



Committee: AUDIT COMMITTEE
Date: WEDNESDAY, 23 JANUARY 2008
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 19th September 2007 (previously circulated)
3. **Items of urgent business authorised by the Chairman**
4. **Declarations of Interest**
5. **External Audit Plan - Progress Report** (Pages 1 - 4)
6. **Risk Management** (Pages 5 - 7)
7. **Local Code of Corporate Governance** (Pages 8 - 20)
8. **Internal Audit Monitoring** (Pages 21 - 26)
9. **Results of Internal Audit Work** (Pages 27 - 43)
10. **Internal Audit Charter** (Pages 44 - 54)

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, Sarah Fishwick, Geoff Marsland, Ian McCulloch, Sylvia Rogerson 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.

MARK CULLINAN,
CHIEF EXECUTIVE,
TOWN HALL,
DALTON SQUARE,
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Published on Monday 14th January 2008

AUDIT COMMITTEE23rd January 2008**External Audit and Inspection Plan 2007/08
Progress Report****Report of Internal Audit Manager****PURPOSE OF REPORT**

To update the Committee on the External Auditor's progress with the 2007/08 Audit and Inspection Plan.

This report is public

RECOMMENDATIONS

1. That the report is noted.

1.0 Report

1.1 The Council's External Audit Manager will be attending the meeting to present the progress report. A schedule of work included in the Plan giving details of timescales and current progress are included in the presentation attached as Appendix A.

2.0 Options and Options Analysis

2.1 Not applicable

CONCLUSION OF IMPACT ASSESSMENT

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

None directly arising from this report

FINANCIAL IMPLICATIONS

None arising from this report

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

None arising from this report

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

None

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Infrastructure, Government and Healthcare

**External Audit and Inspection Plan 2007/08 -
Progress Report**

Report to Lancaster City Council's Audit Committee
23 January 2008

AUDIT

AUDIT ■ TAX ■ ADVISORY

External Audit Progress Statement

Work description	Work due by	Comment on progress
Financial Statements	30 September 2008	We will carry out an audit of the financial statements in accordance with the statutory and auditing requirements. The actual financial statements are due to be approved by the Council by 30 June 2008 and require an audit opinion by 30 September 2008.
Annual Governance Statement	30 September 2008	To be completed as part of our 2007/2008 financial statements.
Whole of Government Accounts	October 2008	To be completed as part of our 2007/2008 financial statements.
Group Accounting	30 September 2008	To be completed as part of our 2007/2008 financial statements.
Use of Resources Judgement	November 2008	To be completed in 2008.
Annual Efficiency Statement	30 September 2008	To be completed as part of our Use of Resources work in 2008.
Best Value Performance Plan	31 December 2007	Completed
Medium Term Financial Plan	30 September 2008	Work has not yet commenced in this area.
Internal Audit	30 September 2008	Work has not yet commenced in this area.

External Audit Progress Statement (continued)

Work description (continued)	Work due by	Comment on progress
Health Inequalities	30 September 2008	This review is currently underway.
PAYE Healthcheck	30 September 2008	Work has not yet commenced in this area.
VAT Healthcheck	30 September 2008	Work has not yet commenced in this area.

AUDIT COMMITTEE**Risk Management
23 January 2008****Report of Head of Financial Services****PURPOSE OF REPORT**

To update Audit Committee on the progress that has been made in monitoring & mitigating the risks on the Corporate Risk Register, and to provide an opportunity for the Committee to request further work on how risk is to be considered throughout the corporate planning & budget process.

This report is public.

RECOMMENDATIONS

1. That the progress in mitigating and monitoring risks be noted.
2. That the Committee considers the arrangements for considering corporate risks during the development of the 2008/09 Budget and Corporate Plan, and makes any recommendations as appropriate.
3. That the significant risks on the existing Corporate Risk Register be noted, and that the Committee makes further recommendations regarding any additional perceived risks, as appropriate.

1 INTRODUCTION

- 1.1 Through the governance framework 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.
- 1.2 The Council's arrangements for managing risk are set out in its associated Policy and Strategy documents. These were last updated in June 2007 and were formally approved by Audit Committee at its meeting on 27 June 2007. This report informs the Committee of the progress made since the last meeting and seeks Members' views on how risk management can continue to be taken forward throughout the corporate planning process.

2 CORPORATE RISK REGISTER

- 2.1 The Corporate Risk Register reflects the objectives/ priorities in the current Corporate Plan and incorporates the revised list of Cabinet priorities approved by Council during the 2007/08 planning process. The Risk and Insurance Manager, in conjunction with Service Heads and their staff, updates and monitors the risks within the Register and produces revised reports for Directors on a 6 monthly basis. Directors then use these reports to monitor the progress of the Risk Treatment Actions (RTAs) in their regular 1:2:1s with their Service Heads.
- 2.2 In addition to recording risk, the Corporate Risk Register also identifies the Key Performance Indicators relating to achievement of each objective and, in that way, assists in the identification of failing performance. Service Heads, as 'risk owners', regularly report the progress of their RTAs to Cabinet members as part of their regular Performance Review Team (PRT) reports.

3 2008/2009 CORPORATE PLAN

- 3.1 With all this in mind, it is evident that the Corporate Risk Register is being utilised by officers and that the management of corporate risks is embedded in performance management processes. However, when considering previous years, it is felt that the Corporate Risk Register could have been utilised more during the corporate planning process, when developing future priorities and budgets. One of the key purposes of the register is to allow Members to consider risk when setting their priorities and budgets for future years. In this way, any 'unacceptable' levels of risk, which could undermine the Council's achievement of its objectives, can be addressed – with resources reallocated accordingly. Using risk information in this way is an essential element of developing the Corporate Plan and Budget. Such risk management activity reflects strongly on councils' governance arrangements and their Use of Resources assessments.
- 3.2 The 2008/2009 Corporate Plan is currently being prepared by Cabinet and the Risk & Insurance Manager has produced a report from the register for the January Cabinet meeting. It is acknowledged though that following Cabinet's consideration of the revised draft Corporate Plan, the register and risk report will need updating to reflect Cabinet's decisions on its draft proposals. Such updated risk information will then be fed into subsequent meetings. The Committee is requested to consider whether any further arrangements should be put into place, either for 2008/09, or for consideration in future years' processes.

4 SIGNIFICANT CORPORATE RISKS

- 4.1 The existing corporate risk register currently has the following as high risks issues in relation to existing/developing priorities:
- The Council could take on liability for contaminated sites when acquiring land.
 - Potential regeneration opportunity arising from M6 link road being built could be lost.
 - Failure to ensure that the Canal Corridor scheme meets local planning objectives.
 - Failure of Cabinet to prioritise corporate objectives effectively to meet the needs of the district.
- 4.2 Members of Audit Committee are asked to note the above, but in addition, further risks have been reported recently associated with capital schemes such as Luneside

East. From their own knowledge and perspectives, Members are asked to consider whether there any additional perceived key risk areas that they wish to be reviewed. These too will be incorporated into the work outlined at section 3.2 above as appropriate.

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 involved in the preparation of this report.

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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Ref:

AUDIT COMMITTEE23rd January 2008**Local Code of Corporate Governance****Report of Corporate Director (Finance & Performance)****PURPOSE OF REPORT**

- 1 To explain the new requirement upon councils to develop and maintain a Local Code of Corporate Governance; and
- 2 To seek Members' approval for a draft Local Code of Corporate Governance, which has been prepared in accordance with the prevailing guidance.

This report is public**RECOMMENDATIONS**

1. **That the draft Local Code of Corporate Governance be approved.**

1.0 Introduction

- 1.1 A sound system of corporate governance underpins the achievement of all the Council's strategic objectives but is key to ensuring that the Council continues to improve its performance as governance arrangements form a significant element of the Use of Resources assessments and will be fundamental to the forthcoming Comprehensive Area Assessment regime.
- 1.2 In England, the preparation and publication of an annual governance statement in accordance with proper practices is necessary to meet a statutory requirement set out in Regulation 4(2) of the Accounts & Audit (Amendment) (England) Regulations 2006.

2.0 Report

- 2.1 In relation to the production of a Governance Statement, "proper practices" are defined as those set out in a framework and guidance issued by CIPFA & SOLACE¹ during 2007 and these will apply to the production of the next statement (that in relation to the 2007/08 financial year). Specifically, the Council is now required to develop and maintain a Local Code of Corporate Governance and to prepare a Governance Statement in order to report publicly on an annual basis on the extent to which the Council complies with its own Code. This requirement supersedes previous requirements to produce an annual Statement on Internal Control (SIC).
- 2.2 A detailed comparison has been carried out of the contents and procedures set out in the new framework with those that have been put in place in the Council over the past few years. This has shown that, whilst the structure and emphasis within the

¹ "Delivering Good Governance in Local Government" – CIPFA & SOLACE 2007

framework has shifted somewhat, the substance and basic procedures are not significantly different. The approach taken has therefore been to address the new requirements by embracing the new framework and at the same time building on existing arrangements. The single most notable development is the adoption of a formal Code of Corporate Governance.

- 2.3 A draft Local Code of Corporate Governance has therefore been prepared in accordance with the guidance and is attached to this report for members' consideration. The contents of the draft Code are summarized below.

3.0 The Draft Local Code – A Summary

- 3.1 The new CIPFA SOLACE Framework identifies the following 6 core principles which underpin a council's system of governance:

- 1. Focussing on the purpose of the authority and on outcomes for the community including citizens and service users and creating and implementing a vision for the local area**
- 2. Members and officers working together to achieve a common purpose with clearly defined functions and roles**
- 3. Promoting the values of the authority and demonstrating the values of good governance through behaviour**
- 4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk**
- 5. Developing the capacity and capability of members to be effective and ensuring that officers – including the statutory officers - also have the capability and capacity to deliver effectively**
- 6. Engaging with local people and other stakeholders to ensure robust local public accountability.**

- 3.2 Corporate governance is therefore the product of the interlocking systems and processes through which an organisation manages and directs itself to determine and deliver its objectives. Although, as the phrase implies, this includes issues of probity, ethics and personal conduct, the impact is much wider. The above principles demonstrate that governance is primarily about having effective performance management and risk management systems in place.

- 3.3 In meeting the requirements of the new framework and guidance, the Council is expected to:

- consider the extent to which it complies with the above 6 core principles and requirements of good governance set out in the Framework;
- identify systems, processes and documentation that provide evidence of compliance;
- identify the individuals and committees responsible for monitoring and reviewing the systems, processes and documentation identified;
- identify the issues that have not been addressed adequately in the authority and consider how they should be addressed;
- identify the individuals who would be responsible for undertaking the actions required and plan accordingly.

- 3.4 The attached draft Local Code describes the arrangements it is proposed to adopt within the Council to comply with the above requirements and these are summarised below.

Compliance with the 6 Core Principles

- 3.5 Under each core principle, the CIPFA/SOLACE framework identifies a series of sub-principles. These have been reviewed and tailored to the Council's situation to provide a 67 point checklist. A Management Group comprising key officers will conduct a detailed annual self-assessment against this checklist.

Evidence

- 3.6 Wherever possible reference will be made to independent sources of assurance such as external or internal audit reports to confirm the effectiveness of specific arrangements.

Annual Governance Statement

- 3.7 The results of the self-assessment, including any significant non-compliance issues will be published in the Annual Governance Statement alongside the annual accounts. This will include any non-compliance issues arising from Assurance Statements completed by each Service Head.
- 3.8 The production of Service-specific assurance statements will be established to supplement the corporate self-assessment and will aim to evaluate compliance with a range of corporate policies and procedures within service units.

Monitoring and Review

- 3.9 Management Team will review the draft Statement prior to it being submitted to Audit Committee.
- 3.10 Audit Committee will review and approve the draft Statement for signing by the Leader of the Council and the Chief Executive. This function represents the annual culmination of the Committee's responsibility for reviewing the adequacy and effectiveness of the overall Council's overall governance arrangements.

4.0 Options & Options Analysis

- 4.1 The options available are:
- 1) to approve the draft Code of Corporate Governance without amendment;
 - 2) to approve the draft Code but with the inclusion of amendments; or
 - 3) not to approve the Code
- 4.2 Given the statutory backing provided to the CIPFA/SOLACE framework and guidance, failure to adopt and maintain a local Code of Corporate Governance is likely to reflect badly on the Council and hinder progress in terms of future corporate assessments. The preferred option is therefore that the draft Code of Corporate Governance be approved, with or without amendment at this stage. As a general principle, it is recommended that the Code should be reviewed annually.

5.0 Conclusion

- 5.1 The adoption of a Local Code of Corporate Governance will meet the Council's legislative responsibilities and establish a sound basis on which to further improve performance and the results of external assessments.
- 5.2 The approach to the monitoring and review of arrangements against the draft Code represent a natural development of the approach taken by the Council over the last five years. This means that the introduction of the Code should be smooth and involve little disruption to existing arrangements.

CONCLUSION OF IMPACT ASSESSMENT

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

None directly arising from this report

FINANCIAL IMPLICATIONS

None arising from this report

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

Adoption of a Local Code of Corporate Governance and procedures for its effectiveness to be reviewed in connection with the publication of an annual Governance Statement will meet legislative requirements under the Accounts & Audit (Amendment) (England) Regulations 2006.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and her comments have been incorporated.

BACKGROUND PAPERS

CIPFA/SOLACE – Delivering Good Governance in Local Government

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GOVERNANCE FRAMEWORK (Second Draft 11 Jan 08)

Core Principle 1 Focussing on the purpose of the Authority and on outcomes for the community including citizens and service users and creating and implementing a vision for the local area	
The Council Seeks To	This Is Done By:
Exercise strategic leadership by developing and clearly communicating the Council's purpose and vision and its intended outcomes for citizens and service users.	<ol style="list-style-type: none"> 1. Developing and promoting the Council's purpose and vision 2. Reviewing on a regular basis the Council's vision for the local area and its implications for the Council's governance arrangements 3. Encouraging partnerships of which the Council is a member to be underpinned by a common vision of their work that is understood and agreed by all partners 4. Ensuring that priorities and objectives are aligned to principal statutory obligations and available funding 5. Knowing how well the Council is performing against planned outcomes 6. Ensuring that knowledge of absolute and relative performances achieved is used to support decisions that drive improvements in outcomes 7. Publishing an annual report on a timely basis to communicate the Council's activities and achievements, its financial position and performance
Ensure that users receive a high quality of service whether directly, or in partnership, or by commissioning.	<ol style="list-style-type: none"> 8. Deciding how the quality of service for users is to be measured and making sure that the information needed to review service quality effectively and regularly is available. 9. Putting in place effective arrangements to identify and deal with failure in service delivery
Ensure that the Council makes best use of resources and that tax payers and service users receive excellent value for money.	<ol style="list-style-type: none"> 10. Deciding how value for money is to be measured and making sure that the Council and its key partnerships have the information needed to review value for money and performance effectively. 11. Measuring the environmental impact of policies, plans and decisions.

Core Principle 2 Members and officers working together to achieve a common purpose with clearly defined functions and roles	
The Council Seeks To	This Is Done By:
Ensure there is effective leadership throughout the Council by being clear about executive and non executive functions and of the roles and responsibilities of the scrutiny function	<p>12. Setting out a clear statement of the respective roles and responsibilities of the executive and of the executive's members individually and the Council's approach towards putting this into practice</p> <p>13. Setting out a clear statement of the respective roles and responsibilities of other Council members, members generally and of chief officers</p>
Ensure that constructive working relationships exists between Council members and officers and that the responsibilities of Council members and officers are carried out to a high standard	<p>14. Determining a scheme of delegation and reserved powers within the constitution, including a formal schedule of those matters specifically reserved for collective decision of the Council, taking account of relevant legislation, and ensuring that it is monitored and updated when required</p> <p>15. Making the Council's Chief Executive responsible and accountable to the Council for all aspects of operational management</p> <p>16. Having arrangements in place for the Leader of the Council and the Chief Executive to discuss their respective roles early in the relationship and to maintain a shared understanding of roles and objectives.</p> <p>17. Making the Head of Financial Services (as Section 151 officer) responsible to the Council for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control</p> <p>18. Making the Head of Legal and HR Services (as Monitoring Officer) responsible to the Council for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with</p>

Core Principle 2 Members and officers working together to achieve a common purpose with clearly defined functions and roles (continued)	
The Council Seeks To	This Is Done By:
<p>Ensure that relationships between the Council and the public are clear so that each knows what to expect of the other.</p>	<p>19. Having protocols in place to ensure effective working relationships between members and officers in their respective roles</p> <p>20. Setting out the terms and conditions for remuneration of members and officers and having an effective structure for managing the process including an independent remuneration panel for elected members.</p> <p>21. Ensuring that effective mechanisms exist to monitor service delivery</p> <p>22. Ensuring that the organisation's vision, strategic plans, priorities and targets are developed through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated</p> <p>23. When working in partnership, ensuring that:</p> <ul style="list-style-type: none"> ▫ members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the Council; ▫ there is clarity about the legal status of the partnership; and ▫ representatives of partner organisations both understand and are committed to meeting clearly defined good governance principles. ▫ representatives of organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions.

Core Principle 3 Promoting the values of the Council and demonstrating the values of good governance through behaviour	
The Council Seeks To	This Is Done By:
Ensure that Council members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance	<p>24. Ensuring that the Council's leadership sets the tone for the organisation by creating a climate of openness, support and respect</p> <p>25. Having Codes of Conduct in place to ensure that the standards of conduct and personal behaviour expected of members and staff are defined and communicated.</p> <p>26. Having protocols in place to ensure that standards for joint working between members and staff and between the Council, its partners and the community are defined and communicated.</p> <p>27. Having arrangements in place to ensure that members and employees of the Council are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and having in place appropriate processes to ensure that they continue to operate in practice</p>
Ensure that organisational values are put into practice and are effective.	<p>28. Developing and maintaining shared values, including leadership values both for the organisation and staff reflecting public expectations, and communicating these with members, staff, the community and partners</p> <p>29. Having arrangements in place to ensure that systems and processes are designed in conformity with appropriate ethical standards, and by monitoring their continuing effectiveness in practice</p> <p>30. Maintaining an effective standards committee</p> <p>31. Using the organisation's shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the Council</p> <p>32. In pursuing the vision of a partnership, agreeing a set of values (to be demonstrated both individually and collectively by partners) against which decision making and actions can be judged.</p>

Core Principle 4 Taking informed and transparent decisions which are subject to effective scrutiny and managing risk	
The Council Seeks To	This Is Done By:
Be rigorous and transparent about how decisions are taken and to listen to and act upon on the outcome of constructive scrutiny	<p>33. Maintaining an effective scrutiny function which encourages constructive challenge and enhances the Council's performance overall</p> <p>34. Maintaining open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based</p> <p>35. Having arrangements in place to safeguard members and employees against conflicts of interest and having appropriate processes to ensure that they continue to operate in practice</p> <p>36. Maintaining an effective audit committee which is independent of the executive and scrutiny functions</p> <p>37. Ensuring that effective, transparent and accessible arrangements are in place for dealing with complaints</p>
Have good quality information, advice and support to ensure that services are delivered effectively and are what the community wants/needs	<p>38. Ensuring that those making decisions, whether for the Council or one of its partnerships are provided with information that is fit for the purpose (i.e. is relevant, timely and gives clear explanations of technical issues and their implications</p> <p>39. Ensuring that proper professional advice on all matters including those that have legal or financial implications is available and recorded well in advance of decision making and is used appropriately</p>
Ensure that an effective risk management system is in place	<p>40. Ensuring that risk management is embedded into the culture of the Council, with members and managers at all levels recognising that risk management is part of their jobs</p> <p>41. Ensuring that risk management processes specifically consider risks in relation to significant partnerships and provide for assurances to be obtained about the management of those risks.</p> <p>42. Ensuring that there are well-established and clear arrangements for financing risk</p>

Core Principle 4 Taking informed and transparent decisions which are subject to effective scrutiny and managing risk (continued)	
The Council Seeks To	This Is Done By:
Maintain a robust system of internal control which includes systems and procedures to mitigate principal risks	<p>43. Ensuring that sound financial management is promoted</p> <p>44. Having in place effective arrangements for whistle-blowing, to which officers, staff and all those contracting with or appointed to the Council have access</p> <p>45. Having effective arrangements to counter fraud and corruption</p> <p>46. Having effective arrangements in place to ensure business continuity</p> <p>47. Ensuring the safety of staff, contractors and visitors</p> <p>48. Ensuring that the Council's internal control framework is subject to regular independent assessment</p>
Use legal powers to the full benefit of the citizens and communities in the area	<p>49. Actively recognising the limits of lawful activity placed on the Council by, for example, the ultra-vires doctrine but also striving to utilise available powers to the full benefit of their communities</p> <p>50. Observing all specific legislative requirements placed upon the Council, as well as the requirements of general law, and in particular integrating the key principles of good administrative law, viz rationality, legality and natural justice, into procedures and decision making processes</p>

Core Principle 5 Developing the capacity and capability of members to be effective and ensuring that officers – including the statutory officers -also have the capability and capacity to deliver effectively	
The Council Seeks To	This Is Done By:
Make sure that members and officers have the skills, knowledge, experience and resources they need to perform well in their roles	<p>51. Providing induction programmes tailored to individual needs and opportunities for members and officers to update their knowledge on a regular basis</p> <p>52. Ensuring that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the Council</p>
Develop the capability of people with governance responsibilities and evaluate their performance, as individuals and as a group	<p>53. Assessing the skills required by members and officers and making a commitment to develop those skills to enable roles to be carried out effectively</p> <p>54. Developing skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed</p> <p>55. Ensuring that effective arrangements are in place for reviewing and developing the performance of the executive as a whole and of its individual members.</p>
Encourage new talent for membership of the Council so that best use can be made of individual' skills and resources in balancing continuity and renewal.	<p>56. Having effective arrangements in place which are designed to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the Council</p> <p>57. Ensuring that effective Member development and employee development strategies and actions are in place.</p>

Core Principle 6 Engaging with local people and other stakeholders to ensure robust local public accountability.	
The Council Seeks To	This Is Done By:
Exercise leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountability relationships	<p>58. Making it clear within the organisation, its staff and the local community what the Council is accountable for and to whom</p> <p>59. Considering those institutional stakeholders to whom the Council is accountable and assessing the effectiveness of their relationships</p> <p>60. Producing an annual report on the activity of the scrutiny function</p>
Take an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the Council, in partnership or by commissioning	<p>61. Ensuring that clear channels of communication are in place with all sections of the community and other stakeholders, and having effective monitoring arrangements in place</p> <p>62. Holding meetings in public unless there are good reasons for confidentiality</p> <p>63. Having arrangements in place to enable the Council to engage with all sections of the community effectively. These arrangements recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands</p> <p>64. Operating a clear policy on the types of issues the Council will meaningfully consult on or engage with the public and service users about. This includes a feedback mechanism for consultees to demonstrate what has changed as a result</p> <p>65. Publishing an annual performance plan giving information on the Council's vision, strategy, plans and financial statements as well as information about its outcomes, achievements and the satisfaction of service users in the previous period</p> <p>66. Ensuring that that the Council as a whole is open and accessible to the community, service users and its staff and ensuring that it has made a commitment to openness and transparency in all its dealings, including partnerships, subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so</p>

Core Principle 6 Engaging with local people and other stakeholders to ensure robust local public accountability (continued)	
The Council Seeks To	This Is Done By:
Make best use of human resources by taking an active and planned approach to meet responsibility to staff.	67. Maintaining a clear policy on how staff and their representatives are consulted and involved in decision making

AUDIT COMMITTEE**Internal Audit Monitoring****23rd January 2008****Report of Internal Audit Manager****PURPOSE OF REPORT**

To advise Members of the latest monitoring position regarding the 2007/08 Internal Audit Plan.

This report is public

RECOMMENDATIONS

- (1) That the current monitoring position is noted.
- (2) That the planned programme of audit work for the remainder of 2007/08, as set out in the monitoring statement at Appendix A is approved.

1.0 Introduction

- 1.1 The 2007/08 Internal Audit Plan was approved by the Audit Committee at its meeting on 27 June 2007. This report is based on the monitoring position up to 27 December 2007.

2.0 Report**Progress With Planned Assignments**

- 2.1 Work In Progress brought forward as at 01 April 2007.

Thirteen jobs from the 2006/07 plan were still in progress as at 01 April 2007, and 40 days have been spent in the current year on completing these. All of these jobs have been completed and reports issued.

2.2 2007/08 Planned Work

2.3 A monitoring report as at 27 December 2007 is attached as Appendix A. In summary, the position as that date was as follows:

Days originally planned (approved audit plan)	840
Variations in the Plan	-63
Workload allocated as at 27 December 2007	777
Days undertaken to 27 December 2007	481
Days remaining	296

2.4 At the time of the review, it was calculated that 255 days would be available for the remainder of the year (including an estimated 45 days of bought-in resources). Allowing for an estimated 40 days work in progress to remain at 31 March 2007, this would enable completion of the currently allocated work. The main reason for the reduction in resources devoted to the Plan is lost productive time for all members of the section during the year, due mainly to the office removal from St Leonard's House to Lancaster Town Hall and time required in undertaking the Fair Pay Review process. In total, these have contributed to a loss of approximately 45 days of productive audit time.

2.5 The implications of this situation for the Plan are set out in the table below.

Area of work	Resources (audit days)			Outputs (audit reports & opinions)	
	Planned	Projected	Variance	Planned	Projected
Core Financial Systems	100	89	-11	10-12 reports	12 reports
Core Management Arrangements	120	110	-10	8-10 reports	9 reports
Core Operational Systems	70	15	-55	6-8 reports	1 report
Risk Based Assurance Audits	200	190	-10	15-25 reports	17 reports
Follow-Up Reviews	70	50	-20		
Sub-Total, Assurance Work	560	454	-106	39-55 reports	39 reports
Consultancy Work	155	178	+23		
Investigations	35	80	+45		
Audit Management	45	55	+10		
Non Audit Duties	5	10	+5		
General Contingency	40	0	-40		
Total	840	777	-63		

2.6 As can be seen from the table, additional workload in other areas of the plan, especially in investigations, has had an impact on the level of resources devoted to assurance work. The projected shortfall on assurance work is 106 audit days, representing a reduction of 19% on the approved Plan. Overall this means that the projected number of audit reports to be issued during the year is 39, which is at the lower limit of the range planned for the year.

2.7 Under the category of "Core Operational Systems", a change in emphasis and approach to IT audit means that much of this work is actually being delivered through Core Financial Systems audits. This shift will be reflected in future plans.

2.8 The projections for the remainder of the year assume that the 40 days General Contingency built into the Plan will be absorbed during the final quarter.

3.0 Details of Consultation

3.1 Not applicable

4.0 Options and Options Analysis (including risk assessment)

4.1 Actions taken to manage variations in audit workload and availability of resources mean that objectives set out in the approved plan can be achieved. In terms of assurance work, it is projected that the number of audits and reports completed will be at the lower threshold level set for the year. Whilst this level of performance is below that hoped for, it is within the range established within the approved Plan and is felt sufficient to provide an acceptable level of assurance.

4.2 Given the level of available resources, completion of the current programme is the only realistic option. With many audits already being in progress and those remaining being in core areas of assurance work (particularly in financial systems areas), the scope for adjusting the Plan during the final quarter is very limited.

5.0 Officer Preferred Option

5.1 The preferred option is that the planned programme for the remainder of 2007/08 as set out in the monitoring statement at Appendix A is approved.

6.0 Conclusion

6.1 Changes in workload and staffing issues have led to a shortfall in resources for assurance work. Whilst performance in providing assurance has inevitably been affected, the plan has been managed to ensure that acceptable levels of assurance are provided to management and the Audit Committee.

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

Not applicable.

FINANCIAL IMPLICATIONS

None arising from this report.

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

None arising from this report.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

Internal Audit Plan 2007/08

Contact Officer: Derek Whiteway

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E-mail: dwhiteway@lancaster.gov.uk

Ref: aud/comm/audit/080123

Internal Audit Annual Plan 2007/08 - Update at 27/12/07

Appendix A

Area of Work	2007/08 Planned Days	Work Allocations			Actuals to 27/12/07	Status at 27/12/07
		Job No	Title	Alloc. days		
1. ASSURANCE WORK						
CORE FINANCIAL SYSTEMS						
Planned Days	100	07/0674	Housing Benefits (Payments)	8.4	8.4	✓
Allocated	88.7	07/0680	Housing Benefits (Accounting & Subsidy)	2.3	2.3	✓
Unallocated	11.3		Main Accounting	8	0.0	⚠
		07/0715	Asset Management	5	0.3	⚠
		07/0709	Payroll	8	0.1	⚠
		07/0710	Ordering & Payments	8	0.1	⚠
		07/0711	Sundry Debtors	5	0.1	⚠
		07/0708	Income Management	15	5.0	⚠
			Treasury Management	5	0.0	⚠
		07/0707	Council Tax	6	4.2	⚠
		07/0696	National Non-Domestic Rates	7	6.9	⚠
		06/0660	Housing Rents	11	4.3	⚠
CORE MANAGEMENT ARRANGEMENTS						
Planned Days	120	06/0666	Corporate Governance & SIC 2006/07	13.7	13.7	✓
Allocated	109.5	07/0697	Performance Management	20	6.4	⚠
Unallocated	10.5		Risk Management	10	0.0	⚠
		07/0689	Information Management (Records Mgt)	5.6	5.6	✓
			Corporate Governance	12	0.0	⚠
		07/0704	Partnership Arrangements	15	3.1	⚠
		07/0701	Procurement & Contract Management	15	0.9	⚠
		07/0694	Project Management (Review of LAMP)	6.2	6.2	✓
			Fraud & Corruption	12	0.0	⚠
CORE OPERATIONAL SYSTEMS						
Planned Days	70	07/0712	Civica Financial Implementation	15	1.2	⚠
Allocated	15					
Unallocated	55					
RISK BASED ASSURANCE WORK PROGRAMME						
Planned Days	200	07/0658	Licensing	24.9	24.9	✓
Allocated	189.7	07/0681	Sea & River Defences	15	5.6	⚠
Unallocated	10.3	07/0678	Insurances	8	5.7	⚠
		07/0679	Markets	10	0.3	⚠
		07/0682	Vehicles & Plant	15	8.2	⚠
		07/0676	Leisure Centre & Community Pools	15	6.9	⚠
		07/0675	Housing Advances	6	2.4	⚠
		07/0683	Storey Institute (Project)	7	3.6	⚠
		07/0684	Civica Implementation (Project)	5	4.5	⚠
		07/0685	EDMS Implementation (Project)	8	7.3	⚠
		07/0686	Sustainable Community Strategy (Project)	10	5.6	⚠
		06/0634	Elections & Electoral Registration	6.1	6.1	✓
		07/0673	Right To Buy	9.1	9.1	✓
		07/0677	Cemeteries	8.6	8.6	✓
		07/0714	Fair Pay (Project)	15	0.7	⚠
		07/0688	PAYE	12	7.3	⚠
		07/0706	LAA	15	7.2	⚠

Internal Audit Annual Plan 2007/08 - Update at 27/12/07

Appendix A

Area of Work	2007/08 Planned Days	Work Allocations			Actuals to 27/12/07	Status at 27/12/07
		Job No	Title	Alloc. days		
2. CONSULTANCY WORK						
Support Work (projects and other)						
Planned Days	65	06/0628	Project Management Development	15	15.0	✓
Allocated	83.3	06/0630	Procurement Strategy Implementation	10	8.6	⚠
Unallocated	-18.3	06/0633	Risk Management Strategy Implementation	5	3.8	⚠
		03/0509	RIPA Monitoring & Central Register	5	2.6	⚠
		03/0549	News & Views Editorial Team	1	0.4	⚠
		06/0656	Use of Resources 2006/07	0.8	0.8	✓
		06/0664	NFI 2006	3	3.0	✓
		07/0672	Financial Regs & Procedures	1.7	1.7	⚠
		07/0691	NFI 2007/08	7	6.3	⚠
		07/0693	Business Recovery Team	5	1.5	⚠
		07/0695	Asset Management Working Group	10	7.7	⚠
		07/0700	Corporate Governance Framework Development	12	8.0	⚠
		07/0702	CPA Inspection	1.8	1.8	✓
		128/129	Contract Management	2	1.4	⚠
	07/0716	LAA Officer Group	4	0.5	⚠	
Ad-Hoc Advice	60			80.0	60.0	⚠
Efficiency & VfM						
Planned Days	30	07/0687	VfM Self-Assessment	15.4	15.4	✓
Allocated	15.4					
Unallocated	14.6					
3. OTHER						
Non Audit Duties	5	00/0392	Deputy s151 Duties	10	8.2	⚠
4. AUDIT MANAGEMENT						
Planning, Monitoring and Committee Work	45			55	49.8	⚠
5. CONTINGENCIES						
Follow Up Reviews	70			50	26.1	⚠
General Contingency	40					
Investigations						
Planned Days	35		Investgations	80	74.6	⚠
Allocated	80					
Unallocated	-45					
TOTALS						
Planned Days	840					
Allocated	776.6			776.6	480.0	
Unallocated	63.4					

Key: ✓ Completed

⚠ In Progress

⚠ Not Yet Started

Audit Committee**Results of Internal Audit Work****23rd January 2008****Report of Internal Audit Manager****PURPOSE OF REPORT**

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

This report is public

RECOMMENDATIONS

(1) That the report is noted.

1.0 Introduction

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

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

2.0 Results of Internal Audit Work to 31 December 2007

2.1 This report covers audit work and reports issued since the last report to Committee, which was on 24th January 2007. Following training sessions held for members of the new Audit Committee, summary reports are now being issued to Members for consideration and have also been posted on the Council's Intranet.

2.2 If there are any specific questions about a report, or more detailed information is required, it would help if Members could contact the Internal Audit Manager on telephone number 582028 or email dwhiteway@lancaster.gov.uk prior to the meeting.

2.3 The 'headline messages' arising from all audit reports issued since the January 2007 meeting of the Committee are attached to this report as Appendix A, with the reports listed below. Where applicable, the list gives the assurance opinion issued for the area audited under the recently revised reporting processes.

Audit Title		Report Date	Assurance Level	
New Audit Reports				
06/0648	NDR 2006/07 Audit	16/01/07		
06/0643	Information Security Development	25/01/07		
06/0641	Income Management	26/01/07		
06/0650	Council Tax	07/02/07		
06/0651	Treasury Management	20/02/07		
06/0638	Homelessness and Housing Advice	02/03/07		
06/0652	Waste Management	05/03/07		
06/0635	Tourism	27/03/07		
06/0655	Housing Benefits & Council Tax Benefits	05/04/07		
06/0631	Housing Repairs and Maintenance	25/04/07		
06/0647	Creditors 2006/07	27/04/07		
06/0661	Sundry Debtors	29/05/07		
06/0664	National Fraud Initiative	29/05/07		
06/0642	Building Control	29/05/07		
06/0645	Car Parking	11/06/07		
06/0649	Payroll 2006/07	13/07/07		
07/0680	Housing Benefits (Accounting and Subsidy)	11/09/07	Reasonable	✓
07/0674	Housing Benefits (Payments)	11/09/07	Reasonable	✓
07/0677	Cemeteries	21/09/07	Limited	⚠
06/0657	Environmental Protection	24/09/07	Limited	⚠
07/0673	Council Housing – Right to Buy Scheme	05/10/07	Reasonable	✓
06/0634	Elections and Electoral Registration	19/10/07	Reasonable	✓
07/0658	Licensing	19/12/07	Limited	⚠
07/0696	National Non-Domestic Rates 2007/08	21/12/07	Reasonable	✓

Follow-Up Reviews

05/0616	Main Accounting	26/01/07		
05/0606	Income Tax and National Insurance	12/02/07		
05/0601	Creditors	21/02/07		
05/0596	Payroll	26/02/07		
05/0598	Sundry Debtors	27/02/07		
06/0641	Income Management	01/05/07		
05/0604	Health and Safety	18/06/07		
06/0639	Stores	15/08/07		
06/0635	Tourism	14/09/07		
06/0650	Council Tax	26/09/07		
06/0652	Waste Management	26/09/07		
05/0607	Regeneration Programmes	23/10/07		
05/0609	Performance Management	27/11/07		
06/0651	Treasury Management	21/12/07	Reasonable	✓
06/0648	National Non-Domestic Rates 2006/07	21/12/07	Reasonable	✓

3.0 Matters Arising from Audit Reviews

- 3.1 The Internal Audit Manager has received no queries or requests from Members for further information on any of the above reports.
- 3.2 Focussing on those reports for which an assurance opinion has been provided, Members' attention is drawn to the audits where a "limited assurance" opinion was issued:

Cemeteries (07/0677)

Risks for which a reasonable level of assurance could not be given include those relating to:

- the ongoing programme of memorial safety inspections and work;
- the security and efficient management of cemeteries records; and
- a lack of clarity regarding the Council's potential liability for certain "closed churchyards", including that at Lancaster Priory.

The Action Plan contained seven agreed actions. The Internal Audit Manager will provide the Committee with a verbal update on progress.

Environmental Protection (07/0657)

Risks for which a reasonable level of assurance could not be given include those relating to:

- capacity issues in relation to delivery of the newly drafted Environmental Protection Strategy and associated Service Plan; and
- successful transfer of front-office functions to the Customer Service Centres.

The Action Plan contained nine agreed actions. The Internal Audit Manager will provide the Committee with a verbal update on progress.

Licensing (07/0658)

Risks for which a reasonable level of assurance could not be given include those relating to:

- performance management and meeting customer needs and expectations;
- response to complaints; and
- the operation of effective system of pre-licensing checks consultation.

The Action Plan contained nineteen actions, the majority of which have an implementation date of 30 April 2008. It is too soon to be able to provide the Committee any update on progress with this programme of work.

4.0 Results of Responsive Audit Work (Advice, Support and Investigations)

- 4.1 Work has been undertaken during the period in connection with two disciplinary investigations relating to conduct issues. In both instances, the disciplinary processes have now been concluded.
- 4.2 Investigatory work is continuing in relation to suspected petty cash handling and banking irregularities.
- 4.3 A post project evaluation has been undertaken following the implementation of the corporate project management methodology LAMP (Lancaster City Council's Approach to Project Management). As part of the review all staff that have undergone LAMP training (150 people) were surveyed with the overall conclusion that whilst it is still very early days in LAMP becoming established, there is a good level of confidence that the method is being properly applied and is proving to be highly effective in practice. Some actions have been identified and these will be

addressed by the Asset Management Working Group, and a further review of LAMP will be undertaken during 2008/09. The Principal Auditor continues to provide project assurance on four major Council projects, two of which are now coming towards a successful conclusion.

- 4.4 Work for the purposes of a data matching exercise as part of the 2007/08 National Fraud Initiative (NFI) has involved requests from the Audit Commission for the submission of Council tax records and the full electoral register held by public bodies. The legality of this exercise has sparked national debate in relation to questions arising from the powers given to the Audit Commission under the 1998 Audit Commission Act and whether submission of the information held on the electoral register would be in breach of the Representation of the People (England and Wales) Regulations 2001. Following discussions with relevant Heads of Service, including the Monitoring Officer, the Council's response to the data matching exercise was sent to the Audit Commission on 03 January 2008 on behalf of the Head of Financial Services, in her position as Senior Responsible Officer for NFI purposes. The revised deadline for submission of the full electoral register has been extended until 21 January 2008 and a formal reply from the Audit Commission's legal department is awaited. Meanwhile the Council's external auditors, KPMG have been informed of the Council's position.
- 4.5 Audit staff continue to take an active role in officer Groups including the Business Recovery Team, Access to Services Forum and the Local Area Agreement, Child Protection, Procurement, Risk Management and Asset Management Working Groups.

5.0 Details of Consultation

5.1 Not applicable

6.0 Options and Options Analysis (including risk assessment)

6.1 Not applicable

CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)	
None identified	
FINANCIAL IMPLICATIONS	
None arising from this report	
SECTION 151 OFFICER'S COMMENTS	
The Section 151 Officer has been consulted and has no further comments	
LEGAL IMPLICATIONS	
None arising from this report	
MONITORING OFFICER'S COMMENTS	
The Monitoring Officer has been consulted and has no further comments	
BACKGROUND PAPERS	Contact Officer: Derek Whiteway
Internal Audit Files	Telephone: 01524 582028
	E-mail: dwhiteway@lancaster.gov.uk
	Ref: aud/audcomm/070124

Results of Internal Audit Work

The following paragraphs set out the headline messages from audit reports and follow-up reviews issued since the Audit Committee meeting on 24 January 2007.

1. New Audit Reports

06/0648 NDR 2006/07 Audit (issued on 16/01/07)

- The NDR system is well managed, testing carried out providing assurance that key controls are working effectively.
- Measures are currently being taken to address the outstanding agreed actions from the previous audit.

06/0643 Information Security Development (issued on 25/01/07)

- Information and Customer Services have a risk register based on BS ISO/IEC 17799 which will help identify work required to achieve full compliance with the Standard.
- Work is required to encourage ownership of the risks and ensure appropriate controls are in place to achieve target risk scores.
- On the whole security arrangements are good but there is scope to improve.
- The Information Security Policy is to be reviewed and updated to reflect changing technology.
- The responsibilities of Information Custodians are to be formalised, Information Custodians being key to a corporate co-ordinated approach to information security.
- Asset inventories need to be co-ordinated ensuring asset owners are identified, appropriate security classifications are applied and business value is determined to aid business continuity planning.
- Contracts with third parties are to be strengthened through the inclusion of standard clauses relating to information security.
- The security of the network is to be tested through proposals to procure penetration testing from external specialists.

06/0641 Income Management (issued on 26/01/07)

- Income is generally well managed.
- Comprehensive income records are maintained and good review and reconciliation procedures ensure accuracy.
- Indemnity insurance for ICS staff is to be increased to reflect the level of risk posed.
- Issues with contractors supplying systems, which can impact upon downtime, are being addressed by ICS through contract arrangements.
- ICS's implementation of IT Infrastructure Library standards will positively impact upon associated risks through improved systems documentation and change control procedures.

06/0650 Council Tax (issued on 07/02/07)

- The Council Tax system is well managed.
- The Main Accounting System accurately records Council Tax transactions.
- Procedures ensure system parameters are appropriately created, maintained and are independently verified.
- Quality control checks are in place reducing the risk of errors and/or misappropriation going undetected.
- More frequent monitoring and reporting of write-offs has been agreed.
- Actions have been agreed to enhance existing controls regarding credit/arrears print reconciliations.
- Large credit balances are to be reviewed and cleared more frequently.

06/0651 Treasury Management (issued on 20/02/07)

- The accounting system is updated promptly with treasury management transactions.
- Treasury management transactions are supported by a thorough audit trail.
- Good arrangements are in place to ensure that the Authority's accounts accurately reflect the position with regards investment and borrowing.
- Procedures are in place to ensure that treasury management transactions are appropriately reconciled.
- Access to treasury management records and documentation are to be improved.
- Procedures have been agreed in order to improve authorisation mechanisms in respect of manual transactions.

06/0638 Homelessness and Housing Advice (issued on 02/03/07)

- The Lancaster District Homelessness Strategy is in the process of being reviewed.
- Partners are being included in the Strategy's revision from the outset with a view to ensuring the associated action plan has realistic prospects for delivery.
- SLAs will be reviewed to ensure that they are focussed and in line with the new Strategy.
- Recently introduced multi-agency monitoring should provide a better picture of homelessness in the district.
- The focus on homelessness prevention is having a positive impact demonstrated through performance measures.
- The Service needs to continually review and pursue funding to maintain service quality and strive for continuing improvements.
- Effective liaison and nomination agreements with Registered Social Landlords ensure best use of properties as they arise.

06/0652 Waste Management (issued on 05/03/07)

- The Service is striving for continuous improvement and effectively utilises performance management, benchmarking and learning from best practice.
- The Service continues to address its high levels of sickness absence.
- Capacity for environmental enforcement has significantly improved since the Service Inspection and policy and strategy continues to be developed.
- Plans are in place to address the need for the Authority to consolidate its environmental policies and to set targets to reduce, reuse and recycle its own waste.
- It is recognised that more needs to be done to promote sustainable procurement within the Authority.

06/0635 Tourism (issued on 27/03/07)

- TICs are accessible.
- Good arrangements are in place to ensure that the success of marketing campaigns are measured and results are used to make informed decisions regarding future marketing activity.
- The Service makes the most of opportunities to share information and best practice.
- Stock management arrangements are well managed.
- The TICs effectively utilise Information Technology and do all they can to keep up to date with changing technology.
- Security arrangements have and are continuing to improve.
- The Service has set challenging targets against performance indicators (PI's).
- The need to ensure PI data is accurate, consistent, robust and in accordance with the PI's set is to be addressed.

06/0655 Housing Benefits and Council Tax Benefits (issued on 05/04/07)

- Good arrangements have been made for gathering information quickly from claimants, avoiding unnecessary delays in processing claims.
- Effective procedures are in place for verification of the legitimacy of applications.
- Staff are well trained in the application of housing benefit legislation.
- Good arrangements have been made to ensure that regulatory timescales for the processing of claims are complied with, avoiding the risk of backlogs or hardship.
- An effective quality control mechanism is in place.
- Good procedures are in place for the recovery of overpayment of housing benefit.
- The need for an improved feeder between the Housing Benefits and Main Accounting System is to be included in the scope of the new Financial Systems replacement.

06/0631 Housing Repairs and Maintenance (issued on 25/04/07)

- Effective arrangements are in place for the planning and reviewing of the Housing Revenue Account thirty year Business Plan.
- Good arrangements have been made for the regular review of resources required to meet the decent homes standard.
- The Service has a planned approach to maintenance and the current ratios of planned and responsive maintenance is in line with Audit Commission guidance
- Good arrangements are in place to monitor the position on the HRA and forecast the contribution to capital from revenue.
- The section has a comprehensive set of national and local performance indicators in place, linked to Service objectives.
- Good arrangements are in place for the regular monitoring of operational targets which has led to significant improvements in service delivery.
- Good arrangements have been made for monitoring the capital programme.
- Officers made an informed decision to seek the advice of a specialist to evaluate the options available for a procurement

06/0647 Creditors 2006/07 (issued on 27/04/07)

- Creditors and the general ledger modules of the Powersolve system are reconciled daily.
- Responsibilities for managing budgets are clear and corporate financial monitoring arrangements facilitate the review and reporting of significant variances.
- Improvements to the recording of commitments are expected through the introduction of the new Civica system scheduled for October 2007.
- System access rights provide for a proper segregation of duties with exceptions in Financial Services which are to be addressed.
- An annual review of access rights is to be introduced.
- There are good arrangements for manual payments.
- There are good arrangements in respect of the bank reconciliation and action is being taken to get it up to date as soon as possible.
- Actions have been agreed to address the issue of duplicate payments highlighted through concurrent work reviewing reports from the National Fraud Initiative's data matching exercise.

06/0661 Sundry Debtors (issued on 29/05/07)

- There are good arrangements ensuring the accounting system is accurate and up to date in respect of debtors.
- There is a good separation of duties between invoicing and payments, and procedures to deal with unidentified or unallocated payments are good.
- Collection rates are being actively monitored and there has been a steady reduction in the number and value of debts outstanding across the Authority in the last six months.
- Recovery arrangements are good and the Authority makes every effort to recover debts prior to write-off.
- The bad debt provision is considered to be a reasonable reflection of the level of debt deemed to be irrecoverable.

- Management of the risk of fraud through an inadequate separation of duties has significantly improved recently and is to be further enhanced through proposals to introduce the requirement for all debtors accounts raised to be independently authorised.

06/0664 National Fraud Initiative (issued on 29/05/07)

- There was no evidence of fraud.
- Twelve duplicate creditor payments amounting to £7176.03 had been made in error.
- Actions have been agreed in the concurrent Internal Audit Review of Creditors (06/0647) to address the control issues in respect of duplicate creditor payments (e.g. treatment of copy invoices and lack of exception reporting on the current system).
- Data cleansing in preparation for implementing the new Civica Financials system in October 2007 should significantly improve the quality of NFI reports by reducing duplicate creditors.
- Proposals to extend invoice numbers in respect of decorating vouchers issued by Council Housing Services will significantly reduce NFI reports in respect of duplicate creditor payments.
- Action to correct the HR module of the Delphi Millennium system, including hours worked, (c.f. Internal Audit Review of Payroll 06/0649) should eliminate inappropriate NFI matches in future years.

06/0642 Building Control (issued on 29/05/07)

- A model has been developed to manage the building control account more effectively and inform the fee setting exercise.
- In line with regulations, building control fees will be set to recover costs over a three year rolling period, without making a significant surplus or deficit.
- Arrangements are in place for the regular review of fees.
- The ratio of chargeable and non-chargeable work will be supported by a robust system of time recording.
- Arrangements are in place to maximise investment in technology.
- Work performed in relation to the partnering agreement with Lancashire County Property Group is to be quantified and regularly reviewed.
- Local performance measures and individual targets are to be developed and incorporated into a clear performance framework.
- Current arrangements for quality control are to be formalised.

06/0645 Car Parking (issued on 11/06/07)

- Effective measures are in place to constantly monitor and report on the adverse effect that the success of more sustainable modes of transport is having on parking income.
- Good arrangements are in place for establishing the most effective deployment of Parking Attendants.
- Good arrangements are in place for the regular inspection of car parks, these being supported by documented risk assessments.
- Arrangements are in place to ensure that reported hazards/ incidents are dealt with quickly.
- Operational difficulties previously encountered in processing debit/credit card payments have now been resolved through the upgrade of the Authority's electronic payment software.
- Progress has been made in relation to establishing the County Council's intentions in relation to resident parking, and regular meetings take place to ensure that officers and Members remain informed of any developments.

06/0649 Payroll 2006/07 (issued on 13/07/07)

- Arrangements for receiving and processing data in time to ensure pay is correct are well managed.
- Action is being taken by both Legal and Human Resources and Exchequer Services to resolve differences between payroll system data and the Establishment Book.
- The risk of ghost employees being set up and going undetected is to be addressed through the removal of the Exchequer Officer (Payroll)'s access rights to the HR module of the Delphi Millennium system.
- Risks relating to the onward payment of sums deducted from salaries (e.g. Income Tax) are small but are to be enhanced through more frequent independent reconciliations.
- Arrangements ensuring data is received into the main accounting system accurately and completely are good and are to be further enhanced through more frequent reconciliations.

07/0680 Housing Benefits (Accounting and Subsidy) (issued on 11/09/07)**Assurance Opinion: Reasonable** ✓

- Internal Audit is able to provide reasonable assurance that risks are being managed and controls are operating effectively in the areas covered.
- The Service has good arrangements ensuring the accuracy of data within the Academy system which supports the subsidy claim process.
- Action has been agreed to ensure claims could be completed in the event of the responsible officer being unavailable.
- Quarterly meetings are to take place between Revenue and Financial Services with a view to identifying and resolving problems in reconciling Academy and the General Ledger.
- Linked to above it is felt improved interfaces would be beneficial and more efficient in the longer term and both Services should seek to address this through the business planning process.

07/0674 Housing Benefits (Payments) (issued on 11/09/07)**Assurance Opinion: Reasonable** ✓

- Internal Audit is able to provide reasonable assurance that risks are being managed and controls are operating effectively in the areas covered.
- Discretionary housing payments are well controlled.
- There are good arrangements for approving high value payments.
- Payments transferred to Council Housing and Council Tax systems are generally well controlled.
- Controls covering BACS payment processes are good.
- Cheque payments are generally well controlled though there are concerns regarding the inadequate separation of duties in Financial Services.

07/0677 Cemeteries (issued on 21/09/07)**Assurance Opinion: Limited** ⚠

- The Health and Strategic Housing Service is committed to improving the Authority's cemeteries provision and significant improvements have been made in the last few years.
- This review covers areas still needing to be addressed and as such Internal Audit can only provide limited assurance on the areas covered.
- Cemetery records are at risk of loss in the event of fire, flood etc. and the Service's limited administrative resources impact upon full utilisation of the cemeteries system (BACAS).
- The Authority is at risk of substantial losses should an accident occur in a closed churchyard.
- To continue to protect public safety funding is needed to extend the memorial safety programme beyond the two years currently funded.

06/0657 Environmental Protection (issued on 24/09/07)**Assurance Opinion: Limited** ⚠

- Internal Audit is able to provide limited assurance on the adequacy of controls and arrangements for addressing the risks covered.
- The Service has demonstrated a strong desire and enthusiasm to pursue excellence and all significant control issues are being addressed.
- The Environmental Protection Strategy clearly documents service objectives and, together with the associated Service Plan, provides a sound basis for progression.
- Capacity limitations are seen as the biggest threat to progress though it is recognised that aspirations may be too high and this is being addressed.
- The Service continues to take positive steps to ensure staff resources are being used effectively.
- The Service is striving to provide a consistent service which meets customer expectations and service standards are currently under review.

07/0673 Council Housing – Right to Buy Scheme (issued on 05/10/07)**Assurance Opinion: Reasonable** ✓

- Internal Audit can provide reasonable assurance that the scheme is compliant with legislation and the actions agreed should enable full compliance.
- The Authority is unlikely to score well against the related Audit Commission Housing Inspectorate's Key Lines of Enquiry under current arrangements.
- A system to help manage the scheme, available to all relevant Services, would enhance control though given the number of sales involved potential benefits may not warrant the resources needed to set it up.

06/0634 Elections and Electoral Registration (issued on 19/10/07)**Assurance Opinion: Reasonable** ✓

- Internal Audit can provide reasonable assurance that controls relating to elections and electoral registration are operating effectively in respect of the areas covered.
- The Service keeps up to date with legislative changes affecting elections and electoral registration.
- Contingency arrangements, compliant with election legislation, are in place in the event of disruption to voting.
- There are good arrangements for the security of staff canvassing and working on elections.
- Democratic Services are to seek approval from the Head of Financial Services to manage externally funded elections through a system specifically for the purpose (STRAND) on the grounds of efficiency.
- Arrangements are to be put in place to ensure corporate VAT returns are correct.
- Implementation of proposals to review polling districts, places and stations will complete outstanding work required under Electoral Administration Act 2006.

07/0658 Licensing Audit (issued on 19/12/07)**Assurance Opinion: Limited** ⚠

- The Licensing Manager is currently developing performance management arrangements, including a range of targets and indicators, to ensure that the Service continually improves its performance in meeting the needs and expectations of its customers.
- Accounting arrangements are to be reviewed with a view to assisting the Licensing Manager in demonstrating accountability to licence payers.
- Formal procedures for recording and monitoring complaints are to be developed to ensure that complaints are dealt with effectively.
- Arrangements for carrying out checks and consultations prior to the issue of a licence are to be reviewed with a view to improving control in this area.

07/0696 National Non-Domestic Rates 2007/08 (issued on 21/12/07)**Assurance Opinion: Reasonable** ✓

- There are effective arrangements ensuring the NNDR system reflects the Valuation Officer's list.
- The Authority has good arrangements for collecting and receiving payments, and ensuring they are correctly posted to NNDR accounts.
- The proposed interface between the NNDR system (Academy) and the Authority's general ledger (Civica Financials) will enable regular monthly reconciliations between the two systems.
- The Authority is doing all it can to prepare to implement legislative changes modernising empty property relief.

2. Post Audit Reviews**05/0616 Main Accounting (issued on 26/01/07)**

- As it will be necessary to review all feeders during the implementation of the new Finance System (now due October 2007) it has been agreed that the requirement for a feeder enabling automatic transfers between Housing Benefits and the General Ledger be included within the project scope for the new Financial System.
- During the implementation of the new Finance System all parameters will need to be input and the Exchequer Services Manager will carry out checks per the agreed action.
- The possibility of restricting the number of personnel able to introduce or amend new codes will be taken into consideration prior to the implementation of the new Financial System.
- Most reconciliations have been brought up to date and work is ongoing to bring the outstanding reconciliations up to date also.

05/0606 Income Tax and National Insurance (issued on 12/02/07)

- Responsibility for tax planning and control has been allocated to the Exchequer Services Manager however due to a number of staffing issues within Exchequer Services the agreed action has not been implemented. It has been agreed that current procedures will be reviewed with a view to developing a mechanism for effective tax management by the end of July '07.

05/0601 Creditors (issued on 21/02/07)

- The risk of fraud or error through an inadequate separation of duties is to be addressed through reorganising work in Exchequer Services by 31st March 2007.
- Payment mechanisms are increasingly more cost-effective through the introduction of BACS. The introduction of the new Civica financial system (expected October 2007) should further enhance efficiency through enabling the roll-out of procurement cards corporately.
- Work is ongoing to improve efficiency through more effective procurement.

05/0596 Payroll (issued on 26/02/07)

- Work is ongoing to address all actions arising from the original review including periodic checks between the establishment book and system, the introduction of an electronic leaver's form, Services being required to verify their salary budgets and the promotion of arrangements to report paternity leave thus enabling timely reclaims from the DSS.
- Implementation of a new HR/Payroll system which will address some of the control issues identified is now scheduled for April 2009. The Principal HR Officer will take forward the need to revise this date should the Authority be successful in its bid for unitary status.

05/0598 Sundry Debtors (issued on 27/02/07)

- The Service has made excellent progress in implementing the actions agreed with only one not fully implemented.
- Evidence to support reconciliations of the accounts written off per the Powersolve system to the total amount per the authorised write-off schedule is now being provided and a supervisory check of these reconciliations is performed.
- All suspense items dating prior to March 2006 have now been allocated to the bad debt provision and the current years suspense items are being cleared more frequently.
- A more proactive approach to the application of the debt management policy is being taken by Exchequer Services, evidenced by a steady decrease in the number of outstanding debts.
- A revised target date (01/04/07) for Property Services to take over responsibility for raising their own accounts has been agreed.

06/0641 Income Management (issued on 01/05/07)

- A list of officers able to authorise refund requests (i.e. those authorised for petty cash, fund transfers etc.) has been introduced and is being maintained by Exchequer Services.
- The fidelity guarantee insurance cover for Information and Customer Service staff has been increased to £5million with effect from 1st April 2007.

05/0604 Health and Safety (issued on 18/06/07)

- There have been several initiatives aimed at increasing awareness and promoting healthy and safe working practices since the original review.
- Each Service is now required to keep documentation evidencing all employees are aware of H & S policies and risk assessments.
- EDPA documentation has been amended to prompt annual reviews of H & S risk assessments and identification of any related training needs.
- There is still a need to ensure that everyone responsible for carrying out risk assessments is properly trained to do so.
- Committee report writing guidelines have been revised aiming to ensure H & S is properly considered during the decision-making process.
- Proposed improvements to the Safety Officer Team's safety audit process are to be presented to the H & S Committee in September for approval.

- The Authority's H & S Policy is to be issued to contractors with tender documentation.
- Robust monitoring against national Revitalising H & S targets has yet to be introduced through technical and practical difficulties with the collation of baseline data (dependent to some extent on new HR/Payroll system scheduled April 2009).
- Quarterly insurance claim data is being used to improve performance against the national targets.

06/0639 Stores (issued on 15/08/07)

- A stores manual has been drafted and is to be issued to all staff with responsibilities relating to stores, including Services requisitioning stores.
- Concerns over the integrity of the TASK system remain though the system's notepad facility is now being fully utilised to provide a comprehensive audit trail.
- Security arrangements have significantly improved and insurance values have been reviewed and amended.
- Issue procedures have been improved and authorised signatory lists are in the process of being updated.
- Fuel variances are monitored on an ongoing basis and problems recently found with the TRISCAN system are being referred to the system's supplier.
- Delays in inputting information in the system (the prime stock record) are being addressed.
- Stock management is improving through more regular stocktakes, reviews of stock levels and the identification and removal of obsolete stock.
- Regular stocktaking for van stocks, to enable the production of year end stock certificates and proper recording of van stocks in the Authority's accounts, is to be introduced upon taking delivery of the vans currently on order.
- Financial Regulations relating to stores are to be reviewed.
- CC(D)S plan to review the stores operation to take into account the modernisation of the Repairs and Maintenance Service and corporate advances in e-procurement view to achieving best value.

06/0635 Tourism (issued 14/09/07)

- Documented procedures and an audit trail supporting the outturn are now in place for the local performance indicator measuring customer satisfaction.
- The Service's assessment of the advantages and disadvantages of issuing rail tickets on behalf of Northern Rail has resulted in the idea being put on hold through it proving too expensive.
- Lancaster Tourist Information Centre (TIC) is due to move to the Storey Institute in the next year which should improve security. The Service will continue to seek budgets for the installation of webcams at both TICs to further enhance security.

06/0650 Council Tax (issued 26/09/07)

- Arrangements for reporting write-offs to Members are to be clarified through a review of the Debt Management Policy by Financial Services.
- Accounts in credit are now reviewed regularly and Housing Benefits inform Council Tax of awards resulting in credits to enable prompt refunds.
- Problems with reconciling credit/arrears prints to control totals are being taken up with the system supplier, Academy.

06/0652 Waste Management (issued 26/09/07)

- City Council (Direct) Services are actively pursuing improved VfM services.
- The Service recognises the importance of involving users in shaping service delivery and ways of gaining customer input more regularly are continually being sought.
- The Service has set challenging targets for sickness absence and if current performance is sustained efficiency savings should be achieved.
- Enforcement policy continues to be developed and partnership working through MAPS (Multi Agency Partnership Team) seeks to use resources effectively.
- Facilities for reducing, reusing and recycling waste in Council buildings are due to be introduced.
- A Sustainable Procurement policy is in place and associated training has been delivered. Resources for compliance monitoring have yet to be found.

05/0607 Regeneration Programmes

- Management of the risk whereby the Authority may be exposed to financial or legal challenge through a failure to effectively fulfil its role as Accountable Body has improved significantly improved through, amongst other things, a strengthened SRB (Single Regeneration Budget) offer letter, better audit trails within files, dissemination of additional guidance on project closure, related updated procedures and the introduction of a two tier system for Article 4 checks (compulsory audit checks for European funded projects).
- New arrangements for programme management are in place through an officer working group headed by the Corporate Director (Regeneration).
- Corporate project management arrangements have improved through the adoption of LAMP (Lancaster's Approach to Managing Projects) (LAMP).
- Risk management arrangements have, or are to be, improved through formal assessments prior to project approval, the use of LAMP, new documentation assessing the risks individual projects pose to the overall programme and better reporting arrangements. A co-ordinated programme risk assessment/management approach is also being developed.
- Awareness of the importance of document retention has increased though long term document storage is still an issue posing the risk of significant claw-back if the conditions of the funding bodies are not met in full. Clear guidance from Government Office relating to electronic document storage is still awaited.
- The corporate skills gap relating to Public Procurement is being addressed.
- Key staff have attended training on State Aid Rules and ERDF (European Regional Development Fund) offer letters have been strengthened in this respect.
- Despite efforts by the Economic Development Service the lack of long-term job security for staff poses a significant threat to the achievement of regeneration objectives.

05/0609 Performance Management (issued on 27/11/07)

- Internal Audit's opinion supports conclusions in the Audit Commission's report on Data Quality which state 'The Council's overall management arrangements for data quality are performing well' and 'Arrangements in relation to data quality have improved this year'.
- The Authority has a clear commitment to data quality and the achievement of Level 4 against the KLOE.
- The corporate roll out of the Escendency performance management system has raised the profile of performance information and provided an opportunity to promote corporate principles and expectations for data quality.
- The audit trail in respect of the statutory Best Value Performance Indicators (BVPIs) relating to abandoned vehicles (BVPIs 218a and 218b) indicators has significantly improved and is to be improved further through enhanced system reports.
- Problems with the interpretation of the definition for BVPI 199d relating to fly-tipping have been overcome with the Audit Commission calculating the outturn on the Authority's behalf.
- The Authority's target to achieve Level 2 of the Equality Standard by March 2007 has now been postponed to March 2009.
- The target date for clear documented procedures for BVPI 217 (Pollution Control Improvements) has also slipped from March 2007 to March 2008.
- Plans to address problems with BVPIs 226a-c (amount spent on advice and guidance services provided by external organisations) are on hold pending the outcome of Audit Commission's review of statutory indicators which may result in the indicators being deleted.

06/0651 Treasury Management (issued on 21/12/07)**Assurance Opinion: Reasonable** ✓

- All treasury management records are now held securely and the associated risk is considered well managed.
- The implementation of the two outstanding agreed actions should ensure that the risks of losses through illegitimate or inappropriate loan transactions are fully addressed.

060648 National Non-Domestic Rates 2006/07 (issued on 21/12/07)**Assurance Opinion: Reasonable** ✓

- NNDR is well managed and arrangements are in hand for an interface between the NNDR and main accounting systems.

AUDIT COMMITTEE**23rd January 2008****Charter for Internal Audit****Report of Internal Audit Manager****PURPOSE OF REPORT**

To seek the Committee's approval for an updated and revised Charter for Internal Audit

This report is public

RECOMMENDATIONS

1. That the proposed revised Charter for Internal Audit be approved.

1.0 Report

1.1 It has been necessary to revise the Charter for Internal Audit (last approved by Audit Committee in January 2005) to reflect changes in emphasis for Internal Audit and governance arrangements arising from Accounts and Audit (Amendment) (England) Regulations 2006, and best practice as detailed in the latest CIPFA Code of Practice for Internal Audit in Local Government issued in 2006. The revised Charter also takes into account CIPFA Guidance on Audit Committees in Local Government and the subsequent review of this Committee's terms of reference in April 2006, and the appointment of KPMG LLP from the 2007/08 audit year.

1.2 As well as defining the way in which the Internal Audit function is established and undertakes its functions, the revised Charter attached as Appendix A sets out Internal Audit's role, and that of the Audit Committee, in providing assurance on the effectiveness of the Council's governance framework and systems of internal control, culminating in the approval of the Annual Statement of Assurance. Revisions and additions to the Charter have been highlighted in the document using larger *italicised text* for revisions and *italics and underlining* for additions.

1.3 The ongoing development of the corporate assurance framework and the change in emphasis for Internal Audit work will provide the Audit Committee with an opportunity to discuss significant areas of concern and to enable Members to develop their own programmes and priorities, review and influence audit activity and explore ways of obtaining assurance in areas of particular importance to the Committee.

2.0 Options and Options Analysis

2.1 The options are to either approve the proposed revised charter or to retain the existing one. As the revised charter is an update, reflecting changes in emphasis, standards and procedure that have already taken place, the preferred option is that the revision be approved.

CONCLUSION OF IMPACT ASSESSMENT

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

None directly arising from this report

FINANCIAL IMPLICATIONS

None arising from this report

SECTION 151 OFFICER'S COMMENTS

The Section 151 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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**LANCASTER
CITY COUNCIL**

Promoting City, Coast & Countryside

LANCASTER CITY COUNCIL INTERNAL AUDIT CHARTER

APPROVED BY AUDIT COMMITTEE XX/XX/XX

In this draft document, paragraphs that have been revised from the previous Audit Charter are *highlighted in italics*.

New paragraphs are highlighted in *italics and underlining*

PREPARED BY THE INTERNAL AUDIT MANAGER

Revision History

Date of this revision:

Revision Date	Summary of Changes	Version
14/11/07	Initial Draft	0.01

Distribution

Name	Title

Approvals

Name	Date Approved	Link to Approval Minutes	Version
Audit Committee			

Draft

INTERNAL AUDIT CHARTER

Introduction

The main objectives of this Charter are to;

- Explain the role and objectives of Internal Audit in general terms;
- List the actual services provided by Internal Audit;
- Clarify the working relationship with senior officers, managers, staff and the Council's external auditors;
- Specify the operational responsibilities and standards applicable to Internal Audit; and
- Clarify the obligations of clients

Definition of Internal Audit

“Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation’s objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.” – CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. (note – updated from the 2003 Code of Practice)

Purpose of Internal Audit

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

Internal Audit's Strategic Aims and Objectives

Internal Audit's strategic aims and objectives are set out in its Business and Strategic Plan 2007/08 to 2009/10 as follows:

- 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; and
- to meet and exceed existing and emerging professional standards.

Annual Governance Statement

To comply with Regulation 4(2) of the Accounts and Audit (Amendment) (England) Regulations 2006, the Council must publish an annual governance statement which is to include the results of a review of the effectiveness of its governance framework and system of internal control.

The review of effectiveness is informed by the work of managers who have responsibility for the development and maintenance of the governance environment, the Internal Audit Manager's Annual Internal Audit Assurance Statement and the comments of external auditors, review agencies and inspectorates. To facilitate the Internal Audit Manager's statement all Internal Audit Reports will contain a specific opinion on the level of assurance that can be given on the system/arrangements reviewed. Internal Audit will assist in the identification of other potential assurance providers and will liaise with them, especially the Council's external auditors, in planning assurance activity.

The Annual Statement of Assurance will be approved by the Audit Committee and signed by the Leader of the Council and the Chief Executive.

Risk Management and Internal Audit

It is the responsibility of Corporate Directors and Service Heads to establish systems of internal control and to effectively manage both strategic and operational risks relating to their Services. Under the Council's Risk Management Policy, Service Heads have primary responsibility for the day-to-day management of business risk to be underpinned by risk registers linked to the Performance Management Framework. A corporate assurance framework is to be established for the identification and monitoring of significant risks. Internal Audit will contribute to the development, updating and monitoring of the assurance framework which it will use to help identify changing priorities and emerging local and national issues which might warrant audit attention. The Internal Audit Plan will reflect significant business risks and assurance needs. In undertaking audit assignments, Internal Auditors will evaluate risk, provide assurance where possible and seek action to optimise levels of control and attain a reasonable level of assurance.

Scope of Internal Audit

The scope of Internal Audit allows for unrestricted coverage of the authority's activities and unrestricted access to all records, assets, documents, correspondence and control systems deemed necessary in the course of the audit. In addition, Internal Audit, through the Internal Audit Manager, where deemed necessary, will have unrestricted access to:

- the Chief Executive;
- elected Members and the Audit Committee;
- individual Directors and Service Heads; and
- all authority employees.

In pursuing its objectives, Internal Audit will:

- seek to direct audit resources to areas presenting the highest risk to the authority;
- review the effectiveness of operations in meeting the published and planned objectives of the Council;
- review the reliability and integrity of systems and procedures adopted to produce financial and operational information;
- review the effectiveness of systems in ensuring compliance with relevant policies, plans, laws and regulations;
- review the arrangements for safeguarding the Council's assets and interests;
- review and evaluate the economy, effectiveness, and efficiency with which resources are employed;
- conduct special reviews and investigations; and
- liaise with the Council's external auditors in order to maximise the effectiveness of audit activity.

Audit Independence

A key determinant of the effectiveness of Internal Audit is that it is seen to be independent. To ensure this, Internal Audit will operate within a framework that allows:

- unrestricted access to senior management;
- reporting in its own name; and
- segregation from line operations.

Objectivity will be preserved by ensuring that all audit personnel are free from conflicts of interest and do not undertake any non-audit duties.

All Internal Audit activities will be carried out in accordance with the specific authorities provided by the Council's Financial Procedures.

Location of Internal Audit

Internal audit is located within Financial Services, in accordance with the financial regulations, under the direction of the Head of Financial Services (the Council's s151 Officer).

Internal Audit Responsibilities

The main areas of Internal Audit responsibility within the authority are to:

1. To report assurance opinions based on reviews appraising:
 - The effectiveness of arrangements to manage risk, maintain internal control and deliver high standards of governance;
 - The appropriateness and reliability of internal controls; and
 - The suitability and reliability of financial and performance management information.
2. Investigate frauds and irregularities.
3. Support and advise on the development of new policies, strategies, processes and systems.

In managing the Internal Audit function, the Internal Audit Manager is responsible for:

- *providing an Annual Assurance Statement to the Audit Committee based on the results of Internal Audit work and giving an opinion on the effectiveness of the Council's systems of internal control;*
- submitting an annual report to the Audit Committee detailing the performance of Internal Audit for the previous financial year;
- managing the internal audit function and determining the scope and methods of audit activity;
- identifying areas of operation for internal audit review consistent with corporate and other service plans and objectives;
- developing an annual operational plan based on an assessment of materiality and risk and assurance needs;
- reviewing/revising the plan on a quarterly basis, identifying the resources needed to achieve it;
- submitting reports to the Audit Committee on the development, monitoring and review of the annual plan and operational plans;
- ensuring that Internal Audit work is effectively planned, controlled and recorded and is undertaken with due professional care;
- reporting to management on the results of audit activities and agreeing actions for improvements where necessary;
- *providing quarterly updates of assurance opinions issued in audit reports where necessary to the Performance Management Group;*
- reviewing the progress by management to implement the agreed actions for improvements;
- performing audit reviews in collaboration with the Council's external auditors, and;
- maintaining a suitably skilled, qualified, and experienced internal audit service.

Reporting Responsibilities

The Internal Audit Manager reports administratively and functionally to the Head of Financial Services as the Council's s151 Officer. S/he is also authorised to report directly to the Chief Executive and all levels of management as necessary.

The Internal Audit Manager will prepare and distribute to relevant managers and the Audit Committee a written report following the conclusion of each audit, *containing an assurance opinion and an agreed plan of action. Where the level of assurance provided is 'minimal' or 'limited' Internal Audit will seek quarterly updates from relevant managers to be reported to the Audit Committee/Performance Management Group.*

Internal Audit will formally review progress with agreed actions following the agreed implementation date, update the assurance opinion as necessary and report to the Audit Committee.

Audit Resources

The Internal Audit staffing structure will comprise a mix of qualified, technician and trainee posts. *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, will inform the established Employee Development and Performance Appraisal process. The Section will seek to maintain professional focus taking advantage of suitable professional updates and developments.* Internal Audit staff will also contribute to regional Audit Group meetings as appropriate with a view to participating in the development and sharing of best practice. *Any shortages of particular skills to accommodate specific pieces of audit work will be addressed in considering the source and nature of bought-in resources. Alternative delivery options will be considered, including collaboration with other Local Authorities and services provided by consultancy bodies.*

Client Liaison and Reporting

The Internal Audit Plan will be developed through consultation with Service managers and the Corporate Management Team and liaison with other review bodies, especially the Council's external auditor.

In addition to consultation on audit plans, Service Heads will also be consulted at the start of all audit assignments. The audit plan and schedule of work will be posted on the Intranet and *wherever practical work will be scheduled to fit around the workloads of auditees.*

All substantive audit assignments will be the subject of formal reports. All reports will be drawn up in consultation with auditees and agreed for factual accuracy. Findings will be discussed with a view to agreeing actions for improvement as appropriate. Any unresolved issues will be reported as such together with the reasons why an agreed action cannot be formulated.

Once agreed final reports will be issued to relevant managers, Directors, the Head of Financial Services and the Audit Committee. A copy is sent to the Council's external auditors and a copy of the report will be posted on the Intranet.

To assist Audit Committee in reviewing progress and ensuring management take appropriate action to implement the agreed actions Internal Audit will seek quarterly updates from service managers where the assurance opinion given is 'minimal' or 'limited'. Internal Audit will also formally follow up the implementation of agreed actions and update their assurance opinion following the agreed implementation date.

Performance Management and Quality Control (note – replaces section titled “quality Control”)

All aspects of the Internal Audit service are assessed directly by the Council's external auditors as part of a three-yearly detailed review based on the Audit Commission's 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.

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 Feedback questionnaires will be issued following each audit report to enable managers to give feedback on the audit assignment in order to facilitate continuous improvement of internal audit work. Every quarter the Internal Audit Manager will review the responses to the satisfaction surveys and take action as appropriate. Outcomes from satisfaction surveys will be reported to Audit Committee.

Relationship with External Audit

To ensure proper co-ordination of the authority's overall audit arrangements, the Internal Audit Service will, in conjunction with the authority's external auditor, produce a protocol for liaison and joint working and keep it under review.

The protocol will contain provisions enabling the Internal Audit Service to follow up external audit reports and recommendations.

Client Obligations

Service charters not only require the obligations and responsibilities of the service provider to be clear, but also those of the client. Effective service delivery is a two-way process. In the Internal Audit and Risk Management context this is particularly important as Service Heads and managers need to understand what their role is in relation to internal control and the management of risk. In specific terms, this involves:

- identifying, evaluating and managing business (including financial) risks on a day-to-day basis in accordance with the Council's Risk Management Policy;
- informing Internal Audit of proposed new systems to enable involvement from the outset, the scope of involvement to be mutually agreed;
- identifying specific risk areas for potential review by Internal Audit;
- discussing risks identified with the Lead Auditor at the start of an audit assignment with a view to agreeing the scope, objectives and methodology for the review, to be formalised in the audit brief;
- agreeing with the Lead Auditor the plan for the review including timescales, communication lines and expectations, in-line with Corporate policy;
- providing constructive input and adequate resources to complete the review within the agreed timescale;
- responding to audit requests and documentation on a timely basis ensuring that accurate, up-to-date information is made available to auditors as required;
- evaluating and taking ownership of agreed actions, taking account of risk and cost-effectiveness, and;
- implementing agreed actions in line with agreed timescales.