



Committee: AUDIT COMMITTEE
Date: WEDNESDAY, 25 JUNE 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 23rd April 2008 (previously circulated).
3. **Appointment of Vice Chairman**
4. **Items of urgent business authorised by the Chairman**
5. **Declarations of Interest**
6. **Annual Audit and Inspection Plan 2008/09** (Pages 1 - 28)
Report of the External Audit Manager
7. **Statement of Accounts 2007/08** (Pages 29 - 31)
Report of the Head of Financial Services
Statement of Accounts to follow.
(A briefing for Audit Committee, Budget and Performance Panel and Cabinet Members is to be held on 23rd June regarding this item).
8. **Risk Management** (Pages 32 - 45)
Report of the Head of Financial Services
9. **Constitutional Amendment - Restriction on Cabinet Members as Members of the Planning Committee** (Pages 46 - 49)
Report of the Chief Executive
10. **Results of Internal Audit Work** (Pages 50 - 57)
Report of Head of Internal Audit

11. **Internal Audit Annual Report 2007/08** (Pages 58 - 69)
Report of Head of Internal Audit
12. **Annual Governance Review 2007/08** (Pages 70 - 95)
Report of Corporate Director (Finance and Performance)
13. **Internal Audit Strategic & Annual Plans 2008/09** (Pages 96 - 113)
Report of Head of Internal Audit

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

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

(ii) Substitute Membership

Councillors Shirley Burns, Tina Clifford, Sarah Fishwick, Karen Leytham, Geoff Marsland, Ian McCulloch and Sylvia Rogerson

(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,
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TOWN HALL,
DALTON SQUARE,
LANCASTER LA1 1PJ

Published on Monday, 16th June 2008

Audit and Inspection Plan

June 2008

Lancaster City Council

Lancaster City Council

Audit 2008/09

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

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

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

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

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

Status of our reports

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

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

Copies of this report

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Introduction

- 1 This plan sets out the audit and inspection work that we propose to undertake for the 2008/09 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of moving towards Comprehensive Area Assessment (CAA). It reflects:
 - audit and inspection work specified by the Audit Commission for 2008/09;
 - current national risks relevant to your local circumstances; and
 - your local risks and improvement priorities.
- 2 During 2008/09, the role of Relationship Manager will be replaced by the post of Comprehensive Area Assessment Lead (CAAL). The CAAL for the Council is Tom Keena. He will provide the focal point for the Commission's work in your local area, lead the CAA process, and ensure that the combined inspection programme across all inspectorates is tailored to the level and nature of risk for the area and its constituent public bodies. The Commission has become the statutory gatekeeper of all inspection activity involving local authorities.
- 3 The audit work will be undertaken by the appointed auditor, KPMG LLP ('KPMG'), and the team is led by Kevin Wharton.
- 4 As we have not yet completed our audit for 2007/08, the audit planning process for 2008/09, including the risk assessment, will continue as the year progresses, and the information and fees in this plan will be kept under review and updated as necessary.

Responsibilities

- 5 We comply with the statutory requirements governing our audit and inspection work, in particular:
 - the Audit Commission Act 1998;
 - the Local Government Act 1999 (best value inspection and audit); and
 - the Code of Audit Practice.
- 6 The Code of Audit Practice (the Code) defines auditors' responsibilities in relation to:
 - the financial statements (including the annual governance statement); and
 - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 7 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the Council. The Audit Commission has issued a copy of the Statement to every audited body.
- 8 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.

Fee for audit and inspection work

- 9 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales 2008/09. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 10 The total indicative fee for the audit and inspection work included in this audit and inspection plan for 2008/09 is for £129,972, which compares to the planned fee of £130,100 for 2007/08.
- 11 A summary of this is shown in the table below. The fee is determined by audit risks identified, mandated work and basic assumptions. A detailed breakdown of the audit and inspection fee is included in Appendix 2.

Table 1 Audit and inspection fee

Audit area	Planned fee 2008/09	Planned fee 2007/08	Page
Total audit fee	£124,000	£111,000	9
Total inspection fee	£5,972	£19,100	12
Certification of claims and returns - estimate	£40,000	£40,000	19

- 12 The Audit Commission scale fee for Lancaster City Council is £126,230. The fee proposed for 2008/09 is 1.8 per cent below the mid-point of the scale fee and is within the normal level of variation specified by the Commission.
- 13 We have set our fee based on a number of assumptions which are detailed in Appendix 2.
- 14 The Audit Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work is required than envisaged by the scale fee. The Audit Commission may, therefore, adjust the scale fee to reflect the actual work that needs to be carried out to meet the auditor's statutory responsibilities, on the basis of the auditor's assessment of risk and complexity at a particular body.
- 15 It is a matter for the auditor to determine the work necessary to complete the audit and, subject to approval by the Audit Commission, to seek to agree an appropriate variation to the scale fee with the Council. The Audit Commission expects normally to vary the scale fee by no more than 30 per cent (upwards or downwards). This fee then becomes payable.

Process for agreeing any changes in audit fees

- 16** As set out in paragraph 5, it is possible that the initial risk assessment will change as the year progresses. Where this is the case, we will discuss this in the first instance with Roger Muckle, Corporate Director (Finance and Performance). Supplements to the plan will be issued and discussed with you to record revisions to the risk and the impact on the fee.

Auditor's report on the financial statements

- 17 KPMG are required to issue an audit report giving our:
- opinion on whether the financial statements present fairly the financial position of the Council as at 31 March 2009; and
 - conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Financial statements

- 18 We have not undertaken a risk assessment for our audit of the financial statements as many of the specific risks may only become apparent after we have completed our 2007/08 audit. We will discuss a separate opinion Audit and Inspection Plan for our audit of the financial statements in December 2008.
- 19 At this stage we are aware of the following risks that are likely to impact on our audit of the financial statements:
- the requirement to continue to comply with the financial reporting standards covering financial instruments; and
 - the second year of the application of a revaluation reserve in the Council's financial statements.

VFM conclusion

- 20 In reaching our conclusion, KPMG will review evidence that is relevant to the Council's performance management and financial management arrangements.
- 21 The key risks highlighted from our planning are summarised in the table below with details of planned work to mitigate the risks. Full details of our risk assessment are outlined in Appendix 3.

Table 2 Key risks identified

Key risks identified	Planned work to address the risk
The Council is in the process of making significant changes to its pay structure.	We will review the process the Council used to review its pay structure, and compare this with our experience elsewhere.
The Council generally has a positive relationship between the level of spend and performance. However, high performance has not yet been demonstrated in priority areas.	We will review the Council's arrangements in relation to securing VFM, and, using examples of notable practice from other Councils, will highlight areas for improvement. We will also highlight areas that the Council needs to address in order to meet the requirements of the Comprehensive Area Assessment in relation to VFM.

Use of resources

- 22 This audit plan covers the last year of the current regime for Use of Resources assessment as part of the CPA framework. The work required to arrive at the 2007/08 Use of Resources assessment is fully aligned to that required to arrive the auditor's 2008/09 Value for Money conclusion.
- 23 Appendix 1 outlines the criteria and scoring.
- 24 The initial risk assessment for use of resources work is shown in Appendix 3. This will be updated through the continuous planning process as the year progresses.

Mandated work

25 As part of the audit, the mandated work programme comprises:

- data quality;
- whole of government accounts; and
- National Fraud Initiative.

Appendix 1 highlights the work to be undertaken.

CPA and inspection

- 26 From April 2009, the Audit Commission, jointly with the other public service inspectorates, will be implementing Comprehensive Area Assessment (CAA). Therefore, 2008/09 is the last year in which corporate assessments and programme service inspections will be undertaken as part of the CPA framework.
- 27 The Audit Commission's CPA and inspection activity is underpinned by the principle of targeting our work where it will have the greatest effect, based upon assessments of risk and performance.
- 28 The Council's CPA category is, therefore, a key driver in the Commission's inspection planning process. In February 2008, the Council was categorised as good following a corporate assessment inspection.
- 29 We have applied the principles set out in the CPA framework, '*CPA – District Council Framework From 2006*', recognising the key strengths and areas for improvement in the Council's performance.
- 30 Strengths in the Council's performance include:
- ambitious plans to regenerate the district;
 - a performance management framework which supports service improvement;
 - significant improvements to key services such as housing benefits and recycling; and
 - impressive neighbourhood management work.
- 31 Areas for improvement in the Council's performance include:
- support to the LSP in developing a Sustainable Community Strategy;
 - developing political leadership;
 - progress in addressing equality and diversity issues; and
 - performance management arrangements for key partnerships.

- 32 On the basis of the planning process, we have identified where inspection activity will be focused for 2008/09 as follows.

Table 3 Summary of inspection activity

Inspection activity	Reason/impact
Comprehensive Area Assessment Lead (CAAL) replacing RM	To act as the Commission's primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Direction of Travel (DoT) assessment	An annual assessment, carried out by the CAAL, of how well the Council is securing continuous improvement. The DoT statement will be reported in the Annual Audit and Inspection Letter.

Additional services work

- 33** We are not proposing to do any additional services work at Lancaster City Council during 2008/09.

The audit and inspection team

- 34 The key members of the audit and inspection team for the 2008/09 audit are shown in the table below.

Table 4 Audit and inspection team

Name	Contact details	Responsibilities
Tom Keena CAAL	t-keena@audit-commission.gov.uk 01204 877300	The primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Kevin Wharton Appointed Auditor	kevin.wharton@kpmg.co.uk 0161 246 4758	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive and audit committee.
Jillian Burrows Audit Senior Manager	jillian.burrows@kpmg.co.uk 0161 246 4705	Overall responsibility for the management of the client relationship and the delivery of the programme of audit work.

Quality of service

- 35 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact your CAAL or Appointed Auditor in the first instance. For any complaints concerning audit work, you may wish to contact KPMG's national contact partner for Audit Commission work, Trevor Rees (trevor.rees@kpmg.co.uk).
- 36 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet 'Something to Complain About', which is available from the Commission's website (www.audit-commission.gov.uk) or on request.

Planned outputs

- 37 Reports will be discussed and agreed with the appropriate officers before being issued to the audit committee.

Table 5 **Planned outputs**

Planned output	Indicative date	Responsibility
Audit and Inspection Plan	May/June 2008	CAA Lead and KPMG
Interim audit memorandum	May/June 2009	KPMG
Annual governance report (ISA260)	30 September 2009	KPMG
Auditor's report giving an opinion on the financial statements and value for money conclusion	30 September 2009	KPMG
Use of resources report	TBC	KPMG
Annual Audit Letter (including DoT report)	TBC	KPMG and CAA Lead

Appendix 1 – Work under the Code of Audit Practice

Financial statements

- 1 KPMG will carry out our audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 2 KPMG are required to issue an opinion on whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Council as at 31 March 2009 and its income and expenditure for the year.
- 3 KPMG are also required to review whether the Annual Government Statement has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the Annual Government Statement is misleading or inconsistent with our knowledge of the Council.

Value for money conclusion

- 4 The Code requires your appointed auditor to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. The Code also requires the auditor to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at their conclusion.
- 5 In meeting this responsibility, KPMG will review evidence that is relevant to the Council's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators, for example Communities and Local Government, we will normally place reliance on their reported results to inform our work.
- 6 We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

Use of resources assessment 2007/08

- 7 The Use of Resources themes and KLOE are outlined below. The work required to arrive at the use of resources assessment is fully aligned with that required to arrive at the auditor's value for money conclusion.

- 8 The appointed auditor will arrive at a score of 1 to 4, based on underlying key lines of enquiry, for each of the following themes:

Table 6 Use of resources assessment criteria

Theme	Description
Financial reporting	<ul style="list-style-type: none"> • Preparation of financial statements • External reporting
Financial management	<ul style="list-style-type: none"> • Medium-term financial strategy • Budget monitoring • Asset management
Financial standing	<ul style="list-style-type: none"> • Managing spending within available resources
Internal control	<ul style="list-style-type: none"> • Risk management • System of internal control • Probity and propriety
Value for money	<ul style="list-style-type: none"> • Achieving value for money • Managing and improving value for money

- 9 KPMG will report details of the scores and judgements made to the Council. The scores will be accompanied, where appropriate, by recommendations for improvement.
- 10 The auditor's scores are reported to the Commission and are used as the basis for its overall use of resources judgement for the purposes of CPA. The timescales for the 2008 assessment are as follows:
- completion of work by audit team - July to mid October 2008;
 - scores submitted for local quality control process - 24 October 2008;
 - scores submitted for national quality control process (and sharing of pre-national QC scores) - 14 November 2008;
 - national QC finalises scores - 5 December 2008; and
 - Audit Commission notification to Councils of Use of Resources score and five theme scores - 8 December 2008.

Data quality

- 11 This plan covers the 2007/08 data quality work. This is based on a three-stage approach covering:
 - Stage 1 – management arrangements;
 - Stage 2 – analytical review; and
 - Stage 3 – risk-based data quality spot checks of a sample of performance indicators.
- 12 Work will be focused on the 2007/08 overall arrangements for data quality, particularly on the responsibility of the Council to manage the quality of its data,
- 13 The fee estimate reflects an assessment of risk in relation to the Council's data quality arrangements and performance indicators. This risk assessment may change depending on our assessment of your overall management arrangements at stage 1 and we will update our plan accordingly, including any impact on the fee.

Whole of government accounts

- 14 KPMG are required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office.

National Fraud Initiative

- 15 The Council participates in the National Fraud Initiative, which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated against public bodies. This work will be carried out by an individual appointed to assist in the audit of the Council's accounts (in accordance with section 3(9) of the Audit Commission Act 1998).

Certification of grant claims and returns

- 16 KPMG will continue to certify the Council's claims and returns on the following basis:
 - claims below £100,000 will not be subject to certification;
 - claims between £100,000 and £500,000 will be subject to a reduced, light-touch certification; and
 - claims over £500,000 will be subject to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced certification approach for these claims.

Electors Challenge

- 17 The Audit Commission Act 1998 gives electors certain rights. These are:
- the right to inspect the accounts;
 - the right to ask the auditor questions about the accounts; and
 - the right to object to the accounts.
- 18 As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.
- 19 In making our decision on objections raised by electors, we can take the following actions:
- issue a public interest report, which the Council has to consider and respond to. Further to this there are also publicity requirements that councils must fulfil if they receive a public interest report;
 - issue an advisory notice. The effect of an advisory notice is that it is not lawful for the Council or any officer to do what is set out in the advisory notice until,
 - the Council has considered the consequence of doing it;
 - the Council or officer has given the auditor the required notice in writing; and
 - that notice period has expired;
 - make a statutory recommendation, which the Council must consider within one month of receiving it at a meeting of the Council; and
 - make an application to court that an item of account is contrary to law, which if successful could result in an order for the accounts to be rectified and an order for costs to be paid.
- 20 The costs incurred in responding to questions or objections raised by electors is not part of the fee referred to in Appendix 2 and paragraph 9 of the main body of this audit plan. This work will be charged on a grade related basis in accordance with the Audit Commission's fee scales.

Appendix 2 – Basis for fee

- 1 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means making sure that our work is coordinated with the work of other regulators, and that our work helps you to improve.
- 2 Our risk assessment process starts with the identification of the significant financial and operational risks applying at the Council with reference to:
 - our cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
 - the Council's strategic risk register;
 - interviews with Council officers;
 - liaison with internal audit; and
 - the results of other review agencies' work where relevant.

Assumptions

- 3 In setting the fee, we have assumed that:
 - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2007/08;
 - you will inform us of significant developments impacting on our audit;
 - internal audit meets the appropriate professional standards;
 - you will identify and implement any changes required under the CIPFA SORP within your 2008/09 financial statements;
 - your financial statements will be made available for audit in line with the timetable we agree with you;
 - good quality working papers and records will be provided to support the financial statements in line with the agreed timetable;
 - requested information will be provided within agreed timescales;
 - prompt responses will be provided to draft reports; and
 - additional work will not be required to address questions or objections raised by local government electors.
- 4 Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the opinion audit plan.

- 5 Changes to the plan will be agreed with you. These may be required if:
- new residual audit risks emerge;
 - additional work is required by the Audit Commission, KPMG or other regulators; or
 - additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.
- 6 Below is a detailed breakdown of the audit and inspection fee for 2008/09.
- 7 The fee (plus VAT) will be charged in six equal instalments from September 2008 to February 2009.

Table 7 Detailed audit and inspection fee

Audit area	Planned fee 2008/09 (£)	Planned fee 2007/08 (£)	Page
Audit			
Financial statements	63,000	58,000	9
Use of resources: • Risk-based reviews • Use of resources assessment	42,000	37,000	17
Data quality	15,000	13,000	18
Whole of government accounts	2,500	2,000	19
National Fraud Initiative	1,500	1,000	19
Total KPMG audit fee	124,000	111,000	
Inspection			
Relationship management	2,986	2,870	12
Direction of travel report	2,986	2,870	12
Corporate assessment inspection	-	13,360	12
Total inspection fee	5,972	19,100	
Total audit and inspection fee	129,972	130,100	
Certification of claims and returns (estimate)	40,000	40,000	19

Appendix 3 – Initial risk assessment – use of resources and VFM conclusion

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor’s responsibilities
<p>The Council generally has a positive relationship between the level of spend and performance. However, high performance has not yet been demonstrated in priority areas. This presents a risk to the Council in being able to demonstrate that value for money is being achieved.</p>	<p>Actions have been taken to allow the Council to manage and control unintended spending, for example, through the implementation of LAMP (Lancaster Approach to Managing Projects).</p>	<p>Yes</p>	<p>We will review the Council’s arrangements in relation to securing VFM, and, using examples of notable practice from other Councils, will highlight areas for improvement. We will also highlight areas that the Council needs to address in order to meet the requirements of the Comprehensive Area Assessment in relation to VFM.</p>	<p>KLOE 5.1 - The Council currently achieves good value for money. KLOE 5.2 - The Council manages and improves value for money.</p>

24 Lancaster City Council | Appendix 3 – Initial risk assessment – use of resources and VFM conclusion

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor’s responsibilities
<p>The Council is in the process of making significant changes to its pay structure. This presents risks in terms of the management of the process and also financial risks to the Council.</p>	<p>The Council is due to begin modelling the impact of changes to the pay structure over the coming months, which will give a clearer picture of the impact that the changes to the pay structure will have. Consultations have also been held with relevant stakeholders.</p>	<p>Yes</p>	<p>We will review the process the Council used to review its pay structure, and compare this with our experience elsewhere.</p>	<p>KLOE 4.1 - The Council manages its significant business risks.</p>

Appendix 4 – Independence and objectivity

- 1 We are not aware of any relationships that may affect the independence and objectivity of the KPMG audit staff, which we are required by auditing and ethical standards to communicate to you.
- 2 We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised below.
- 3 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of my appointment. When auditing the financial statements auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 4 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 5 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
 - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
 - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.
- 6 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the audit committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.
- 7 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

- 8 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows:
- appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee;
 - auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission;
 - the Appointed Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years;
 - the Appointed Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body; and
 - the Appointed Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Appendix 5 – Working together

Meetings

- 1 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers.
- 2 The meetings will be organised by the Audit Commission and KPMG and our proposal for this is as follows:

Table 8 Proposed meetings with officers

Council officers	Audit Commission staff	Timing	Purpose
Corporate Director (Finance and Performance) and Head of Financial Services	Appointed Auditor (AA) and Assistant Manager (AM)	Monthly	General update plus: <ul style="list-style-type: none"> • Audit and Inspection Plan; • Accounts progress; and • Use of resources developments.
Internal Audit Manager	AM	Bi-monthly/ Quarterly	Update on audit progress and issues
Audit Committee	AA or Senior Audit Manager or AM	Quarterly	Formal reporting of: <ul style="list-style-type: none"> • Audit and Inspection Plan; • Annual governance report; • Annual Audit and Inspection Letter; and • other issues as appropriate.

Sustainability

- 3 The Audit Commission is committed to promoting sustainability in our working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:
 - reducing paper flow by encouraging you to submit documentation and working papers electronically;
 - use of video and telephone conferencing for meetings as appropriate;
 - reducing travel; and
 - other initiatives.
- 4 As KPMG we are also taking steps to improve our environmental performance. Achievements to date include:
 - all offices certified ISO14001, the leading international standard for environmental management systems;
 - our Responsible Consumption programme enables our people to actively contribute to the firm being environmentally responsible;
 - more than 40 percent of paper purchased is recycled paper;
 - over 90 percent of the electricity used in buildings is now from renewable sources; and
 - some 1.8 million travel miles have been saved through car sharing schemes and 1.5 million miles have been saved through audio and video conferencing.

AUDIT COMMITTEE

**Statement of Accounts 2007/08
25 June 2008**

Report of Head of Financial Services

PURPOSE OF REPORT
This report seeks Members' approval of the draft Statement of Accounts for 2007/08 and outlines the audit process for information.
This report is public.

RECOMMENDATIONS

- (1) That the Committee considers the Accounts and any issues arising.
- (2) That the draft Statement of Accounts for the financial year ended 31 March 2008 be approved, and that the Chairman signs and dates the Accounts accordingly.

1 ACCOUNTS AND AUDIT REGULATIONS 2003 (AS AMENDED)

- 1.1 Each year Councils must make arrangements for the production, consideration, approval, inspection and audit of their accounts. The Account and Audit Regulations set out various requirements in relation to the process, and in recent years they have been updated to provide for the following:
- Date of Approval
Previously Councils had to gain approval of their accounts by 30 September but in recent years the deadline has been brought forward on a phased basis. The deadline is now fixed at 30 June and this has applied since 2005/06.
 - Signing of Accounts by Chairman
The intention behind this requirement is that the chairman's signature should represent the completion of the Council's approval process for its accounts. The requirement for him to sign does not relate to the role of the chief financial officer, as that officer alone is responsible for certifying that the statement of accounts is a proper reflection of the Council's financial position. Notwithstanding this, the Committee is required to consider the accounts though it is recognised that practically, it is very difficult for Members (and others) to comment and challenge constructively, on what is a very complex document. To help with this,

however, an informal briefing session for relevant Members is being organised, prior to the formal Audit Committee meeting.

- Provision for Missing Deadline for Approval
Where an authority fails to approve its accounts by the 30 June deadline, e.g. because of discrepancies, it must hold a further meeting within 20 days to re-consider the accounts. If it still cannot approve the accounts then, it must publish a statement as to the reasons why. It is envisaged that these provisions would be used only in exceptional circumstances.
- Annual review and statement on internal control
This is the subject of an item elsewhere on the agenda, i.e. the Annual Governance Statement.
- Publication of Accounts
The deadline for publication has also been brought forward in recent years, and is now fixed at 30 September.

2 APPROVAL AND AUDIT OF ACCOUNTS PROCESS

- 2.1 Under the Constitution, this Committee has specific authority to approve the Statement of Accounts. Subject to this approval being gained, the Chairman will be asked to sign and date a copy of the accounts for the purpose outlined above.
- 2.2 At the time of writing this report, however, the draft accounts were still being finalised and therefore copies will be circulated to Members as soon as they are completed. Outline explanatory information on interpreting the accounts and the key issues arising will be included in the 'Foreword' section, and Members may find this a useful overview and starting point in their deliberations. It is also highlighted that in line with changes to the latest Accounting Code of Practice, there have been some further changes to the presentation of various elements of the accounts for 2007/08 and these will be outlined at the briefing and the meeting.
- 2.3 Subsequent to the accounts being approved, KPMG, the Council's External Auditors, are due to commence the audit of accounts on Monday 21 July. The four week public inspection period will commence on Wednesday 02 July, and the External Auditor will be available to answer local electors' questions relating to the accounts on Thursday 31 July. In accordance with the Regulations, these dates are being advertised in the local press and on the website.
- 2.4 If any significant issues or 'non-trifling' matters arise during the audit these will need to be reported back for consideration by the Committee. In any event, the outcome of the audit will be included within the External Auditor's Annual Audit and Inspection Letter to the Authority, which will be reported to all Members in due course.
- 2.5 Once audited, the Statement of Accounts will be published by 30 September. Summary accounts and information will also be made available as appropriate, through other existing Council publications and the website.

3 Details of Consultation

No other consultation, other than the Member briefing and the public inspection period as referred to above.

4 Options and Options Analysis (including risk assessment)

Members could consider and approve the accounts as set out, which would meet the statutory deadline, and they could also request further information or make supporting recommendations. As the approval process represents, in the main, an acknowledgement that the draft accounts have been completed, there are no substantive alternative options put forward. If, however, Members have significant concerns or issues, e.g. where major discrepancies seem apparent, and they do not feel in a position to approve the accounts, then the provisions for failing to meet the statutory deadline are outlined above. It is reiterated, however, that these provisions are designed to deal with exceptional circumstances, rather than being the norm.

5 Conclusion

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

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

No implications directly arising.

FINANCIAL IMPLICATIONS

The Statement reflects the 2007/08 provisional outturn position, which is to be reported in more detail to Cabinet at the end of July. Any further implications arising for current and future years are currently being assessed and will feed through into this year's corporate financial monitoring and/or the review of the Medium Term Financial Strategy and Capital Investment Strategy.

DEPUTY SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

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

MONITORING OFFICER'S COMMENTS

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

<p>BACKGROUND PAPERS Accounting and Audit Regulations 2003, as amended.</p>	<p>Contact Officer: Nadine Muschamp Telephone: 01524 582117 E-mail: nmuschamp@lancaster.gov.uk Ref:</p>
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AUDIT COMMITTEE**Risk Management
25 June 2008****Report of Head of Financial Services****PURPOSE OF REPORT**

To seek Audit Committee's approval of the revised Risk Management Strategy, to provide assurance that the risks relating to Member Decision Making and Luneside East are being actively managed, and to recognise the work that needs to be done to satisfy the Audit Commission's Key Lines of Enquiry (KLOEs) for Use of Resources 2008/09.

This report is public.

RECOMMENDATIONS

1. That the revised Risk Management Strategy be approved.
2. That the Committee notes the risk position and the actions taken regarding:
 - claims relating to the basis on which planning permission is refused, and
 - the Luneside East developmentsand considers whether it wishes any further information or actions to be considered, in order to provide reasonable assurance regarding the future management of these risks.
3. That the Committee recognises the work that needs to be done to satisfy the Audit Commission's Key Lines of Enquiry (KLOEs) for Use of Resources 2008/09.

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 May 2007 and were formally approved by Audit Committee at its meeting on 27 June 2007.
- 1.3 Since the last revision, a number of areas have been identified as being in need of updating.
- 1.4 The Use of Resources assessment undertaken by the Audit Commission, and the recent internal audit report on risk management, highlight the importance of regularly updating the Risk Management Policy and Strategy.

2 PROPOSED CHANGES TO RISK MANAGEMENT STRATEGY

- 2.1 The strategy is attached, highlighting the main alterations as follows;
- The responsibility for the Head of Financial Services relating to Audit Committee now reads '*To provide a report on the effectiveness of the risk management strategy, on an exceptions basis. Reports would cover major changes in high impact risks and/or areas where remedial action is required.*' This is to reflect the fact that Audit Committee's role is to review assurances that corporate business risks are being effectively managed, and to monitor and review the effective management of risk by officers.
 - The responsibilities of Internal Audit now read '*To develop and deliver a risk based audit plan designed to provide assurance to management and the Audit Committee on the effectiveness of risk management arrangements within the Council*' and '*to provide an annual opinion and assurance statement on the effectiveness of the Council's risk management, internal control and corporate governance arrangements*'. This is to bring Internal Audit's responsibilities in line with those as set out in their Charter and supporting plans.

3 KEY RISK ISSUES ARISING

- 3.1 There have recently been two major insurance claims made under the Officials' Indemnity policy. One relates to the alleged incorrect granting of planning permission and is still under investigation. The other related to a planning appeal but insurers refused to indemnify the Council due to there being no actual "error". The basic circumstances giving rise to the appeal were that Members refused to grant planning permission despite Officers' Recommendations that they should allow it. In the absence of indemnity from the insurers, the Council was still duty bound to pay an award of costs of £78k to the appellant. This incident highlighted that Members' decisions not to follow Officer advice could be a major risk to the Council; depending on the basis of the decisions reached, the impact being significant financial loss and/or reputational damage to the Council.
- 3.2 As a result of this, the Head of Planning Services presented a report to Planning and Highway Regulatory Committee on 12 November 2007 advising Members of the consequences of such decisions and the grounds upon which they fall liable for costs. The report explained that refusing planning permission against Officer advice is not in itself unreasonable behaviour, indeed without the freedom to do so, the democratic element of decision making within local government could not function and all planning decisions would have to be delegated to Officers. In exercising their

freedom, however, Members need to be very careful that they can base their decisions on sound planning grounds which can be defended at appeal.

3.2 In order to help mitigate the risk of this happening again, members of Planning Committee have now been supplied with a copy of an extract from Circular 8/93 "Costs in Planning and other Proceedings" and advised that the extract be kept safely with the Constitution and Planning Protocol for future reference when required. This is in addition to the compulsory training that all members of Planning Committee and their subs receive before they are able to sit on the Committee.

3.3 The Risk and Insurance Manager has discussed the matter with Planning Services and is satisfied with the arrangements in place, but the Audit Committee is requested to consider the above, and determine whether it wishes any further action or information to be provided, in order to support these assurances. Members will note also that a further item on this agenda relates to membership of Planning and Cabinet, which is in response to perceived risks raised by a Member.

4 LUNESIDE EAST REGENERATION

4.1 There are two distinct high risk issues relating to the Luneside East regeneration project, both of which have been subjected to robust risk management considerations. They relate to Housing Developer withdrawal and Land Tribunal claims;

- Housing Developer withdrawal

The first issue has arisen as a result of the housing developer withdrawing from the development project due to market reasons. This has left the Council exposed to a number of risks and important decisions needs to be made regarding the future of the development.

Until the Council disposes of the site, it is responsible for site management and security and all the costs associated with this. This is a continuing liability for the Council and a major financial risk. There is also the major strategic risk that, until a beneficial development of the site is achieved, the Council will deliver no regeneration benefits from its investment to date. Also, the site in its present eyesore condition will continue to be a drag on investment into the wider Luneside area. From a reputation point of view, any project failure will impact against the Council's credibility as perceived by its funders, other partners and the local community.

Planning Services recognised that there were several options that the Council could follow, each with its own distinct risks and opportunities. They were aware that a rigorous options analysis would enable informed decision making and that the Council would want to mitigate what are serious risks and maximise value in the round. As such, a full risk identification exercise was undertaken for each identified option, and this is being kept up to date for any further developments. Each of the risks has been evaluated and scored and mitigating actions identified where appropriate. Having done this alongside a financial implications exercise, it became clear that one of the options identified so far, appeared far more favourable than the others. These findings and any more recent developments will be reported to Cabinet and/or full Council, as appropriate. An item is now included in the Forward Plan for the Cabinet meeting on 29 July. Attention is also drawn to the references to Luneside East in the draft Statement of Accounts, included elsewhere on this agenda.

- Land Tribunal claims

The Council has successfully completed its land assembly for the Luneside East project, which is a corporate priority. This involved both the negotiated acquisition of land, compulsory purchase proceedings and the decommissioning and removal of an operational gasholder.

When land is compulsorily acquired, matters of compensation are often not settled until quite some time after, as the compulsory purchase does not concern matters of value. It is up to the acquiring authority (in this case, the Council) to seek to agree settlements with the claimants affected.

As was anticipated with the Luneside East project, negotiations for some acquisitions have been very protracted and several are still outstanding, including two for which substantial claims are now likely to go before the Land Tribunal. This means that the Tribunal considers the valuation arguments presented by both parties and then decides on a binding settlement figure.

Planning Services are aware that this poses a significant financial risk to the Council and so produced a detailed report to Cabinet (3 June 2008), outlining the risks/ issues arising and how they can be mitigated. They explained in detail how these compensation claims are serious and, if substantiated at Lands Tribunal, will impact very substantially upon the Council's finances.

- 4.2 Given the above, it is felt that Audit Committee can take assurance that effective risk management procedures have been undertaken in relation to both of these Luneside East issues, and that decision making will be/ has been based on a sound awareness of opportunities and risk. Again, however, the Committee is asked to indicate whether it requires any further information in support of that assurance.

5 **AUDIT COMMISSION'S KEY LINES OF ENQUIRY (KLOES)**

- 5.1 The Audit Commission is an independent body responsible amongst other things for ensuring that public money is spent economically, efficiently and effectively, to achieve high-quality local services. Each year, the Audit Commission publishes scored judgements about value for money in the use of resources in respect of local authorities, fire and rescue authorities, police authorities and primary care trusts (PCTs). The use of resources assessment forms part of CAA from 2009 and will also feed into other relevant performance assessment frameworks, as appropriate.
- 5.2 The use of resources assessment considers how well organisations are managing and using their resources to deliver value for money and better and sustainable outcomes for local people. It is structured into three themes that focus on the importance of sound & strategic financial management, strategic commissioning & good governance, and the effective management of natural resources, assets & people.
- 5.3 The scores for each theme are based upon the scores reached by auditors on the underlying KLOE. These KLOE are generic and applicable equally to all organisations subject to use of resources judgements under CAA. This promotes consistency and demonstrates that all organisations within a CAA area are being treated in exactly the same way and to the same standards.
- 5.4 From 2008/09, the KLOE are more broadly based than previously and embrace wider resource issues such as people and workforce planning, and the use of natural

resources. The KLOE focus more on value for money achievements, outputs and outcomes rather than on processes, and are more strategic and less detailed.

5.5 Risk Management is featured in the second theme entitled 'Governing the business'. The new KLOE (reference 2.4) states '*Does the organisation manage its risks and maintain a sound system of internal control?*' Its focus will be based on the following areas;

- Effective risk management which covers partnership working;
- Clear strategy and effective arrangements, including allocation of appropriate resources, to manage the risk of fraud and corruption;
- Sound system of internal control including internal audit.

5.6 The details of these KLOEs have not yet been published but a close eye will be kept on developments in this area, in order that future Risk Management improvements can be tailored in the most effective and appropriate ways.

<p>CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</p> <p>None directly arising from this report.</p>	
<p>FINANCIAL IMPLICATIONS</p> <p>No implications arising directly from this report.</p>	
<p>DEPUTY SECTION 151 OFFICER'S COMMENTS</p> <p>The deputy s151 officer has been consulted and has no further comments.</p>	
<p>LEGAL IMPLICATIONS</p> <p>Legal Services have been involved in considering the exposure to risk in relation to Luneside East and have agreed the approach being considered by Cabinet.</p>	
<p>MONITORING OFFICER'S COMMENTS</p> <p>The Deputy Monitoring Officer has been consulted and has no comments to add</p>	
<p>BACKGROUND PAPERS Risk Management Policy and Strategy Audit Committee Terms of Reference (The Constitution)</p>	<p>Contact Officer: Lynne Armistead Telephone: 01524 582141 E-mail: larmistead@lancaster.gov.uk Ref:</p>



RISK MANAGEMENT STRATEGY

Introduction

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

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

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

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

Definition

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

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

Objectives

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

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

These objectives will be achieved by:

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

Risk Management Processes

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

1. *Identification of risk and opportunities.*

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

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

2. *Analysis of risk*

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

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

3. *Treatment of risk*

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

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

a) **C**ontingency

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

b) **A**ccept

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

c) **R**educe

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

d) **Prevent**

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

e) **Exploit**

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

f) **Transfer**

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

Monitoring and review of risk

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

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

Funding

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

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

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

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Corporate Risk Management Steering Group

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

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

Responsibilities

The following have responsibilities for risk management:

Elected Members:

Cabinet

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

Audit Committee

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

This will entail:

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

Overview and Scrutiny

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

Budget and Performance Panel

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

Officers:

The Chief Executive

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

The Corporate Director (Finance and Performance)

- To act as the Council's Officer Risk Management Champion with responsibility for liaising between the Corporate Management Team and the Risk Management Steering Group.
- To ensure the Risk Management Policy and Strategy are effective in supporting high standards of corporate governance.

Performance Management Group

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

The Head of Financial Services:

- To Chair the Risk Management Steering Group.
- To advise on the development and implementation of the risk management strategy, both through the Risk Management Steering Group and in the wider corporate context.
- To ensure that an effective system of internal audit is carried out for the authority.
- To oversee the monitoring and control of the risk management reserve.
- To provide a report on the effectiveness of the risk management strategy on an exceptions basis. Reports would cover major changes in high impact risks and/or areas where remedial action is required.
- To provide quarterly exception reports to Performance Management Group. Reports will be via Corporate Financial Monitoring and will cover strategic and other high impact risks as well as progress on risk treatment actions.

Risk Management Steering Group

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

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

Risk and Insurance Manager

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

Heads of Service

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

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

Employees

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

Internal Audit

- To develop and deliver a risk based audit plan designed to provide assurance to management and the Audit Committee on the effectiveness of risk management arrangements within the Council.
- Based on the above, to provide an annual opinion and assurance statement on the effectiveness of the Council's risk management, internal control and corporate governance arrangements..
- To promote and support the development of the Council's risk management processes.

AUDIT COMMITTEE

Constitutional Amendment – Restriction on Cabinet Members as Members of the Planning and Highways Regulatory Committee

Report of the Chief Executive 25th June 2008

PURPOSE OF REPORT

To consider whether in the future Cabinet Members should no longer be permitted to take part in the consideration of planning applications as members of the Planning and Highways Regulatory Committee.

This report is public

1.0 RECOMMENDATION

That Audit Committee consider the matter of whether or not Cabinet Members should no longer be permitted to take part in the consideration of planning applications as members of the Planning and Highways Regulatory Committee.

2.0 Introduction

2.1 A report has been requested by a Member on a possible change to the Council's Constitution to prevent Elected Members being on both Cabinet and the Planning Committee.

3.0 Background

3.1 Members will be aware that as a matter of law, planning decisions are a non-executive function and must be dealt with by a Committee of Council and not by Cabinet. However, there is nothing in the legislation to prevent members of Cabinet being members of the Planning and Highways Regulatory Committee (Planning Committee). Guidance for Members on dealing with planning matters is set out in the Council's Protocol on Planning, and the relevant parts are summarised below.

3.2 There is a need for Members to take particular care in determining planning applications at the Planning Committee not only to declare any interest they may have in accordance with the Code of Conduct and to withdraw from the meeting appropriately, but also to ensure that they do not allow there to be any perception of 'Predetermination'.

3.3 "Predetermination" is where a Member closes their mind to the merits of any arguments relating to a particular application, and makes a decision without taking them into account.

- 3.4 Both sides, applicant and objector, should have an opportunity to put their view forward and the decision making body must consider both sides before coming to its decision. The Member's mind should not be closed until the final decision is made. A Member's mind will be closed if they have already come to a decision on an application prior to entering the Council Chamber. This is predetermination. A decision will be open to challenge if a Member appears to have already decided how they will vote at the meeting so that nothing will change their mind. This impression can be created in a number of different ways such as quotes given in the press, and what they have said at meetings or written in correspondence.
- 3.5 It is important also that party politics do not play a part in the determination of planning applications and each decision should be made on its own merits, within the Development Plan framework, supported by legislation, government advice and other Council land use policies. Therefore each decision has to be made on the information put before the Committee and should take into account the development plan, the impact of the individual development and any individual site characteristics – not party politics.
- 3.6 As a Member of the Planning Committee the time for decision making is after the Members have heard all relevant considerations i.e. after the application has been presented to the Members in the Committee meeting and when the presentation of the application is completed. Therefore, a decision should not be made before the agenda is sent out, at a site visit or immediately before the meeting begins. If a Member has made their mind up before the application is fully presented then this renders the decision open to challenge. This would be on the basis that the application was predetermined, was not considered fairly and that the Member's conduct showed bias. To predetermine an application flies in the face of the principle of the rule 'to hear both sides'.
- 3.7 Where the Council is the applicant or the landowner, and a Member is both a Member of the Planning Committee and also a Cabinet Member with ongoing land-owning responsibilities, it is arguable that the issue of predetermination may arise as a result of the Member's perceived proximity to the proposal through discussions in Cabinet. There is a risk that even an apparently genuine consideration of the planning application by such a Member may be perceived as a sham. In the event of such a Cabinet Member choosing to participate in the Planning Committee decision, and in order to avoid the possibility of a real risk of a perceived closed mind, the Member should be able to demonstrate that they have approached their dealings with the proposal with particular scrupulousness, and should spell out at the outset of any debate at Planning Committee that, notwithstanding their Cabinet role, responsibilities and other decisions in Cabinet, here only planning functions are exercised and planning considerations relevant. They should also make it clear that they approach the application debate with a wholly open mind and a preparedness to be persuaded either way.
- 3.8 However, the simple fact that a Member has been involved in a decision to promote the development of land in the public interest, does not necessarily prevent them from making decisions on the matters of detail. Members approving specific land use allocations in a Local Development Framework for example, would not be prevented from deciding subsequent planning applications. They would be expected to use their decision making abilities to ensure that schemes conform with the requirements of the Framework.

3.9 Advice has in the past been given to Planning Committee members who are also members of Cabinet, to prevent problems arising where development proposals have been the subject of Cabinet decisions, resulting eventually in the submission of a planning application by the developer.

3.10 The Council's Constitution could be amended to state that Cabinet Members may not also be Members of the Planning Committee.

4.0 Options and Options Analysis (including risk assessment)

4.1 Option 1 – to amend the Council's Constitution to state that Cabinet Members may not also be Members of the Planning Committee. In accordance with Article 15 of the Constitution this will require a recommendation from this Committee to full Council. Should Council adopt this amendment it will then be necessary for a number of Members to be replaced as members or substitutes on Planning Committee or to resign as Cabinet Members.

4.2 Option 2 – to take no action with regard to amending the Constitution and continue to rely on the individual member to ensure that they either withdraw from the determination of planning applications where Cabinet has been involved in the development process or take steps to make it clear that they are approaching the application debate with an open mind.

5.0 Conclusion

5.1 Audit Committee is requested to consider whether it would be preferable to impose a restriction on Cabinet Members taking part in the determination of planning applications in order to avoid any situations where there might be a perception of predetermination or bias.

<p>RELATIONSHIP TO POLICY FRAMEWORK</p> <p>None</p>
<p>CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</p> <p>None</p>
<p>FINANCIAL IMPLICATIONS</p> <p>There are no direct financial implications as a result of this report.</p>
<p>SECTION 151 OFFICER'S COMMENTS</p> <p>The Section 151 Officer has been consulted and has no comments to add.</p>
<p>LEGAL IMPLICATIONS</p> <p>The Council's Constitution provides for amendments to the Membership and Terms of Reference of Committees to be recommended to full Council. Legal Services have been consulted and have no further comments.</p>

MONITORING OFFICER'S COMMENTS	
The Monitoring Officer has been consulted and has no further comments.	
BACKGROUND PAPERS	Contact Officer: Gillian Noall
Protocol on Planning (Part 7, Section 5 of the Council's Constitution)	Telephone: 01524 582060
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Audit Committee**Results of Internal Audit Work****25th June 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 06 June 2008






2.1 This report covers audit work and reports issued since the last report to Committee on 23rd April 2008. Summary reports are issued to Members for consideration and are also 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 be helpful 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 since the April 2008 meeting are attached to this report as Appendix A, with the reports listed below. The list gives the assurance opinion issued for the area audited under the revised reporting processes.

Audit Title		Report Date	Assurance Level	
New Audit Reports				
07/0678	Insurances	10/04/08	Reasonable	
06/0660	Housing Rents (Debit Control)	28/04/08	Limited	
07/0717	Income Management (Cultural Service Webstaff Payments)	15/04/08	Limited	
07/0708	Income Management (Housing Rents Direct Debit Payments)	30/04/08	Limited	
07/0688	Income Tax and National Insurance (Expenses and Benefits)	12/05/08	Minimal	
07/0682	Vehicles	09/05/08	Limited	
07/0697	Performance Management 2007/08	19/05/08	Limited	
07/0711	Sundry Debtors 2007/08	06/06/08	Reasonable	
07/0704	Partnership Arrangements 2007/08	06/06/08	Limited	

Follow-Up Reviews

06/0655	Housing Benefits and Council Tax Benefits	15/04/08	Reasonable	
06/0680	Housing Benefits (Accounting and Subsidy)	24/04/08	Reasonable	
06/0631	Housing Repairs and Maintenance	29/04/08	Reasonable	
06/0677	Cemeteries	30/04/08	Reasonable	
06/0657	Environmental Protection	08/05/08	Reasonable	

3.0 Matters Arising from Audit Reviews

3.1 Members attention is drawn to the audits where a “minimal” and “limited assurance” opinion was issued:

Housing Rents (Debit Control) (06/06660)

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

- Arrangements to ensure that the correct rent is charged through an accurate, up-to-date and regularly reconciled Housing Rents system (Anite) and asset registers
- Authorisation and checking arrangements to ensure that amendments to rent debits are legitimate and accurate
- Exception reporting to management on transactions outside the specified parameters set within the Housing Rents system
- Reconciliation of the Housing Net Debit to General Ledger and the accounting for rent voids.

Seven actions have been agreed with management, the majority of which are due to be implemented by 30 June 2008.

Income Management (Cultural Service Webstaff Payments) (07/0717)

Webstaff is the Council's system for processing card payments for customers wishing to make a payment over the telephone. A limited assurance has been given on the basis that arrangements need to be strengthened to ensure that the processing of card payments is compliant with the Data Protection Act and data security standards, and that Webstaff transactions reconcile to the General Ledger.

Four actions have been agreed for early implementation.

Income Management (Housing Rents Direct Debit Payments) (07/0708)

Risk for which a reasonable level of assurance could not be given were in relation to the manual arrangements in place for the management, data security and reconciliation of Housing Rent Direct Debit Payments. These are to be addressed through the implementation of the Council's Electronic Document Management system which is now in place and operation of the automated direct debit module within the Housing Rents system (Anite) which is due to be implemented by the end of October 2008.

Income Tax and National Insurance (Expenses and Benefits) (07/0688)

A "minimal" level of assurance was given on the basis that no officer has overall responsibility for the Council's tax affairs meaning that there is limited scope to ensure compliance with legislation and the proper application of appropriate dispensations.

The audit notes that Expenses and Benefits represents, in financial terms, a relatively small element of the Council's overall tax and NI responsibilities and that the timing of the audit coincided with a period of staffing change within Financial Services. The latter has since been resolved through the appointment of an Exchequer Services Manager who will be responsible for reviewing and managing arrangements in future.

In total thirteen actions have been agreed with management (the most significant of which revolve around the appointment of an Exchequer Services Manager), all of which should be implemented by 31st March 2009.

Vehicles (07/0682)

Risks for which a reasonable level of assurance could not be given centred on the need to:

- Strengthen arrangements to ensure the most effective, efficient and economic use of the Council's vehicle fleet maintenance, specifically the daily inspection regime and the establishment of a service/inspection schedule
- Introduce an effective vehicle replacement policy; improve analysis of repairs and maintenance data and have better performance management arrangements in place
- Improve arrangements for reporting and recording accidents involving Council vehicles
- Develop a consistent approach to the use of pooled vehicles

There were a total of nineteen agreed actions, all of which were due to be implemented by the end of May 2008.

Performance Management 2007/08 (07/0697)

This audit recognises that corporate performance management has significantly improved and actions have been agreed to support further development aimed at raising the level of assurance to 'Reasonable' in a relatively short period of time. Specifically these cover the need to:

- Review and improve upon the business planning process
- Overhaul corporate performance indicators and strengthen action planning and performance monitoring through the computerised performance management system, Escendency
- Strengthen further links between corporate and Service objectives through the business planning process
- Develop knowledge on the cost of performance and integrate value for money considerations through balanced indicators measuring economy, efficiency and effectiveness
- Encourage innovation through better engagement of staff on the performance management framework
- Improve reporting arrangements and Member training in the scrutiny of Council performance
- Address ongoing concerns in relation to data control and quality

Fifteen actions have been agreed with management, all of which are expected to have been implemented by 31st March 2009.

Partnership Arrangements 2007/08 (07/0704)

This audit focussed on the Council's arrangements for working in partnerships relating to performance and risk management, governance and scrutiny arrangements. The 'limited' assurance opinion was issued on the basis that there is a need to:

- Introduce an effective overarching strategy to guide partnership activity and for an officer and Elected Member to be responsible for taking forward developments in partnership working in a co-ordinated and structured way
- Develop further the arrangements for governance, accountability, scrutiny and risk management within partnerships
- Determine the corporate meaning of a 'partnership' and to undertake a 'mapping' exercise aimed at identifying the type and number of partnerships that the Council is involved in
- Establish a consistent and efficient means of evaluating the effectiveness and performance of partnerships and the Council's involvement in them

A major part of the audit has been work undertaken with other Council officers to develop a mechanism for assessing the level of 'significance' of each partnership towards the achievement of the Council's priorities and objectives, and a 'toolkit' aimed at assessing the effectiveness of individual partnerships and the Council's involvement in them.

This major piece of work is the subject of a separate report being submitted to the Budget and Performance Panel on 15th July 2008 and the majority of the actions agreed as a result of the audit (twenty in number) focus on the results of this work which is due to be completed by the end of March 2009.

3.2 Five follow up reviews have been completed in the period to 06th June 2008, all of which have been issued with a 'Reasonable' level of assurance, including two, Environmental Protection and Cemeteries where sufficient progress has been made to raise the audit opinion from 'Limited'.

3.3 The Internal Audit Manager has responded to a question from a Member of the Committee for further information following the Income Management (Cultural Service Webstaff Payments) audit in relation to online booking arrangements for Council events, arrangements for which are currently being considered by the Service.

4.0 Update on Previous Assurance Opinions

4.1 Appendix A provides an updated position for all those audits where the level of assurance provided has not yet reached "reasonable". These include the seven audit reports covered in section 3.0 above. The Internal Audit Manager will provide Committee with a verbal update on each of the audits.

5.0 VAT Registration Number validation

5.1 Minute 38(2) of the Audit Committee (April 2008) requested that a report be submitted to the Committee upon VAT number checking and how this could be integrated into the Council's financial systems and procedures. The Internal Audit Manager will report verbally to the Committee.

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

6.1 Investigatory work arising from concerns in relation to the funding of staff in the West End Team of the Neighbourhood Management Taskforce is nearing completion and will be reported to the Corporate Director (Community Services) to determine what further action, if any, should be taken.

6.2 Internal Audit have provided ad-hoc advice and support to all levels of management, the most significant of which relate to arrangements being considered for the 'opening' of Housing Benefit cheques for claimants without a bank account; ongoing project assurance work and developments in project and programme management, and preparations for the 2008/09 National Fraud Initiative.

6.3 The Principal Auditor has been heavily involved in developing the Performance Management Framework for the Lancaster District Local Strategic Partnership (LDLSP) which will act as the framework for monitoring and reporting performance of the LDLSP's forthcoming Sustainable Community Strategy (SCS) This work, together with that arising from the recently completed audit of partnerships, should assist strategic partners, elected members and the Lancaster district community to understand all the various elements which contribute to delivering improved performance and help to measure progress towards the achievement of the ambitions within the SCS in a consistent way.

6.4 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.

7.0 Details of Consultation

7.1 Not applicable

8.0 Options and Options Analysis (including risk assessment)

8.1 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

Legal Services have been consulted and have no additional comments.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

Internal Audit Files







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Ref: aud/audcomm/0809/250608/ROIAW

Internal Audit - Assurance Opinion Monitoring

Date of Assessment	Source	Level of Assurance Provided	Comments
06/0636 - Value Added Tax 2006/07			
07-Dec-06	Internal Audit - Final Report	 N/A	Audit report pre-dates the provision of assurance opinions
20-Dec-07	Internal Audit - Follow-Up Review	 Limited	The target risk score has yet to be achieved for all risks covered, the majority dependent upon improving the accuracy of information input in the Financial systems through guidance and training for staff processing invoices.
07/0658 - Licensing			
19-Dec-07	Internal Audit - Final Report	 Limited	The opinion is based on the fact that although measures are currently being taken to improve management of two of the four risks identified for audit, there is still scope to improve management of the remaining two.
06/0660 - Housing Rents (debit control)			
28-Apr-08	Internal Audit - Final Report	 Limited	Raising the assurance level to reasonable should be achieved by the implementation of agreed actions relating to the reconciliations to the asset register; checks to verify the accuracy and validity of changes made; and reconciliation of the net debit to the general ledger. The majority of agreed actions should be implemented by 30th June '08 and a formal follow-up is due by 30th September '08.
07/0675 - Housing Advances			
13-Mar-08	Internal Audit - Final Report	 Limited	Raising the assurance level to reasonable may be achieved by the implementation of agreed actions relating to the review of interest rates; monitoring; reporting; and improved security of the mortgage system. The majority of agreed actions should be implemented by 30 April '08 and a formal follow-up review is scheduled by 30 September '08
07/0682 - Vehicles			
09-May-08	Internal Audit - Final Report	 Limited	Raising the assurance level to reasonable should be achieved by the implementation of agreed actions relating to: the development a more informed vehicle replacement policy; analysis of repair and maintenance costs; accident monitoring; and records maintained in relation to pool vehicles. The majority of agreed actions should be implemented by the end of 31st May and a formal follow-up is due by 30th October '08.

Date of Assessment	Source	Level of Assurance Provided	Comments
07/0688 - Income Tax and National Insurance 2007/08 (Expenses and Benefits)			
09-May-08	Internal Audit - Final Report	 Minimal	The assurance opinion relates specifically to the payment of expenses and benefits which is only a small element of the Council's overall tax arrangements and the potential impact of being found non compliant in this area is considered low. Reasonable assurance will take some time to achieve as procedures for several expenses/benefits need a thorough review. The assignment of responsibilities through the impending recruitment to the Exchequer Services Manager post and plans to progress with agreed actions should allow the provision of limited assurance fairly quickly. Implementation of the action plan should result in the provision of reasonable assurance.
07/0697 - Performance Management 2007/08			
06-Mar-08	Internal Audit - Final Report	 Limited	The Performance Management Framework is well designed but work is required to ensure appropriate information is reported and scrutiny arrangements are effective.
07/0704 - Partnership Arrangements 2007/08			
05-Jun-08	Internal Audit - Final Report	 Limited	Raising the assurance level to reasonable will be achieved through the identification of the number and type of partnerships the Council is involved in; introduction of a toolkit for evaluating the Council's major partnerships and developments in governance, scrutiny and risk management arrangements relating to partnership working.
07/0708 - Income Management (Housing Rents Direct Debit Payments)			
30-Apr-08	Internal Audit - Final Report	 Limited	Reasonable assurance could be achieved through implementation of the Electronic Documentation Management System (EDMS) and the Anite Direct Debit Module.
05/0717 - Income Management (Cultural Services Webstaff Payments)			
15-Apr-08	Internal Audit - Final Report	 Limited	Improvements are required to ensure that processes in place for processing card payments via the Webstaff system within Cultural Services are compliant with the Data Protection Act and the Payment Card Industry Data Security Standards. Implementation of the action plan should result in the provision of 'reasonable' assurance.

AUDIT COMMITTEE**Internal Audit Annual Report 2007/08****25 June 2008****Report of Internal Audit Manager****PURPOSE OF REPORT**

To inform the Committee of the extent and outcome of Internal Audit work during the 2007/08 financial year and to present an annual Statement of Assurance regarding the Council's internal Control Framework.

This report is public

RECOMMENDATIONS

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

1.0 Introduction

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

2.0 Proposal Details

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

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

Annual Audit Plan 2007/08

- 2.2 Internal Audit plans and assignments are developed on a risk-based approach, seeking to identify and devote resources to the areas of greatest significance to the Council. The approved Internal Audit Plan for 2007/08 was based on the provision of 840 days of Internal Audit work. In terms of Assurance Work, the plan provided for 560 days work and the production of from 39 to 55 audit reports and assurance opinions. A summary of the final position for the year is set out in the following table.

Area of work	Resources (audit days)			Outputs (audit reports & opinions)	
	Planned	Actual	Variance	Planned	Actual
Core Financial Systems	100	101	+1	10-12 reports	15 reports
Core Management Arrangements	120	81	-39	8-10 reports	4 reports
Core Operational Systems	70	2	-68	6-8 reports	1 report
Risk Based Assurance Audits	200	208	+8	15-25 reports	19 reports
Follow-Up Reviews	70	38	-32		
Sub-Total, Assurance Work	560	430	-130	39-55 reports	39 reports
Consultancy Work	155	180	+25		
Investigations	35	85	+50		
Audit Management	45	63	+18		
Non Audit Duties	5	9	+4		
General Contingency	40	0	-40		
Total	840	767	-73		

- 2.3 Thirty-nine reports have been taken into account in informing the assurance opinion given later in this report. This total is at the lower end of the range planned for the year but represents a reasonable outcome given the number of audit days devoted to assurance work.
- 2.4 Under the category of "Core Operational Systems", a change in emphasis and approach to IT audit has meant that this work is now being delivered through Core Financial Systems audits and Risk Based Assurance Audits. This change is reflected in the proposed plan for 2008/09.

Explanation of Major Variances

- 2.5 Changes in demand for audit work and variations to the approved Plan were reported to and approved by Audit Committee during the year. The most significant factors affecting the plan were:
- lost productive time for all members of the section during the year, due 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.
 - initial proposals to commission external consultants to undertake a review of the Council's external funding arrangements were not pursued due to uncertainty at the time regarding the development of the new Local Area Agreement. Whilst this meant that fewer audit days were delivered (the plan provided for up to 60 days from external sources), it also produced a saving on the budget for consultancy.
 - additional workload in other areas of the plan, especially in investigations had an impact on the level of resources devoted to assurance work.

Quality Considerations

- 2.6 Customer satisfaction with Internal Audit work is judged through managers' responses to a post-audit satisfaction survey sent out following the completion of each assignment. The questionnaire seeks views, expressed as scores on a range from 1 to 9, on sixteen aspects of the audit, covering aspects of communication and consultation, conduct, objectivity, reporting and impact of the work. Summary results from questionnaires returned over the past 24 months are demonstrated in the chart in Appendix A.
- 2.7 The summary represents the average scores obtained from 26 returned surveys. Against a target level of 8 for all aspects of the audit, only two have not been met (albeit marginally), these being questions 15 and 16 relating to risk management outcomes from the audit. The second page of Appendix A details the responses received regarding these two questions. It can be seen that the main factor behind the lower score were two responses relating to audits of Internal Communications and Cemeteries (circled in red on the report).
- 2.8 On the Internal Communications audit, the low responses were given by the Head of Information & Customer Services. It is notable that the other responses on the same audit, provided by the Communications Manager, were much higher (the majority of risks covered in the audit fell within the Communication Manager's remit).





- 2.9 On the Cemeteries audit, whilst the response gave a maximum score on question 15 (identification and understanding of risk), a score of 3 was given on question 16 (management of risk). In this regard, the audit identified that in most risk areas, actions (some of which were long-term) were already being taken to address identified issues and the audit was able to provide a positive assurance statement.
- 2.10 Lower than average scores (highlighted in pink) have also been recorded against a number of financial systems audits. This may be explained by the fact that these systems are relatively stable and not subject to significant changes in risks.

Review of the Effectiveness of Internal Audit

- 2.11 The Account & Audit Regulations 2003 (as amended in 2006) require Councils to conduct an annual review of the effectiveness of its system of internal audit and for a committee of the Council to consider the findings. This process is part of the wider annual review of the effectiveness of the system of internal control and governance. A report on this review is included within the report on the annual review of governance elsewhere on this agenda.

Results of Assurance Work

- 2.12 In all cases, completed assurance audits have resulted in the production of a report and action plan, agreed by managers and submitted for consideration by the Audit Committee. In September 2007 new arrangements were introduced to provide an assurance opinion in each report and for those opinions to be updated at subsequent review points, including the formal audit follow-up review. The system uses four levels of opinion, as follows:

Level of assurance	Image	Definition
Substantial		The Authority can place high levels of reliance on the arrangements/controls. Best practice is demonstrated in some or all areas.
Reasonable		The Authority can place reasonable (i.e. sufficient) reliance on the arrangements/controls. Only relatively minor control weaknesses exist.
Limited		The Authority can place only limited reliance on the arrangements/controls. Significant control issues need to be resolved.
Minimal		The Authority cannot place sufficient reliance on the arrangements/controls. Substantial control weaknesses exist.

- 2.13 The Table in Appendix B sets out the assurance opinions issued from audits and follow-up reviews completed since the introduction of this approach, and any subsequent changes in assurance level.

Controls Assurance Statement

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

- 2.15 This assurance statement is drawn from both the results of individual internal audit assignments and the results of follow-up reviews into previously completed audits, as reflected in the contents of Appendix B. In addition to the audits included in Appendix B, nine reports were issued during the earlier part of the year which have not been covered by the assurance rating approach. The results of these audits were reported to the Audit Committee on 8th January 2008, the audits concerned being:

Audit Title		Report Date
06/0643	Information Security Development	25/01/07
06/0641	Income Management	26/01/07
06/0650	Council Tax	07/02/07
06/0652	Waste Management	05/03/07
06/0635	Tourism	27/03/07
06/0661	Sundry Debtors	29/05/07
06/0664	National Fraud Initiative	29/05/07
06/0642	Building Control	29/05/07
06/0649	Payroll 2006/07	13/07/07

- 2.16 The following table summarises the assurance opinions covered in Appendix B, based on the most recent review.

Assurance Level (at most recent review)	No of Audits
Substantial	0
Reasonable	20
Limited	9
Minimal	1

- 2.17 The one audit resulting in a “Minimal” assurance opinion was that relating to Income Tax and National Insurance arrangements in respect of employee benefits and expenses. Members of the Audit Committee have been advised of the circumstances surrounding this audit and measures have already been taken which will raise the level of assurance. The level of risk in this area is low and the weaknesses identified are not in themselves so significant as to warrant disclosure in the Annual Governance Statement.
- 2.18 The results set out in Appendix B demonstrate that procedures for following up audits (focusing on those not having achieved a reasonable assurance level) and reporting progress to Audit Committee are effective.

Financial Systems

- 2.19 Assurance levels on the Council’s key financial systems are consistently good, with all audits included in Appendix B (with the sole exception of Housing Rents – Debit Control) showing a “reasonable” assurance level. Weaknesses in the Housing Rents system centred around the transfer and reconciliation of accounting data into the General Ledger, resulting in an overstatement of income in the 2006/07 published accounts. Measures have now been taken to remedy this situation.

With this exception, it can be taken that effective internal controls exist to ensure the accuracy and integrity of the information that the key financial systems provide and no significant control weaknesses have been identified.

Governance Arrangements

- 2.20 Audits of Performance Management and Partnership Arrangements resulted in a "limited" assurance opinion. Both of these areas are key elements of the Council's governance arrangements and the main points arising from the audits are incorporated in the governance review and Annual Governance Statement.

Other Audits

- 2.21 In the assurance work undertaken, Internal Audit activity during the year did not identify any control weaknesses of such significance that they would warrant disclosure in the Council's Annual Governance Statement. Where any control weaknesses have been identified, remedial action has been agreed and arrangements are in place to monitor the implementation of those actions and the level of assurance provided.
- 2.22 The support and proactive work undertaken by Internal Audit during 2007/08 has concentrated on a number of areas recognised by the Council as needing development, notably its arrangements for managing significant projects. In addition, Internal Audit has again been instrumental in reviewing and developing the Internal Control and Corporate Governance framework. These arrangements are key elements in the Council's review of the Internal Control and Corporate Governance framework and the current position is reflected in the evaluation undertaken and reported elsewhere on this meeting's agenda. Whilst Internal Audit has not produced a formal report in such areas, its views and knowledge have been fed into the evaluation process.

3.0 Details of Consultation

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

4.0 Options and Options Analysis (including risk assessment)

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

5.0 Conclusion

- 5.1 The work of Internal Audit seeks to provide assurance to the Council as to the appropriateness and effectiveness of its internal control and corporate governance arrangements. During the 2007/08 financial year, Internal Audit's work has provided assurance in a variety of areas as well as incorporating a significant level input and contribution to the development of a number of key systems and processes.

CONCLUSION OF IMPACT ASSESSMENT

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

This report has no direct impact on these areas.

FINANCIAL IMPLICATIONS

None arising from this report.

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

None arising from this report

MONITORING OFFICER'S COMMENTS

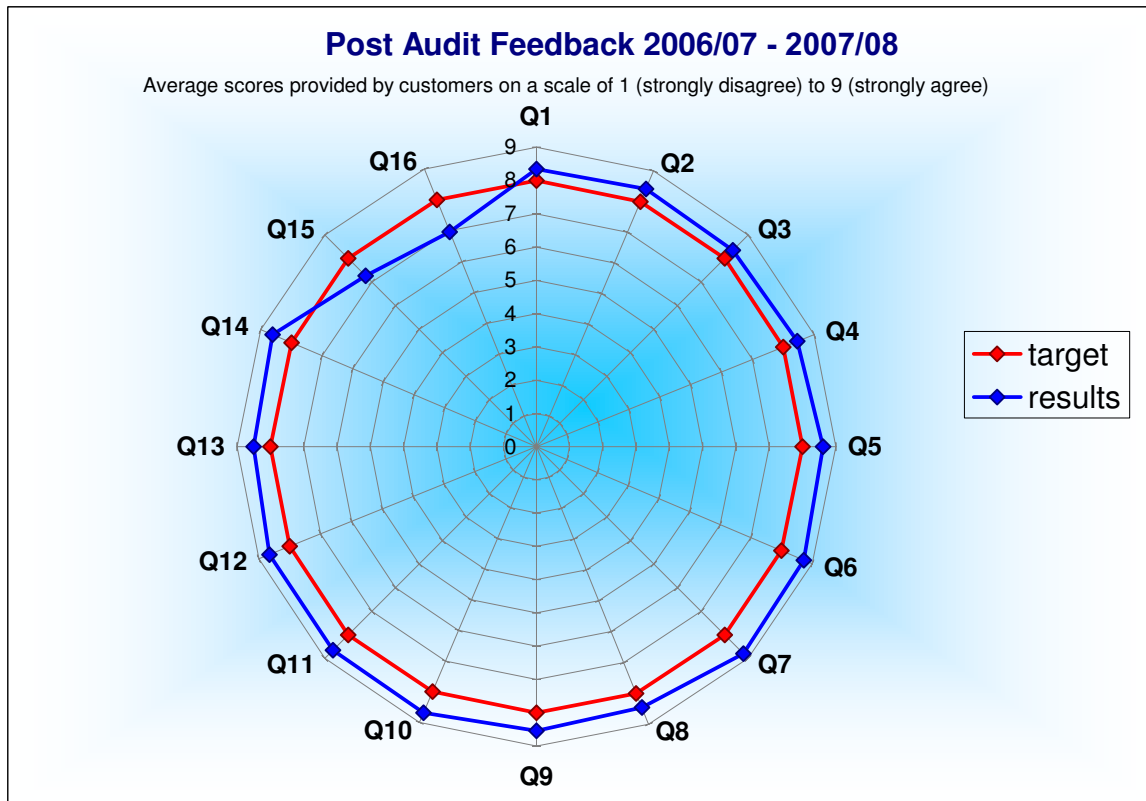
The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS

Internal Audit Plan 2007/08
Internal Audit Files

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Appendix A

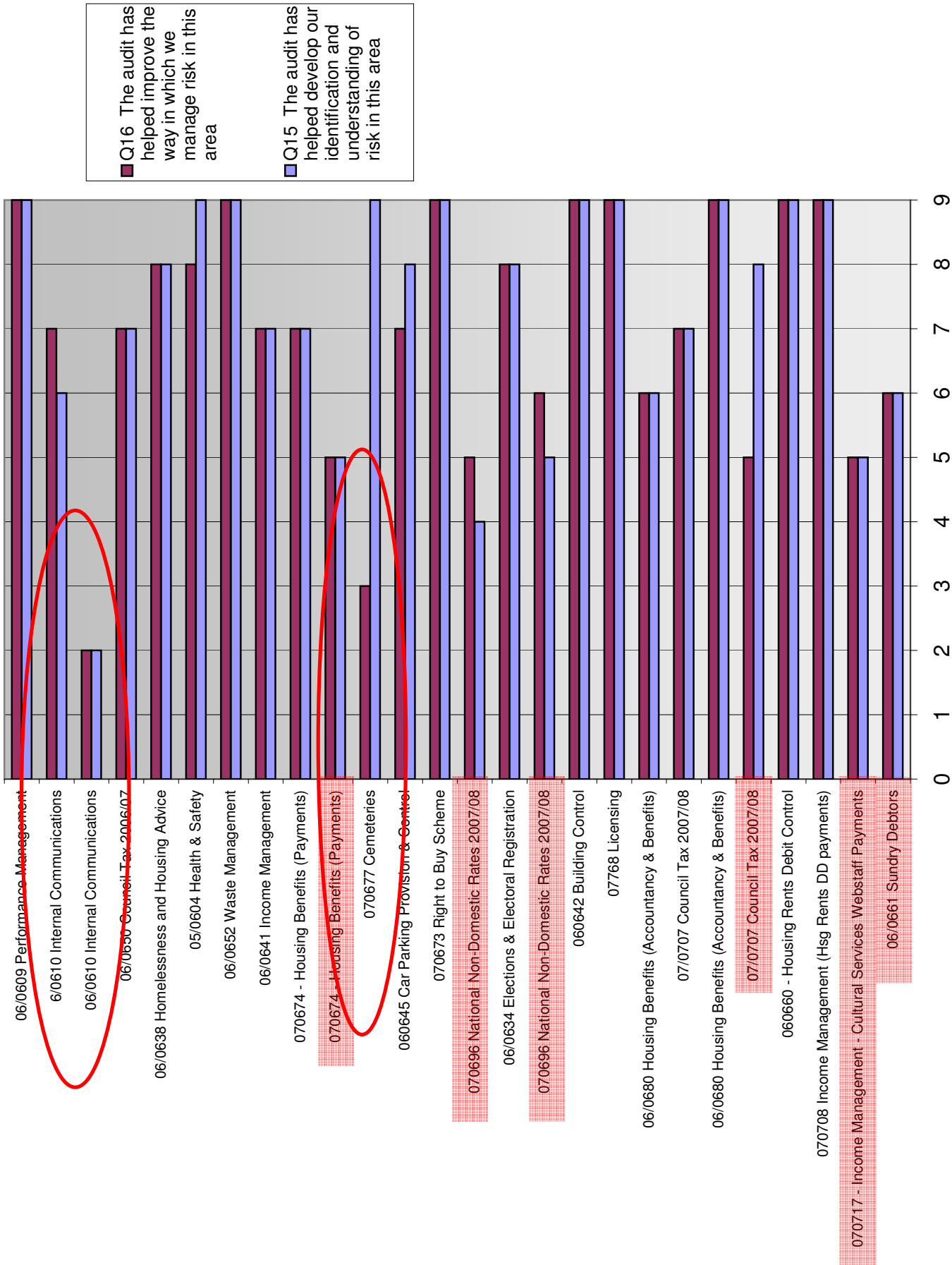


Questions:		Target	Actual	Priority for Action
Q1	I was given adequate notification of the audit	8	8.3	3
Q2	The audit work was undertaken at an agreed and convenient time.	8	8.4	5
Q3	The audit process and objectives were adequately explained to me	8	8.3	3
Q4	I was sufficiently involved in identifying and analysing risk and determining the scope of the audit	8	8.5	6
Q5	The work was conducted in my section in a proficient manner	8	8.6	10
Q6	The appropriate staff were consulted for the areas covered	8	8.7	15
Q7	The consultation was conducted in a professional manner	8	8.8	16
Q8	The results of the risk evaluation were discussed with the appropriate staff	8	8.5	6
Q9	The results and conclusions were based on sound and thorough analysis/evaluation of the major risks	8	8.5	9
Q10	I was sufficiently involved in discussing and agreeing the report and action plan	8	8.7	14
Q11	My views and comments were adequately presented in the final report	8	8.7	12
Q12	The final report presented a balanced and accurate picture of the results of the audit	8	8.7	12
Q13	The action plan was easy to agree and was based on practical and realistic recommendations	8	8.5	8
Q14	The final report was produced promptly	8	8.6	10
Q15	Q15 The audit has helped develop our identification and understanding of risk in this area	8	7.3	2
Q16	Q16 The audit has helped improve the way in which we manage risk in this area	8	7.0	1

Results are based on the responses provided by 26 respondents

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

Audit Customer Feedback - Analysis of Individual Responses - Q15 & 16



Q16 The audit has helped improve the way in which we manage risk in this area

Q15 The audit has helped develop our identification and understanding of risk in this area


Internal Audit - Assurance Opinion Results 2007/08

Appendix B

06/0631 Housing Repair and Maintenance Services


21-Apr-08 Reasonable  A substantial level of assurance could be achieved through implementation of the outstanding agreed actions.

06/0634 Elections & Electoral Registration

22-Jan-08 Reasonable  Substantial assurance could only be provided following an election testing the effectiveness of new arrangements for managing election finances.

19-Oct-07 Reasonable 

06/0636 Value Added Tax 2006/07

20-Dec-07 Limited  The target risk score has yet to be achieved for all risks covered, the majority dependent upon improving the accuracy of information input in the Financial systems through guidance and training for staff processing invoices.


06/0638 Homelessness and Housing Advice

21-Jan-08 Reasonable  Work is ongoing to implement the agreed actions arising from the original review relating to the implementation of a revised Homelessness Strategy and supporting focussed SLAs.

06/0645 Car Parking - Provision and Control

19-Dec-07 Reasonable  Car Parking Provision and Control is well managed and arrangements are in hand to provide customers with a wider range of payment options in the near future.


06/0647 Creditors 2006/07

06-Feb-08 Reasonable  The opinion assumes that the control environment has not weakened during the implementation of the new Authority Financials system. The current review of creditors will check this.


06/0648 NNDR 2006/07

21-Dec-07 Reasonable  NNDR is well managed and arrangements are in hand for an interface between the NNDR and main accounting systems.


06/0651 Treasury Management 2006/07

30-Nov-07 Reasonable  All risks with the exception of one are well managed. The outstanding actions primarily seek to reduce the chances of fraud, and losses in the event of fraud. The risk of fraud is low but potentially increases on the rare occasions the system is not available. Given that these occasions are rare, reasonable assurance can be provided.

06/0655 Housing Benefits and Council Tax Benefits 2006/07

15-Apr-08 Reasonable  Both the Housing Benefits and Council Tax Benefits systems are well managed. Arrangements are in hand for an interface between the Academy system and main accounting system which will further enhance existing controls.


06/0657 Environmental Protection

10-Apr-08 Reasonable  Progress continues to be made on actions to improve the Service which were ongoing at the time of the original review, all actions from the audit have been implemented or are being addressed and no significant control weaknesses have been identified.


23-Jan-08 Limited  Work has begun on implementing the agreed actions but it is too early to provide an improved level of assurance - to be formally reviewed by Internal Audit in March/April 2008.

24-Sep-07 Limited  A high proportion of controls are being developed in the areas covered.

07/0658 Licensing

19-Dec-07 Limited  The opinion is based on the fact that although measures are currently being taken to improve management of two of the four risks identified for audit, there is still scope to improve management of the remaining two.


06/0660 Housing Rents (debit control)

28-Apr-08 Limited  Raising the assurance level to reasonable should be achieved by the implementation of agreed actions relating to the reconciliations to the asset register; checks to verify the accuracy and validity of changes made; and reconciliation of the net debit to the general ledger. The majority of agreed actions should be implemented by 30th June '08 and a formal follow-up is due by 30th September '08.

Internal Audit - Assurance Opinion Results 2007/08


Appendix B

07/0673 Council Housing - Right to Buy Scheme

22-Feb-08 Reasonable  All risks are now well managed. To achieve a substantial level of assurance the Authority needs to demonstrate best practice as far as possible.


05-Oct-07 Reasonable 

07/0674 Housing Benefits 2007/08 (Payments)


09-Jan-08 Reasonable  A proper separation of duties within Financial Services relating to cheque production and reconciliations could allow the provision of substantial assurance.

11-Sep-07 Reasonable 

07/0675 Housing Advances

13-Mar-08 Limited  Raising the assurance level to reasonable may be achieved by the implementation of agreed actions relating to the review of interest rates; monitoring; reporting; and improved security of the mortgage system. The majority of agreed actions should be implemented by 30 April '08 and a formal follow-up review is scheduled by 30 September '08

07/0677 Cemeteries

10-Apr-08 Reasonable  Approval has been granted for additional administrative support which will improve cover arrangements and help address the need to computerise cemetery records over the longer term. Additional funding has also been granted to extend the memorial safety programme until March 2010 and the Service will continue to seek resources to extend it further.

23-Jan-08 Limited  Work has begun on implementing the agreed actions but it is too early to provide an improved level of assurance - to be formally reviewed by Internal Audit in March/April 2008

21-Sep-07 Limited  There are some significant control issues needing to be addressed, including arrangements for administrative cover, safeguarding cemetery records and ensuring long term public safety in cemeteries and closed churchyards.

07/0678 Insurances


31-Mar-08 Reasonable  The Authority's arrangements for Insurance cover are well managed and implementation of the agreed actions could lead to the provision of substantial assurance.

07/0680 Housing Benefits (Accounting and Subsidy)


16-Apr-08 Reasonable  Actions are ongoing to enhance arrangements.

11-Sep-07 Reasonable  Controls are operating effectively in the areas covered.


07/0682 Vehicles

09-May-08 Limited  Raising the assurance level to reasonable should be achieved by the implementation of agreed actions relating to: the development a more informed vehicle replacement policy; analysis of repair and maintenance costs; accident monitoring; and records maintained in relation to pool vehicles. The majority of agreed actions should be implemented by the end of 31st May and a formal follow-up is due by 30th October '08.


07/0688 Income Tax and National Insurance 2007/08 (Expenses and Benefits)

09-May-08 Minimal  The assurance opinion relates specifically to the payment of expenses and benefits which is only a small element of the Council's overall tax arrangements and the potential impact of being found non compliant in this area is considered low. Reasonable assurance will take some time to achieve as procedures for several expenses/benefits need a thorough review. The assignment of responsibilities through the impending recruitment to the Exchequer Services Manager post and plans to progress with agreed actions should allow the provision of limited assurance fairly quickly. Implementation of the action plan should result in the provision of reasonable assurance.

07/0694 LAMP Post-Project Review




01-Feb-08 Reasonable  Reasonable assurance can be given that the LAMP method is being properly applied and is proving to be highly effective in practice. This level of assurance will be enhanced through agreed actions and the realisation of project benefits and the delivery of projects to cost, time and quality through the practical application of the LAMP methodology

07/0696 National Non-Domestic Rates 2007/08

12-Dec-07 Reasonable  Five of the six risks covered are considered well managed and work is ongoing to improve management of the sixth.

Internal Audit - Assurance Opinion Results 2007/08

Appendix B

07/0697	Performance Management 2007/08		
06-Mar-08	Limited		The Performance Management Framework is well designed but work is required to ensure appropriate information is reported and scrutiny arrangements are effective.
07/0704	Partnership Arrangements 2007/08		
05-Jun-08	Limited		Raising the assurance level to reasonable will be achieved through the identification of the number and type of partnerships the Council is involved in; introduction of a toolkit for evaluating the Council's major partnerships and developments in governance, scrutiny and risk management arrangements relating to partnership working.
07/0707	Council Tax 2007/08		
25-Jan-08	Reasonable		The Council Tax system is very well managed and implementation of the agreed actions could lead to the provision of substantial assurance.
07/0708	Income Management (Housing Rents Direct Debit Payments)		
30-Apr-08	Limited		Reasonable assurance could be achieved through implementation of the Electronic Documentation Management System (EDMS) and the Anite Direct Debit Module.
07/0710	Ordering and Payments 2007/08		
05-Jun-08	Reasonable		The new Authority Financials systems facilitate good controls over the ordering and paying for goods and services. The minor control weaknesses identified relate to the operation of the systems and actions have been agreed to address these where appropriate.
07/0711	Sundry Debtors 2007/08		
06-Jun-08	Reasonable		The Sundry Debtors system is generally well managed. Implementation of the agreed actions and completion of the improvements currently being addressed would significantly improve current arrangements.
05/0717	Income Management (Cultural Services Webstaff Payments)		
15-Apr-08	Limited		Improvements are required to ensure that processes in place for processing card payments via the Webstaff system within Cultural Services are compliant with the Data Protection Act and the Payment Card Industry Data Security Standards. Implementation of the action plan should result in the provision of 'reasonable' assurance.
07/0719	Income Management (Parking and Administration Webstaff Payments)		
20-Mar-08	Reasonable		It is possible that substantial assurance could be achieved through Corporate plans to introduce 'chip and pin' facilities and through implementing arrangements to meet Payment Card Industry Data Security Standards.

AUDIT COMMITTEE

Review of Governance and Annual Governance Statement 2007/08

Report of Corporate Director (Finance & Performance)

PURPOSE OF REPORT
To seek the Committee's approval for the draft Annual Governance Statement for the 2007/08 financial year.
This report is public

RECOMMENDATIONS

- (1) That the Annual Governance Statement for 2007/08 as set out at Appendix B be approved for signing by the Leader of the Council, Chief Executive, Section 151 Officer and Monitoring Officer.
- (2) That the Audit Committee recommends to Council that the Audit Committee's Terms of Reference be updated to reflect the requirement for the Council to produce an Annual Governance Statement.

1.0 Introduction

- 1.1 The terms of reference of the Audit Committee include: *To monitor the effective development and operation of risk management and corporate governance in the Council and to oversee the production of the authority's Statement on Internal Control and Corporate Governance and to recommend its adoption.* (the Constitution, part 3 section 8).

Accounts & Audit Regulations

- 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, applying from the 2007/08 financial year onwards. Specifically, the Council is now required to develop and maintain a Local Code of Corporate

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

Governance (this was approved by Audit Committee on 23rd January 2008) 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).

3.0 Proposal Details

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

Review of Compliance with the Code of Governance

- 3.2 A review has been undertaken of the Council's position and performance against the Code of Governance approved in January 2008. The results of the Management Group's evaluation exercise are demonstrated in the Overview Chart and Evaluation Reports attached at Appendix A. The Code of Governance consists of a set of sixty-seven elements within the following six 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.**

Assurance

- 3.3 A document has been compiled which details the identified "sources" of assurance for each element of the Code. These range from a record of official policy and strategy documents such as the Constitution to the results of reviews such as Internal Audit and External Audit reports, to procedures such as one-to-one management meetings.
- 3.4 As in previous years, individual "assurance statements" have been sought from Service Heads in relation to internal control and governance arrangements within their areas. This assurance has been built in to the overall evaluation.

Review of the Effectiveness of the System of Internal Audit

- 3.5 The Accounts & Audit (Amendment) Regulations 2006 introduced a requirement that local authorities undertake an annual review of the effectiveness of their system of internal audit and that this should form a part of the overall review of governance..
- 3.6 A self-assessment of the Internal Audit function and its contribution to governance is attached at Appendix B. This is divided into two parts:
- an assessment of arrangements against “proper practices” as defined in the CIPFA Code of Practice for Internal Audit (2006); and
 - an evaluation of performance against a range of “characteristics of effectiveness”
- 3.7 The self assessment indicates that the system of Internal Audit (which includes the contribution made by the Audit Committee and management in responding to audit work) is established in accordance with appropriate standards and delivering an effective service. Areas for development have been identified in conducting the review and these have been considered in developing Internal Audit’s strategic and business plan for 2008/09. The Council’s external auditors are about to undertake their own review of Internal Audit in connection with the 2008/09 audit and the results of this will be reported to Audit Committee in due course.
- 3.8 In conclusion, it is felt that the Audit Committee can take assurance that Internal Audit is operating effectively and can place reliance on its reports and work in considering the overall effectiveness of governance arrangements.

Evaluation Results

- 3.9 Given the introduction of the new Local Code of Governance, direct comparison with previous years’ evaluations is not possible. The framework has again employed a scoring scale of 1 (representing poorly developed arrangements) to 9 (highly effective arrangements), with an arbitrary target level of 7 currently set for all elements. On this basis, it is judged that the target level has been met or exceeded in 46 (69%) of the 67 elements.
- 3.10 The detailed evaluation results shown in Appendix A highlight those elements where the Management Group feel that arrangements have not yet met the target standard. The more significant of these include:
- 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 delivery (element 10)
 - Measuring the environmental impact of policies, plans and decisions (11)
 - The constitution and governance arrangements of partnerships (23,26,32 & 41)
 - 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 (29)

The Draft Annual Governance Statement

- 3.11 Drawing on the results of the evaluation exercise, the Management Group has developed the draft Annual Governance Statement attached at Appendix C. The timescale for the production of the Statement coincides with that for the approval of the financial accounts (i.e. 30 June 2008) and the Statement must be approved at a meeting of the Council or delegated committee (i.e. the Audit Committee). The Statement itself follows the statutorily prescribed format, with the following headings:
1. Scope of Responsibility
 2. The Purpose of the Governance Framework
 3. The Governance Framework
 4. Review of Effectiveness
 5. Significant Governance Issues
- 3.12 As well as addressing the requirements of the Accounts and Audit Regulations, the publication of an Annual Governance Statement incorporates and satisfies the requirement under the Local Government Statement of Recommended Practice (SORP) to produce a Statement on Internal Financial Controls (SIFC)

Signatories to the Statement

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

Action Plan

- 3.14 A separate action plan has not been drafted. To ensure a cohesive approach to such improvements, actions relating to the "Significant Governance Issues" identified in section 5 of the statement have already been acknowledged and incorporated into the Council's Corporate Plan and individual Services' Business Plans.

4.0 Details of Consultation

- 4.1 Not applicable.

5.0 Options and Options Analysis (including risk assessment)

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

6.0 Conclusion

- 6.1 The draft Annual Governance Statement and the results of the review undertaken by the Management Group reflect the developments and progress made by the Council during the last twelve months. Addressing the issues identified in the statement will help maintain this progress and contribute, not only to a further improved position for 2008/09, but also to the quality of other assessments, for example the Audit Commission's Use of Resources assessment.

CONCLUSION OF IMPACT ASSESSMENT

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

The report has no direct impact on the above issues.

FINANCIAL IMPLICATIONS

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

SECTION 151 OFFICER'S COMMENTS

The s151 Officer has been involved in the governance review process and has no further comments.

LEGAL IMPLICATIONS

Legal Services have been consulted and have no further comments.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been involved in the governance review process and has no further comments.

BACKGROUND PAPERS

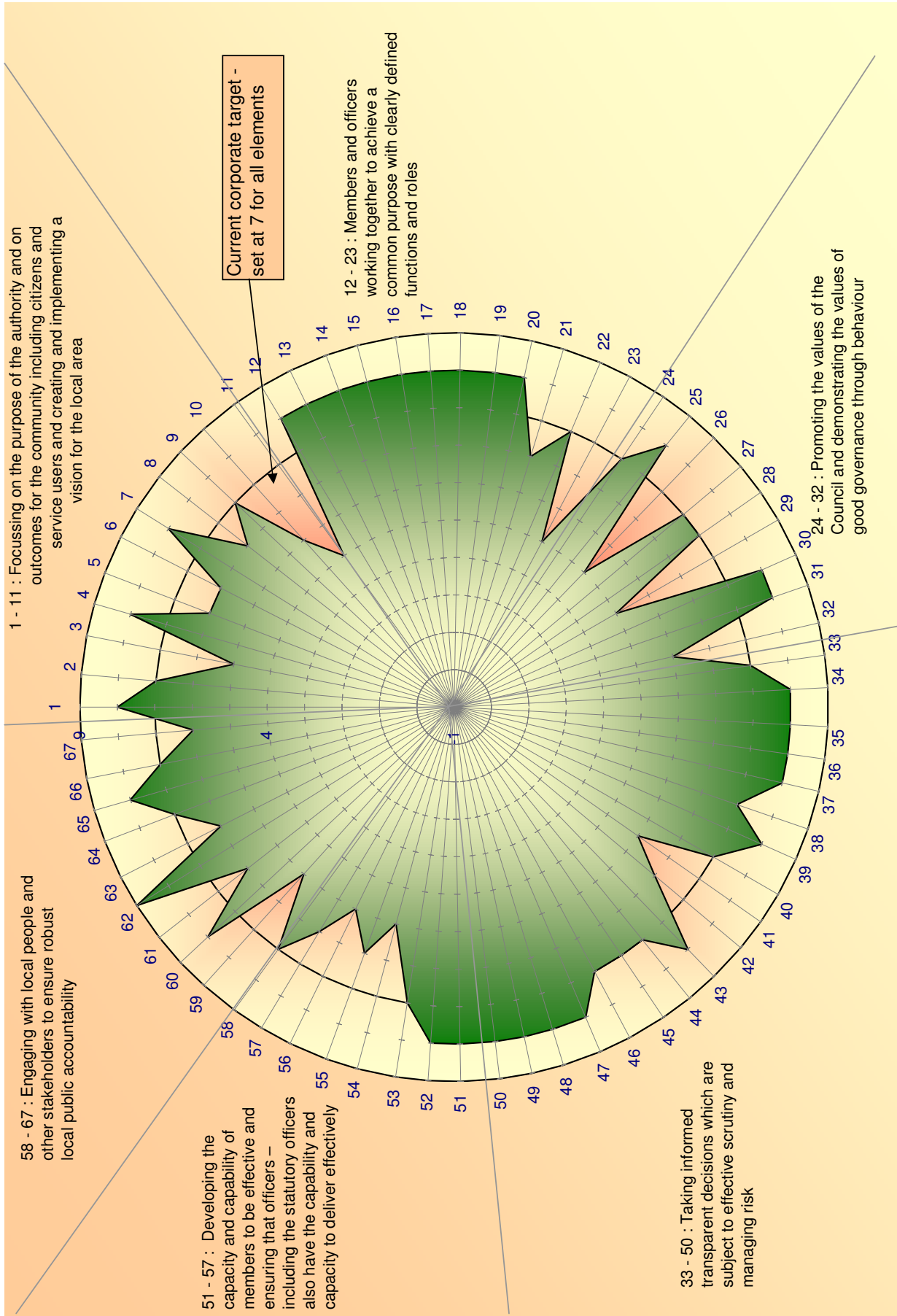
Accounts and Audit Regulations 2003 (as amended).

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Ref: aud/cttee/audit/0809/250608/ags



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

No	Element	Score	Comments
1	Developing and promoting the authority's purpose and vision	8	
2	Reviewing on a regular basis the Council's vision for the local area and its implications for the Council's governance arrangements	7	
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	5	Action from CPA 2008 included in Corporate Plan Nos 17 & 18 - a framework has been agreed for reviewing and evaluating the effectiveness of partnerships - to be rolled out during 2008/09
4	Ensuring that priorities and objectives are aligned to principal statutory obligations and available funding	8	
5	Knowing how well the Council is performing against planned outcomes	6	Actioned from CPA 2008 . A review of PM arrangements is scheduled to take place by September 2008
6	Ensuring that knowledge of absolute and relative performances achieved is used to support decisions that drive improvements in outcomes	6	
7	Publishing an annual report on a timely basis to communicate the Council's activities and achievements, its financial position and performance	8	
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.	6	As nos 5 & 6. Also, Corporate Plan action to publish consistent, measurable service standards (priority outcome no 4)
9	Putting in place effective arrangements to identify and deal with failure in service delivery	7	
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 delivery.	5	Reflected in priority outcome no 1 in the Corporate Plan. To be addressed by implementation of the Corporate Improvement & Efficiency Plan.
11	Measuring the environmental impact of policies, plans and decisions.	4	Reflected in Corporate Plan priority outcome no 12 (Improve economic prosperity throughout the Lancaster district) and 14 (Reduce the impact of climate change)

Principle 2 - Members and officers working together to achieve a common purpose with clearly defined functions and roles

No	Element	Score	Comments
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	8	
13	Setting out a clear statement of the respective roles and responsibilities of other Council members, members generally and of chief officers	8	
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	8	
15	Making the Council's Chief Executive responsible and accountable to the Council for all aspects of operational management	8	
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	8	
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	8	
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	8	
19	Having protocols in place to ensure effective working relationships between members and officers in their respective roles	8	
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	8	
21	Ensuring that effective mechanisms exist to monitor service delivery	6	See nos 5 & 6
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	7	
23	When working in partnership, ensuring that: <ul style="list-style-type: none"> <input type="checkbox"/> members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the Council; <input type="checkbox"/> there is clarity about the legal status of the partnership; <input type="checkbox"/> representatives of partner organisations both understand and are committed to meeting clearly defined good governance principles; and <input type="checkbox"/> representatives of organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions. 	4	Actioned from CPA 2008 - a framework has been agreed for reviewing and evaluating the effectiveness of partnerships - to be rolled out during 2008/09

Principle 3 - Promoting the values of the Council and demonstrating the values of good governance through behaviour

No	Element	Score	Comments
24	Ensuring that the Council's leadership sets the tone for the organisation by creating a climate of openness, support and respect	7	
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	8	
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	4	See no 23
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	7	
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	7	
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	4	Systems and processes currently reviewed on risk basis through Annual Audit plan. Monitoring effectiveness to be developed through review of Performance Mgt arrangements and new Improvement and Efficiency plan
30	Maintaining an effective standards committee	8	
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	8	
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	5	See no 23

Principle 4 - Taking informed transparent decisions which are subject to effective scrutiny and managing risk

No	Element	Score	Comments
33	Maintaining an effective scrutiny function which encourages constructive challenge and enhances the Council's performance overall	7	
34	Maintaining open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based	8	
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	8	
36	Maintaining an effective audit committee which is independent of the executive and scrutiny functions	8	
37	Ensuring that effective, transparent and accessible arrangements are in place for dealing with complaints	8	
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)	7	
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	8	
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	7	
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	5	See no 23
42	Ensuring that there are well-established and clear arrangements for financing risk	6	Arrangements are in place - action required to improve understanding
43	Ensuring that sound financial management is promoted	8	
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	7	
45	Having effective arrangements to counter fraud and corruption	7	
46	Having effective arrangements in place to ensure business continuity	7	
47	Ensuring the safety of staff, contractors and visitors	8	
48	Ensuring that the Council's internal control framework is subject to regular independent assessment	8	
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 its communities	8	
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	8	

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

No	Element	Score	Comments
51	Providing induction programmes tailored to individual needs and opportunities for members and officers to update their knowledge on a regular basis	8	
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	8	
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	7	
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	5	
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	6	Actioned from CPA 2008 - awareness programme to be run, portfolios reviewed and a review to be undertaken of Democratic Renewal.
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	5	Covered by Coporate Plan priority outcome no 17 - Local communities have more influence and involvement in the way services are delivered).
57	Ensuring that effective Member development and employee development strategies and actions are in place	6	Action from CPA 2008 - a priority included in the HR business plan to implement Workforce Planning & Development. Business Plan also includes an evaluation of the staff appraisal system.

Principle 6 - Engaging with local people and other stakeholders to ensure robust local public accountability

No	Element	Score	Comments
58	Making it clear within the organisation, its staff and the local community what the Council is accountable for and to whom	7	
59	Considering those institutional stakeholders to whom the Council is accountable and assessing the effectiveness of their relationships	5	
60	Producing an annual report on the activity of the scrutiny function	8	
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	6	See no 56
62	Holding meetings in public unless there are good reasons for confidentiality	9	
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	6	See no 56
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	7	
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	8	
66	Ensuring 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	7	
67	Maintaining a clear policy on how staff and their representatives are consulted and involved in decision making	6	To be addressed in development of Workforce Planning & Development (see no 57)

2006 Code standard	Evidence of Achievement	Areas for development
<p>1. Scope of Internal Audit</p> <ul style="list-style-type: none"> ○ Terms of reference ○ Scope ○ Responsibilities in respect of other organisations ○ Fraud and corruption 	<ul style="list-style-type: none"> ○ Audit Charter reflecting the current Code of Practice were approved by authority on 23/01/08 ○ Scope of audit work takes into account risk management processes and wider internal control. Resource levels are reviewed as part of annual planning process and considered in report to Audit Committee on 27/06/07. ○ The Audit Charter does not currently identify responsibilities in respect of other organisations, including all key partnerships ○ Terms of reference define audit responsibilities in relation to fraud. 	<p>Consider need for Audit Charter amendment to include responsibilities/relationships with partnerships</p>
<p>2. Independence</p> <ul style="list-style-type: none"> ○ Organisational independence ○ Status of head of internal audit ○ Independence of individual internal auditors ○ Declaration of interest 	<ul style="list-style-type: none"> ○ Internal Audit Manager has direct access to those charged with governance through the Audit Committee (defined in Financial Regulations). ○ Reports are made in own name to management and to Audit Committee. ○ Internal Audit Manager acts as Deputy s151 Officer. No other conflict of interest between operational responsibilities and audit has been found. ○ Rotation of audit work within the team is the norm. ○ Auditors are required to declare interests and have been vetted. 	<p>Refresh declaration of interests during 2008/09</p>

2006 Code standard	Evidence of Achievement	Areas for development
<p>3. Ethics:</p> <ul style="list-style-type: none"> ○ Integrity ○ Objectivity ○ Competence ○ Confidentiality 	<ul style="list-style-type: none"> ○ Staff appraisal system and competency framework cover these issues; no significant points have been identified. ○ Staff have been made aware of ethics requirements. All staff have a copy of the Code of Practice. 	
<p>4. Audit Committee</p> <ul style="list-style-type: none"> ○ Purpose of the Audit Committee ○ Internal audit's relationship with the Audit Committee 	<ul style="list-style-type: none"> ○ Terms of reference have been formally approved and are regularly reviewed (last review undertaken in January 2007). They include responsibility for the review of the annual governance statement. ○ Audit committee approved the strategic annual plans for 2007/08 on 27/06/07 and monitors progress at each meeting. ○ The Internal Audit Manager attends the meetings, reports on the outcome of internal audit work, identifies necessary changes to the audit plan, and presents an annual report and opinion or assurance on the internal control and risk management framework. See Audit Committee papers. 	

CIPFA Code of Practice for Internal Audit – Review of Compliance 2007/08

Appendix B

2006 Code standard	Evidence of Achievement	Areas for development
<p>5. Relationships</p> <ul style="list-style-type: none"> ○ with management, ○ with other internal auditors ○ with external auditors ○ with other regulators and inspectors ○ with elected Members 	<ul style="list-style-type: none"> ○ Managers are consulted on the audit plan and on the scope of each audit. (Evidence is on audit files). ○ Responsibilities for managers and internal audit are defined in Financial Regulations, Financial Procedures and the Audit Charter in relation to internal control, risk management and fraud and corruption matters. ○ Good working relations established with external audit, including consultation on plan and opportunities for joint working. ○ Sharing of information is undertaken with other internal review functions. ○ There is liaison with external regulators and inspectors. ○ The responsibilities of internal audit staff and Members, particularly those of the Audit Committee are understood; training of members is carried out as necessary. 	<p>Extend scope of consultation in developing the annual audit plan. All Service Heads to be consulted during June/July 2008</p>
<p>6. Staffing, Training and Development</p>	<ul style="list-style-type: none"> ○ The skills and competencies required of each post have been determined and incorporated in the competency framework and job descriptions. ○ Actual skills and competencies have been assessed and a gap analysis completed. (See skills assessment matrix). Individual training and development plans have been agreed through the Employee Development & Performance Appraisal (EDPA) process and are being delivered. (See individual development plans and Service Training Plan). ○ Professional staff are required to complete CPD. ○ Training plan is linked to IA Strategic & Business Plan. 	<p>Review job descriptions during 2008/09</p> <p>Review position regarding professional staff's CPD records.</p>

2006 Code standard	Evidence of Achievement	Areas for development
<p>7. Audit Strategy and Planning</p>	<ul style="list-style-type: none"> ○ The Audit Strategic & Business Plan complies with the Code of Practice and has been formally approved by the Audit Committee 27/06/07. It is reviewed each year. ○ The risk-based annual Audit Plan has been prepared in accordance with the strategy. The corporate risk register has been used as the basis of the plan to the extent deemed appropriate according to the extent to which risk management has been implemented in the authority. This has been assessed by the Internal Audit Manager, who has also carried out his own risk assessment. ○ Available resources have been compared with the resource need and implications/proposals incorporated in a report on the Annual Plan submitted to the Audit Committee (27/06/07). ○ The plan has been approved by the Audit Committee (27/06/07). 	<p>Review effectiveness of current approach to annual planning and to determining risk based priorities</p>

2006 Code standard	Evidence of Achievement	Areas for development
<p>8. Undertaking Audit Work</p> <ul style="list-style-type: none"> ○ Planning ○ Approach ○ Recording and Assignments 	<ul style="list-style-type: none"> ○ An audit brief is prepared and agreed with management for each audit. (See audit files). ○ A risk-based approach is used and an audit opinion is given. (See audit reports on Intranet). ○ Issues are discussed with management as they arise. ○ Standards of working papers are specified and checked as part of the audit review process. ○ Adequate working papers supporting conclusions drawn and actions agreed are maintained and retained via the electronic Audit Management System (AMS) in accordance with defined policy. ○ Reports are issued to appropriate managers in accordance with defined policy. (See AMS). 	
<p>9. Due Professional Care</p> <ul style="list-style-type: none"> ○ Responsibilities of the individual auditor ○ Responsibilities of the Head of Internal Audit 	<ul style="list-style-type: none"> ○ All internal auditors are aware of their individual responsibilities for due professional care, including: <ul style="list-style-type: none"> ▪ Requirement to disclose all material facts; ▪ Disclosure of fraud, corruption or improper conduct ○ Review processes are in place to monitor due professional care through: <ul style="list-style-type: none"> ▪ Internal Audit Manager & Principal Auditor review all key audit documentation and reports. ▪ Operation of the Council's EDPA system for appraisal and training. ○ Work is assigned so as to avoid potential conflicts of interest. 	

2006 Code standard	Evidence of Achievement	Areas for development
<p>10. Reporting</p> <ul style="list-style-type: none"> ○ Reporting on audit work ○ Annual reporting 	<ul style="list-style-type: none"> ○ Audit reports give an assurance opinion in relation to risks and controls, using approved methodology ○ Scope of audit is set out in report ○ Agreed actions are graded according to risk. Draft reports are discussed with management and action plans agreed in response to recommendations made ○ Reports are issued to appropriate managers ○ Where necessary, issues are referred to risk manager ○ A follow-up programme is pursued and assurances sought from managers on the delivery of agreed actions ○ An escalation procedure has been defined and is used as appropriate (see reports to Audit Committee) ○ Where necessary, the opinion is revised in the light of the delivery of agreed actions. ○ An annual report to support the annual governance statement is presented to the Audit Committee (27/06/07). ○ The report includes the opinion on the control environment and any qualifications to that opinion ○ The work on which the opinion is based is set out in the report. ○ The report highlights significant issues. ○ Interim reports are submitted to the Audit Committee advising of how the opinion is developing (see reports to Audit Committee) 	

2006 Code standard	Evidence of Achievement	Areas for development
<p>11. Performance, Quality and Effectiveness</p> <ul style="list-style-type: none"> ○ Principles of performance, quality and effectiveness ○ Quality assurance of audit work ○ Performance and effectiveness of the internal audit service 	<ul style="list-style-type: none"> ○ Policies and procedures are defined in an audit manual Audits are assigned according to the skills mix required and so that there is adequate supervision ○ Performance measures are defined and results reported to Audit Committee in the annual report (27/06/07). ○ Internal quality review is undertaken by the Internal Audit Manager and Principal Auditor as part of mainstream review process for each audit. ○ Client satisfaction surveys are issued with final reports and are summarised in annual report (27/06/07). ○ An annual assessment of the work of internal audit is undertaken by the external auditor. (See management letter). 	<p>Review audit manual to reflect recent changes in approach/procedures</p> <p>Review performance management framework for IA</p> <p>Consider need for a periodic in-depth review of quality against the Code.</p>

Characteristic of 'effectiveness'	Evidence of achievement	Areas for development
IA can demonstrate that its work provides assurance that the control framework is sound and that standards of risk management are improving.	Results of audit work reported to each Audit Committee and summarised in the annual report and assurance statement demonstrate the level of assurance provided and how improvements are being realised.	
IA understands its position in respect to the organisation's other sources of assurance and plans its work accordingly.	Internal audit identifies other sources of assurance and takes this into account when preparing the internal audit plan.	
Understands the whole organisation, its needs and objectives.	The audit plan demonstrates how audit work will provide assurance in relation to the authority's objectives. Individual audit assignments identify risks to the achievement of those objectives.	Greater consultation with Service Heads & Directors will enhance this aspect.
Be seen as a catalyst for change at the heart of the organisation.	Supportive role of audit for corporate developments such as corporate governance review, risk management and ethics. Individual assignments may be catalyst for change.	Consider ethical issues in developing arrangements for the 2008/09 governance review
Add value and assist the organisation in achieving its objectives.	Demonstrated through individual audit assignments and also corporate work, e.g. project management, partnership arrangements, business continuity.	Review scope and nature of IA's contribution and reflect this in future plans and development programmes.
Be involved in service improvements and projects as they develop, working across internal and external boundaries to understand shared goals and individual obligations.	Internal audit provides help and advice on request and supports specific projects identified in plan and on <i>ad hoc</i> basis.	Consider IA role in education and publicity regarding corporate issues, e.g. fraud & corruption, risk management, etc

Characteristic of 'effectiveness'	Evidence of achievement	Areas for development
<p>Be forward looking – knowing where the organisation wishes to be and aware of the national agenda and its impact.</p>	<p>When identifying risks and in formulating the plan changes on the national agenda are considered. The audit section maintains awareness of new developments in the services it audits, risk management and corporate governance and disseminates this knowledge to other parts of the local authority.</p>	<p>Develop through wider consultation with service managers</p>
<p>Be innovative and challenging – shaping the values and standards of the organisation; providing internal inspection and validation and encouraging service managers to take ownership of processes, systems and policy.</p>	<p>Internal audit has taken an innovative approach to its reporting arrangements by focusing on risks and engaging managers in developing actions to manage risks, thereby encouraging ownership of the control environment amongst managers.</p>	
<p>Ensure the right resources are available – the skills mix, capacity, specialism and qualifications/experience requirements all change constantly.</p>	<p>Resource issues are addressed in the Strategic & Business and Annual Plan process. Ongoing consideration is given to alternative sources of audit resource, including areas requiring specialist skills.</p>	

LANCASTER CITY COUNCIL
ANNUAL GOVERNANCE STATEMENT 2007/08
Draft Version 0.02

SCOPE OF RESPONSIBILITY

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

In discharging this overall responsibility, Lancaster City Council is responsible for putting in place proper arrangements for the governance of its affairs and for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

Lancaster City Council has approved and adopted a *Code of Corporate Governance*, which is consistent with the principles of the CIPFA/SOLACE Framework *Good Governance in Local Government*. A copy of the code is on our website or can be obtained from the Internal Audit Manager, Town Hall, Dalton Square, Lancaster, LA1 1PJ.

This statement explains how Lancaster City Council has complied with the code and also meets the requirements of regulation 4 of the Accounts and Audit Regulations 2003 (as amended) in relation to the publication of a statement on internal control.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes for the direction and control of the authority and its activities through which it accounts to, engages with and leads the community.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Lancaster City Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Lancaster City Council for the year ended 31 March 2008 and up to the date of approval of the *Annual Governance Statement* and the *Statement of Accounts*.

THE GOVERNANCE ENVIRONMENT

The following paragraphs set out the key elements of the Council's governance arrangements as incorporated in the *Code of Corporate Governance*:

- The Council reviews its vision for the local area annually in the context of the Local Strategic Partnership's *Community Strategy* and through direct consultation with the community. The Council's vision, priorities and objectives are brought together and published in the three-year *Corporate Plan*.
- The Council's performance management framework is established to measure and monitor the quality of services for users and to ensure that they are delivered in accordance with the authority's objectives. Performance is driven by the *Corporate Plan* priorities and objectives, which are in turn cascaded into Service business plans and individual employee appraisals and action plans.
- Performance is actively managed by the executive through the Performance Management Group and quarterly Performance Review Team meetings and is subject to review and challenge by the overview & scrutiny function via the Budget & Performance Panel.
- The Council seeks to ensure the economical, effective and efficient use of resources and continuous improvement in the way in which it exercises its functions, through reviews carried out by Cabinet's Star Chamber, the Overview and Scrutiny function, Internal Audit and those conducted by our external auditors and other external agencies.
- The Council's *Constitution* is the keystone to establishing the roles and responsibilities of the executive, non-executive, scrutiny and officer functions. The *Constitution* sets out how we operate, how decisions are made and the procedures followed to ensure that these are efficient, transparent and accountable to local people.
- The Council's commitment to high standards of conduct and integrity is supported by our established codes of conduct for employees and elected Members. Standards of probity are maintained through our *Anti-Fraud and Corruption Policy and Strategy*, the *Whistleblowing Policy* and the Council's *Comments, Compliments and Complaints Policy*.
- The Head of Financial Services has statutory responsibility for the financial administration and stewardship of the Council, in accordance with Section 151 of the Local Government Act 1972.
- The Council adopts an annually reviewed three-year *Medium Term Financial Strategy* to inform and support the Council's key priorities and objectives. The financial management and scheme of delegation of the Council is conducted in accordance with rules set out in the *Financial Regulations and Procedures* within the *Constitution*. Key financial systems are documented to define how decisions are taken and the processes and controls required to manage risks.
- The Council's Audit Committee is established to monitor the effectiveness of risk and financial management arrangements and undertakes all recognised core functions of an audit committee.

- The Head of Legal and Human Resources Services is the Council's designated Monitoring Officer, with responsibility for promoting and maintaining high standards of conduct and for ensuring compliance with established policies, procedures, laws and regulations. The Monitoring Officer is required to report any actual or potential breaches of the law or maladministration to full Council and supports the Standards Committee in its function of promoting and maintaining high standards of conduct of Councillors and co-opted Members.
- The facilitation of policy and decision making, in line with the Council's overall budget and policy framework, is established through the Council's Cabinet, with any key decisions (as defined in the *Constitution*) outside of this framework being referred to the Council as a whole. The Council publishes a *Forward Plan* containing details of key decisions made on behalf of the Council by Cabinet and by senior officers under their delegated powers.
- In taking decisions, compliance with relevant laws and regulations and with internal policies and procedures is promoted through a requirement for views to be obtained from relevant officers, including the Monitoring Officer and statutory Financial Officer.
- Processes are in place to identify the development needs of both elected members and officers. Corporate training programmes are developed and delivered annually in addition to individual service training budgets to meet more specific, specialist needs.
- The *Code of Corporate Governance* sets out the Council's commitment and approach to incorporating good governance arrangements in respect of its significant partnerships.
- The Council's *Risk Management Policy and Strategy* sets out the framework for managing risk throughout the Council. Senior officers of the Council have primary responsibility to effectively manage strategic and operational business risks relating to their service areas. The Risk Management Steering Group oversees and promotes risk management practices and the Council's Audit Committee is responsible for monitoring the effectiveness of risk management within the Authority.
- The Council's Internal Audit service operates to the standards set out in the '*CIPFA Code of Practice for Internal Audit in Local Government 2006*' and the Council has established an objective and professional relationship with its external auditors and other statutory inspectors.

REVIEW OF EFFECTIVENESS

Lancaster City Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

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

- The Audit Committee and the Head of Legal and HR Services, in her role as the Council's Monitoring Officer, have a duty to monitor and review the operation of the *Constitution* to ensure that its aims and principles are given full effect. A function of full Council is to adopt and change the *Constitution* following recommendation(s) from the Monitoring Officer and/or Audit Committee
- The Council's Overview and Scrutiny Committee has responsibility to consider and, if necessary, 'call-in' decisions made by Cabinet and the Budget and Performance Panel reviews the Council's budget and performance at both a strategic and service level.
- The effectiveness of performance management arrangements is monitored by the executive, via quarterly Performance Review Team meetings and is reviewed by the overview and scrutiny function via the Budget & Performance Panel.
- The Council's Standards Committee, chaired by one of three independent representatives, is responsible for promoting, reviewing and monitoring adherence with standards of conduct for elected members. The Committee conducts hearings in respect of any matters referred to it by the Standards Board for local determination.
- The Audit Committee has responsibility for reviewing the Code of Corporate Governance and the adequacy of internal controls and risk management arrangements. It also monitors the performance and effectiveness of Internal Audit and agrees and monitors the external audit plan
- Internal Audit is responsible for providing assurance on the effectiveness of the Council's systems of internal control, including arrangements for risk management and governance. Internal Audit's role is to assist managers by evaluating the control environment, providing assurance wherever possible and agreeing actions to optimise levels of control. The Council's external auditors place reliance on the work of Internal Audit in fulfilling their statutory duties and regularly inspect Internal Audit work
- The Internal Audit Manager is responsible for submitting an annual report to the Audit Committee detailing the performance of Internal Audit for the previous financial year, and giving an opinion on the effectiveness of the Council's systems of internal control.
- During 2007/08 the Audit Commission undertook, at the Council's request, a review of its Comprehensive Performance Assessment (CPA). This resulted in the Council being assessed as 'Good' (the second highest rating) compared with 'Fair' when the previous assessment was made in 2004. Notwithstanding this improvement, the review identified further areas for improvement which are to be addressed through the implementation of the Corporate/Service Business Plans.
- In April 2008, the Audit Commission, in its *Annual Audit Letter*, reported that the Council had strengthened its arrangements in a range of areas, including financial management, risk management and scrutiny. The Commission concluded that the Council had adequate arrangements in place for securing value for money. The Commission's views drew on assessments of the Council's "Direction of Travel" and its "Use of Resources", in which it judged us to be "consistently above minimum requirements – performing well".

We have been advised on the implications of the result of the review of the effectiveness of the governance framework and system of internal control and arrangements to address weaknesses and ensure continuous improvement of the system are incorporated in the Council's improvement plans.

SIGNIFICANT GOVERNANCE ISSUES

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

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

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

- **Improve decision making** by undertaking a review of executive portfolios and Democratic Renewal and by reviewing and further developing the Council's performance management arrangements.
- **Continue to improve the Value for Money** we and our key partnerships provide, through the implementation of a *Corporate Improvement and Efficiency Plan*.
- **Continue to strengthen our delivery of customer-focussed services** by continuing the programme of service integration into our Customer Service Centres and by continuing to improve how we undertake consultation and community engagement, thereby contributing to more focussed business planning and allocation of resources.
- **Continue to develop the effectiveness of our partnership working** through implementation of a structured approach to reviewing and evaluating governance arrangements in relation to our key partnerships.
- **Improve the measurement and monitoring of the environmental impact** of our policies, plans and decisions.
- **Strengthen the capacity to deliver and improve services** through the implementation of a *Workforce Planning and Development Strategy* and improving the Council's programme management arrangements.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

J R Mace
Leader of the Council

M Cullinan
Chief Executive

S Taylor
Head of Legal and HR Services
Monitoring Officer

N Muschamp
Head of Financial Services
(Section 151 Officer)

AUDIT COMMITTEE

Internal Audit Strategic & Annual Plans

25 June 2008

Report of Internal Audit Manager

PURPOSE OF REPORT
To seek the Committee's approval for a proposed three-year Internal Audit Strategic Plan and Annual Operational Plan for 2008/09
This report is public

RECOMMENDATIONS

1. That the Internal Audit Strategic Plan be approved.
2. That the Internal Audit Annual Operational Plan for 2008/09 be approved.

1.0 Introduction

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

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

2.0 Proposal Details

Internal Audit Strategic and Business Plan 2008/09 to 2010/11

- 2.1 The Internal Audit Business and Strategic Plan (attached at Appendix A) has again been developed using the Council's template for its service business plans, but extended to incorporate two further elements of internal audit strategy as set out in the Code of Practice, viz:

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

- How the Internal Audit Manager will form and evidence his opinion on the control environment to support the annual Statement on Internal Control;
- How internal audit will identify and address significant local and national issues and risks

Internal Audit Annual Plan 2008/09

2.2 The draft Internal Audit Annual Plan attached at Appendix B is designed, as required by the Code of Practice, to implement the internal audit strategy. The plan has been developed along the same lines as that for the 2007/08 year and retains the following features:

- Being explicit about which elements of work are intended to provide assurance to support the overall annual opinion on the internal control environment;
- Being more explicit about the resources to be devoted to other “support” work aimed at helping the Council’s ongoing improvement programme. The proposed plan for 2008/09 includes an increased allocation of resources (100 days) to be devoted to supporting developments in the Council’s arrangements for securing efficiency and Value For Money;
- Providing for a rolling programme of audit work to be operated within the plan which will provide greater flexibility and responsiveness to changes in the risk environment, and any emerging demands for internal audit assurance work.

2.3 This approach to the annual plan will be supported by a more detailed programme of audit assignments and this will be reported to each meeting of the Audit Committee. The approach is designed to enable greater flexibility in selecting, scoping and budgeting for specific audits, thus giving more effective audit coverage and assurance. This approach was introduced last year and the results are set out in the Internal Audit Annual report elsewhere on the agenda. It is felt that during the year, the approach began to achieve a more focused, varied and flexible plan. It is expected that, following the production of 2008/09 Service Business Plans, consultation with Service Heads and Management Team will help take this a step further. The effectiveness of the approach will be monitored through the year and any issues reported to the Committee as part of regular monitoring.

2.4 The annual plan for 2008/09 is based on available resources of 870 audit days, this being delivered by the in-house team of 4.8 FTE staff. No account has been taken at this stage of the potential for the use of consultancy services and/or other forms of collaboration. A review is to be undertaken during the year which will consider all such aspects of service provision.

3.0 Details of Consultation

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

4.0 Options and Options Analysis (including risk assessment)

4.1 The proposal is that the Committee approves both the draft Internal Audit Strategic and Business Plan 2008/09 to 2010/11 and the Internal Audit Annual Plan for 2008/09. No alternative options are identified.

5.0 Conclusion

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

CONCLUSION OF IMPACT ASSESSMENT

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

This report has no direct impact on these areas.

FINANCIAL IMPLICATIONS

None arising from this report.

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

None arising from this report

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

Contact Officer: Derek Whiteway
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Ref: aud/ctte/aud/0809/25June08



**LANCASTER
CITY COUNCIL**

Promoting City, Coast & Countryside

**LANCASTER CITY COUNCIL
INTERNAL AUDIT
BUSINESS AND STRATEGIC PLAN
2008/09 TO 2010/11**

SUBMITTED TO AUDIT COMMITTEE 25/06/08

PREPARED BY THE INTERNAL AUDIT MANAGER

May 2008

Revision History

Date of this revision:

Revision Date	Summary of Changes	Version
May 2008	Initial Draft	0.01
13 June 2008	Second Draft – Considered by Management Team	0.02

Distribution

Name	Title

Approvals

Name	Date Approved	Link to Approval Minutes	Version

Draft

Introduction

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

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

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

Service Purpose

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

Strategic Aims & Objectives

- ◆ To continue to develop the scope and robustness of Internal Audit's assurance work.
- ◆ To support the Council achieving value for money in service delivery.
- ◆ To contribute to improving standards of internal control and governance within the authority and its key partnerships.
- ◆ To meet and exceed existing and emerging professional standards

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

Situational and Risk Analysis

Services provided				
	2007/08 Plan		2010/11 Target	
Work Area	Days	%	Days	%
Assurance work, covering:				
○ Core Financial systems	100	11.9	100	11.5
○ Core Management arrangements	120	14.3	125	14.4
○ Core Operational systems, including ICT systems (now covered under other headings)	70	8.3	-	-
○ Other systems, projects and management arrangements (based on quarterly review of risk and the assurance framework)	200	23.8	250	28.7
○ Follow-up work	70	8.3	45	5.2
Sub-Total, Assurance Work	560	66.6	520	59.8
Ad-hoc advice	60	7.2	60	6.9
Support (general and project support)	65	7.7	45	5.2
Efficiency & VFM	30	3.6	100	11.5
Investigations contingency	35	4.2	35	4.0
Planning & Monitoring	45	5.4	60	6.9
Non-audit duties	5	0.6	10	1.1
General contingency	40	4.7	40	4.6
Totals	840	100.0	870	100.0

Customers and Stakeholders

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

Internal Audit Opinion

Internal Audit opinion will be formed through:

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

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

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

Identifying and accommodating significant local and national issues

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

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

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

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

- A specific piece of Internal Audit assurance work
- Efficiency/VfM or Support work directed at improving existing arrangements
- Contributing to corporate groups/projects (officer and/or Member based) established to consider the approach to such issues

Resources		
In-House team (4.81 fte), consisting of:	SCP	Days provided per annum (2008/09 to 2010/11)
Internal Audit Manager	44-47	160
Principal Auditor	38-41	180
Senior Auditor x2	14-34*	380
Assistant Auditor (0.81 fte)	14-34*	150
Sub-Total		870
Bought-in resources – to be reviewed during 2008/09		-
Total resources		870

Performance Measurement and Management

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

All aspects of the service are assessed directly by the Council’s external auditors as part of a three-yearly detailed review based on the Code of Practice. The most recent review was undertaken during the 2005/06 audit and reported to Audit Committee on 20 September 2006. A similar review is to be undertaken in June 2008 by the Council’s newly appointed auditors, KPMG for the 2007/08 audit year.

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

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

To monitor performance against key service objectives and the standards established in the Code of Practice, performance indicators have been developed as set out in the detailed Business Plan

Training and Development

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

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

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

Internal Audit’s training plan is incorporated in Financial Service’s full training plan for 2008/09. In total, the service has been allocated £9,100 for training in 2008/09.

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

Development Areas

- Further review and development of the assurance framework leading to improved and better evidenced provision of assurance from internal audit work and other assurance sources.
- Use of Resources and Comprehensive Area Assessment (CAA) – contributing to an annual improvement in the Council's Use of Resources assessment and the Council's contribution to Comprehensive Area Assessments.
- Increased focus on efficiency, VfM and business improvement. Need to clarify the nature and scope of Internal Audit staff involvement and establish clearly the boundaries between proactive work and the independent assurance function
- Continuing and increasing focus on the governance and performance of the Council's main partnerships, connected with the introduction of the CAA.
- Staffing considerations – continuing to review service delivery options and the scope for collaboration with other organisations and service providers. Continue to develop performance measurement and management within the service.

Risks	Mitigation options
<ul style="list-style-type: none"> ▪ Requirement to cover responsive work (investigations, etc) affects ability to deliver planned work. 	<ul style="list-style-type: none"> ▪ Consider alternative approaches to resourcing responsive work ▪ Review potential uses of existing consultancy budget.
<ul style="list-style-type: none"> ▪ Too great an involvement in corporate development areas could undermine IA's independence and devalue the assurance function. 	<ul style="list-style-type: none"> ▪ IA plans to more clearly set out the boundaries of assurance and corporate "support" work. ▪ Nature and scope of IA involvement in proactive work to be clearly defined.
<ul style="list-style-type: none"> ▪ Lack of status/profile within the organisation, hindering the ability to make a meaningful and effective contribution. 	<ul style="list-style-type: none"> ▪ IA Manager to consult more widely and actively in developing and implementing IA plans.
<ul style="list-style-type: none"> ▪ Lack of skills to undertake specific pieces of work. 	<ul style="list-style-type: none"> ▪ Continuing development of staff in line with the adopted competency framework and EDPA process. ▪ Further evaluation of alternative service delivery options, including collaboration with other LA's and services provided by consultancy bodies.
<ul style="list-style-type: none"> ▪ Loss of reputation/standing through an inability to demonstrate standards of performance. 	<ul style="list-style-type: none"> ▪ Further development of a clear performance management framework, emanating from the IA Strategy, including a manageable range of meaningful performance indicators ▪ Comparison with other providers through benchmarking activities, market testing of particular service elements, and through ongoing professional updates ▪ Revised customer feedback arrangements

INTERNAL AUDIT STRATEGIC & BUSINESS PLAN – 2008/09						
SERVICE OBJECTIVE	To continue to develop the scope and robustness of Internal Audit's assurance work.					Major Risk Issues to Register?
	To deliver cost effective services that provide value for money.					
CORPORATE PRIORITY	Target	Target / Measurement Details	Specific Supporting Tasks or Actions	Responsible Officer	Resource / Budget Implications	
Objectives To continue to develop the reporting of assurance opinions to Audit Committee	Quarterly reporting to audit committee of audit assurance opinions	35 – 45 reports and assurance opinions reported to Audit Committee		Internal Audit Manager		No
	Annual Internal Audit Assurance Statement based on combined results of audit assurance work	Annual report submitted to Audit Committee in June 2009			Covered by existing plan provision for audit planning & monitoring	
	Consolidate the level of resources devoted to assurance work	520 audit days planned 2008/09	Review and develop annual plan approach involving rolling programme of audit assignments Definition of the nature and scope of IA involvement in proactive work.		520 audit days out of total available budget of 870 (60%) to be devoted to assurance work.	
	Quarterly updates of assurance opinions issued in audit reports	Quarterly updates to Audit Committee and Performance Management Group			Covered by existing plan provision for audit planning & monitoring	

INTERNAL AUDIT STRATEGIC & BUSINESS PLAN – 2008/09						
SERVICE OBJECTIVE	To support the Council achieving for value for money in service delivery.					Major Risk Issues to Register?
	To deliver cost effective services that provide value for money.					Yes
CORPORATE PRIORITY	Target	Target / Measurement Details	Specific Supporting Tasks or Actions	Responsible Officer	Resource / Budget Implications	
To contribute to achievement of the Council's Annual Efficiency Targets	Financial KPI NI 179 Value for money – total net value of on-going cash-releasing VFM gains	£1.046M cashable savings achieved in 2008/09	Contribute to development and implementation of Council's strategy for achieving VFM targets.	Internal Audit Manager	Covered by budget for Efficiency & Vfm.	
Improving the Council's Use of Resources judgement, particularly in the area of Value For Money	Improved Use of Resources judgement	Via Use of Resources judgements	Internal Audit self-assessment against the Use of Resources criteria for Internal Control	Internal Audit Manager	Covered by budget for Efficiency & Vfm and/or Support Work	
			Definition of the nature and scope of IA involvement in proactive work.			

INTERNAL AUDIT STRATEGIC & BUSINESS PLAN – 2008/09							
SERVICE OBJECTIVE	To support the Council achieving for value for money in service delivery.					Major Risk Issues to Register?	Yes
	To deliver cost effective services that provide value for money.						
CORPORATE PRIORITY	Target	Target / Measurement Details	Specific Supporting Tasks or Actions	Responsible Officer	Resource / Budget Implications		
Objectives To provide support and consultancy services that meet the Council's needs and demands.	Budget for consultancy work allocated and employed effectively	Demand for support & consultancy work identified through consultation with Service Heads and Management Team and clearly programmed.	Consultation with Service Heads and Management Team. Contributing to the development of the Council's Efficiency/Vfm Strategy	Internal Audit Manager	Budget for Efficiency/Vfm and for Support work. Monitoring covered by budget for audit management (planning & monitoring)		
	Results/outcomes of involvement evaluated and reported	Monitoring of activity and budgets via Audit Committee Reporting to Audit Committee both during and after completion of assignment					

INTERNAL AUDIT STRATEGIC & BUSINESS PLAN – 2008/09						
SERVICE OBJECTIVE	To contribute to improving standards of internal control and governance within the authority and its key partnerships.					Major Risk Issues to Register?
	To deliver cost effective services that provide value for money.					No
CORPORATE PRIORITY	Target	Target / Measurement Details	Specific Supporting Tasks or Actions	Responsible Officer	Resource / Budget Implications	
Continued improvement in standards of Internal Control	Consolidation or improvement in Use of Resources judgements for 2008/09 financial years	Through Use of Resources judgements by external audit	Development and implementation of a clear Assurance Framework covering significant risks	Internal Audit Manager	Covered by budget for Support Work and Audit Management	
	Improved Annual Governance Statement for 2008/09	Comparison of Annual Governance Statements	Development of the Governance Framework used to produce the Statement. Obtaining assurance statements/evaluations of the Council's key partnerships			
Improved standards of internal control and governance in key partnerships	Assurance opinions on arrangements relating to a number of key partnerships	Via publication of audit reports.	Tracking of implementation of Partnership Development & Evaluation Toolkit.		Covered by budget for Core Management Arrangements and/or Efficiency/VfM	
Contribute to ongoing corporate development of the Council's performance management framework.	Escendency updated and being used from PRT Quarter 1 2008/09	Through Financial Services PRT meetings and supporting arrangements, and quarterly reporting to Audit Committee.	Appraise integration of risk management within Escendency		Covered by budget for Support Work	

INTERNAL AUDIT STRATEGIC & BUSINESS PLAN – 2008/09						
SERVICE OBJECTIVE	To contribute to improving standards of internal control and governance within the authority and its key partnerships.				Major Risk Issues to Register?	No
	To deliver cost effective services that provide value for money.					
CORPORATE PRIORITY	Target	Target / Measurement Details	Specific Supporting Tasks or Actions	Responsible Officer	Resource / Budget Implications	
Objectives						
To improve the effectiveness of the Council's risk management arrangements in service planning and delivery.	Risk Registers in place Annual update of the Risk Management Policy and Strategy Other targets to be considered in relation to performance management framework developments	Through Financial Services PRT meetings and supporting arrangements and quarterly reporting to Audit Committee	Appraise integration of risk management within Escendency See Risk & Insurance Manager's action plan.	Internal Audit Manager (in liaison with Risk & Insurance Manager)	Covered by budget for Support Work	

INTERNAL AUDIT STRATEGIC & BUSINESS PLAN – 2008/09						
SERVICE OBJECTIVE	To meet and exceed existing and emerging professional standards					Major Risk Issues to Register?
	To deliver cost effective services that provide value for money.					
CORPORATE PRIORITY	Target	Target / Measurement Details	Specific Supporting Tasks or Actions	Responsible Officer	Resource / Budget Implications	No
To improve Internal Audit's standards in relation to the established Code of Practice and in relation to other internal audit establishments and external providers	Improved and positive external audit assessment of Internal Audit	External Audit assessment of Internal Audit due as part of 2008/09 audit Self-assessment or peer review thereafter Covered by annual internal audit report to Audit Committee	Implementation of the Internal Audit Strategy Implementation of any actions arising from the 2007/08 external audit review of Internal Audit Development of a clear performance management framework, including a manageable range of meaningful PIs Ongoing comparison and benchmarking with Lancashire Districts internal audit services Review of customer feedback arrangements.	Internal Audit Manager	Covered by budget for Audit Management	
To improve individuals' capabilities and standards as auditors	Evidence of developing skills and experience throughout the section	Development assessed and reviewed via EDPA process	Review of supervisory roles and of assignment review process (as set out in the Internal Audit Competency Framework) as a contribution to EDPA	Internal Audit Manager	Covered by budget for Audit Management	

Internal Audit Annual Plan 2008/09

Area of Work	Planned Days	Planned Output
1. ASSURANCE WORK		
CORE FINANCIAL SYSTEMS		
Main Accounting	100	8 - 10 reports and assurance opinions
Asset Management		
Fraud & Corruption		
Payroll		
Ordering & Payments		
Sundry Debtors		
Income Management		
Treasury Management		
Council Tax		
Housing Benefit & Council Tax Benefit		
National Non-Domestic Rates		
Housing Rents		
CORE MANAGEMENT ARRANGEMENTS (including:)		
Financial Management	125	8 - 10 reports and assurance opinions
Performance Management		
Human Resource Management		
Risk Management		
Information Management		
Corporate Governance		
Partnership Arrangements		
Procurement & Contract Management		
Project and Programme Management		
RISK BASED ASSURANCE WORK PROGRAMME		
Covering projects, non-core financial, operational and managerial systems, based on a quarterly review of risk and the assurance framework.	250	19 - 25 reports and assurance opinions
FOLLOW-UP REVIEWS	45	
SUB-TOTAL – ASSURANCE WORK	520	
2. CONSULTANCY WORK		
Ad-Hoc Advice	60	
Efficiency & VfM	100	
Support Work (projects and other support)	45	
3. OTHER		
Non Audit Duties	10	
4. AUDIT MANAGEMENT		
Planning, Monitoring and Committee Work	60	
5. CONTINGENCIES		
Investigations	35	
General Contingency	40	
TOTAL	870	