></p> <p>The s151 Officer has been consulted and has no further comments.</p>	
<p><b>LEGAL IMPLICATIONS</b></p> <p>None arising from this report</p>	
<p><b>MONITORING OFFICER'S COMMENTS</b></p> <p>The Monitoring Officer has been consulted and has no further comments</p>	
<p><b>BACKGROUND PAPERS</b></p> <p>Internal Audit Plan 2006/07</p>	<p><b>Contact Officer:</b> Derek Whiteway  <b>Telephone:</b> 01524 582045  <b>E-mail:</b> dwhiteway@lancaster.gov.uk  <b>Ref:</b> aud/comm/audit/060920</p>

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Appendix A

Internal Audit Annual Plan Monitoring Report - 2006/07

As At 18 August 2006

Category:	Advice and Support	Base Plan	+/- Adjustments	+ WIP Bfwd	- WIP Cfwd	Current Plan	Days to Date	Days Remaining
F001	Advice	100.0	0.0	0.0	0.0	100.0	31.7	68.3
K001	General Support Work	25.0	0.0	0.0	0.0	25.0	13.4	11.6
K002	Project Support	60.0	0.0	0.0	0.0	60.0	57.3	2.7
<b>Totals for Category: Advice and Support</b>		<b>185.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>185.0</b>	<b>102.4</b>	<b>82.6</b>
<b>Category: Audit Planning and Monitoring</b>								
Y001	Audit Planning and Monitoring	30.0	0.0	0.0	0.0	30.0	14.8	15.2
Y002	Committee Work	15.0	0.0	0.0	0.0	15.0	10.0	5.0
<b>Totals for Category: Audit Planning and Monitoring</b>		<b>45.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>45.0</b>	<b>24.9</b>	<b>20.1</b>
<b>Category: Computer Audits</b>								
D301	Information & Communications Technology Audit	50.0	0.0	0.0	0.0	50.0	12.5	37.5
<b>Totals for Category: Computer Audits</b>		<b>50.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>50.0</b>	<b>12.5</b>	<b>37.5</b>
<b>Category: Contingencies</b>								
S001	Investigations	35.0	0.0	0.0	0.0	35.0	13.4	21.6
S002	Provision for Follow Up Reviews	70.0	0.0	0.0	0.0	70.0	25.8	44.2
S004	General Contingency	45.0	0.0	0.0	0.0	45.0	0.0	45.0
<b>Totals for Category: Contingencies</b>		<b>150.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>150.0</b>	<b>39.2</b>	<b>110.8</b>
<b>Category: Efficiency &amp; Value For Money</b>								
V001	Efficiency & VFM Strategies	20.0	0.0	0.0	0.0	20.0	0.0	20.0
V002	Efficiency & VFM Projects	20.0	0.0	0.0	0.0	20.0	0.0	20.0
V003	Specific Efficiency & VFM Reviews	20.0	0.0	0.0	0.0	20.0	0.0	20.0
<b>Totals for Category: Efficiency &amp; Value For Money</b>		<b>60.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>60.0</b>	<b>0.0</b>	<b>60.0</b>

Internal Audit Annual Plan Monitoring Report - 2006/07

As At 18 August 2006

Category:	Major Financial Systems	Base Plan	+/- Adjustments	+ WIP Bfwd	- WIP Cfwd	Current Plan	Days to Date	Days Remaining
A001	Housing Rents	5.0	0.0	7.0	0.0	12.0	7.4	4.6
D001	Sundry Debtors	4.0	0.0	3.8	0.0	7.8	3.8	4.0
D003	Housing Benefits & Council Tax Benefits	25.0	0.0	0.5	0.0	25.5	0.5	25.0
D006	Income Management	15.0	0.0	0.0	0.0	15.0	3.8	11.2
D009	Council Tax	4.0	0.0	1.6	0.0	5.6	1.6	4.0
D010	NNDR	4.0	0.0	0.0	0.0	4.0	0.0	4.0
D505	Creditor Payments	4.0	0.0	0.0	0.0	4.0	0.0	4.0
D509	Payroll	4.0	0.0	9.1	0.0	13.1	10.1	3.0
D514	Treasury Management	4.0	0.0	0.0	0.0	4.0	0.0	4.0
D527	Main Accounting	0.0	0.0	5.0	0.0	5.0	5.0	0.0
D528	Asset Management	15.0	0.0	0.0	0.0	15.0	0.0	15.0
M008	Fraud & Corruption	22.0	0.0	0.0	0.0	22.0	11.1	10.9
<b>Totals for Category: Major Financial Systems</b>		<b>106.0</b>	<b>0.0</b>	<b>27.0</b>	<b>0.0</b>	<b>133.0</b>	<b>43.4</b>	<b>89.6</b>
<b>Category: Management Arrangements</b>								
B111	Transport Policy & Strategy	15.0	0.0	0.0	0.0	15.0	1.8	13.2
G301	Contract Management	0.0	5.0	0.0	0.0	5.0	2.2	2.8
M007	Corporate Governance	40.0	0.0	0.0	0.0	40.0	10.5	29.5
M009	Health & Safety	0.0	0.0	6.2	0.0	6.2	7.5	-1.3
M013	Performance Management	25.0	0.0	15.6	0.0	40.6	15.6	25.0
M015	Partnership Arrangements	20.0	0.0	0.0	0.0	20.0	3.3	16.7
M016	Legality Issues	15.0	0.0	0.0	0.0	15.0	0.0	15.0
M018	Risk Management	20.0	0.0	0.0	0.0	20.0	0.0	20.0
M022	Project Management	0.0	0.0	0.2	0.0	0.2	0.2	0.0
M023	Communication	0.0	0.0	14.0	0.0	14.0	15.1	-1.1
P001	Workforce Management Strategy	15.0	0.0	0.0	0.0	15.0	0.0	15.0
<b>Totals for Category: Management Arrangements</b>		<b>150.0</b>	<b>5.0</b>	<b>36.0</b>	<b>0.0</b>	<b>191.0</b>	<b>56.3</b>	<b>134.7</b>

Appendix A

Internal Audit Annual Plan Monitoring Report - 2006/07

As At 18 August 2006

Category:	Non Audit Work	Base Plan	+/- Adjustments	+ WIP Bfwd	- WIP Cfwd	Current Plan	Days to Date	Days Remaining
H001	Non Audit Duties	5.0	0.0	0.0	0.0	5.0	1.7	3.3
<b>Totals for Category: Non Audit Work</b>		<b>5.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>5.0</b>	<b>1.7</b>	<b>3.3</b>
<b>Category: Operational Audits</b>								
A012	Housing Repair & Maintenance Services	12.0	0.0	0.0	0.0	12.0	1.2	10.8
A052	Renewal (Strategic Housing)	15.0	0.0	0.0	0.0	15.0	0.1	14.9
A054	Homelessness & Housing Advice	12.0	0.0	0.0	0.0	12.0	4.4	7.6
B003	Street Cleansing	15.0	0.0	0.0	0.0	15.0	0.0	15.0
B004	Refuse Collection & Recycling	15.0	0.0	0.0	0.0	15.0	0.0	15.0
B011	Environmental Protection	15.0	0.0	0.0	0.0	15.0	0.0	15.0
B051	Licensing	12.0	0.0	0.0	0.0	12.0	0.0	12.0
B102	Car Parking- Provision & Control	10.0	0.0	0.0	0.0	10.0	0.4	9.6
C002	Building Control	10.0	0.0	0.0	0.0	10.0	0.0	10.0
C110	Tourism - Promotion & Facilities	12.0	0.0	0.0	0.0	12.0	2.0	10.0
C261	Regeneration & Business Development (inc SRB and EDZ)	0.0	0.0	5.8	0.0	5.8	5.8	0.0
D160	Elections & Electoral Registration	10.0	0.0	0.0	0.0	10.0	2.3	7.7
D161	Facilities Management	15.0	0.0	1.0	0.0	16.0	0.0	16.0
<b>Totals for Category: Operational Audits</b>		<b>153.0</b>	<b>0.0</b>	<b>6.8</b>	<b>0.0</b>	<b>159.8</b>	<b>16.3</b>	<b>143.5</b>
<b>Category: Secondary Financial Systems</b>								
D516	Value Added Tax	10.0	0.0	0.0	0.0	10.0	2.7	7.3
D517	Income Tax and National Insurance	0.0	0.0	4.3	0.0	4.3	4.3	0.0
E010	Stores	10.0	0.0	0.0	0.0	10.0	7.9	2.1
<b>Totals for Category: Secondary Financial Systems</b>		<b>20.0</b>	<b>0.0</b>	<b>4.3</b>	<b>0.0</b>	<b>24.3</b>	<b>14.9</b>	<b>9.4</b>
<b>Grand Totals:</b>		<b>924.0</b>	<b>5.0</b>	<b>74.1</b>	<b>0.0</b>	<b>1003.1</b>	<b>311.6</b>	<b>691.5</b>

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**Audit**

## Results of Internal Audit Work

20<sup>th</sup> September 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 August 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](mailto: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**

<b><u>Audit Title</u></b>		<b><u>Report Date</u></b>
05/0598	Sundry Debtors	09 June 2006
05/0609	Performance Management	10 July 2006
05/0607	Regeneration Programmes	25 July 2006

**Follow-Up Reviews**

05/0600	Non-Domestic Rates	20 June 2006
04/0571	Best Value	10 July 2006
04/0588	Payroll	15 August 2006

**3.0 Matters Arising from Audit Reviews**

- 3.1 The audit reviews of the Council's Performance Management and Best Value arrangements (Follow-up review) has identified that whilst there have been some improvements in performance management, through the development of the new framework and the continuing roll-out of Escendency, there remains some concerns over the recognition within Services of the importance of performance management as a driver for continuous improvement and the quality of performance data provided.

The report sets out agreed actions to address these issues and points out that a number of improvements were made during the conduct of the audit through working closely with officers responsible for providing performance information relating to the Best Value Performance Plan, although the level and nature of Internal Audit's input has raised a concern over the overall independence of the audit.

- 3.2 The audit of Regeneration Programmes identified a recognised need to improve on corporate protect management arrangements and management of risk relating to individual projects. The Principal European and Regeneration Programmes Officer responsible for implementing a number of the agreed actions identified, is now an integral member of the officer Group responsible for developing a structured approach to Project Management, progress on which is set out below.

**3.3 Results of Responsive Audit Work (Advice, support and investigations)**

- 3.3.1 In addition to scheduled audit work the main piece of responsive work undertaken in the period covered by this report is in relation to the ongoing development of the corporate project management methodology.
- 3.3.2 Audit Committee will be aware that approval for the adoption of a corporate project management methodology was given following completion of an audit on the Council's project management arrangements at the end of April. Since then excellent progress has been made by the officer working group, led by the Head of Financial Services. The Principal Auditor is undertaking a leading role as the appointed Project Manager responsible for the development and implementation of the methodology.
- 3.3.3 Progress since April has included:
- Appointment of the preferred Project Management Training and Development provider
  - Ongoing development of a Handbook and project management documentation to support the methodology
  - Briefing session to all Service Heads (28 June 06) on progress and planned work
  - One day overview training for the Corporate Project Management Group on the developing methodology (18 August 06)
  - Arrangements for a two-day Pilot training course on the methodology to members of the Innovations and Best Practice Forum, including a facilitation workshop on the practicality of the methodology for Council run projects (24 & 25 August 06)

3.3.4 Following the two-day pilot course, it is planned to:

- Refine the methodology based on feedback from the Pilot course;
- Arrange for a one day overview of the methodology to be provided to senior management
- Provide five separate two-day training courses on the corporate project management methodology for up to 50 Council staff
- Report progress on the implementation of the methodology to the Performance Management Group, including options/recommendations on future corporate project/programme monitoring and reporting arrangements as part of the Council’s overall Performance Management Framework.

**Investigations**

3.3.5 One of the Senior Auditors has assisted with an investigation into a discrepancy of £295 in the collection of car parking monies. As a result of this investigation, which was inconclusive as to the cause of the discrepancy, procedures have been strengthened to prevent a recurrence.

**4.0 Details of Consultation**

4.1 Not applicable

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

5.1 Not applicable

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

## Results of Internal Audit Work

**Audit Committee Date – Wednesday, 20<sup>th</sup> Sept 2006**

### 1. New Audit Reports

#### **05/0598 Sundry Debtors (issued on 09/06/06)**

Headline messages:

- A comprehensive Debt Collection and Management Guide is in place which clearly defines corporate standards and establishes a consistent approach to effective debt management.
- The Sundry Debtors system incorporates a good level of control.
- Legal recovery procedures have been defined.
- Approved write-off procedures are in place.
- A formal protocol has been established for Services to report outstanding debt to Members and the position on overall debt outstanding is regularly reported to Cabinet.
- Implementation of a strategy to improve the effectiveness of current arrangements is planned for 2006/07.

#### **05/0609 Performance Management (issued on 10/07/06)**

Headline messages:

- The profile of Performance Management in the last year has been heightened through the new Performance Management Framework and continuing roll-out of Escendency.
- Concerns over the quality of performance data are to be addressed through training to roll-out a new Data Quality Strategy.
- Improved arrangements will seek to ensure staff at all levels know the importance of timely performance information to be used to drive the Authority's continued improvement.

#### **05/0607 Regeneration Programmes (issued on 25/07/06)**

Headline messages:

- Regeneration programmes are considered high risk due to the sums involved and potential for claw-back.
- The Authority, as Accountable Body, has sound financial management systems supporting its obligations.
- There is a recognised need to improve project management.
- Potential risks faced by the Authority as Accountable Body are to be assessed on an ongoing and project by project basis. Risk reporting mechanisms are to be strengthened and the level of risk the Authority is willing to accept determined.
- A better understanding of EU Procurement and State Aid Rules is required.
- Document retention and accessibility issues are to be addressed through a new officer working group.
- The Accountable Body's enforcement role is to be strengthened.
- Measures are to be taken to ensure project managers fulfil ongoing commitments per grant conditions following project closure.

## **2. Follow Up Reports**

### **04/0571 Best Value (issued 10/07/06)**

Key messages:

- Redesigned sickness forms and management checks on the accuracy of returns and the transfer of data to the calculation spreadsheet have improved the accuracy of the outturn for BVPI 12 (the number of days/shifts lost to sickness absence).
- Errors made in calculating the outturn for BVPI199 (the cleanliness of relevant land and highways) in 2004/05 have not been repeated in 2005/06 in that transect selection is in accordance with the statutory definition and the Authority's methodology has been endorsed by DEFRA.
- The Authority is not required to report BVPIs 226a-c (legal and advice services) in 2005/06 though attempts have been made to calculate the outturns. Whilst progress has been made in the last year there are ongoing problems regarding responsibilities and the data needed. Options for improving and streamlining the process of data collection, with a view to accurately calculating an outturn in 2006/07 in accordance with the definitions, are to be explored through the implementation of an agreed action resulting from the IA Review of Performance Management (05/0609).

### **05/0600 NDR (issued 20/06/06)**

Key messages:

- Parameter changes are checked and evidenced.
- Exception reports are produced thus ensuring that arrangements to pay are properly managed.
- Reconciliations procedures carried out at the time of billing have improved.
- A comprehensive procedure manual for the new system is currently being developed and should be in place by the target date of September 2006.
- Officers are still to develop an interface which will export transactions direct from the Academy NDR system to the general ledger, implementation being delayed due to competing work pressures. Progress on the interface will be monitored through the IT Account Managers meetings and is to be fed into the quarterly performance review meetings.

### **04/0588 Payroll (issued 15/08/06)**

Key messages:

- Amendments affecting employees are now recorded in the establishment book when notification is received, and Service Heads are asked to verify the details recorded on a quarterly basis.
- Those actions which remain outstanding in relation to issuing written instructions to Service Heads regarding temporary arrangements and honoraria payments, and the documentary evidence to be retained on personnel files, will be implemented by the 30th September '06.
- As from 30th September the Service also aims to ensure that Service Heads are provided with written notification when the request to change an employees post/grade has been actioned.
- A working group is currently in the early stages of identifying options for future HR/Payroll solutions ensuring efficiency and value for money for the Authority.

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