



Committee: AUDIT COMMITTEE
Date: WEDNESDAY, 27 JUNE 2007
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 24th January 2007 (previously circulated)

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

4. **Annual Audit and Inspection Letter** (Pages 1 - 20)

Report of the Audit Commission. Representatives of the Audit Commission will present the report.

(All Councillors have been invited to attend for this item).

5. **Statement Of Accounts 2006/07** (Pages 21 - 24)

Accounts are to follow.

6. **Risk Management Policy and Strategy** (Pages 25 - 38)

7. **Internal Audit Annual Report** (Pages 39 - 48)

8. **Statement on Internal Control and Corporate Governance** (Pages 49 - 66)

9. **Internal Audit Strategic and Annual Plans 2007/08** (Pages 67 - 86)

10. **Democratic Renewal** (Pages 87 - 96)

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

Councillors Malcolm Thomas (Chairman), Jon Barry, Roger Dennison, Janice Hanson, Tony Johnson, Geoff Knight and Karen Leytham

(ii) Substitute Membership

Councillors Abbott Bryning, Shirley Burns, Geoff Marsland, Ian McCulloch and Rob Smith

(iii) Queries regarding this Agenda

Please contact Sharon Marsh, Democratic Services - telephone (01524) 582096 or email smarsh@lancaster.gov.uk.

(iv) Changes to Membership, substitutions or apologies

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

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Annual Audit and Inspection Letter

June 2007

Annual Audit and Inspection Letter

Lancaster City Council

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively, to achieve high-quality local services for the public. Our remit covers around 11,000 bodies in England, which between them spend more than £180 billion of public money each year. Our work covers local government, health, housing, community safety and fire and rescue services.

As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we ensure that public services are good value for money and that public money is properly spent.

Status of our reports

This report provides an overall summary of the Audit Commission's assessment of the Council, drawing on audit, inspection and performance assessment work and is prepared by your Relationship Manager.

In this report, the Commission summarises findings and conclusions from the statutory audit, which have previously been reported to you by your appointed auditor. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, are required to exercise their professional judgement independently of the Commission (and the audited body). The findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to 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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Our overall summary

- 1 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the findings and conclusions from the audit of the Council and from any inspections that have been undertaken in the last year. The letter includes our review of how well the Council has progressed (our Direction of Travel report) and the auditor's assessment of how well the Council has managed its finances (the Use of Resources scores). These latter components will be an important feed into any future decision regarding the potential for a rescoring the Council's Comprehensive Performance Assessment (CPA) category.
- 2 The report is addressed to the Council, in particular it has been written for councillors, but is available as a public document for stakeholders, including members of the community served by the Council.
- 3 The main messages for the Council included in this report are highlighted below.

Council Performance

- 4 Performance in national and local priority areas is improving. Current performance levels are comparatively good with 42 per cent of indicators in the top band compared with a district council average of around 30 per cent.
- 5 The 2005 inspection of waste management judged the service to be fair with promising prospects for improvement. The service has continued to improve and exceeded its 2005/06 DEFRA recycling target.
- 6 Planning performance this year was mixed. The Council is addressing this problem area through investment in the service and figures for 2006/07 show that this is paying off in improved performance.
- 7 Access to services and information is improving with better electronic access through an enhanced website. Implementation of the customer access strategy slowed this year because of delays in decisions over locations of key service points. However, the Morecambe and Lancaster town halls have now been identified as the main customer service centres and plans are moving forward.
- 8 Business planning processes are more effective and stronger corporate leadership of performance management has led to improvement.
- 9 A number of key challenges remain including, in particular, further developing the people management agenda, improving workforce planning, further development of the Council's approach to equality and diversity and continuing to tackle staff absence.

Accounts and Value for Money Conclusion

- 10 We issued an unqualified opinion on your accounts on 29 September 2006 and we found that a number of improvements to the processes for compiling and presenting the accounts had been made since 2004/05.

- 11 This year, for the first time, we were required to issue a conclusion on whether or not the Council had in place adequate arrangements to achieve value for money. Our conclusion is that Lancaster does have adequate arrangements in place.

Use of Resources

- 12 The Council scored 3 out of 4 under our assessment of the Council's use of resources this year. Whilst progress has been made in a number of the theme areas there still remains a challenge to embed and further develop the approach to value for money so as to improve it to better than adequate.

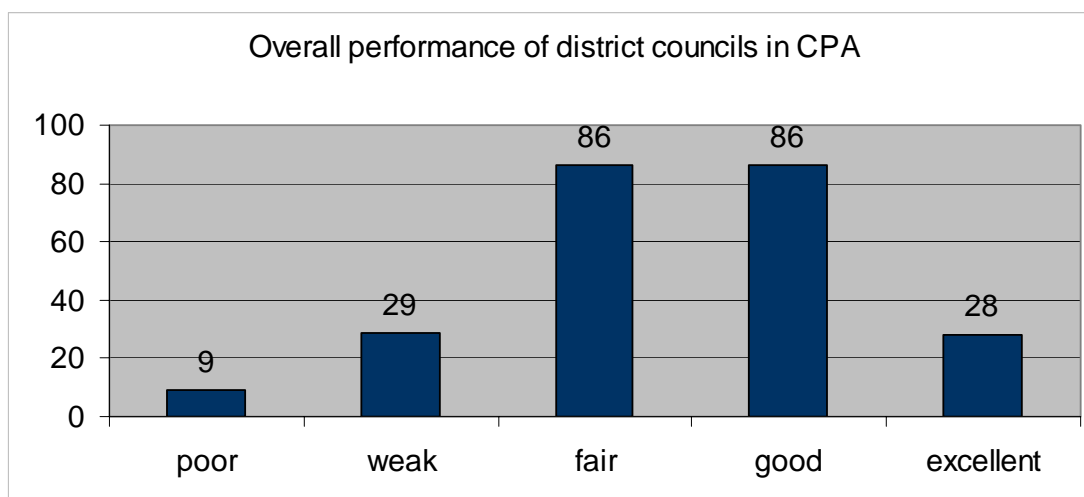
Action needed by the Council

- 13 The key actions which we are recommending to the Council include the following.
- Monitor the implementation of the recommendations arising from the waste management inspection particularly in respect of user satisfaction, effectiveness of performance management arrangements; tackling high levels of sickness absence and use of benchmarking to systematically improve value for money.
 - Continue to develop and embed the approach to workforce planning, equality and diversity and the approach to tackling staff absence.
 - Continue to develop the performance management approach to tackle those areas of comparative lower performance.
 - Drive forward the Council's contribution in the development of the governance and accountability arrangements within the Lancashire Children and Young People Partnership to ensure responsibilities under the Children Act 2004 are met.
 - Work with all the authorities in Lancashire to better integrate the approach to the Local Area Agreement and the county and district Local Strategic Partnerships and the achievement of the agreed targets.
 - Further develop value for money skills to challenge the future use of Council's resources.
 - Develop robust risk management and governance arrangements within all the Council's significant partnerships, so as to maximise the outcomes from joint objectives.

How is Lancaster City Council performing?

- 14 Lancaster City Council was assessed as fair in the Comprehensive Performance Assessment (CPA) carried out in January 2004. These assessments have now been completed in all district councils and we are starting to update CPA through new corporate assessments in councils where there is evidence of change. Lancaster City Council will be one of the first councils to receive a new corporate assessment in summer 2007.
- 15 The following chart is the latest position across all district councils.

Figure 1 Overall performance of district councils in CPA



Source: Audit Commission

CPA re-categorisation

- 16 The 2006 District Council CPA framework allows for district councils to apply for re-categorisation as a result of their improvement since the last assessment. In October 2006, Lancaster City Council applied to be considered for re-categorisation. An Audit Commission regional panel considered the application together with a range of evidence including service performance, progress (direction of travel) assessments, the use of resources score and other judgements from key stakeholders. The panel decided that there is a realistic prospect of a change in category following a corporate assessment inspection.

- 17 The inspection team which includes a peer Councillor from another district council will conduct their field work during the Summer of 2007 and report their findings in Autumn 2007. The result of the inspection will determine the Council's new CPA rating and the level of formal performance monitoring by the Department of Communities and Local Government.

Improvement since last year

- 18 The Council continues to make improvements in service delivery for the benefit of its communities in both national and local priority areas. The rate of improvement in key national performance indicators linked to the shared priorities for local government over the past year was 46 per cent - below the district council average of 61 per cent. However performance levels overall compare well with 42 per cent of indicators in the top band compared with a district council average of around 30 per cent.
- 19 Waste management continues to improve. The Council exceeded its 2005/06 DEFRA recycling target – achieving 19 per cent recycling against a target of 18 per cent. The Council is reducing the amount of waste going to landfill. Initiatives such as 'Bulky Matters' have increased reuse and recycling of bulky waste. Kerbside collection of recyclables has been rolled out to over 30,000 households. The 2005 inspection of waste management judged the service to be fair with promising prospects for improvement. Areas of strength included ease of access for customers; consultation and communication; and, service standards. It is clear that the service to residents improved following integration into the customer service centre and the provision of a single point of contact for service requests and information. Areas for development include information about user satisfaction; cleanliness of recycling facilities; and inconsistent enforcement.
- 20 The Council is tackling local priority areas. An improved approach to enforcement and more efficient service delivery have helped the Council to exceed its 2005/06 targets for cleaner streets. The Council is sustaining a high level of performance in its benefits service and continues to improve as well as delivering efficiency savings. However, in 2005/06, 'in year' collection of council tax has fallen. The Council attributes this in part to the closure of cash offices at the start of 2005/06 requiring a change in payment methods for a large number of customers. The Council has reviewed the effectiveness of council tax collection procedures and set income collection targets for 2006/07.
- 21 Planning performance this year was mixed. Indicators show significant increases in times taken to process applications and standard searches and performance does not compare well with similar councils. However performance against the planning quality of service checklist is improving and does compare well. The Council is addressing problem areas through investment in the service and Council figures for 2006/07 show that this is paying off in improved performance.

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- 22** The Council's regeneration plans are progressing as it secures external funding and partnerships to support delivery. Regeneration projects delivered this year include conversion of former council offices to provide workspace for new ICT businesses. Development of the Luneside East area is underway with the clean up of contaminated land and construction of new workspace and homes planned to start in 2007. In Morecambe the Council has formed a joint venture with Urban Splash to redevelop the central promenade. A successful neighbourhood management pilot scheme in Poulton is to be replicated in other regeneration priority areas in 2007. A four year programme of improvements to playgrounds across the area began this year.
- 23** Council figures and national indicators show that the Council and its partners are not on track to achieve their targets for reduction in crime and fear of crime. National performance indicators show increases in key crime areas such as domestic burglaries; robberies; thefts of motor vehicles and thefts from motor vehicles. The levels of violent crimes are reducing although performance is still in the worst band. However partnership figures show that the position improved in the final quarter of 2007. Initiatives such as Operation Clean Sweep are improving neighbourhoods and increasing community engagement. The Council secured external funds to provide extra street lighting to improve safety.
- 24** Homelessness is reducing through partnership activities. Although the number of households in temporary accommodation is increasing, the length of stay in bed and breakfast accommodation is reducing. The Council has reviewed its service level agreements with partner agencies who provide services for homeless people to strengthen the emphasis on prevention and improve performance management and value for money. The Council is focussing on providing permanent solutions for vulnerable families and as a result is reducing cases of repeat homelessness. All council housing meets the decent homes standards. Working in partnership with Adactus and English Partnerships, the Council is improving housing conditions in deprived areas such as the West End of Morecambe.
- 25** Access to services and information is improving with better electronic access through an enhanced website. Implementation of the customer access strategy slowed this year because of delays in decisions over locations of key service points. However, the Morecambe and Lancaster town halls have now been identified as the main customer service centres and plans are moving forward. Council figures show high satisfaction with its customer service centre approach. Service standards are defined and published for each service area that is integrated into the centre. Outside of the customer service centre approaches are more variable. The Council is not on track to achieve its target for 100 per cent of all customer-facing staff to have received accredited training by March 2007. A staged two year approach was introduced in January 2007.

- 26** The Council commissioned a general household survey in 2006. The questions did not match those of the previous 2003 survey which makes comparison difficult in some areas. Overall however more respondents thought that things had got better rather than worse. The results show that 51 per cent of respondents are satisfied with the way the Council runs things overall compared to 48 per cent in 2003 and 69 per cent believe the Council is making the area a better place to live. Only 37 per cent were happy with the way complaints are handled – a decline since 2003. The Council's investments in street cleaning and waste collection are having impact with 62 per cent satisfied that the Council keeps land clear of litter and refuse; 89 per cent satisfied with waste collection and 75 per cent with recycling. Respondents felt that the Council treats people fairly but 63 per cent agreed with the statement that it is 'remote and impersonal'. The main areas of concern were traffic congestion, levels of crime and dog fouling. The Council has also tested public satisfaction in specific service areas such as housing repairs and routinely monitors user's experience of the customer service centre. These show increasing levels of satisfaction over the past year. The Poulton neighbourhood survey conducted by MORI showed improvements in the perception of the Council's performance.
- 27** The Council is establishing a more coordinated, corporate approach to consultation and community engagement so that the priorities and needs of local people are more clearly reflected in Council priorities and plans. There is a revised consultation strategy and the new framework includes development of consultation finder a web based tool to help to identify and disseminated information about user's needs. The Council has also allocated funding for a new post of Consultation Officer.
- 28** Business planning processes are more effective. Corporate priorities and more clearly defined and links with service delivery plans more explicit. Service plans feed into team plans and into individual objectives where these are in place. The Council has not met its target for 100 per cent of staff to be included in the appraisal system (EDPA). In 2006/07, 77 per cent had a personal review.
- 29** Stronger corporate leadership of performance management has led to improvement. The monthly Performance Management Group includes all senior managers and is chaired by the Chief Executive. The Council has moved to a Corporate Improvement Plan which integrates development areas identified through internal and external review. This is helping to focus officers and members on driving up performance. The Council continues to roll out the Escendency performance information system and plans for it to be used in all services by June 2007.

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- 30 A revised performance framework was introduced from April 2006. Service Performance Review Teams (PRTs) compile quarterly performance reports. Areas of underperformance are identified and PRTs agree actions for improvement. PRT reports are incorporated into the quarterly corporate performance report which goes to cabinet and the Budget and Performance Panel. This provides councillors with information about performance against national and local indicators; corporate priorities and financial targets. The new performance framework is helping the Council to identify the factors that contribute to deteriorating performance of or lack of progress and it is starting to use this information target remedial action. There is further scope to integrate value for money targets and efficiency goals more effectively into the framework and the Council is working on this.
- 31 The Council is embedding new, more robust systems for business and operation risk management. It is strengthening its corporate approach to project management and has invested heavily in training through the LAMP framework.
- 32 The Council has invested in its HR function building skills and increasing capacity so that managers receive a better level of support. Key policies have been revised and are having greater impact. As a result sickness absence is reducing. In 2005/06 the average was 11.6 days, down from 12.2 days in 2004/05. Council figures show that it is not on track to meet its 2006/07 target of 10.0 days with the final outturn currently predicted to be 12 days. The Council has identified an issue with long term absence and is adopting a corporate approach to tackling this.
- 33 Flexible working has been extended and a trial home working scheme has started. The Lancashire Leadership and Success through People programmes continue to build management skills and capacity. The HR service is reviewing councillors' individual development needs in order to better target training and support.
- 34 The Council has made slow progress in achieving its other targets and priorities for people management. These include achieving council wide IIP and concluding the Fair Pay Review.
- 35 The Council has not developed a robust corporate approach to workforce planning. This means that the Council does not have a clear and reliable picture of the capacity it has now and that it needs to develop in the future to deliver its ambitions and priorities. It reduces the potential to secure efficiency savings and value for money from flexible use of skills and human resources across the organisation. Recent quarterly performance reports highlight areas where lack of capacity is impacting on delivery of priorities.

- 36 The Council recognises that it needs to improve its approach to equality and diversity issues. This is a cabinet priority. Improvement has not been firmly and consistently driven and coordinated across the organisation. A corporate equalities group is chaired by the Chief Executive. Training and briefing sessions for staff and councillors are raising the profile of equalities and diversity issues. However such issues are not routinely and consistently integrated into council business. The Council has maintained level 1 of the Equality Standard for Local Government. Plans to achieve Level 2 by March 2007 are not on track because of a re-focus of investment in competing priority areas. The Council is now aiming to achieve Level 2 by November 2007.
- 37 The staff profile does not reflect the ethnic diversity of the communities which the Council serves. The overall percentage of staff from black and minority ethnic communities is low. The number of women in senior management is growing but still comparatively low. There are no firm plans to address this. The percentage of staff with a declared disability has increased following a work place survey which encouraged staff to consider declaration.
- 38 Improvements in consultation and community engagement are developing the Council's understanding of local communities and the challenges faced by minority groups and those at risk of disadvantage or exclusion. This is starting to feed into service planning. For example in the West End residents are working with local schools to design facilities.

Service inspections and assessments

- 39 During the past year, the Audit Commission has conducted an inspection of the Council's waste management service and reported on the findings of a cross-cutting study of the Lancashire Children and Young People Partnership including the contribution by this Council. We also carried out a piece of performance work assessing the Council's people management arrangements. The Benefit Fraud Inspectorate has updated the CPA assessment of the benefits service. We now report on the key findings of these inspections and assessments.

Waste Management Inspection

- 40 Inspectors gave the service a **'fair', one star** rating with **'promising'** prospects for improvement. The Service is a fair, one-star service because it has some strengths, including:
- a single point of telephone contact and access for users;
 - communication, consultation and engagement with users and a proactive approach to diversity, for example, in neighbourhood management areas;
 - publicised service standards and a wide range of information about street cleansing, sustainability and waste management;
 - some areas are maintained to a good level of cleanliness;

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- promotion of reuse and recycling schemes; and
- statutory recycling/composting targets have been achieved, with comparatively low levels of waste production and reductions in landfill disposal.

41 However, some matters require attention including:

- responses to service standards and user satisfaction with all activities are not routinely measured so the Service does not know if it is meeting targets and expectations;
- low level of user satisfaction with cleanliness in the district;
- some areas are heavily littered;
- enforcement is inconsistent and maximum use is not made of powers to control littering;
- bring sites are generally in poor condition and lack up to date information and signage;
- variable access to kerbside recycling facilities;
- refuse collection generates a significant number of user complaints; and
- impacts of activities to minimise the Council's environmental impacts are not measured.

42 The Service has promising prospects for improvement because it can evidence:

- a track record of improvement that has delivered benefits for users;
- service weaknesses are being addressed through action plans and strategies to improve environmental cleanliness and waste management;
- councillors and staff are committed to service improvements;
- the corporate framework for performance management is being strengthened;
- additional financial investment in the Service, including external funding, has improved value for money in some areas; and
- good partnership working to deliver its priorities.

43 However, some matters need attention:

- effective performance management arrangements are not yet in place to drive and monitor progress and review impact;
- high levels of sickness absence;
- benchmarking is not being used systematically to improve value for money; and
- information and communications technology is not being maximised to achieve efficiencies.

- 44 The inspection was completed and reported in September 2006 and the Council is now working towards implementing the agreed action plan. We will follow up progress on implementation during 2007.

Benefits

- 45 The Benefit Fraud Inspectorate (BFI) recently reviewed and updated its assessment of the Council's benefit services as part of the CPA re-categorisation process. BFI gathered information from a range of sources including the 2005 benefits inspection, performance indicators and the Council's 2006 self-assessment against performance standards.
- 46 The self-assessment showed that the Council achieved a score of 4 representing 'excellent' performance. BFI's previous assessment in 2003 resulted in a score of 'fair towards good' for performance and 'fair towards good' for capacity to improve.

Lancashire Children and Young People Partnership

- 47 Every Child Matters: Change for Children is a new approach to securing the wellbeing of children and young people up to the age of 19 years, underpinned by the Children Act 2004.
- 48 During the past year we conducted a review in order to evaluate the progress being made by key stakeholders, principally Lancashire County Council and the twelve district councils in Lancashire, in developing a partnership approach to improve outcomes for children and young people (CYP). The review included an appraisal of key plans and strategies developed at district and county level. We also evaluated the effectiveness of partnership working, specifically for the CYP agenda.
- 49 The review found that whilst there is a clear set of aims driving the CYP agenda nationally, local implementation within Lancashire needs greater clarity and ownership. Arrangements for partnership governance and accountability are underdeveloped and the level of engagement of all key partners responsible for this agenda is variable. The role that district councils can play in this agenda is not universally understood and as a consequence progress in developing a joint approach has been slow.
- 50 District councils and the County Council are developing awareness and capacity to ensure that the arrangements for joint working for children and young people are more effectively co-ordinated. However, to achieve the timescales set by Government for the implementation of children's trust arrangements, significant progress needs to be made in ensuring that all partners are fully contributing to this agenda.

People Management

- 51 The Council is developing a more strategic approach to people management but has some way to go. Organisational changes are being implemented that have important implications for the existing and future shape of the workforce but business planning is not yet integrated with a robust and clearly defined people management strategy. Discussions with staff and councillors show that there is uncertainty about who is leading on people management issues. Corporate strategies for workforce planning and workforce development are not in place with a reliance on planning at service level. This means that the Council does not have a clear and reliable picture of the capacity it has now and that it needs to develop in the future to deliver its ambitions and priorities. It reduces the potential to secure efficiency savings and value for money from flexible use of skills and human resources across the organisation.
- 52 Approaches in important areas such as addressing issues of equalities and diversity are not consistent or well co-ordinated across the organisation. Training is helping to raise awareness but equality and diversity issues are not routinely and consistently integrated into council business.
- 53 There has been slow progress in delivering the Council's main HR priorities. For example it is not on track to achieve two of the three HR priorities for 2006/07 - achieving Level 2 of the Equality Standard for Local Government and completion of the Fair Pay review. Elements of the Corporate Improvement Plan priority actions for organisational change and workforce development are also not on track. Ambitions to achieve the Investors In people award have been revised.
- 54 The Council recognises the importance of a modern HR function to provide professional support for managers and deliver and improve employment procedures and practices. It has invested in this area. After a period of instability the HR team is up to strength and the Council has taken opportunities to improve their skills base. This is improving support for managers and councillors. More robust policies and procedures are developing and having greater impact. For example clearer procedures for managing absence are reducing sickness levels. Issues remain with the quality of HR information. Recording systems do not support efficient service delivery. They are based on a range of approaches that are not compatible. Information can be unreliable and this reduces confidence.

Local Area Agreements and partnership working

- 55 The Council and its partners have successfully negotiated the Local Area Agreement (LAA) with delivery and performance management arrangements being established. The LAA aims to deliver 53 per cent of Ambition Lancashire targets. The Council and its partners are working to build a delivery framework for the remaining 47 per cent. Overall, there is a need to better integrate the approach to the LAA and the county and district Local Strategic Partnerships (LSPs). In recognition of this the County Council has appointed an LSP manager to develop and support the delivery of change.

Financial management and value for money

Annual Governance Report

- 56 As your appointed auditor I have reported separately to the Audit Committee acting as those charged with governance on 20 September 2006, on the issues arising from the 2005/06 audit and have provided:
- an unqualified opinion on your accounts;
 - a conclusion on your vfm arrangements to say that these arrangements are adequate with four except for qualifications; and
 - a report on the Best Value Performance Plan confirming that the Plan has been audited.
- 57 The VFM conclusion has been reached by assessing whether the Council meets 12 specified VFM criteria for the 2005/2006 financial year. The Council has met the minimum standard for all 12 criteria.

Use of resources

- 58 The findings of the auditor are an important component of the CPA framework described above. In particular, the Use of Resources score is derived from the assessments made by the auditor in the following areas.
- Financial reporting including the preparation of the accounts of the Council and the way these are presented to the public.
 - Financial management including how the financial management is integrated with strategy to support council priorities.
 - Financial Standing including the strength of the Council's financial position.
 - Internal Control including how effectively the Council maintains proper stewardship and control of its finances.
 - Value for money including an assessment of how well the Council balances the costs and quality of its services.

- 59 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

Table 1

Element	Assessment
Financial reporting	3 out of 4
Financial management	3 out of 4
Financial standing	3 out of 4
Internal control	3 out of 4
Value for money	2 out of 4
Overall assessment of the Audit Commission	3 out of 4

(Note: 1=lowest, 4=highest)

- 60 In reaching these judgements we have drawn on the above work and supplemented this with a review against specified Key Lines of Enquiry. A separate Use of Resources report has been agreed with the Management Team with the most significant areas where further development is needed outlined below.

Financial reporting

- 61 Accounts were produced within tighter deadlines, were presented fairly and only contained a small number of non-trivial errors. The accounts were subject to member scrutiny and an unqualified opinion was issued. There continues to be good practice with the use of electronic hyperlinked working papers which provides a clear audit trail for items within the accounts. Specific improvements since the 2005 assessment include, publication of summarised financial information; and further improvements in the speed of dealing with auditors queries.

Financial management

- 62 The Council has a strong approach to financial management and can demonstrate that its approach is helping to deliver improvement priorities. Financial planning has been strengthened in recent years and is now more clearly linked to corporate plan objectives, service developments (including those of partners) and supports the identification of efficiency savings to help make the best use of resources. A revised reporting and monitoring framework means that issues can be identified in a more structured and consistent way and the MTFS updated at regular intervals throughout the year.
- 63 Further development of action plans is needed to better support the AES and its scrutiny by members in conjunction with better integration of AES efficiencies within Escendency/PRT reports.

- 64 The approach to asset management has improved in recent years with the Council now taking a more strategic view of its corporate assets and how these can support the achievement of objectives. A five year planned maintenance programme (which includes the extent of backlog maintenance) has been agreed with members and resources identified to deliver it.

Financial standing

- 65 The Council has continued to manage its spending within budget and has effective budget monitoring processes in place. The approach to monitoring debt collection performance and costs has been improved. The Council has undertaken a review of the effectiveness of collection and recovery methods for material income sources this year, which included a review of Council Tax collection procedures and Council housing rents. Income collection targets are included in the 2006/07 budget book along with projected savings targets over the next three years. Targets have now been set for sundry debts.

Internal Control

- 66 Adequate risk management processes are in place covering both corporate and operational risks, which is supported by training for both officers and members. Additional progress is required to monitor progress and to ensure risk management is fully embedded in the Council's management processes.
- 67 Appropriate arrangements exist to support the production of the statement on internal control and to ensure effective systems of internal financial control are in place. The Council's assurance framework maps the Council's strategic objectives to its risks. The Audit Committee core function is in line with CIPFA guidance and is considered to be effectively delivering its role and challenging the executive when appropriate. Reports are regularly presented to the Audit Committee with service managers/officers being held to account. Further development of the challenge process is currently underway.
- 68 Arrangements for monitoring compliance with adopted codes of conduct are in place across the organisation. Staff and officers are aware of the need to make appropriate disclosures for gifts, hospitality and pecuniary interest and some examples of good practice were identified. However, there has been limited evidence to support the use of the members register for gifts and hospitality.

Value for Money

- 69 Overall costs for key services are not significantly higher than other council's providing similar levels and standards of service, allowing for the local context. However, the Council does not yet have sufficient information on unit costs to be able to consistently demonstrate that unit costs for key services are also in line with quality and level of service being delivered.

- 70 External factors that have an impact on costs are understood and backed up by evidence that demonstrates the impact of those costs on spending. There is generally a positive relationship between overall costs and the range, level and quality of services achieved.
- 71 The Council delivers a range of services in line with statutory duties and local needs, and demonstrates high quality standards in some key priority areas. Areas of higher spending are in line with stated priorities and there is evidence that investment is resulting in service improvement. Inspections have assessed services as 'fair' in those areas reviewed. The new performance framework is helping the Council to identify areas of weaker performance and it is starting to use this information target remedial action.
- 72 The Council has taken effective action to address emerging areas of budgetary pressure and unintended high spending.
- 73 New investment is supported by clear targets and timescales for measuring improvements in key areas but the approach is not yet firmly embedded throughout all services and corporately. A new LAMP project management approach has recently been developed but the Council's self assessment update recognises that this is not yet fully embedded throughout all services.
- 74 A corporate VFM Strategy has been in place since November 2005 setting out the approach to vfm and the wider efficiency agenda. It is recognised that there is a need to re-launch the Strategy so that officers and members are aware and confident about putting it into practice. An Innovation and Best Practice Forum was established in 2006 to better support the vfm agenda and a number of pieces of work have been completed.
- 75 The Council does not yet have comprehensive cost information across all its key areas which can be used alongside performance information by managers and members to challenge and review vfm. It is recognised that financial accounting systems are not yet providing service activity costing information. A new financial system is planned for 2007/08.
- 76 Cost and performance information is being used to review and challenge vfm in some areas although the Council has yet to comprehensively integrate regular vfm monitoring into day to day management. Cost information is not yet being used consistently alongside performance information by managers and members to challenge and review vfm, throughout all services and corporately.
- 77 There remains an absence of a track record of benchmarking costs and quality to actively manage performance and improve vfm. There is evidence of the developing use of targets with the potential for improvement both within Directorates and to support priority areas. However efficiency targets are not yet fully integrated into business planning and vfm targets and indicators are not consistently evident in the new Performance Review Team Reports (PRTs).

Data quality and Best Value Performance Plan

- 78** The Council's data quality arrangements for people and skills, together with data use are performing well. The BVPP complied with statutory guidance, and consequently we have no recommendations to make on procedures in relation to the plan in our statutory report.

Conclusion

- 79 This letter has been discussed and agreed with the Chief Executive and Corporate Director (Finance and Performance). A copy of the letter will be presented at the Audit Committee on 27 June 2007.
- 80 The Council has taken a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the council's assistance and co-operation.

Availability of this letter

- 81 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the Council's website.

Michael Thomas
Relationship Manager and District Auditor

AUDIT COMMITTEE

**STATEMENT OF ACCOUNTS 2006/07
27 JUNE 2007**

Report of Head of Financial Services

PURPOSE OF REPORT
This report seeks Members' approval of the draft Statement of Accounts for 2006/07 and outlines the audit process for information.
This report is public.

RECOMMENDATIONS

- (1) That the Committee considers the Accounts and any issues arising.
- (2) That the draft Statement of Accounts for the financial year ended 31 March 2007 be approved, and that the Chairman signs and dates the Accounts accordingly.

1 ACCOUNTS AND AUDIT REGULATIONS 2003

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

- Date of Approval
Previously Councils had to gain approval of their accounts by 30 September. In recent years the deadline has been brought forward on a phased basis and for accounts relating to 2006/07 and future years, the deadline is 30 June (i.e. the same as it was for 2005/06.
- Signing of Accounts by Chairman
The intention behind this requirement is that the chairman's signature should represent the completion of the Council's approval process for its accounts. The requirement for him to sign does not relate to the role of the chief financial officer. That officer alone is responsible for certifying that the statement of accounts is a proper reflection of the Council's financial position.
- Inclusion of statement of internal control
This is the subject of an item elsewhere on the agenda.

– Publication of Accounts

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

2 APPROVAL AND AUDIT OF ACCOUNTS PROCESS

- 2.1 Under the Constitution, this Committee has specific authority to approve the Statement of Accounts. Subject to this approval being gained, the Chairman will be asked to sign and date a copy of the accounts for the purpose outlined above.
- 2.2 At the time of writing this report, however, the draft accounts were still being finalised and therefore copies will be circulated to Members as soon as they are completed. Outline explanatory information on interpreting the accounts and the key issues arising will be included in the 'Foreword' section, and Members may find this a useful overview and starting point in their deliberations. It is also highlighted that in line with changes to the Accounting Code of Practice, there have been some changes to the presentation of various elements of the accounts for 2006/07 and these will be outlined at the meeting.
- 2.3 Subsequent to the accounts being approved, the District Auditor is due to commence the audit of accounts on Monday 02 July. The four week public inspection period will commence on Monday 16 July, and the District Auditor will be available to answer local electors' questions relating to the accounts on Monday 13 August. In accordance with the Regulations, these dates are being advertised in the local press and on the website.
- 2.4 If any significant issues or 'non-trifling' matters arise during the audit these will need to be reported back for consideration by the Committee. In any event, the outcome of the audit will be included within the District Auditor's Annual Audit and Inspection Letter to the Authority, which will be reported to all Members in due course.
- 2.5 Once audited, the Statement of Accounts will be published by 30 September. Summary information will also be made available as appropriate, through other existing Council publications and the website.

3 Details of Consultation

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

4 Options and Options Analysis (including risk assessment)

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

5 Conclusion

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

CONCLUSION OF IMPACT ASSESSMENT

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

No implications directly arising.

FINANCIAL IMPLICATIONS

The Statement reflects the 2006/07 provisional outturn position, which is to be reported in more detail to Cabinet in July. Any further implications arising for current and future years are currently being assessed and will feed through into this year's corporate financial monitoring and/or the review of the Medium Term Financial Strategy and Capital Investment Strategy.

DEPUTY SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

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

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

Accounting and Audit Regulations 2003.

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Ref:

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AUDIT COMMITTEE

**Risk Management Policy and Strategy
27 June 2007**

Report of Head of Financial Services

PURPOSE OF REPORT

To seek Audit Committee's approval of the revised Risk Management Policy and Strategy.
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This report is public.

RECOMMENDATIONS

- 1 That the revised Risk Management Policy and Strategy be approved.**

1 INTRODUCTION

- 1.0 Through the adoption of a Code of Corporate Governance, the Council has committed to ensuring that risk management plays an integral part in the sound governance of the Council, to support the achievement of its aims and objectives as set out in the Corporate Plan.
- 1.1 The Council's arrangements for managing risk are set out in its associated Policy and Strategy documents. These were last updated in June 2005 and were formally approved by Audit Committee at its meeting on 27 July 2005.
- 1.2 Since that date, the risk management programme has progressed significantly. As such the Policy and Strategy have both been updated to reflect where the Council is now, together with proposals for it moving further forward.
- 1.3 The Use of Resources assessment undertaken by the Audit Commission, and the recent internal audit report on risk management, also highlight the importance of regularly updating the Risk Management Policy and Strategy.
- 1.4 The attached draft revised Policy and Strategy have several alterations relating to how we deal with significant areas of potential risk such as in project management and in partnership dealings. It also recognises the importance of Business Continuity Planning.

2 MAIN PROPOSED CHANGES

- 2.1 The Strategy proposes a number of new/revised reporting lines and responsibilities. These have been developed so as to integrate with the reporting structure of the

existing performance management framework, thereby promoting better governance and management of performance, but also to avoid any duplication of effort. The main proposed alterations to the lines of reporting are that:

- Cabinet, through Performance Review Team (PRT) activity reports, will analyse and review high level strategic risks relating to portfolio holders' individual areas of responsibility.
- Audit Committee will receive reports on the effectiveness of the Risk Management strategy and will review assurances that corporate business risks are being actively managed. They will also report to full Council annually on the Committee's work and performance during the year, including the results of its consideration of Risk Management arrangements.
- Budget and Performance Panel, through Performance Review Team (PRT) reports and Corporate Financial Monitoring, will consider risk management issues in reviewing and scrutinising decisions and performance.
- Performance Management Group will ensure that managers implement and have regard to the Risk Management Policy and Strategy. They will promote and co-ordinate risk management activity within their Service areas. Also they will receive quarterly exception reports on strategic and other high impact risks and on Risk Treatment Action (RTA) progress (via Corporate Financial Monitoring).

CONCLUSION OF IMPACT ASSESSMENT

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

None directly arising from this report.

FINANCIAL IMPLICATIONS

No implications arising directly from this report.

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

None arising from this report.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

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

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CORPORATE RISK MANAGEMENT POLICY STATEMENT

Lancaster City Council recognises its responsibilities to the community and the importance of maintaining high standards of corporate governance in order to fulfil them. Through the adoption of a Code of Corporate Governance, the Council has committed to ensuring that risk management plays an integral part in the sound governance of the Council and its significant partners.

Effective risk management is an active process that requires participation by all those involved in planning and delivering services, including elected Members, all managers and employees, and partners.

The Council intends that employees shall be able to identify the risks associated with their activities and, through training and communication, be able to analyse, control and monitor those risks. In doing this, it will seek to ensure that objectives are met at all levels of the Authority.

Definitions

- *Risk management* is the process of identifying, evaluating and taking appropriate actions to minimise the hazards, reduce the risks, and maximise the opportunities presented by the Council's activities.
- A *hazard* is defined as "a source of potential harm or a situation with a potential to cause loss". This could be any event or situation that threatens the Council's ability to achieve its objectives and to fulfil its statutory responsibilities
- *Risk* is defined as "the chance of something happening that will have an impact upon objectives". It covers the likelihood that a hazard will occur and have an adverse effect on the resources, operational capabilities and services of the Council. It also covers the potential for opportunity to be taken that may have a beneficial effect. Risks are measured in terms of their likelihood and consequence/impact. The more likely it is that a risk will arise, and the greater its potential consequence, the more important it is to treat the risk effectively.

Objectives

This risk management policy is intended to promote the achievement of the Council's and its partners' aims through the implementation of its risk management strategy. Specific objectives are to:

- embed risk management into the culture and operations of the Council;
- promote risk management in partnerships;
- adopt a systematic approach to risk management as an integral element of strategic and service planning, financial planning, policy making and review, project management and performance management;
- minimise the costs, disruption to services and harm to the reputation of the Council;
- anticipate and respond to changing social, environmental and legislative requirements;
- encourage innovation and improvement through decision-making that is based on a sound awareness of business and other risks;
- establish a corporate approach to proactive risk management in accordance with shared best practice and to support this by a structured training programme;
- ensure that Services have clear accountability for both the ownership and cost of risk and the tools to manage them effectively.

It is recognised that it is neither possible nor desirable to eliminate entirely the hazards and neutralise completely the risks facing the Council and its partners. Nevertheless, sound risk management

procedures, backed by a culture of risk awareness amongst employees, have the potential to reduce significantly the level of actual damage sustained and maximise the benefit of emerging opportunities.

These objectives will be achieved by embedding risk management principles within the organisation to produce a culture of risk awareness and a risk-conscious approach to management. This will be achieved by:

- establishing clear roles, responsibilities and reporting lines for risk management within the Council;
- incorporating risk management in the Council's policy making and review, strategic/ service planning, financial planning, project management and performance management processes;
- monitoring risk management and internal control arrangements on a regular basis;
- reinforcing the importance of effective risk management through the provision of training and support;
- providing suitable insurance or other arrangements to manage the impact of unavoidable risks.



RISK MANAGEMENT STRATEGY

Introduction

Risk management is a key task for managers in every organisation. Identifying and evaluating the consequences of policies or actions is not always referred to as risk management. However, failure to pay proper attention to the likelihood and consequences of risks can cause serious problems. Financial costs, service disruption, bad publicity, threats to public health or claims for compensation are among the most obvious. The effective management of risk is therefore critical to the Council's achievement of its priorities, efficient service delivery and maintaining high standards of Corporate Governance.

A systematic assessment of risk needs to be undertaken as an integral part of the Council's:

- Strategic planning
- Business planning
- Financial planning
- Performance management
- Policy making/ review
- Decision making
- Project management
- Partnerships' governance
- Operational activities (including Business Continuity Planning)

This strategy is drawn up in order to ensure that areas of high risk are identified, appropriate remedial action is considered and where appropriate, financial provision is made to implement risk reduction measures.

Definition

Risk management is the process of identifying, evaluating and taking appropriate actions to minimise the hazards, reduce the risks, and maximise the opportunities presented by the Council's activities in providing Community Leadership and public services.

It is not an end in itself. Rather, risk management is a key everyday management task aimed at minimising the costs and disruption caused by undesirable events and maximising the benefit from opportunities. The objective is to reduce the frequency of risk events occurring (wherever this is possible) and minimise the severity of their consequences if they do occur. Even when the likelihood of an event occurring (such as a severe storm) cannot be controlled, steps can be taken to minimise the consequences (for example, by having an effective and robust Emergency Plan and Business Continuity Plan in place).

Objectives

The key objectives of the risk management strategy, in relation to the Council's aims and objectives, are:

- a) To minimise the costs, disruption to services and harm to the reputation of the Council;
- b) To embed risk management into the culture and operations of the Council;
- c) To ensure adequate risk management arrangements exist within the Council's key partnerships;
- d) To support sustainable improvements in service and the achievement of Value for Money;
- e) To encourage innovation and improvement through decision-making that is based on a sound awareness of opportunities and risks;
- f) To anticipate and respond to changing social, environmental and legislative requirements and standards of governance;

These objectives will be achieved by:

- a) Employing a corporate approach to proactive risk management in accordance with shared best practice;
- b) Ensuring that officers and elected Members have clear accountability for the ownership, control and cost of risk and the tools to manage them effectively;
- c) Adopting a systematic approach to risk management as an integral element of strategic planning, business planning, financial planning and performance management;
- d) Adopting a systematic approach to the identification and management of operational risks and Business Continuity Planning;
- e) Providing effective training and guidance in risk management practices to enable staff to take responsibility for risk within their own working environment;
- f) Ensuring that reports to support strategic policy decisions and other member decision related documents include a risk assessment that evaluates both threats and opportunities;
- g) Ensuring that all project initiation documents include a risk assessment that evaluates both threats and opportunities.
- h) Ensuring that the risk management process specifically identifies risks in relation to partnerships and provides for assurances to be obtained about the management of those risks;

Risk Management Processes

The Council's Risk Management approach will involve the following 4 processes:

1. Identification of risk and opportunities.

A systematic approach needs to be applied if all strategic and operational risks are to be identified and managed. By identifying areas of risk before an event or loss occurs, steps can be taken to prevent the event occurring and/or minimising the cost to the authority. Reacting to events only after they have occurred can be a costly method of risk identification.

Similarly, opportunities need to be identified and managed in order that their potential benefits can be maximised.

2. Analysis of risk

Having identified areas of potential risk and opportunity, they need to be systematically and accurately assessed. The process requires managers to make:

- An assessment of the likelihood of an event occurring
- An assessment of the impact should such an event occur or an opportunity be realised.

3. Treatment of risk (altered)

It is acknowledged that risk cannot be eliminated completely. Risk treatment is the process of taking economic action to minimise the likelihood of the risk event occurring and/or reduce the severity of the impact should it occur. The agreed controls designed to mitigate the identified risk will be recorded in the risk records (either the risk register, project risk logs or within Business Continuity Plans) together with the name of the officer responsible for implementing each control and the deadline date for completion.

There are six options or combinations of options for treating risk:

a) **C**ontingency

Where a risk cannot be entirely avoided, contingency arrangements should be in place to ensure that any impact, for example to service delivery or to reputation, is kept to a minimum.

b) **A**ccept

Having identified and evaluated a risk, a decision may be made to accept the risk without taking any mitigating action. This would usually be in instances where the likelihood and/or impact are so small that implementing Risk Treatment Actions would not be cost-effective, or where the risk relates to a course of action that is a key priority for the Council.

c) **R**educe

Risk reduction relates to the implementation of cost-effective measures (Risk Treatment Actions) that will help minimise the likelihood of an event occurring or limit the impact of the risk should it occur.

d) **Prevent**

In certain circumstances, it may be possible and cost-effective to implement Risk Treatment Actions that will prevent an event occurring in the first place. An extreme form of prevention could be ceasing to carry out an activity that involves the risk in question. For example the temporary laying down of unsafe cemetery headstones, whilst controversial in some areas, effectively removed the potential risk of injury to members of the public.

e) **Exploit**

Opportunity is often regarded as the “flip-side” to risk. Where opportunities arise, the likelihood of them being realised and their potential contribution to the Council need to be evaluated. If a case can be made that pursuing an opportunity will be cost-effective and benefit the Council’s objectives, it should normally be exploited. The failure to fully exploit realistic opportunities presents a particular type of strategic risk.

f) **Transfer**

Risk transfer involves transferring liability for the consequences of an event to another body. This can occur in a number of forms. Firstly, legal liability may be transferred to an alternative provider under contractual arrangements for service delivery. Secondly, liability may be transferred to a partner under agreed partnership terms. Finally, transferring some or all of the financial risk to external insurance companies may reduce the costs associated with a damaging event.

Monitoring and review of risk

The risk management process does not finish when the Risk Treatment Actions have been identified. There must be monitoring and review of:

- The implementation of the agreed Risk Treatment Actions
- The effectiveness of the actions in controlling risks
- How risks have changed over time and the emergence of new risks and opportunities

Funding (altered)

Through the Business Planning process, there is an opportunity for service managers to make funding requests based on risk and opportunities. The embedding of risk management in the corporate planning and budgeting process will help ensure that scarce resources are directed to areas of highest priority in a systematic and transparent manner.

Funding requests that arise at short notice, such as for managing new/ emerging risks, can be referred to the Risk Management Steering Group for consideration of funds being provided from the Risk Management Reserve. This reserve provides the opportunity to apply for financial support and creates an incentive for loss control, without adversely affecting service area budgets.

In addition to these funding sources, the Financial Regulations allows for emergency requests for funding.

15 May 2007

Corporate Risk Management Steering Group (altered)

The establishment of an effective corporate risk management steering group is seen as essential to the effectiveness of the risk management process.

Membership of the group is sufficiently senior within the organisation to ensure that risk management receives appropriate attention. To give authority to the group and facilitate real and effective work, the group is chaired by the Head of Financial Services and will report to Performance Management Group as appropriate.

Responsibilities

The following have responsibilities for risk management:

Elected Members:

Cabinet (altered)

- Through Performance Review Team (PRT) activity reports, to analyse and review high level strategic risks relating to portfolio holders' individual areas of responsibility and for the leader to review the Council's overall Risk Management position.
- To demonstrate and promote a risk management culture through Cabinet's activities and decision making.
- To develop / propose priorities based on robust risk analysis in accordance with the Budget and Policy Framework timetable including receiving the full Strategic Risk Register annually As well as risk analysis on individual budget proposals.

Audit Committee (unchanged)

The Audit Committee's Terms of Reference include '*To monitor the effective development and operation of risk management and corporate governance in the Council*' per minutes of Council 18 April 2007.

This will entail:

- To agree the strategy, policy and processes for risk management and to review their effectiveness as a contribution towards providing assurance on the Council's standards of Corporate Governance.
- To monitor and review the effective management of risk by officers.
- To receive reports on the effectiveness of, the Risk Management strategy and to review assurances that corporate business risks are being actively managed.
- To report to full Council annually on the Committee's work and performance during the year, including the results of its consideration of Risk Management arrangements.
- To appoint the Chairman of the Audit Committee as the Council's Member Champion for Risk Management

Overview and Scrutiny (unchanged)

- To consider risk management issues in the development of policy and analysis of possible options.

Budget and Performance Panel (new)

- Through Performance Review Team (PRT) reports and Corporate Financial Monitoring, to consider risk management issues in reviewing and scrutinising performance.

Officers:

The Chief Executive: (unchanged)

- To ensure that risk is managed effectively through the development and implementation of an all encompassing corporate strategy.
- To ensure that elected Members are appropriately advised on risk management matters.

The Corporate Director (Finance and Performance) (Unchanged)

To act as the Council's Officer Risk Management Champion with responsibility for liaising between the Corporate Management Team and the Risk Management Steering Group.

- To ensure the Risk Management Policy and Strategy are effective in supporting high standards of corporate governance.

Performance Management Group (new)

- To ensure that managers implement and have regard to the Risk Management policy and strategy.
- To promote and co-ordinate risk management activity within their Service areas.
- To receive quarterly exception reports on strategic and other high impact risks and on Risk Treatment Action (RTA) progress (via Corporate Financial Monitoring).

The Head of Financial Services: (altered)

- To Chair the Risk Management Steering Group.
- To advise on the development and implementation of the risk management strategy, both through the Risk Management Steering Group and in the wider corporate context.
- To ensure that an effective system of internal audit is carried out for the authority.
- To oversee the monitoring and control of the risk management reserve.
- To provide a report on the effectiveness of the risk management strategy to each meeting of Audit Committee. Reports to cover high impact risks and provide assurance that Risk Treatment Actions (RTAs) are being pursued.
- To provide quarterly exception reports to Performance Management Group. Reports will be via Corporate Financial Monitoring and will cover strategic and other high impact risks as well as progress on Risk Treatment Actions (RTAs).

Risk Management Steering Group (altered)

- To effectively develop, implement and review the risk management strategy on a corporate basis.
- To co-ordinate loss control activities and in the process identify trends and priorities.

15 May 2007

- To advise on the use of the risk management reserve to support funding necessary for projects, activities and initiatives.
- To evaluate new approaches on risk management and the extent to which they would be helpful to the authority and its services.
- To advise on the development of loss prevention practices as a normal part of management.
- To support the provision of staff training in risk management.
- To provide for information sharing and mutual support links with other groups at regional and national level.
- To promote good risk management practice throughout the authority by co-operation and liaison with managers and employees and relevant external agencies.
- To report to Performance Management Group on an exception basis, should the need arise.

Risk and Insurance Manager (altered)

- To consult regularly with service managers concerning risk issues, providing advice as appropriate.
- To assist in the promotion of good risk management practice throughout the authority through co-operation and liaison with managers, other employees and relevant external agencies.
- To undertake, where necessary, incident investigations.
- To support the provision of staff training in, and raise the level of, risk management throughout the authority.
- To act as lead support officer for the Risk Management Steering Group.
- To ensure that appropriate insurance cover is in place and that a register of claims is maintained.
- To present insurance claims summary reports to service managers and to the Risk Management Steering Group.
- To prepare reports to Performance Management Group and the Audit Committee on behalf of the Risk Management Steering Group / Head of Financial Services.

Heads of Service (unchanged)

- To identify and evaluate risks and opportunities facing their service areas and to take appropriate management action.
- To ensure that risk management issues are appropriately considered and recorded when developing Service Business Plans and to ensure that risk registers are kept up-to-date.
- To ensure that risk is managed effectively in each service area within the agreed corporate strategy and that Risk Treatment Actions (RTAs) are implemented.
- To highlight significant ongoing or emerging risks, on an exception basis, through quarterly Performance Review Team reports.

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- To ensure that the control environment relating to systems operated within service areas are secure and that agreed actions resulting from Internal Audit reviews are implemented.
- To ensure effective communication within their service area of the risk management strategy.

Employees (unchanged)

- To manage risk effectively in their job and report opportunities / risks to their service managers.
- To undertake their job within risk management guidelines.

Internal Audit (unchanged)

- To review the Council's risk management processes and provide an annual opinion as to the effectiveness of the Council's internal control system and corporate governance arrangements.
- To promote and support the development of the Council's risk management processes.

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AUDIT COMMITTEE**Internal Audit Annual Report 2006/07****27 June 2007****Report of Internal Audit Manager****PURPOSE OF REPORT**

To inform the Committee of the extent and outcome of Internal Audit work during the 2006/07 financial year and to present an annual Statement of Assurance regarding the Council's internal Control Framework.

This report is public

RECOMMENDATIONS

1. That the report be noted.
2. That the Controls Assurance Statement (paragraphs 2.14 to 2.19) be accepted and considered in relation to the proposed Statement on Internal Control & Corporate Governance (presented elsewhere on this agenda).

1.0 Introduction

- 1.1 The terms of reference of the Audit Committee include: *To receive the annual Internal Audit Report and Controls Assurance Statement* (the Constitution, part 3 section 8, TOR 11). The Code of Practice for Internal Audit¹ specifies that the Head of Internal Audit must "... provide a written report to those charged with governance timed to support the Statement on Internal Control". The report and assurance statement thus makes a significant contribution to the Council's statutory duty to undertake an annual review of the Internal Control framework and publish a Statement on Internal Control.

2.0 Proposal Details

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

¹ Code of Practice for Internal Audit in Local Government in the United Kingdom (CIPFA 2006)

Annual Audit Plan 2006/07

- 2.2 Internal Audit plans and assignments are developed on a risk-based approach, seeking to identify and devote resources to the areas of greatest significance to the Council. The approved Internal Audit Plan for 2006/07 contained 34 specific audit assignments, and 924 days of Internal Audit work. A summary of the final position for the year is set out in the following table, with a list of audit reports issued during the period attached at Appendix A.

Area of activity	Original Plan		Actual	
	No of Assignments	Days	Reports Issued	Days
Advice & Support	n/a	185	n/a	225
Planning & Monitoring	n/a	45	n/a	55
Computer Audit	2	50	1	27
Investigations	n/a	35	n/a	49
General Contingency	n/a	45	n/a	0
Follow Up Reviews	n/a	70	n/a	60
Financial Systems	13	126	13	183
Management Arrangements	7	150	5	127
Non-Audit Duties	n/a	5	n/a	4
Operational Audits	12	153	6	117
Efficiency & VfM	n/a	60	n/a	15
Totals	34	924	25	862

Explanation of Major Variances

- 2.3 Changes in demand for audit work and variations to the approved Plan were reported to and approved by Audit Committee during the year. The most significant factors causing changes to the original plan were:
- An intensive piece of work led by the Principal Auditor in developing and implementing the corporate project management methodology “LAMP” which was launched on 01 April 2007. This work (included in the “Advice and Support” heading) accounted for approximately 55 more days than originally planned.
 - The long-term sickness absence of the Principal Auditor, which reduced the available audit resources by approximately 43 days.
 - The completion of a number of financial systems audits in progress at 31 March 2006 added approximately 30 days to the plan.
 - Work in relation to the Council’s efficiency and Value For Money (VfM) arrangements did not materialise as envisaged.
- 2.4 In reviewing the plan during the year, the following adjustments were approved by the Audit Committee at its meeting on 24 January 2007:
- Postponement of Efficiency & VfM work (projects & reviews) – 40 days
 - Postponement of unallocated Computer Audit work – 40 days
 - Savings on Risk Management and Performance Management – 15 days
 - Postponement of Workforce Management Strategy audit – 15 days

- 2.5 In terms of specific planned audit assignments, 25 audit reports have been issued compared with the 34 scheduled audits included in the approved plan (74%). In addition to the plan adjustments approved by the Audit Committee (see § 2.4), the following scheduled audits are either still in progress at the time of writing or have been postponed to the 2007/08 plan:
- Partnership arrangements
 - Risk management
 - Performance management
 - Renewal (Strategic Housing)
 - Environmental protection
 - Licensing
 - Elections and electoral registration
 - Facilities management
- 2.6 It will be seen from Appendix A that there are a number of reports that have been issued but have yet to be considered by Audit Committee. The majority of these are reports originally scheduled to be considered at the meeting on 25 April 2007, which was cancelled. A few other reports have been issued since that date, but none have yet been issued to the newly appointed members of the current Committee. It is proposed to issue these reports following this meeting for them to be considered at the next meeting on 19 September 2007.
- 2.7 In terms of resources devoted to planned audit activity (including advice, support, follow-ups and investigations), the final outturn was 862 days against the approved plan of 924 days (93%). As indicated in §2.3, the main factor behind this shortfall was the long-term sickness of the Principal Auditor.

Quality Considerations

- 2.8 Customer satisfaction with Internal Audit work is judged through managers' responses to a post-audit satisfaction survey sent out following the completion of each assignment. The questionnaire seeks views, expressed as scores on a range from 1 to 9, on sixteen aspects of the audit, covering aspects of communication and consultation, conduct, objectivity, reporting and impact of the work. Summary results from questionnaires returned over the past 24 months are demonstrated in Appendix B.
- 2.9 The summary represents the average scores obtained from 12 returned surveys. Against a target level of 8 for all aspects of the audit, only two have not been met (albeit marginally), these being questions 15 and 16 relating to risk management outcomes from the audit. This position reflects the responses received in previous years and therefore remains an issue for improvement.
- 2.10 During 2006/07, the Audit Commission published a report into their three-yearly review of Internal Audit, which was presented to the Audit Committee on 20 September 2006. The Audit Commission's conclusion commented: *"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."*

- 2.12 The report did result in a number of actions which were agreed to further raise the standards attained by Internal Audit. A number of these related to the development of the Internal Audit Strategy document included elsewhere on the agenda. A formal update of progress with the actions agreed in the report will be provided to the next meeting of the Committee.

Results of Audit Work

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

Controls Assurance Statement

- 2.14 It must be recognised that Internal Audit can be expected to provide reasonable and not absolute assurance that control weaknesses or irregularities do not exist.

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

Results of Internal Audit Assignments

- 2.15 Our work on the Council's financial systems has indicated that indicated that effective internal financial controls exist to ensure the accuracy and integrity of the information they provide and no significant control weaknesses have been identified.
- 2.16 In the assurance work undertaken, Internal Audit activity during the year did not identify any control weaknesses of such significance that they would warrant disclosure in the Council's Statement on Internal Control & Corporate Governance. Where any control weaknesses have been identified, remedial action has been agreed and arrangements are in place to monitor the implementation of those actions.
- 2.17 The support and proactive work undertaken by Internal Audit during 2006/07 has concentrated on a number of areas recognised by the Council as needing development, notably its arrangements for managing significant projects. In addition, Internal Audit has again been instrumental in reviewing and developing the Internal Control and Corporate Governance framework. These arrangements are key elements in the Council's review of the Internal Control and Corporate Governance framework and the current position is reflected in the evaluation undertaken and reported elsewhere on this meeting's agenda. Whilst Internal Audit has not produced a formal report in such areas, its views and knowledge have been fed into the evaluation process.

Results of Internal Audit Follow-Up Reviews

- 2.18 Previously issued audit reports are subject to follow-up, normally six months after the date of the final report. In all cases, the results of these follow-up exercises are reported to the Audit Committee, and the Committee undertakes an active role in monitoring (and challenging where appropriate), the progress made in implementing agreed actions.

2.19 As with newly issued audit reports, the follow-up procedure has not identified any continuing control weaknesses of such significance that they would warrant disclosure in the Council's Statement on Internal Control & Corporate Governance.

3.0 Details of Consultation

3.1 No specific consultation has been undertaken in compiling this report.

4.0 Options and Options Analysis (including risk assessment)

4.1 The proposal is that the Committee accepts Internal Audit's assurance statement as a contribution to the overall assessment of the Internal Control and Corporate Governance Statement. No alternative options are identified.

5.0 Conclusion

5.1 The work of Internal Audit seeks to provide assurance to the Council as to the appropriateness and effectiveness of its internal control and corporate governance arrangements. During the 2006/07 financial year, Internal Audit's work has provided assurance in a variety of areas as well as incorporating a significant level input and contribution to the development of a number of key systems and processes.

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

This report has no direct impact on these areas.

FINANCIAL IMPLICATIONS

None arising from this report.

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

None arising from this report

MONITORING OFFICER'S COMMENTS

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

<p>BACKGROUND PAPERS</p> <p>Internal Audit Plan 2006/07 Internal Audit Files</p>	<p>Contact Officer: Derek Whiteway Telephone: 01524 582045 E-mail: dwhiteway@lancaster.gov.uk Ref: aud/ctte/aud/0607/27June07</p>
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Appendix A

Internal Audit Plan 2006/07 – Reports Issued

Audit No	Title	Report Date	Reported to Audit Committee
Financial Systems Audits			
05/0616	Main Accounting 2005/06	16/05/06	28/06/06
05/0598	Sundry Debtors 2005/06	09/06/06	20/09/06
05/0596	Payroll 2005/06	01/09/06	24/01/07
06/0639	Stores	05/12/06	24/01/07
06/0636	VAT	07/12/06	24/01/07
06/0641	Income Management	26/01/07	
06/0650	Council Tax 2006/07	07/02/07	
06/0651	Treasury Management 2006/07	20/02/07	
06/0655	Housing Benefits and Council Tax Benefits 2006/07	05/04/07	
06/0648	NNDR 2006/07	16/01/07	
06/0647	Creditors 2006/07	27/04/07	
06/0661	Sundry Debtors 2006/07	29/05/07	
06/0664	National Fraud Initiative	29/05/07	
Computer Audit			
06/0643	Information Security Development	24/01/07	
Management Arrangements			
05/0609	Performance Management	10/07/06	20/09/06
05/0604	Health and Safety	31/08/06	24/01/07
05/0610	Internal Communications	03/11/06	24/01/07
06/0667	Risk Management	Not yet issued	
06/0669	Performance Management	Not yet issued	
Operational Audits			
05/0607	Regeneration Programmes	25/07/06	20/09/06
06/0638	Homelessness and Housing Advice	02/03/07	
06/0635	Tourism	27/03/07	
06/0652	Waste Management	05/03/07	
06/0631	Housing Repairs & Maintenance	25/04/07	
06/0642	Building Control	29/05/07	

Follow Up Reports

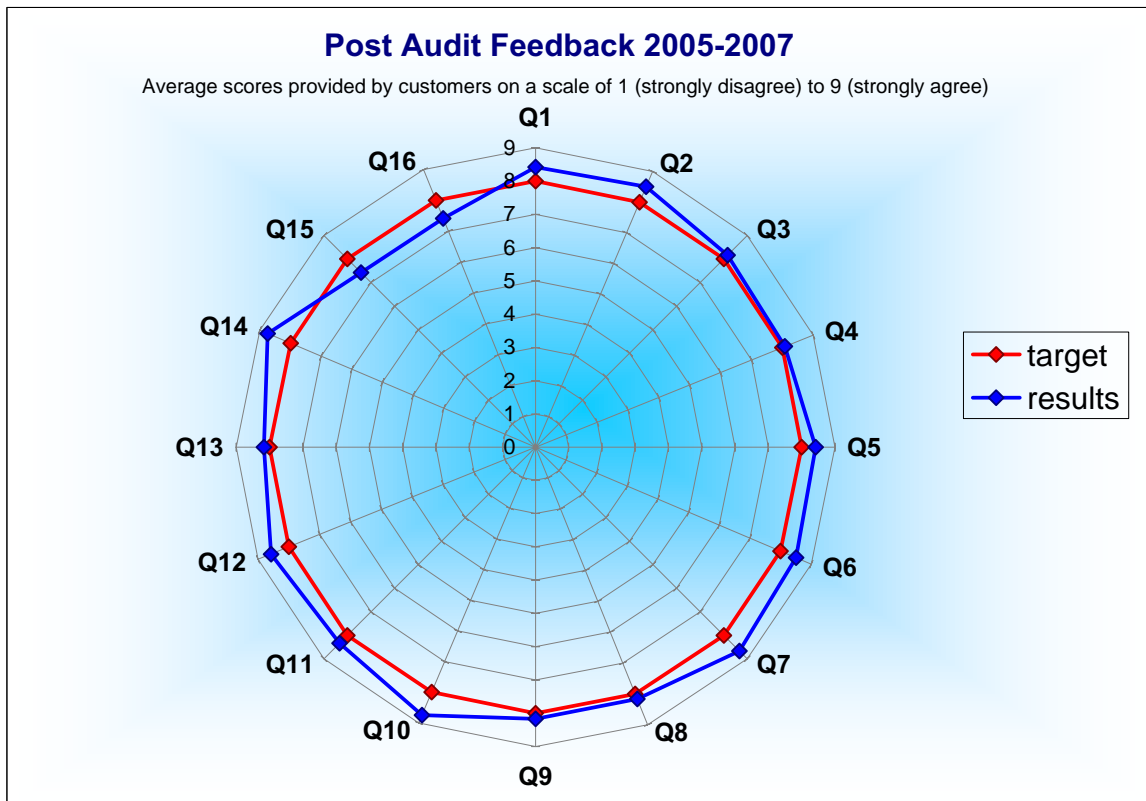
05/0600	NNDR 2005/06	20/06/06	20/09/06
04/0571	Best Value	10/07/06	20/09/06
04/0588	Payroll 2004/05	15/08/06	20/09/06
05/0597	Treasury Management	08/09/06	24/01/07
03/0540	Supported Housing	12/19/06	24/01/07
03/0514	Grant Management	15/09/06	24/01/07
04/0531	Members and Civic Expenses	02/10/06	24/01/07
05/0615	Council Tax	04/10/06	24/01/07
04/0584	Financial Management	06/11/06	24/01/07
04/0585	DDA & Race Relations Compliance	04/12/06	24/01/07
05/0602	AONB	18/12/06	24/01/07
05/0616	Main Accounting	26/01/07	
05/0606	Creditors	21/02/07	
05/0596	Payroll 2005/06	26/02/07	
05/0598	Sundry Debtors	27/02/07	
05/0606	Income Tax & National Insurance	12/02/07	
06/0641	Income Management	01/05/07	

Proactive Audit Work 2005/06

06/0628	Corporate Project Management Development	Contributing to the ongoing development of corporate project management (LAMP)
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Appendix B



Questions:		Target	Actual	Priority for Action
Q1	I was given adequate notification of the audit	8	8.4	9
Q2	The audit work was undertaken at an agreed and convenient time.	8	8.5	11
Q3	The audit process and objectives were adequately explained to me	8	8.2	4
Q4	I was sufficiently involved in identifying and analysing risk and determining the scope of the audit	8	8.1	3
Q5	The work was conducted in my section in a proficient manner	8	8.4	9
Q6	The appropriate staff were consulted for the areas covered	8	8.5	11
Q7	The consultation was conducted in a professional manner	8	8.7	14
Q8	The results of the risk evaluation were discussed with the appropriate staff	8	8.2	4
Q9	The results and conclusions were based on sound and thorough analysis/evaluation of the major risks	8	8.2	4
Q10	I was sufficiently involved in discussing and agreeing the report and action plan	8	8.8	15
Q11	My views and comments were adequately presented in the final report	8	8.3	8
Q12	The final report presented a balanced and accurate picture of the results of the audit	8	8.6	13
Q13	The action plan was easy to agree and was based on practical and realistic recommendations	8	8.2	4
Q14	The final report was produced promptly	8	8.8	15
Q15	The audit has helped develop our identification and understanding of risk in this area	8	7.4	1
Q16	The audit has helped improve the way in which we manage risk in this area	8	7.4	1

Results are based on the responses provided by 12 respondees

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

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AUDIT COMMITTEE**Statement on Internal Control and Corporate Governance
2006/07****Report of Corporate Director (Finance & Performance)****PURPOSE OF REPORT**

To seek the Committee's approval for the draft Statement on Internal Control and Corporate Governance (SIC&CG) for the 2006/07 financial year.

This report is public

RECOMMENDATIONS

- (1) That the Statement on Internal Control and Corporate Governance for 2006/07 as set out at Appendix B be approved for signing by the Leader of the Council, Chief Executive, Section 151 Officer and Monitoring Officer.

1.0 Introduction

1.1 The terms of reference of the Audit Committee include: *To approve the annual Statement of Accounts, income and expenditure and balance sheet or record of payments and receipts under the Accounts and Audit Regulations* (the Constitution, part 3 section 8).

1.2 A report elsewhere on the agenda seeks Committee approval for the actual Statement of Accounts. This report outlines the elements needed in relation to the systems of internal control, a statement on which must be published alongside the financial statements.

Accounts & Audit Regulations 2003

1.3 Regulation 4 requires the Council to maintain a sound system of internal control, including risk management, and introduced a requirement for authorities to review the systems of internal control and publish an annual Statement on Internal Control (SIC) alongside the financial statements.

1.4 The Regulations simply state that the SIC should be 'prepared in accordance with proper practices'. In practice, CIPFA is the primary source of guidance on what constitutes proper practice.

2.0 Proposal Details

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

Internal Control & Corporate Governance Database

- 2.2 The review has again used the "Internal Control & Corporate Governance" database, maintained by Internal Audit, which comprises a framework of controls based on the guidance issued by CIPFA.
- 2.3 The results of the Management Group's evaluation exercise are demonstrated in the Overview Chart and Evaluation Reports attached at Appendix A. The framework consists of a set of seventy-nine internal control features within the following eight headings:
1. Statutory Obligations (5 controls)
 2. Corporate Objectives (6)
 3. Corporate Governance (18)
 4. Performance Management (6)
 5. Risk Management (15)
 6. Internal Control (15)
 7. Assurance (10)
 8. Statement on Internal Control (4)

Assurance

- 2.4 To provide evidence of assurance at each level, the database contains details of around 170 identified "sources" of assurance. These range from a record of official policy and strategy documents such as the Constitution to review reports such as Internal Audit and External Audit reports, to procedures such as one-to-one management meetings. Links between the sources of assurance and the relevant internal control feature are used to inform the evaluation.
- 2.5 As in previous years, individual "assurance statements" have been sought from Service Heads in relation to internal control and governance arrangements within their areas. This assurance has been built in to the overall evaluation.
- 2.6 The Accounts & Audit (Amendment) Regulations 2006 introduced a requirement that local authorities undertake an annual review of the effectiveness of their internal audit arrangements. For 2006/07, assurance is taken from the review of Internal Audit undertaken by the Audit Commission and which was reported to Audit Committee on 20 September 2006.

Evaluation Results

- 2.7 It can be seen from the comparison with the 2005/06 overview chart that the Management Group feels that further progress has been made across many areas of the framework, with significant progress in some, notably business continuity planning (§6.12) and the monitoring of key risks (§ 5.6). The evaluation reflects the progress made in implementing the new Performance Management Framework and risk management arrangements.

- 2.8 The framework has employed a scoring scale of 1 (representing poorly developed arrangements) to 9 (highly effective arrangements), with a target level of 7 currently set for all elements. On this basis, it is judged that the target level has been met or exceeded in 64 (81%) of the 79 controls, which is an improvement of 21% on the 2005/06 evaluation.
- 2.9 Looking forward, the emerging theme is one of continued development and strengthening of arrangements in the areas of corporate governance, performance management and risk management.

The Draft Statement on Internal Control & Corporate Governance

- 2.10 CIPFA guidance states that the SIC '*...represents the end result of the review of internal control, including the process of risk management, that should be embedded throughout the activities of the authority. As such, production of the SIC should not be conducted as an 'add-on' end of year activity. It should explain the nature of control, and any material changes in control, exercised through the whole of the accounting period.*
- 2.11 Drawing on the results of the evaluation exercise, the Management Group has developed the draft SIC&CG attached at Appendix B. The timescale for the production of the Statement coincides with that for the approval of the financial accounts (i.e. 30 June 2007) and the Statement must be approved at a meeting of the Council or delegated committee (i.e. the Audit Committee). The Statement itself follows the statutorily prescribed format, with the following headings:
1. Scope of Responsibility
 2. The Purpose of the System of Internal Control
 3. The Internal Control Environment
 4. Review of Effectiveness
 5. Significant Internal Control Issues
- 2.12 As well as addressing the requirements of the Accounts and Audit Regulations, the publication of a Statement on Internal Control and Corporate Governance (as opposed to a Statement on Internal Control) complies with both:
- a) the existing Local Government Statement of Recommended Practice (SORP), which calls for a Statement on Internal Financial Controls (SIFC); and
 - b) the CIPFA/SOLACE framework for Corporate Governance, which suggested that a wider corporate governance assurance statement be included with the financial statements.

Signatories to the Statement

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

Action Plan

2.14 A separate action plan has not been drafted. To ensure a cohesive approach to such improvements, actions relating to the “Significant Internal Control Issues” identified in section 5 of the statement have already been acknowledged and incorporated into the Council’s Corporate Plan and individual Services’ Business Plans.

3.0 Details of Consultation

3.1 Not applicable.

4.0 Options and Options Analysis (including risk assessment)

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

5.0 Conclusion

5.1 The draft Statement on Internal Control and Corporate Governance and the results of the review undertaken by the Management Group reflect the developments and progress made by the Council during the last twelve months. Addressing the control issues identified in the statement will help maintain this progress and contribute, not only to a further improved position for 2007/08, but also to the quality of other assessments, for example the Audit Commission’s Use of Resources assessment.

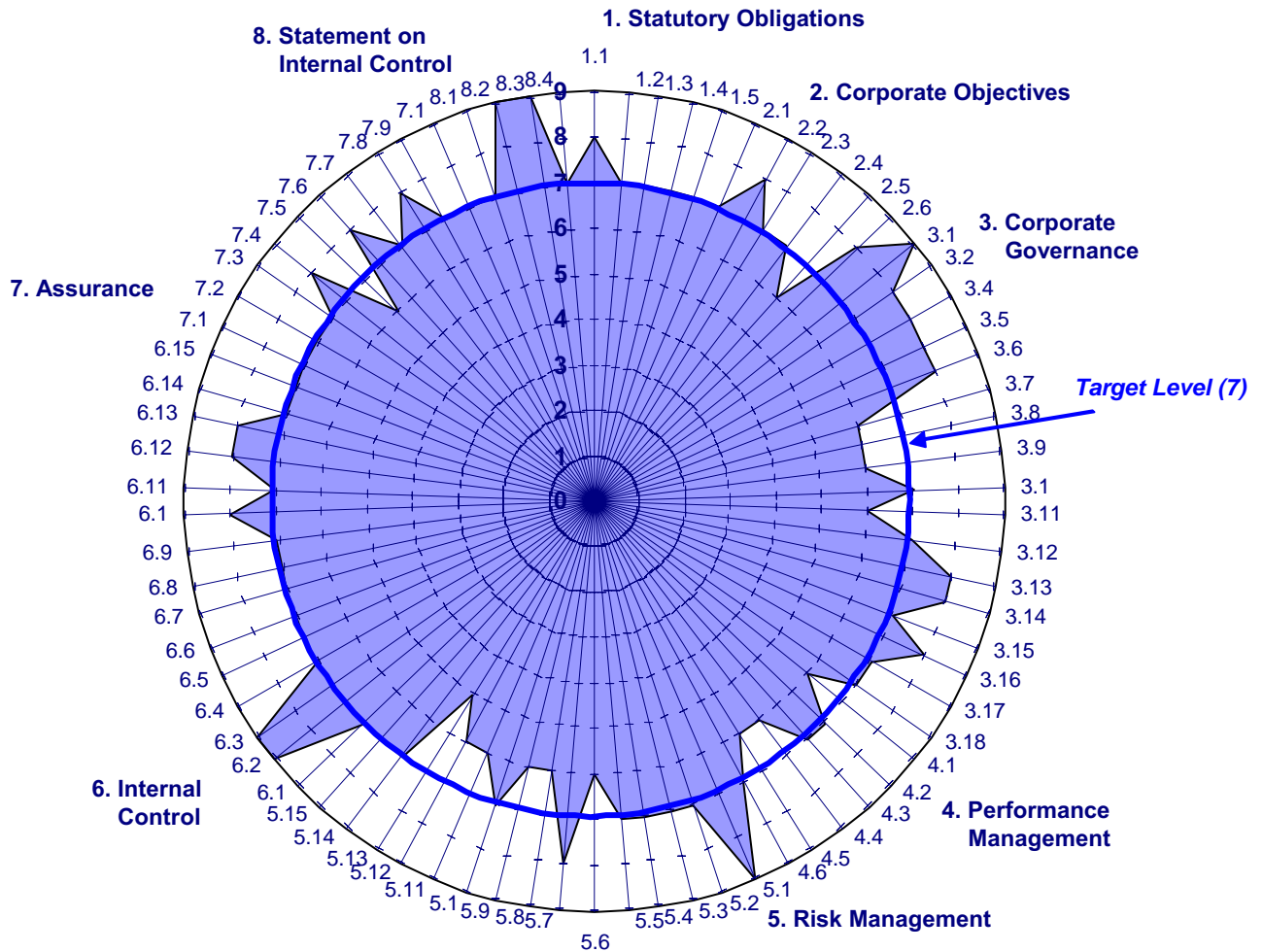
<p>CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</p> <p>The report has no direct impact on the above issues.</p>
<p>FINANCIAL IMPLICATIONS</p> <p>There are no direct financial implications arising from this report. The draft SIC&CG highlights that overall, it is felt that effective financial controls are in place.</p>
<p>SECTION 151 OFFICER’S COMMENTS</p> <p>The s151 Officer has been involved in the process of producing the draft SIC&CG and has no further comments.</p>
<p>LEGAL IMPLICATIONS</p> <p>Legal Services have been consulted and have no further comments.</p>
<p>MONITORING OFFICER’S COMMENTS</p> <p>The Monitoring Officer has been consulted and has no further comments.</p>

BACKGROUND PAPERS Accounts and Audit Regulations 2003.	Contact Officer: Derek Whiteway Telephone: 01524 582045 E-mail: dwhiteway@lancaster.gov.uk Ref: aud/cttee/audit/2007/270607/sic&cg

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Internal Control & Corporate Governance Framework Overview 2006/07 (Management Group Evaluation)

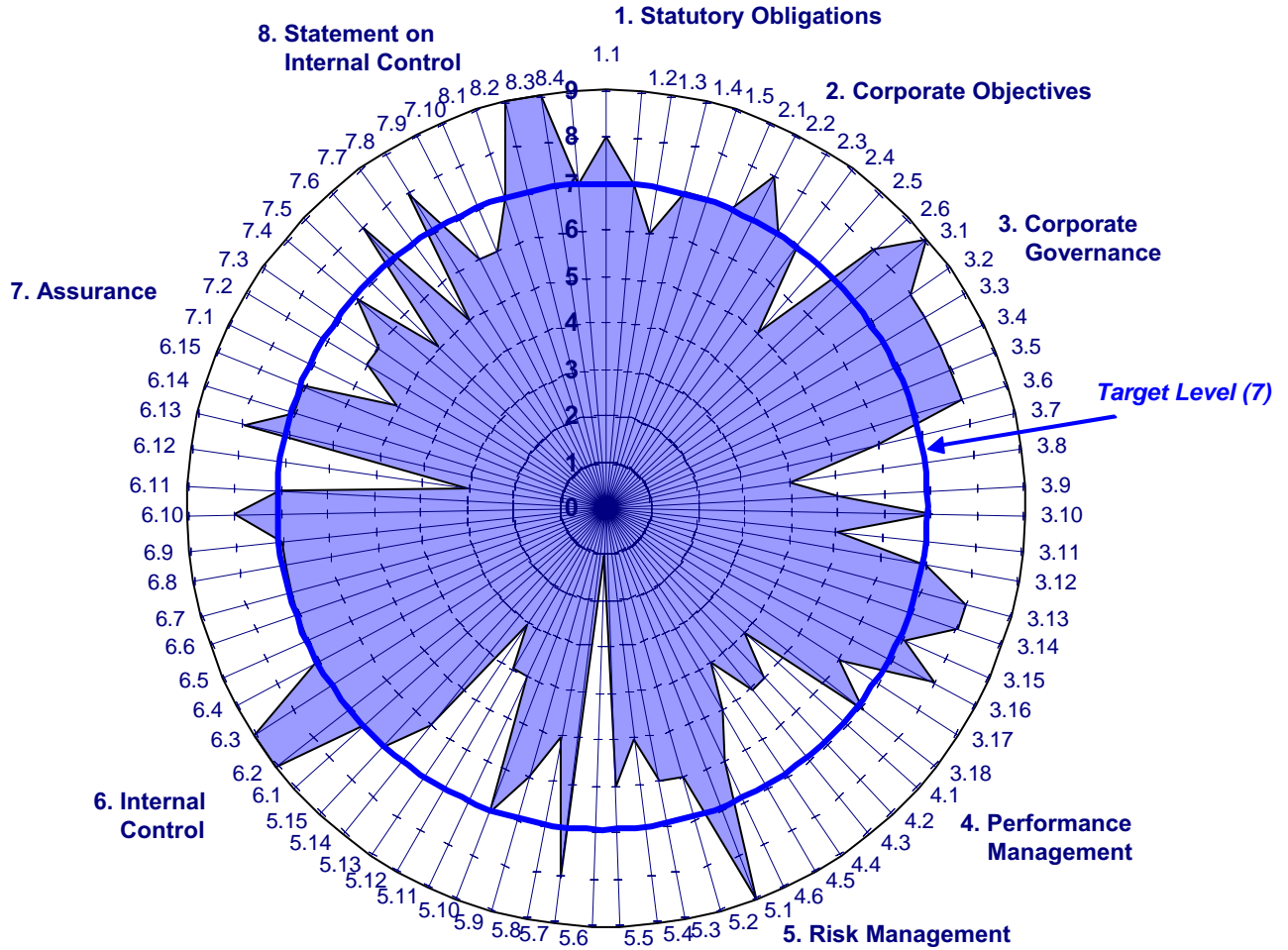


The chart maps the scores produced by the Management Group for each of the 79 internal control features in the framework on a scale of 1 to 9. The filled area represents the extent to which the Council's arrangements are judged to provide effective control (i.e. the larger the filled area, the better)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

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






















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



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

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

Management Group Evaluation

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

Management Group Evaluation

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

Management Group Evaluation

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

Management Group Evaluation

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

STATEMENT ON INTERNAL CONTROL AND CORPORATE GOVERNANCE 2006/07

1. SCOPE OF RESPONSIBILITY

Lancaster City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

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

2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

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

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

3. THE INTERNAL CONTROL ENVIRONMENT

The system of internal control has been in place at Lancaster City Council for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts and, except for the details of significant control issues set out in section 5, accords with proper practice.

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

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

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

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

- The facilitation of policy and decision making, in line with the Council's overall budget and policy framework, is established through the Council's Cabinet, with any key decisions (as defined in the Constitution) outside of this framework being referred to the Council as a whole. The Council publishes a Forward Plan containing details of key decisions made on behalf of the Council by Cabinet and by senior officers under their delegated powers.
- The adopted Code of Corporate Governance sets out how the values of openness, inclusivity, integrity and accountability are applied to the Council's activities, in line with the principles and requirements of the CIPFA/SOLACE³ framework – *Corporate Governance in Local Government: A Keystone for Community Governance*.
- A Risk Management Policy and Strategy sets out the framework for managing risk throughout the Council. Senior officers of the Council have primary responsibility to effectively manage strategic and operational business risks relating to their Service. The process of identifying, assessing and managing these risks is underpinned by the ongoing development of the Council's Risk Registers, the establishment of a corporate approach to managing significant projects and the supervisory activities of the Risk Management Group.
- The Council seeks to ensure the economical, effective and efficient use of resources and continuous improvement in the way in which it exercises its functions, through reviews carried out by Cabinet's Star Chamber, the Overview and Scrutiny function, Internal Audit and those conducted by our external auditors and other external agencies.
- During 2006/07 the Head of Legal and Human Resources Services was the Council's designated Monitoring Officer, with responsibility for promoting and maintaining high standards of conduct and for ensuring compliance with established policies, procedures, laws and regulations. The Monitoring Officer is required to report any actual or potential breaches of the law or maladministration to full Council and supports The Standards Committee in its function of promoting and maintaining high standards of conduct of Councillors and co-opted Members.
- The Council's commitment to high standards of conduct and integrity is supported by our established codes of conduct for employees and elected Members and probity is maintained through our Anti-Fraud and Corruption Policy and Strategy and the Whistleblowing Policy.
- The financial management of the Council is conducted in accordance with rules set out in the Financial Regulations and Procedures within the Constitution. The Council also has in place a three-year Medium Term Financial Strategy to support the key priorities and objectives set out in the Council's Corporate Plan, and the Head of Financial Services has statutory duties for the financial administration and stewardship of the Council, in accordance with Section 151 of the Local Government Act 1972.

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

- Internal Audit operates to the standards set out in the '*CIPFA Code of Practice for Internal Audit in Local Government 2006*' and the Council has established an objective and professional relationship with its external auditors and other statutory inspectors.
- The Council's performance management framework is driven by our Corporate Plan which focuses attention on our corporate priorities and objectives, which are in turn cascaded into Service business plans and individual employee appraisals and action plans.
- The Council sets out its approach to partnering in service delivery and in construction projects through the introduction of the *Framework for Partnership Working* and the *Procurement through Partnering Guidelines* published in November 2004. These documents set out clear guidance on how the Council will meet the strategic objective of delivering better services to citizens through the creation of sustainable partnerships between the Council and suppliers in the public, private and voluntary sectors and the carrying out of major projects, including construction.

4. REVIEW OF EFFECTIVENESS

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

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

- The Audit Committee and the Head of Legal and HR Services, in her role as the Council's Monitoring Officer, have a duty to monitor and review the operation of the Constitution to ensure that its aims and principles are given full effect. A function of full Council is to adopt and change the Constitution following recommendation(s) from the Monitoring Officer and/or Audit Committee
- The Council's Overview and Scrutiny Committee has responsibility to consider and, if necessary, 'call-in' decisions made by Cabinet and the Budget and Performance Panel reviews the Council's budget and performance at both a strategic and service level
- The Audit Committee has responsibility for reviewing the Internal Control & Corporate Governance Framework and the Council's assurance statement on corporate governance is now incorporated within this Statement of Internal Control and Corporate Governance.
- The Audit Committee also reviews the adequacy of internal controls and risk management arrangements, monitoring the performance of Internal Audit and agreeing the external audit plan

- Internal Audit is responsible for providing assurance on the effectiveness of the Council's systems of internal control, including arrangements for risk management and governance. Internal Audit's role is to assist managers by evaluating the control environment, providing assurance wherever possible and agreeing actions to optimise levels of control. The Council's external auditors place reliance on the work of Internal Audit in fulfilling their statutory duties and regularly inspect Internal Audit work
- The Internal Audit Manager is responsible for submitting an annual report to the Audit Committee detailing the performance of Internal Audit for the previous financial year, and giving an opinion on the effectiveness of the Council's systems of internal control
- The Council adopted a new performance framework from 1st April 2006. The new arrangements have provided clearer roles and responsibilities for managers and elected members, particularly Cabinet portfolio holders and scrutiny members of the Budget and Performance Panel. Ongoing development and implementation of the new computerised corporate performance management system is continuing to improve the scope and quality of information and decision making.
- In tandem with performance management developments, the ongoing development of corporate and service-level risk registers is providing improved information and focus on the key risks facing the Council, again serving to improve the overall decision making process. During the year, each of the council's services has developed and published a service continuity plan covering all critical service areas, in line with Civil Contingencies legislation
- The Comprehensive Performance Assessment (CPA) carried out by the Audit Commission in 2003/04 assessed the Council as a 'Fair' performing authority, placing it in the middle of a range of possible scores from Poor to Excellent. The Council has continued to address these, as well as other priority action areas, through our Corporate Improvement Plan. An application by the Council for re-categorisation under CPA has been accepted by the Audit Commission with the review due to be undertaken during 2007.
- In April 2007, the Audit Commission, in its Annual Audit Letter, reported that the Council had strengthened its arrangements in a range of areas, including consultation and community engagement, and performance management and business planning. The Commission's views drew on assessments of the Council's "Direction of Travel" and its "Use of Resources", in which it judged us to be "consistently above minimum requirements – performing well".

5. SIGNIFICANT INTERNAL CONTROL ISSUES

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

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

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

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

I S Barker
Leader of the Council

M Cullinan
Chief Executive

S Taylor
Head of Legal and HR Services
Monitoring Officer

N Muschamp
Head of Financial Services
(Section 151 Officer)

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AUDIT COMMITTEE**Internal Audit Strategic & Annual Plans****27 June 2007****Report of Internal Audit Manager****PURPOSE OF REPORT**

To seek the Committee's approval for a proposed three-year Internal Audit Strategic Plan and Annual Operational Plan for 2007/08

This report is public

RECOMMENDATIONS

- 1. That the Internal Audit Strategic Plan be approved.**
- 2. That the Internal Audit Annual Operational Plan for 2007/08 be approved.**

1.0 Introduction

- 1.1 The terms of reference of the Audit Committee include: *"To approve Internal Audit strategic plans and the Annual Internal Audit Plan"* (the Constitution, part 3 section 8, TOR 11).
- 1.2 The Code of Practice for Internal Audit ¹specifies that *"the Head of Internal Audit must produce an audit strategy; this is the high-level statement of how the internal audit service will be delivered and developed in accordance with its terms of reference and how it links to the organisational objectives and priorities."*

The Code also specifies that *"the Head of Internal Audit should prepare a risk-based plan designed to implement the audit strategy"*

2.0 Proposal Details**Internal Audit Strategic and Business Plan 2007/08 to 2009/10**

- 2.1 In recent years, Internal Audit has not produced a discrete strategic plan, the strategic position and development of the service being included within Financial Service's annual Business Plans. The publication of the 2006 Code of Practice is specific about Internal Audit having a strategy document and this was reinforced by an Audit Commission recommendation to that effect during its 2006/07 review of Internal Audit.

¹ *Code of Practice for Internal Audit in Local Government in the United Kingdom (CIPFA 2006)*

- 2.2 The Internal Audit Business and Strategic Plan (attached at Appendix A) has been developed using the Council's template for its service business plans, but extended to incorporate two further elements of internal audit strategy as set out in the Code of Practice, viz:
- How the Internal Audit Manager will form and evidence his opinion on the control environment to support the annual Statement on Internal Control;
 - How internal audit will identify and address significant local and national issues and risks
- 2.3 As well as meeting the Audit Commission's recommendation to have an internal audit strategy, the document also addresses a number of other issues resulting from the Commission's review, as follows:
- *Re-defining internal audit's role and involvement in risk management, to help with embedding risk management and to enable internal audit to fulfil a clear audit role in terms of risk management.*
 - *Clarifying how internal audit will provide assurance and ensure that appropriate levels of compliance testing are employed.*
 - *Clarifying the prioritisation of agreed actions resulting from internal audit reports.*
 - *Developing quality assurance including the setting and monitoring of performance measures.*

Internal Audit Annual Plan 2007/08

- 2.4 The draft Internal Audit Annual Plan attached at Appendix B is designed, as required by the Code of Practice, to implement the internal audit strategy. To this extent, the plan differs from those prepared in previous years in the following ways:
- Being more explicit about which elements of work are intended to provide assurance to support the overall annual opinion on the internal control environment;
 - Being more explicit about the resources to be devoted to other "support" work aimed at helping the Council's ongoing improvement programme;
 - Providing for a quarterly rolling programme of audit work to be operated within the plan which will provide greater flexibility and responsiveness to changes in the risk environment, and any emerging demands for internal audit assurance work.
- 2.5 This approach to the annual plan will be supported by a more detailed programme of audit assignments and this will be reported to each meeting of the Audit Committee. The approach is designed to enable greater flexibility in selecting, scoping and budgeting for specific audits, thus giving more effective audit coverage and assurance. As this is a new and untested approach, it is intended to review its effectiveness through the year, and review the position prior to preparing the next set of Internal Audit plans.
- 2.6 The annual plan for 2007/08 is based on available resources of 840 audit days, this being delivered by the in-house team of 4.8 FTE staff plus consultancy services (estimated at 60 days work).

3.0 Details of Consultation

- 3.1 No specific consultation has been undertaken in compiling this report.

4.0 Options and Options Analysis (including risk assessment)

4.1 The proposal is that the Committee approves both the draft Internal Audit Strategic and Business Plan 2007/08 to 2009/10 and the Internal Audit Annual Plan for 2007/08. No alternative options are identified.

5.0 Conclusion

5.1 Audit Strategy and Planning are key elements in the provision of an effective internal audit service, as demonstrated by their prominence in the Code of Practice. The proposed internal audit strategy and annual plan seek to establish a firm platform for the ongoing effectiveness and improvement of the Council's internal audit service.

CONCLUSION OF IMPACT ASSESSMENT

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

This report has no direct impact on these areas.

FINANCIAL IMPLICATIONS

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

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Promoting City, Coast & Countryside

**LANCASTER CITY COUNCIL
INTERNAL AUDIT
BUSINESS AND STRATEGIC PLAN
2007/08 TO 2009/10**

PREPARED BY THE INTERNAL AUDIT MANAGER

May 2007

Introduction

This Strategy fulfils the requirement in Standard 7 of the 2006 CIPFA Code of Practice¹ to have an audit strategy. The strategy is the high level statement of how the Internal Audit service will be delivered and developed in accordance with its approved terms of reference (Audit Charter) and how it links to the Council's organisational objectives and priorities.

The Strategy is designed to complement and dovetail with the wider Financial Services' Business Plan which forms the basis for Service level monitoring and reporting on performance.

The Strategy sets out the short and medium term objectives of the Internal Audit function and describes how internal audit will be organised and managed in order to meet those objectives and make an effective contribution to the Organisation.

Service Purpose

To help improve, and provide independent assurance as to, the effectiveness of the Council's operations.

Strategic Aims & Objectives

- ◆ To raise the level and robustness of Internal Audit's assurance work, thereby improving the evidence made available to those charged with governance in reviewing the Council's systems of Internal Control and Corporate Governance.
- ◆ To make an effective and demonstrable contribution to the Council's improvement programme.
- ◆ To contribute to improving standards of internal control and governance within the authority and its key partnerships.
- ◆ To provide an efficient and effective support and consultancy function to meet the needs and demands of the authority.
- ◆ To meet and exceed existing and emerging professional standards

¹ Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006

Situational and Risk Analysis

Services provided					
2006/07 Plan			2009/10 Target		
Work Area	Days	%	Work Area	Days	%
Assurance work, covering:			Assurance work, covering:		
○ Financial systems	126	13.7	○ Core Financial systems	120	12.9
○ Management arrangements	150	16.3	○ Core Management arrangements	120	12.9
○ Operational systems	153	16.6	○ Core Operational systems, including ICT systems	80	8.6
○ Computer and ICT systems	50	5.4	○ Other systems, projects and management arrangements (based on quarterly review of risk and the assurance framework)	230	24.8
○ Contracts	5	0.5			
○ Major projects	0	0.0			
Sub-Total, Assurance Work	484	52.5		550	59.2
Ad-hoc advice	100	10.8	Ad-hoc advice	70	7.5
Support (general and project support)	85	9.2	Support (general and project support) Also derived from quarterly review of the Plan	75	8.1
Efficiency & VFM	60	6.5	Efficiency & VFM	40	4.3
Investigations contingency	35	3.8	Investigations contingency	35	3.8
Follow-up work	70	7.6	Follow-up work	70	7.5
Planning & Monitoring	45	4.8	Planning & Monitoring	45	4.8
Non-audit duties	5	0.5	Non-audit duties	5	0.5
General contingency	40	4.3	General contingency	40	4.3
Totals	924	100.0	Totals	930	100.0

Customers and Stakeholders

- The Audit Committee
- Chief Financial (s151) Officer
- Chief Executive
- Corporate Directors, Service Heads and Service Managers
- Council
- The Executive Function (Cabinet)
- The Overview & Scrutiny Function (Review Boards)
- The External Auditor (Audit Commission)
- Other Review Agencies (e.g. BV Inspectorate, Benefit Fraud Inspectorate, Audit Commission)

Internal Audit Opinion

Internal Audit opinion will be formed through:

- Development of an Assurance Framework for the Council and continued development of the Internal Control and Corporate Governance (IC&CG) Framework, taking account of the anticipated revised Code of Corporate Governance (April 2007?)
- Identification of other potential sources of assurance in the coming periods
- Liaison with other assurance providers, especially the Council's external auditors in planning assurance activity
- Clear identification of the extent and objectives of assurance work in operational audit plans and in individual assignments
- Adopting a clear and consistent approach to providing an assurance opinion in each individual audit report, these being combined to inform a clear and evidence-based annual internal control opinion.
- Assurance work planned on the basis of existing/updated and new risk assessments as necessary, plus outstanding/ongoing areas of concern as identified in previous reviews of the IC&CG framework

Opinion work will seek to cover the full range of internal control and corporate governance considerations. The scope of Internal Audit plans will include all significant systems, these being covered on a risk-basis. Annual Plans will provide for regular coverage of key core systems, which will include:

- Financial (Creditors, Debtors, Payroll, Council Tax, Non-Domestic Rates, Treasury Management)
- Corporate (performance management, risk management, HR management, information management, communications, emergency & business continuity planning, etc)

Operational (ICT systems, systems supporting service provision, etc)

Identifying and accommodating significant local and national issues

Emerging local and national issues that might warrant Internal Audit attention will primarily be identified by Internal Audit's contributing to the development, updating and monitoring of the Assurance Framework. This will seek to ensure that significant risks are adequately identified, assessed and evaluated in terms of the level of assurance deemed necessary and already available, and will involve:

- Tracking corporate policy/priority developments and the decisions taken by the authority's decision-making bodies (Council, Cabinet and the various statutory and regulatory committees)
- Regular consultation with Service managers and the Corporate Management Team
- Regular liaison with other review bodies, especially the Council's external auditor
- Liaison with/considering the approach and work programmes of other internal review bodies, for example Overview & Scrutiny
- Close working relationship with the corporate risk management function to identify significant emerging/developing risks
- Maintaining a professional focus and taking advantage of opportunities for professional updates/development, including CPD where appropriate.

In line with the above, annual Internal Audit Plans will provide for a programme of work to be developed on a rolling quarterly basis to reflect significant risks and assurance needs identified through the review of the Assurance Framework.

Internal Audit coverage of such issues may involve any one, or a combination of the following:

- A specific piece of Internal Audit assurance work
- Support work directed at improving existing arrangements

Contributing to corporate groups/projects (officer and/or Member based) established to consider the approach to such issues

Resources		
In-House team (4.8 fte), consisting of:	SCP	Days provided per annum (2007/08 to 2009/10)
Internal Audit Manager	44-47	169
Principal Auditor	38-41	173
Senior Auditor x2	14-34*	382
Audit Assistant (0.8 fte)	14-34*	146
Sub-Total		870
Bought-in resources (budget £18k 2006/07)		60
Total resources		930

Performance Measurement and Management

The service operates to the CIPFA Code of Practice for Internal Audit (2006) which is established as "proper practice" by the Accounts & Audit Regulations.

All aspects of the service are assessed directly by the Council's external auditors as part of a three-yearly detailed review based on the Code of Practice. The most recent review was undertaken during the 2005/06 audit and reported to Audit Committee on 20 September 2006. A similar review is to be undertaken by the Council's newly appointed auditors, KPMG for the 2007/08 audit year.

During years when a detailed review is not scheduled, the external auditor undertakes an overview of Internal Audit and comments on the extent to which he is able to rely on Internal Audit's work. This will be supplemented by an internal self-assessment against the Code of Practice or alternatively through peer review by arrangement with another District Council.

Additionally, the effectiveness of Internal Audit and particularly its relationship with the Council's Audit Committee is reviewed in the annual "Use of Resources" Key Line of Enquiry (KLOE) regarding Internal Control.

Internal Audit has no Best Value Performance Indicators. To monitor performance against key service objectives and the standards established in the Code of Practice, performance indicators have been developed as set out in the detailed Business Plan

Training and Development

An Internal Audit Competency Framework is in place, which sets out the knowledge, skills and behaviour expected of the various positions within the section. As well as ensuring ongoing review of performance and development, the framework, in tandem with job descriptions, informs the established Employee Development and Performance Appraisal process.

Any shortages of particular skills to accommodate specific pieces of audit work are addressed in considering the source and nature of bought-in resources.

In any work arrangement involving other parties, any opportunities for joint working and skills transference (both ways) to take place will be considered.

Internal Audit's training plan is incorporated in Financial Service's full training plan for 2007/08. In total, the service has been allocated £9,100 for training in 2007/08.

Future Development and Risk Analysis (To be focused on a three year horizon)

Development Areas

- A clearer assurance framework leading to improved and better evidenced provision of assurance from internal audit work
- Use of Resources, CPA and CAA – contributing to an annual improvement in the Council's Use of Resources assessment, re-categorisation under CPA and the introduction of Comprehensive Area Assessments.
- Internal focus on performance management and contributions to (as well as adopting and implementing) the new arrangements.
- Increased focus on corporate governance, especially in light of Accounts and Audit Regulation changes and the emerging requirements for the Authority to produce a combined statement on Corporate Governance and Internal Control.
- Standards of Conduct. A need to promote the Council's standards and policies and provide greater assurance as to their effectiveness
- Integration of Risk Management with Business Planning and increased expectations and requirements from client services.
- Staffing considerations - creating opportunities to explore different audit service delivery options and the scope for collaboration with other organisations and service providers. Need to build on performance measurement and management within the service.
- Overall balancing of available staff resources and skills against service delivery requirements and expectations. Gaining a clearer view and fair balance of what the Council expects from the service and what it can reasonably expect to deliver.

Risks	Mitigation options
<ul style="list-style-type: none"> ▪ Too great an involvement in corporate development areas could undermine IA's independence and devalue the assurance function. 	<ul style="list-style-type: none"> ▪ IA plans to more clearly set out the boundaries of assurance and corporate "support" work. ▪ "Exit strategies" to be established for areas of significant involvement, for example, procurement, risk management, project management. ▪ Extent and timescale of IA involvement in any future corporate initiatives to be clearly defined at the outset.

Risks	Mitigation options
<ul style="list-style-type: none"> ▪ Lack of status/profile within the organisation, hindering the ability to make a meaningful and effective contribution. 	<ul style="list-style-type: none"> ▪ IA plans to incorporate a quarterly rolling programme of work related to an agreed and regularly updated assurance framework. ▪ IA Manager to consult more widely and actively in developing IA plans ▪ Development of the Audit Committee's role to provide more visible support for IA's role.
<ul style="list-style-type: none"> ▪ Lack of skills to undertake specific pieces of work. 	<ul style="list-style-type: none"> ▪ Continuing development of staff in line with the adopted competency framework and EDPA process. ▪ Investigation and evaluation of alternative service delivery options, including collaboration with other LA's and services provided by consultancy bodies.
<ul style="list-style-type: none"> ▪ Loss of reputation/standing through an inability to demonstrate standards of performance. 	<ul style="list-style-type: none"> ▪ Development of a clear performance management framework, emanating from the IA Strategy, including a manageable range of meaningful performance indicators ▪ Comparison with other providers through benchmarking activities, market testing of particular service elements, and through ongoing professional updates

Value For Money

Internal Audit's Value For Money profile, employing the corporate framework is displayed below, with the fully detailed report attached as Appendix A.

Value for Money Measurement : Internal Audit



The Business Plan contains proposed actions to improve performance under each area where a deficiency currently exists. "Stakeholder View" and "Quality" are currently identified as the most significant elements for the service and priority will be given to improving in these areas.

INTERNAL AUDIT STRATEGIC & BUSINESS PLAN – 2007/08						
SERVICE OBJECTIVE	To raise the level and robustness of Internal Audit's assurance work, thereby improving the evidence made available to those charged with governance in reviewing the Council's systems of Internal Control and Corporate Governance.			Major Risk Issues to Register?	No	
	To deliver value for money, customer focused services.					
CORPORATE PRIORITY	Target	Target / Measurement Details	Specific Supporting Tasks or Actions	Responsible Officer	Resource / Budget Implications	
To provide wider ranging and clearer assurance opinions to Audit Committee	Quarterly reporting to audit committee of audit assurance opinions	39 – 55 reports and assurance opinions reported to Audit Committee		Internal Audit Manager		
	Annual Internal Audit Assurance Statement based on combined results of audit assurance work	Annual report submitted to Audit Committee in June 2008			Covered by existing plan provision for audit planning & monitoring	
	Increased level of resources devoted to assurance work	490 audit days planned 2007/08	Implement revised annual plan approach involving quarterly rolling programme of audit assignments Manage Internal Audit's withdrawal from managerial role in risk management and project management		490 audit days out of total available budget of 840 (58%) to be devoted to assurance work.	
Quarterly updates of assurance opinions issued in audit reports	Quarterly updates to Performance Management Group	Quarterly updates to Performance Management Group	Revision of approach to providing internal audit opinions in published reports and establishing a mechanism for monitoring progress.		Covered by existing plan provision for audit planning & monitoring	

INTERNAL AUDIT STRATEGIC & BUSINESS PLAN – 2007/08						
SERVICE OBJECTIVE	To make an effective and demonstrable contribution to the Council's improvement programme.					Major Risk Issues to Register?
CORPORATE PRIORITY	To continue to improve the Council.					No
Objectives	Target	Target / Measurement Details	Specific Supporting Tasks or Actions	Responsible Officer	Resource / Budget Implications	
Successful implementation of the LAMP project management methodology	Positive post-implementation review	Post-implementation reviews and assurance opinion	Reviews to be undertaken at October 2007 and March 2008	Principal Auditor	Included in budget for audit of Core Management Arrangements	
Improvement in arrangements to secure efficiencies and Value For Money (VfM)	Improved assessment under the VfM section of the Use of Resources judgement	Via Use of Resources judgements	Internal Audit self-assessment against the Use of Resources criteria for VfM	Internal Audit Manager	Covered by budget for Consultancy Work (Efficiency & VfM)	

INTERNAL AUDIT STRATEGIC & BUSINESS PLAN – 2007/08						
SERVICE OBJECTIVE	To contribute to improving standards of internal control and governance within the authority and its key partnerships.					Major Risk Issues to Register?
	To deliver value for money, customer focused services.					No
CORPORATE PRIORITY	Target	Target / Measurement Details	Specific Supporting Tasks or Actions	Responsible Officer	Resource / Budget Implications	
Continued improvement in standards of Internal Control	Consolidation or improvement in Use of Resources judgements for 2006/07 and 2007/08 financial years	Through Use of Resources judgements by external audit	Development and implementation of a clear Assurance Framework covering significant risks Development of the Audit Committee's role to provide more visible support for IA's role	Internal Audit Manager	Covered by budget for Support Work and Audit Management	
To improve the effectiveness of the Council's risk management arrangements.	Risk Registers in place Framework established for identification and monitoring of significant risks (Assurance Framework)	Through Financial Services PRT meetings and supporting arrangements, and quarterly reporting to Audit Committee.	Clarification of Internal Audit's ongoing role in risk management and withdrawal from any active managerial role.		Covered by budget for Support Work	
Improved standards of internal control and governance in key partnerships	Assurance opinions on arrangements relating to a number of key partnerships	Via publication of audit reports.			Covered by budget for Core Management Arrangements	

INTERNAL AUDIT STRATEGIC & BUSINESS PLAN – 2007/08						
SERVICE OBJECTIVE	To meet and exceed existing and emerging professional standards					Major Risk Issues to Register?
	To deliver value for money, customer focused services.					No
CORPORATE PRIORITY	Target	Target / Measurement Details	Specific Supporting Tasks or Actions	Responsible Officer	Resource / Budget Implications	
To improve Internal Audit's standards in relation to the established Code of Practice and in relation to other internal audit establishments and external providers	Improved and positive external audit assessment of Internal Audit	External Audit assessment of Internal Audit due as part of 2007/08 audit Self-assessment or peer review thereafter Covered by annual internal audit report to Audit Committee	Implementation of the Internal Audit Strategy Implementation of actions arising from the 2006/07 external audit review of Internal Audit Development of a clear performance management framework, including a manageable range of meaningful PIs Ongoing comparison and benchmarking with Lancashire Districts internal audit services Investigation of alternative service delivery options, including collaboration with other LA's and services provided by consultancy bodies	Internal Audit Manager	Covered by budget for Audit Management	
To improve individuals' capabilities and standards as auditors	Evidence of developing skills and experience throughout the section	Development assessed and reviewed via EDPA process	Implementation of assignment review process (as set out in the Internal Audit Competency Framework) as a contribution to EDPA	Internal Audit Manager	Covered by budget for Audit Management	

Internal Audit Annual Plan 2007/08

Area of Work	Planned Days	Planned Output
1. ASSURANCE WORK		
CORE FINANCIAL SYSTEMS		
Main Accounting	100	10-12 reports and assurance opinions
Asset Management		
Fraud & Corruption		
Payroll		
Ordering & Payments		
Sundry Debtors		
Income Management		
Treasury Management		
Council Tax		
Housing Benefit & Council Tax Benefit		
National Non-Domestic Rates		
Housing Rents		
CORE MANAGEMENT ARRANGEMENTS (including:)		
Financial Management	120	8-10 reports and assurance opinions
Performance Management		
Human Resource Management		
Risk Management		
Information Management		
Corporate Governance		
Partnership Arrangements		
Procurement & Contract Management		
Project Management		
Value For Money		
CORE OPERATIONAL SYSTEMS (including:)		
ICT Facilities and Systems	70	6-8 reports and assurance opinions
Communications		
Facilities Management		
Emergency & Business Continuity Planning		
RISK BASED ASSURANCE WORK PROGRAMME		
Covering projects, non-core financial, operational and managerial systems, based on a quarterly review of risk and the assurance framework.	200	15-25 reports and assurance opinions
2. CONSULTANCY WORK		
Support Work (projects and other support)	65	
Ad-Hoc Advice	60	
Efficiency & VfM	30	
3. OTHER		
Non Audit Duties	5	
4. AUDIT MANAGEMENT		
Planning, Monitoring and Committee Work	45	
5. CONTINGENCIES		
Provision for Follow Up Reviews	70	
Investigations	35	
General Contingency	40	
TOTAL	840	

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AUDIT COMMITTEE**Democratic Renewal
27th June 2007****Report of Chief Executive****PURPOSE OF REPORT**

To advise Members of the action taken and progress achieved following completion of the democratic modernisation action plan arising from the democratic renewal audit.

This report is public

RECOMMENDATIONS

- (1) That the report be noted.**
- (2) That members consider whether any further actions should be considered at this time with regard to democratic modernisation.**

1.0 Introduction

- 1.1 In 2003 the Council requested the Audit Commission to carry out a Democratic Renewal Audit of Lancaster City Council. The resulting report was agreed and published in September 2003. The report reached the following principal conclusions:

That whilst new democratic structures had been introduced as a result of the Local Government Act 2000 and members and officers were working towards creating a sound model, the current structures did not support effective and efficient decision-making and were not sustainable in terms of the input required from officers and members.

The Commission highlighted the following key issues to be tackled:

- The existing arrangements were overly bureaucratic causing unnecessary work in supporting meetings, delays in decision making and ineffective use of officer and member time.
- Too much time was spent focussing on process and procedure rather than the outcomes which were being planned and achieved for the community.

- Insufficient officer resources were available to support member arrangements whilst a relatively high level of senior managers' time is spent on supporting members and thereby reducing the time available for their wider management roles.
- The current arrangements did not assist the Council in developing its community leadership role.

In order to assist the Council the Audit Commission set out a number of issues for action for the Council to address. Since September 2003, the Council has implemented a programme of change within the Council in order to address these issues. This report sets out the issues for action, documents the changes which have taken place and provides feedback from members and officers on the effect of this change on the Council. Feedback was obtained by means of a questionnaire distributed to all Councillors and Chief Officers in 2006 asking the same questions as had previously been asked by the Audit Commission in 2003.

2.0 Proposal Details

In the following sections each of the Audit Commission Issues for action are considered in terms of the changes which were made, an analysis of the effect of these changes and feedback from members and officers on the effect of this change on the Council.

2.1 *Ensure that the community's interaction with all Lancaster's decision-making processes is reviewed.*

The Audit Commission highlighted a variable approach to public involvement with the decision making process, with it not being evident where public participation was evident in the decision making process.

Since the report there have been a number of developments in this area.

Public participation has been reviewed at Overview and Scrutiny, Cabinet and Full Council. A variety of approaches have been adopted but all feature improved arrangements for interaction.

Overview and Scrutiny has actively used the media to encourage involvement and attendance at meetings. This has resulted in public and local stakeholder involvement on reviews of allotments, cemeteries, parish plans, the Licensing Act, the corporate plan, civic, and young people. Call-in decisions with regard to the closure of South Road, Promenade By-laws, Canal Corridor development and Carnforth Skate Park have all attracted significant public attendance and contributions. The public provided 22 work programme suggestions in 2005/06, which have been followed up. Public participation is welcomed at all Overview and Scrutiny meetings (including Task Groups) on agenda items at the Chairman's discretion and subject to good order.

Cabinet has adopted a public participation protocol where members of the public may speak on issues included on the Agenda, with questions/comments from the public prior to the commencement of each item. This is in addition to the existing right of Ward and Overview and Scrutiny members to speak at Cabinet.

Council has reviewed its arrangements for hearing the public and now allows for the relevant Councillor to reply to the member of public at the meeting. As well as agreeing to hold an annual 'special' Council meeting aimed at encouraging greater public involvement.

The Council has also agreed to allow the **filming/ recording and broadcasting of meetings** of Council, Cabinet, Council Business Committee, Audit, Overview and Scrutiny Committee and Budget and Performance Panel with prior notification.

Planning and Highways Regulatory Committee continues to attract significant public involvement and interest and speaking arrangements are currently being reviewed with a view to enhancement. The sub-committees of the **Licensing Act Committee** have also created a significant opportunity for public interaction with the decision making function of the local authority, under the Licensing Act 2003.

The Council has made improvements to the way in which it **consults the public** and stakeholders. The Council has purchased the 'Consultation Finder' system to help obtain the views of the community on decisions it is going to take and has given greater prominence to consultation on the report templates, with all reports containing the results of consultations and item that are submitted for the Forward Plan, now clearly set out who will be consulted. Gaps in proposed consultations are highlighted by the Overview and Scrutiny Pre-decision Scrutiny Champion in their review of the Forward Plan.

Cabinet Liaison Groups have been reviewed and now include groups for Lancaster University and St. Martins College, Lancaster Chamber of Trade and Commerce, Morecambe Liaison Group, Transport, Canal Corridor, Climate Change and Diversity aimed at increasing liaison with decision makers.

The **Forward Plan** has been promoted through publishing a leaflet outlining the process for 'Key Decisions' and how the public become involved in the decision making process.

Survey Results

65% felt that the improved structure effectively engaged with and responded to public opinion, 23% felt it did not, although of these 8% felt it was improving, 3% gave no view.

12% felt that the public should be involved in decision-making via their Ward Councillor, 12% through an area forum, 20% through having the opportunity to contribute at meetings and 44% by being consulted on issues prior to decisions being taken.

2.2 *Ensure that Corporate and Community Objectives are translated into clear priorities, with targets, milestones and accountability assigned to them.*

The Audit Commission highlighted that the themes of the Corporate Plan did not yet link explicitly with the Community Strategy, additionally the Corporate Plan did not focus on outcomes and was not focussed on the ordering of priorities, there was no evidence of the impact of business planning and the impact of service outcomes on cross cutting issues such as e-government.

The Corporate Planning process has been comprehensively revised, aligning the ambitions of the Council with the ambitions of the community. Increasingly we have achieved clarity amongst our partners about how best to work with them to deliver the long term vision articulated in the 2020 Vision - Community Strategy. Links with Town and Parish Councils have been reinforced and rural proofing has been introduced into decision making, with a Cabinet member with special responsibility taking the lead on rural issues. A new Consultation Strategy has also been implemented that allows the Council to engage and interact with all sections of our community.

Our Medium Term Financial Strategy has been updated and, supported by the Star Chamber challenge process has achieved budget targets for setting annual Council Tax increases below 5%. The Corporate Planning cycle now better captures the views of citizens, members, partners and staff, and allows our limited resources to be targeted to where most community benefit can be achieved. For the last two years, Cabinet has consulted with all these groups on our priorities for the coming year and this has been welcomed by all concerned.

A significant reduction in the number of the Council's priorities helps us to maintain a clear focus on the things that matter most. Recent Corporate Plans also clearly identify those things that will not be Council priorities in a given year. Star Chamber provides a challenge throughout the year (not just at budget time) to ensure that resources are allocated where they are most needed and routinely challenges existing service delivery methods with a view to meeting the targets we have set ourselves in our Gershon/Medium Term Financial Strategy.

Democratic arrangements have been revised so that the mechanics of managing the authority do not inhibit our ability to focus on our priorities. Full Council, Executive, and Non Executive structures have all been reviewed to remove duplication and improve accountability. Routine, process driven decisions are now delegated wherever possible. Annual Reports to Council have also been introduced. A computerised Committee Administration system, together with the introduction of notepad computers for Members, has rationalised the delivery and availability of information in the Council to allow access 24/7. This, coupled with the development of our much improved website and intranet facilities, has transformed the availability of council information and data presentation.

The sea-change in the Council's approach to performance management underpins all our other achievements. The Performance Management Framework has been completely revised and streamlined with all roles and responsibilities clearly set out. Members and key officers have had the benefit of awareness raising sessions. Performance Management is now one of the four key themes within our Corporate Improvement Plan

The Leader of the Council is responsible for Budget and Corporate Performance, mirrored on the officer side by the re-designated Corporate Director (Finance and Performance). Duplication in monitoring and documentation has been eliminated with all members receiving the same information in a timely manner. Quarterly Performance Review Teams, led by Cabinet members, monitor key strategic targets for delivering our priorities. The council has also developed a corporate outcome based approach to project management with the help of an external facilitator.

We have also introduced "Escendency", a web based computerised performance management tool, which provides a 'picture' of performance in relation to priorities in real time, highlighting under and over performance. For the first time we are able to see a single, real-time, top down picture of our success in delivering our vision for the District.

Survey Results

The current decision making structure is achieving its overall aims and objectives in terms of:

Leadership 85% agreed

Decisive and speedy decision making 71% agreed Effective Decision Making 88% agreed Accountability in decision making 88% agreed Openness and Transparency 84% agreed
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2.3 To improve and fulfil the key role that the Full Council meetings should play as part of the new political management arrangements, the council should change the format of Full Council meetings from its current traditional style.

Full Council was noted as being traditional in style with a full agenda, with many issues from Cabinet being revisited causing possible duplication with the Overview and Scrutiny process. Cabinet and Review Board Annual reports did not focus on outcomes or achievements or how they had added value, debate on issues was lengthy with debate focussing on internal processes as opposed to the principles of strategy.

Since the democratic renewal audit a full review of Council has been carried out, led by the Audit Committee. The Audit Committee invited views from all members and held open discussions with Members on Full Council and its future development. The Audit Committee then made proposals to full Council.

Council Business Committee was established to deal with the routine of Full Council including appointments to Committees and Outside bodies, dealing with consultation requests and responses, timetabling of meetings, urgent items and minor constitutional amendments.

Speaking at Council was revised to include limiting Members speaking in response to a question to three minutes, member presentation of reports to be limited to fifteen minutes and only non-executive members allowed to ask Cabinet questions on the Leader's Report and Cabinet minutes.

That on a meeting of Council, re-designated as a 'special' Council meeting for the considering of a single topic, hearing an external speaker, meeting in assembly or forum, considering a local, regional or national issue, or other purpose. The first meeting was held in November 2006. It was not totally successful, partly because a clear purpose had not been established and it is intended to take steps in 2007 to promote a meeting of wider interest to the public.

Additionally, the Leader now provides a report at each meeting on the work of Cabinet and issues affecting the authority and receives questions from members in the style of Prime Ministers question time. Cabinet minutes have been moved to the end as opposed to the beginning of the agenda and now attract far fewer questions or repetition of business. Additionally through adopting improved consultative processes prior to budget setting, the Council now only has one budget-setting meeting, which is much shorter in length than in previous years.

There have been major revisions to both the Overview and Scrutiny and Executive annual reporting system. Both the Executive and Overview and Scrutiny now each have a consolidated report that are outcome focussed with each report including achievements in the year and contribution towards achieving corporate priorities, with the Overview and Scrutiny report containing a table highlighting the contribution that each of the scrutinised items has provided towards the achievement of corporate priorities.

Council has also begun to become more policy than procedure focussed although it is acknowledged there is still work to be done in this area. Over the last two years Council

has held policy debates in relation to Climate Change, Access to Services Review, Northern Bypass, Unitary Local Government, Issues of Planning Policy and Vision Board Strategy for the Economic Development of the district.

2.4 *Ensure that Cabinet Members assume more accountability and leadership of their portfolios and decision-making, lessening dependency on officers, whilst being supported by a comprehensive and on-going development programme.*

The Audit Commission noted that Cabinet did not appear to be member led with officers introducing reports, work programmes did not appear to be successfully scheduling work, Cabinet members had no responsibility for their service area and were not able to make decisions.

The role of Cabinet members in assuming accountability and leadership in their portfolio areas has been enhanced and extended. The Council has introduced a system of Individual Cabinet Member Decision Making, where Cabinet Members are responsible for making all non-key decisions within their portfolio area.

Cabinet members present all reports within their portfolio at Cabinet and the recommendations are in the name of the relevant Cabinet member. Cabinet members are briefed when reports are in the draft stage and have the opportunity to either choose the officer prepared recommendations or to insert their own. Most Cabinet members hold regular briefing sessions with their Service Heads and Directors in order to remain apprised of developments in their portfolio and on a regular basis Cabinet members attend Overview and Scrutiny Committee to provide updates on issues within their portfolio.

Support to Cabinet Members has increased and, in addition to the regular briefings, Cabinet members attend a variety of conferences and seminars, as well as training provided as part of the overall member-training programme, such as the IDeA Leadership Academy. Further development is being developed as part of the overall member development package.

Additionally, a handbook is being developed for 2007 to provide Cabinet Members with guidance and assistance to help them in their role. This includes information on the role of Cabinet Members and will be accompanied by both Cabinet member and portfolio training and familiarisation briefings.

Survey Results

96% felt that the role of Cabinet is clear, 88% felt that the basis on which decisions are made by the Cabinet is adequate and appropriate. 81% felt that the business to be considered by and the decisions of the Cabinet are adequately published.

56% felt that members of the public and Councillors are able to participate in meetings of the Cabinet, however it should be noted that the survey was conducted prior to the adoption of public speaking at Cabinet meetings.

2.5 *Review the current business, which is dealt with by Cabinet to identify, which decisions could be delegated to portfolio holders and which could be delegated to officers to improve the speed of decision-making and concentrate Cabinet business on key decisions.*

The Audit Commission noted that there was no delegation to individual Cabinet portfolio holders and Cabinet agendas containing non-strategic issues with sub-committees

dealing with operational matters. There was also a lack of discussion between the Cabinet and Review Board Chairs in the interest of developing Council strategy.

There have been a number of improvements in this area Cabinet now only considers Key Decisions, reports from Statutory Officers and referrals from Overview and Scrutiny/ Cabinet members. There have been further extensive increases to the scheme of delegation with regard to responding to consultations, the opening and agreement of tenders, personnel, staffing issues, licensing and planning. The Cabinet has expressed the view that there is a conflict between extending the scheme of officer delegation and ensuring political leadership. In order to improve the speed of decision making Non-key decisions are now taken by individual Cabinet members on a fortnightly basis, on all issues within their portfolio area.

Since the review of Overview and Scrutiny in 2004, there has been a much more integrated relationship between members of Overview and Scrutiny and Cabinet members. A system of cabinet liaison members has been set up by the Overview and Scrutiny Committee, with regular meetings and joint briefings with their Cabinet counterpart, Cabinet members attend Overview and Scrutiny meetings to discuss developments in their portfolios and annual meetings take place between the two committees to discuss how the Overview and Scrutiny work programme can assist Cabinet with achieving corporate objectives through carrying out reviews.

Survey Results

87% agreed the Scheme of Delegation to Officers is clear and consistent, with 96% agreeing the role of officers is clear, with 75% agreeing there is member awareness of delegated decisions taken by officers.

57% felt that there is effective scrutiny of delegated decisions taken by officers.

2.6 Review the overview and scrutiny structure in order that all roles are covered effectively – policy development, specific reviews, performance overview, scrutiny and to achieve a speedier and responsive process.

A fundamental review of Overview and Scrutiny was carried out in November 2003, with a new structure being adopted by the Council in April 2004. The four Review Boards and management panel were replaced by an Overview and Scrutiny Committee and Budget and Performance Panel, with all Task Groups becoming time limited task and finish groups. At the same time changes were made to the Call-in threshold to prevent misuse of the system and enhancements such as Cabinet Liaison Roles and Pre-decision scrutiny. Through adopting a prioritised work programme approach significant policy development, reviews and performance scrutiny have taken place. Overview and Scrutiny is now seen as an on going process, in addition to the regular monthly meetings of the two principal committees and fortnightly task group meetings. The Committees are able to respond to requests and perceived needs carrying out scrutiny in a timelier and speedier way. Full information on the achievements of the Overview and Scrutiny process can be viewed in the Overview and Scrutiny Annual reports, available on the Council website.

Survey Results

75% felt Overview and Scrutiny committees are effective in making recommendations for improvement as a result of their reviews of service provision.

62% felt the procedure at meetings is informal and encourages full participation by all Members.

75% felt Scrutiny committees are effective in safeguarding the interests of local people.

Additionally the Overview and Scrutiny process at Lancaster City Council continues to receive praise:

Writing for the IDeA, Councillor Nick Best (Castle Morpeth Council) has stated:

"Lancaster City Council has produced an excellent 'Overview and scrutiny committee handbook'. This includes a pro forma for prioritising task and finish projects, which I have brought to the attention of the current chairs of the overview and scrutiny committee."

Dr Jane Martin, then Director of the Centre for Public Scrutiny on visiting Lancaster stated ***Lancaster's structure appear to encourage active member engagement as today proves.*** (Speaking at a Scrutiny training questions and answers session 2005).

Professor Steve Leach (De Montfort University on speaking at joint member and officer training event at Lancaster City Council 2006) ***congratulated the Council on the way it had and was developing a member led process with a strong member led work programme.***

2.7 Develop a forward work programme, replacing the Review Boards agenda, utilising the selection criteria provided and ensuring that review and work programmes clearly relate to corporate priorities and community concerns.

Following the review of Overview and Scrutiny there has been a switch away from Review Board agendas to a forward looking work programme for both the Overview and Scrutiny Committee and Budget and Performance Panel that covers a 12 month period and allows scope for emerging issues. An annual public, Councillor and Officer canvas takes place to suggest work programme items for inclusion. A topic selection process has been adopted using a checklist which provides a framework for prioritising suggested work programme items and includes public concern, performance, media interest, strategic and budgetary significance to the authority, government or corporate priority and concern from another agency. This checklist is used for all items included on the work programme and for the creation of all Task Groups. The Annual Overview and Scrutiny Report contains a table indicating contributions made to corporate priorities during the course of the year.

2.8 Review the format of reports and agendas to achieve a greater clarity, a focus on outcomes and reduction in the bureaucracy, which accompanies their production. This should include consideration of the layout and order of Cabinet agenda items in order that Members can focus on items of strategic importance and key decisions.

There has been a review of report formats and a modernised report format has been adopted, with the inclusion of streamlined inclinations. Training has been provided on report writing to officers with an emphasis on reports being kept as short as possible. Whilst attempts have been made at reducing the bureaucracy that surrounds report production there is still room for improvement in this area. Through implementing a system of individual cabinet member decisions for non-key decisions much greater

clarity and focus has been provided for the Cabinet which now only considers 'key decisions' and referrals from Cabinet members resulting in a strategic focus.

A review of the order of agenda items has taken place with improvements being made to Council, Cabinet, Overview and Scrutiny and Audit Committee agendas.

2.9 Ensure that the Forward Plan is further developed and 'owned' within the decision making structures through; becoming the work programme for the Cabinet, Overview and Scrutiny regularly reviewing Forward Plans, Synchronising the Forward Plan and Overview and Scrutiny work programme.

Following concerns from Councillors a review has taken place of the operation of the Forward Plan. A 12 month Forward Plan updated on a monthly basis has been instigated. This has enabled Service Business Plans to be used to identify future Key Decisions. This has enabled greater management of the Cabinet agenda. With decisions being placed on the Forward Plan earlier the opportunity for Overview and Scrutiny to use the Forward Plan constructively as a tool to inform its work programme, with many more items being considered using pre-decision scrutiny and therefore reducing the need for call-in.

2.10 Increase the level of officer support available for overview and scrutiny to ensure there is appropriate access to research and advice – such an increase is likely to have budget implications. Supplementing the resources required for overview and scrutiny could be undertaken through a partnership approach with other bodies.

Alongside the review of Overview and Scrutiny a review was carried out of staffing arrangements in Democratic Services. Overview and Scrutiny is managed by a Principal Democratic Support Officer, supported by a Senior Democratic Support Officer and Democratic Support Officer. A semi-dedicated staffing resource has been created providing approximately 2.25 posts. This has enabled dedicated research and support to Members involved in the Overview and Scrutiny function, enabled networking, provision of training and the development of the process. Partnership working with other bodies is developing, however, it is more common for Lancaster City Council to be supporting other authorities than being supported.

2.11 Prepare a member development strategy with particular focus on investing in; further training for all members on the constitution, further development of cabinet members, practical and tailored training for overview and scrutiny and increasing attendance levels at such training events.

Through restructuring Democratic Services and the creation of an additional Democratic Support Officer it has been possible for Democratic Services to take over member training and development. Since the Democratic Renewal Audit, the authority now has in place a needs based member training programme with specific training and support packages for Cabinet and Overview and Scrutiny as well as general training for members on their role and the constitution. An integrated training and induction package has been provided for new and returning members following the elections in May 2007. A number of members have attended the IDeA Leadership Academy. The Council is now well advanced in its ambition to achieving the member development charter in 2007 and is in the stage of carrying out one to one member development interviews for the second year.

3.0 Conclusion

- 3.1 Since the Democratic Renewal Audit, Lancaster City Council has made large scale improvements to its democratic processes which have assisted the Council with its approach to decision making. Whilst there is always room for improvement, it is clear that the changes made have provided significant improvements for Lancaster City Council.

CONCLUSION OF IMPACT ASSESSMENT

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

There are no implications arising from this report. Full implications were provided for each modernisation report as they were considered by the Council.

FINANCIAL IMPLICATIONS

There are no financial implications arising directly from this report.

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

Democratic Renewal Report and Survey Results

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