



Committee: AUDIT COMMITTEE
Date: TUESDAY, 30 JUNE 2009
Venue: MORECAMBE TOWN HALL
Time: 6.00 P.M.

A G E N D A

1. **Apologies for Absence**
2. **Appointment of Vice-Chairman**
3. **Minutes**
Minutes of the Meeting held on (insert) 22nd April, 2009 (previously circulated).
4. **Items of Urgent Business Authorised by the Chairman**
5. **Declarations of Interest**
6. **Annual Audit and Inspection Letter (Pages 1 - 18)**
Report of the Audit Commission.
(All Councillors have been invited to attend for this item).
7. **Statement of Accounts 2008/09 (Pages 19 - 94)**
Report of Head of Financial Services
8. **External Auditors Review of Internal Audit (Pages 95 - 120)**
Report of Internal Audit Manager.
9. **Internal Audit Annual Report and Assurance Statement 2008/09 (Pages 121 - 136)**
Report of Internal Audit Manager.
10. **Annual Governance Review 2008/09 (Pages 137 - 159)**
Report of Internal Audit Manager.
11. **Internal Audit Strategic and Annual Plans 2009/10 (Pages 160 - 175)**
Report of Internal Audit Manager.

12. **Audit Committee Training Programme** (Pages 176 - 180)

Report of Internal Audit Manager.

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

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

(ii) Substitute Membership

Councillors Shirley Burns, Tina Clifford, Karen Leytham, Geoff Marsland, Ian McCulloch, Sylvia Rogerson, Peter Robinson and Paul Woodruff

(iii) Queries regarding this Agenda

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

(iv) Changes to Membership, substitutions or apologies

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

MARK CULLINAN,
CHIEF EXECUTIVE,
TOWN HALL,
DALTON SQUARE,
LANCASTER LA1 1PJ

Published on 22nd June 2009

Annual Audit and Inspection Letter

Lancaster City Council

Audit 2007/08

March 2009



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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.
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Key messages

- 1 The City Council has made good overall progress in delivering its priorities. Services are improving at a faster rate than other councils and the number of high performing services has also increased. The CPA corporate assessment inspection was reported in February 2008 with an overall rating of *good*, an improvement on the 2004 rating.
- 2 Lancaster is becoming a cleaner and healthier place to live. Recycling, street cleanliness, homelessness and planning (minor applications) performance have all improved. Litter has reduced and graffiti levels are very low. The amount of waste collected is down, reducing the use of landfill. Overall costs of waste collection rose over the past year, reflecting extra investment.
- 3 Crime is falling faster than in other parts of the region with significant reductions in violent crime and thefts from vehicles. Local people have fewer concerns about anti-social behaviour than previously. The borough is on track to meet its local target for reducing serious acquisitive crime.
- 4 The City Council continues to lead a wide-ranging regeneration programme, although progress on some schemes has slowed due to the economic downturn.
- 5 Housing services are improving well and neighbourhood management schemes are helping to support sustainable communities. The benefits service continues to deliver high performance for both the speed and accuracy of assessments.
- 6 The City Council is making its services more accessible with more now integrated into the two customer service centres in Lancaster and Morecambe. More people are using the Council's website. Public satisfaction with the Lancaster as a place to live has risen but satisfaction with the City Council has fallen¹.
- 7 There remains work to do to reduce health inequalities across the borough. The health of people in the district is generally average but early deaths from cancer are reducing more slowly than average and binge drinking is a significant problem.
- 8 The City Council's approach to equality and diversity remains underdeveloped. Lancaster is one of only 14 per cent of councils nationally still to progress beyond Level 1 of the Local Government Equality Standard.
- 9 Sickness absence fell substantially in 2007/08 but remains above the local authority average.
- 10 Financial capacity is stretched as a result of an overspend on the concessionary travel budget, increased revenue costs to maintain regeneration sites and reduced investment, rental and fee income.
- 11 The auditors' value for money judgement was again *adequate* in 2007/08 and efficiency targets were met but significant further savings will be required in order to meet budget projections for 2009/10.

¹ Interim Place Survey data 2008: to be updated when final figures available.

Action needed by the Council

- 12 Further efficiencies and/or savings will be required to meet budget projections for 2009/10. 2009 is proving to be a difficult year for all councils due to the national economic downturn. Pressures will increase further as the recession starts to bite. The Council should proactively manage its finances and other resources to deal with these pressures, particularly where costs and demands for services are increasing.
- 13 The Council should ensure that it continues to work closely with NHS trusts and other key partners so that health initiatives are effectively co-ordinated across the borough in order to deliver outcomes.
- 14 The City Council should re-commence its programme of work aimed at improving its performance against the Local Government Equality Standard.
- 15 Sickness absence fell in 2007/08 but remains above average. The City Council should further enhance capacity by a continued a management focus on this issue.
- 16 The City Council should analyse the reasons for lower levels of satisfaction with the Council and take action to restore the public's level of confidence with Council activities.

Purpose, responsibilities and scope

- 17 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the most recent Comprehensive Performance Assessment (CPA), the findings and conclusions from the audit of the Council for 2007/08 and from any inspections undertaken since the last Annual Audit and Inspection Letter.
- 18 We have addressed this letter to members as it is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Council in meeting its responsibilities.
- 19 This letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at www.audit-commission.gov.uk. (In addition the Council is planning to publish it on its website).
- 20 Your appointed auditor is responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, the auditor reviews and reports on:
 - the Council's accounts;
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
 - whether the Council's best value performance plan has been prepared and published in line with legislation and statutory guidance.
- 21 This letter includes the latest assessment on the Council's performance under the CPA framework, including our Direction of Travel report, and the results of any inspections carried out by the Audit Commission under section 10 of the Local Government Act 1999. It summarises the key issues arising from the CPA and any such inspections. Inspection reports are issued in accordance with the Audit Commission's duty under section 13 of the 1999 Act.
- 22 We have listed the reports issued to the Council relating to 2007/08 audit and inspection work at the end of this letter.

How is Lancaster City Council performing?

23 Lancaster City Council was assessed as good in the Comprehensive Performance Assessment reported in February 2008. These assessments have been completed in all district councils. The following chart is the latest position across all district councils.

Figure 1 Overall performance of district councils in CPA



Source: Audit Commission (percentage figures may not add up to 100 per cent due to rounding)

The improvement since last year - our Direction of Travel report

Improving outcomes

24 Lancaster City Council has made good progress in delivering its priorities. The district is becoming a cleaner and healthier place to live, and crime is falling faster than in other parts of the region. The City Council continues to lead a wide-ranging regeneration programme, although progress on some schemes has slowed due to the economic downturn. Housing services are improving well and neighbourhood management schemes are having an impact in supporting sustainable communities. The Council is making its services more accessible, but there is scope to improve value for money. Public satisfaction with the Lancaster as a place to live has risen to 80 per cent, but satisfaction with the City Council has fallen to 37 per cent¹.

¹ Interim Place Survey data 2008: to be updated when final figures available.

How is Lancaster City Council performing?

- 25** Overall, the City Council's services are improving at a slightly faster rate than the average. Sixty one per cent of nationally-comparable indicators improved for Lancaster City Council during 2007/08, against a district council average of 56-59 per cent. The percentage of indicators where Lancaster City Council performs in the top quartile also increased to 33 per cent, the same as the national average. The Council's benefits service continues to be a top performer, processing new claims in an average of 19 days during 2007/08 with a 99.8 per cent accuracy rate. There have also been notable improvements in recycling, street cleanliness, homelessness services and speed of processing minor planning applications. Sickness absence fell substantially but remains above the local authority average.
- 26** Environmental quality and waste management are improving steadily. The proportion of land that is heavily littered reduced from 12.8 to 10.7 per cent in 2007/08 (although still above the district council average) while graffiti levels are now amongst the lowest in the country. The recycling and composting rate has increased to almost 31 per cent – helped by a new plastics collection – but similar improvements elsewhere mean that Lancaster district remains behind the national average. The City Council is successfully reducing the quantity of waste collected per household. The award-winning 'Bulky Matters' collection, delivered in partnership with a local social enterprise, collected 100 per cent of waste within the seven day standard during 2007/08 and recycled or re-used 50 per cent of this, thereby significantly reducing the use of costly landfill. Overall costs of waste collection rose over the past year, reflecting extra investment in recycling services, but the total cost of waste collection per household remains below average. Both Williamson and Happy Mount parks achieved Green Flag status during 2007/08.
- 27** The City Council is helping to make the district a healthier place but there remains work to do to reduce health inequalities. Lancaster is one of only six 'Cycling Demonstration Towns' nationally, helping to create improved cycle routes, more parking spaces and increased take-up of cycle training by both adults and children. Additional funding of £1.5 million has recently been secured for the Department of Transport to enable the project to be extended until 2011. The health of people in the Lancaster district is generally similar to, or better than, the England average. However, early deaths from cancer are reducing more slowly than average, binge drinking is a significant problem, and the gap in life expectancy between the best and worst areas of the district is five years for women and six years for men. The City Council is beginning to address these issues with its partners – for example, the Lancaster District Alcohol Harm Reduction Partnership has produced an award-winning short film warning about the dangers of drink driving. A Council-run project is targeting obesity among primary school children by measuring body mass index and providing each child with an individual fitness chart.

- 28** The City Council and its partners have made impressive progress in reducing crime and anti-social behaviour. Targeted initiatives – such as those run by the Multi-Agency Problem Solving Team – contributed to overall recorded crime falling by 15 per cent in Lancaster district during 2007/08, slightly better than the county-wide reduction. Particularly significant reductions were achieved in violent crime (14 per cent down on 2006/07 levels) and thefts from vehicles (32 per cent down). The percentage of people perceiving anti-social behaviour to be high also fell to 17 per cent. Data for the first half of 2008/09 indicates that the borough is just on track to meet its target for reducing serious acquisitive crime within the Lancashire Local Area Agreement.
- 29** Progress on the physical and economic regeneration of the district has been good but, in common with other parts of the country, is now slowing as a result of the economic downturn. Key projects completed in the past year include the Storey Centre for Creative Industries, West End Gardens (incorporating a performance plaza, play areas, and public art works) and phases 6 and 7 of the coastal defence works, which provide an extension to the landscaped promenade walkways. Problems concerning highways access to the new Science Park have been resolved and development is scheduled to begin shortly. However, the Chatsworth Gardens housing project in Morecambe has been delayed as a result of problems with the development agreement, exacerbated by the economic downturn. Discussions are ongoing with the Homes and Communities Agency (HCA) with a view to agreeing a revised financial model for the project. The Lancaster town centre retail development is on hold pending the decision by central government to ‘call in’ the planning decision. Work on the infrastructure elements of the Luneside East scheme is ongoing but a housing partner has yet to be found for the development. Looking ahead, the Council has adopted a revised economic regeneration programme and this is now being taken forward with the Local Strategic Partnership, the North West Development Agency and the HCA.
- 30** Housing services continue to improve in most areas. Average re-let times for council housing reduced from 38 to 32 days in 2007/08 but are rising again in the first half of 2008/09. The proportion of urgent repairs completed on time fell slightly but remains above average, while the speed of response to non-urgent repairs improved again in 2007/08. Some 86 per cent of tenants are satisfied with the quality of their home and ‘Tenant’s Den’ road shows have engaged residents in generating ideas to improve housing services. Preventative action is reducing levels of homelessness and the average length of stay in temporary accommodation fell sharply in 2007/08. The City Council has supported the YMCA to re-open a unit providing emergency accommodation and support to young people. Neighbourhood management arrangements in Poulton and the West End of Morecambe have continued to give local people extra input into decision-making – for example, bespoke waste collection and recycling arrangements have been introduced in the West End where the nature of housing and transience of population makes traditional approaches less suitable. A further pilot of neighbourhood management has been completed in the Ellet ward; the outcome of this pilot is currently being considered by a Cabinet liaison working group looking at options for the roll-out of neighbourhood management across the district.

How is Lancaster City Council performing?

- 31** The City Council is strengthening its focus on customers and improving access. Further services, including homelessness, parking and concessionary travel, have been integrated into the two customer service centres (CSCs) in Lancaster and Morecambe which opened in late 2007. A recent 'mystery shopping' exercise found that 87 per cent of queries were resolved in a single contact. Staff from the Citizen's Advice Bureau and the Department for Work and Pensions work out of the CSCs on an appointments basis, providing joined-up services to residents. The '50 Forward' service for older people also now operates out of the CSCs, offering one-stop advice and information on issues such as housing, home care, leisure and employment, training or volunteering opportunities. An increasing number of residents are using the City Council's website for transactional services and a recent survey rated the ease of finding information on the website at 8.4 on a 10 point scale. In partnership with Lancashire County Council, the City Council's leisure service ran a successful pilot last year to increase access to leisure activities for young people with a significant disability.
- 32** The City Council's approach to equality and diversity remains underdeveloped, but positive action is being taken to strengthen community cohesion. Lancaster is one of only 14 per cent of councils nationally still to progress beyond Level 1 of the Local Government Equality Standard. Planned work to address this was deferred due to capacity in Human Resources being fully occupied by the job evaluation exercise over the past year. On a more positive note, the Community Leaders Group – a quarterly meeting of formal and informal representatives of local communities – is helping to strengthen communication among different ethnic groups and local service providers. The Group was established by the City Council's chief executive in early 2007 and has led to practical improvements such as the introduction of Polish language books into local libraries. It is currently exploring issues around extreme terrorism and developing a protocol for dealing with community tensions which may arise from a local, national or global terrorist incident.
- 33** Value for money was again assessed as adequate in 2007/08, on the basis that service performance is broadly commensurate with spending levels compared to similar councils. Good foundations are being laid for future improvement: the City Council has completed its programme of VFM reviews and is working to develop a better understanding of its unit costs. Recent improvements in value for money include the integration of the Morecambe housing office into the customer service centre (releasing a building for sale) and the extension of the electronic document management system from benefits into planning and housing. Efficiency targets were met during 2007/08 but significant further savings will be required in order to meet budget projections for 2009/10.

Improvement plans

- 34** The City Council has robust plans for improvement, although further work is needed to ensure that key plans are aligned with those of the Lancaster District Local Strategic Partnership (LDLSP). The existing Corporate Plan clearly sets out priorities and linked actions, but is now under review to fit with the new LDLSP Sustainable Community Strategy (SCS) adopted in November 2008. The number of corporate priorities is likely to reduce, allowing a stronger focus on key outcomes. Corporate and financial planning within the Council is well integrated, helping to support service improvement.

- 35** Performance management continues to improve and is effective in driving action planning. The quarterly Performance Review Team (PRT) has been rationalised to reduce the number of meetings involved and is successfully focusing officer and member attention on under-performance and potential delays to critical milestones. For example, corrective action has been taken to prioritise letters received by the revenues and benefits teams in order to meet the corporate response target, while staffing levels in planning and building control have been reviewed following a drop in fee income.
- 36** Partnership working is becoming more focused in the light of a recent review of the structure and constitution of the LDLSP and its adoption of a revised SCS. The new Strategy is based around 7 themes and 21 priorities. Thematic groups agreed their action plans towards the end of 2008, although not all yet contain SMART targets. The first quarterly progress reports will be made in April 2009. Beyond its boundaries, the City Council is contributing well to Team Lancashire – the sub-regional improvement and efficiency partnership – in areas such as joint procurement. The City Council is consulting its parishes on options for closer working and will shortly consider an application to establish a Town Council in Morecambe.
- 37** Good progress has been made in strengthening community engagement (a key improvement area identified in the 2007 Corporate Assessment) but there remains scope to make better use of community and voluntary sector resources. LDLSP is on track to adopt a new Community Engagement Framework in March 2009 which will subsume the City Council's existing consultation strategy. The LSP has also allocated funding to improve community engagement with service level agreements linked to each thematic group. The SCS contains an explicit priority to increase the capacity of the voluntary, community and faith sector to act as advocates, but a planned review of the local Compact has yet to begin. The City Council's neighbourhood management strategy is currently being reassessed to reflect changes in funding from 2009/10 in respect of area-based grant.
- 38** There has been no progress on strengthening workforce planning arrangements, but sickness absence is falling and good investment has been made in staff training. The Council prioritised its Fair Pay project (incorporating job evaluation and the development of a new pay and grading structure) during 2008 and this is now substantially complete. However, lack of spare capacity and high staff turnover within the Human Resources department meant that other workforce development issues were delayed, potentially reducing the Council's ability to plan ahead for future skill gaps. Nevertheless, the City Council recently achieved accreditation from Investors in People and all staff have regular performance and development reviews. The number of corporate training courses delivered has increased substantially, with a particular focus on customer service training. The City Council has also been awarded the North West Charter for member development. Sickness absence fell from 11.82 to 9.93 days during 2007/08 and continued management focus is sustaining this improvement into 2008/09.

How is Lancaster City Council performing?

- 39 Political leadership for certain key priorities is unclear. Portfolio responsibilities for elected members have been realigned with the Corporate Plan to some extent, thereby strengthening accountability, although portfolios remain split for the council priorities of regeneration and housing. However, the Council's tight financial position is putting extra strain on decision-making within a Cabinet that operates under proportional representation and consists of five different political groups. This has impacted, for example, on the Council's ability to resolve problems surrounding the development agreement for the Chatsworth Gardens housing project. Attention needs to be given to improving working relationships among elected members and senior officers in order that public confidence in the Council's leadership is not adversely affected.
- 40 Financial capacity is very stretched as a result of significant overspend on the concessionary travel budget, increased revenue costs to maintain regeneration sites and reduced investment, rental and fee income. In addition, capital receipts are running considerably below expected levels due to various difficulties in progressing asset sales. In response, the City Council has scaled down its ambitions in some areas and made service cuts: the Dome will be closed earlier than originally planned, the International Youth Games have been cancelled, and charges for car parking and environmental health will be increased. It is hoped to make further savings by rationalising teams within the communications/marketing and regeneration functions.
- 41 The City Council faces significant challenges and difficult decisions to meet its budget pressures and sustain recent service improvements, particularly in the light of continued uncertainty in the economic climate. Addressing these challenges and delivering positive outcomes for the people of Lancaster district will require clear leadership, continued improvements in partnership working and a strong focus on performance management.

Corporate Assessment Inspection

- 42 In 2007, the Council applied to be re-categorised for CPA purposes. The subsequent inspection was reported in February 2008 with the overall assessment of *good*, an improvement on the Council's previous 2004 rating of *fair*. The key findings from the inspection are shown below.
- 43 Strengths included:
- impressive service performance improvement with 75 per cent of comparable national indicators improving over the last three years;
 - a clear and challenging vision to narrowing the gap between the most deprived communities and areas of affluence;
 - strong ambitions and plans to regenerate the district;
 - significant improvement in key services such as housing benefits and recycling;
 - improved prioritisation linked to resource allocation and investment; and
 - effective corporate performance management arrangements to support service improvement.

44 Areas for improvement included:

- the need to prioritise and provide leadership to the equalities and diversity agenda;
- the need to strengthen mechanisms for community engagement; and
- supporting new portfolio holders.

Tackling health inequalities in Lancashire

- 45** Over the past year we concluded a wide-ranging review of arrangements focusing on how partners work collaboratively to reduce health inequalities (HI) across Lancashire. Average life expectancies across the county are similar to those for England and Wales where the gap between the most affluent and most deprived areas is 6.8 years but parts of Lancashire show much greater variation.
- 46** Joint working is often challenging and health and local government bodies begin with different, sometimes competing, priorities. In addition, the need to develop healthier communities is closely linked to other priorities such as safer and stronger communities, sustainability and regeneration.
- 47** Our review found that despite progress in recent years, the county as a whole is not projected to achieve its Public Service Agreement (PSA) target to reduce HI, as measured by infant mortality and life expectancy at birth. Partner organisations in Lancashire have a clear commitment to tackling HI and the development of plans for 2008/09 and beyond is encouraging. However, some organisations and partnerships still lack coherent longer term strategies. These weaknesses are hampering effective partnership working and performance management. Scrutiny is inconsistently applied to health issues across the bodies we reviewed in Lancashire.
- 48** Directors of Public Health (DPH) across Lancashire are not making full use of their key strategic position and engagement with local health service providers has been limited. Community groups and service users are not consistently involved in the development of HI strategies.
- 49** We have recently received a joint response from all the organisations involved in the review which refers to the significant progress made since our field work was undertaken. However performance data shows that inequalities in health remain a challenge in several areas across Lancashire. We will continue to monitor progress against this key priority for the county.

The audit of the accounts and value for money

- 50 KPMG as the Council's appointed auditor has reported separately to the Audit Committee on the issues arising from our 2007/08 audit and has issued:
- an audit report, providing an unqualified opinion on your accounts and a conclusion on your value for money arrangements to say that these arrangements are adequate on 30 September 2008; and
 - a report on the Best Value Performance Plan confirming that the Plan has been audited.

Use of Resources

- 51 The findings of the auditor are an important component of the CPA framework described above. In particular the Use of Resources score is derived from the assessments made by the auditor in the following areas:
- Financial reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
 - Financial management (including how the financial management is integrated with strategy to support council priorities).
 - Financial standing (including the strength of the Council's financial position).
 - Internal control (including how effectively the Council maintains proper stewardship and control of its finances).
 - Value for money (including an assessment of how well the Council balances the costs and quality of its services).
- 52 For the purposes of the CPA your auditor has assessed the Council's arrangements for use of resources in these five areas as follows.

Table 1

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

Note: 1 = lowest, 4 = highest

The key issues arising from the audit

Accounts Audit

- 53 The accounts submitted for audit were of a high standard and required only presentational adjustments. The Council had a clear, structured closedown process and presented clear working papers supporting the balances contained in the accounts submitted for audit.

Whole of Government Accounts

- 54 Your appointed auditor issued an unqualified audit opinion on the Council's Whole of Government Accounts pack on 30 September 2008.

Use of Resources assessment

- 55 The Council's performance in respect of the Use of Resources assessment was consistent with the assessment in 2006/07, with the exception of the internal control aspect of the assessment, where the score fell from a level three to a level two. The key reason for this change in score was in relation to the additional requirements in the assessment in respect of partnership governance arrangements that the Council was not meeting at the time of the assessment. The Council does have plans in place to address this going forward.
- 56 In other areas of the assessment the Council has demonstrated improved performance by meeting the additional requirements in those areas. For example, the Council has been able to demonstrate an increased strategic focus in relation to the management of its assets.

Medium Term Financial Strategy

- 57 In order to gain assurance over the Council's Medium Term Financial Strategy (MTFS), a separate review was undertaken during 2007/08.

The audit of the accounts and value for money

- 58 The review noted that overall the Council has a relatively robust approach to its MTFS, but there are a number of areas where good practice can be adopted and the MTFS further strengthened.
- 59 Areas of strength were that the MTFS reflects the strategic direction laid out in the Corporate Plan of the Council and that there is a strong business planning cycle in place, both corporately and at the service level.
- 60 The main area identified for development is the need for the Council to demonstrate, across the Council, how financial plans have contributed to the achievement of its corporate objectives. For example, resources allocated should be linked to a corporate objective and measures should be used to assess the impact of the investment.
- 61 The Council has agreed an action plan to strengthen the arrangements around the MTFS.

Advice and Assistance work

- 62 We have not carried out any Advice and Assistance work during 2007/08.

Looking ahead

- 63 The public service inspectorates have developed a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. It will put the experience of citizens, people who use services and local tax payers at the centre of the new local assessment framework, with a particular focus on the needs of those whose circumstances make them vulnerable. It will recognise the importance of effective local partnership working, the enhanced role of Sustainable Communities Strategies and Local Area Agreements and the importance of councils in leading and shaping the communities they serve.
- 64 CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate area assessment and reporting performance on the new national indicator set, together with an organisational assessment which will combine the external auditor's assessment of value for money in the use of resources with a joint inspectorate assessment of service performance.
- 65 The first results of our work on CAA will be published in the autumn of 2009. This will include the performance data from 2008/09, the first year of the new National Indicator Set and key aspects of each area's Local Area Agreement.

Closing remarks

Closing remarks

- 66 This letter has been discussed with officers. Copies should be provided to all Council members.
- 67 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

Table 2 Reports issued

Report	Date of issue
Audit and inspection plan	March 2007
CPA Corporate Assessment inspection report	February 2008
Review of the Medium Term Financial Strategy	July 2008
Report to those charged with governance	September 2008
Opinion on financial statements	September 2008
Value for money conclusion	September 2008
Health Inequalities report	October 2008
Data quality report	February 2009
Annual audit and inspection letter	March 2009

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- 68 The Council has taken a positive and constructive approach to audit and inspection work, and I wish to thank the Council's staff for their support and cooperation during the audit.

Availability of this letter

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

Tom Keena, Comprehensive Area Assessment Lead, Audit Commission
KPMG LLB, Appointed Auditors

March 2009

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

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AUDIT COMMITTEE

**Statement of Accounts 2008/09
30 June 2009**

Report of Head of Financial Services

PURPOSE OF REPORT
This report seeks Members' approval of the draft Statement of Accounts for 2008/09 (attached at Appendix A) 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 2009 be approved, and that the Chairman signs and dates the Accounts accordingly.

1 ACCOUNTS AND AUDIT REGULATIONS (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
Councils have to gain approval of their draft unaudited accounts by 30 June.
- Signing of Accounts by Chairman
The intention behind this requirement is that the Chairman's signature should represent the completion of the Council's approval process for its accounts. The requirement for her 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, some examples of questions that Members may wish to consider are attached at **Appendix B**. An overview of the accounts will be given at the

meeting and in addition, Members may contact the Head of Financial Services beforehand, to discuss the accounts informally.

- 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
Following the audit, the Committee will receive feedback as appropriate and if necessary, amendments to the draft accounts may need to be approved. In any event, the deadline for publishing the audited final accounts is 30 September.

2 KEY ISSUES AND SUMMARY POINTS ARISING

2.1 Members will be aware that 2008/09 has been a very difficult year financially for the Council, particularly in view of changing economic circumstances and the collapse of the Icelandic banking system. The Statement of Accounts includes various associated disclosures but for clarity, some key points are summarised below:

- There was a net underspending on General Fund of £209K, but this was after allowing for additional net transfers to provisions and reserves, amounting to £650K. There are a number of budget carry forward requests expected from services, however, for consideration by Members and if any are approved, this would reduce the £209K apparent 'surplus' created by the underspending.
- The Housing Revenue Account had a net underspending of £144K. Again this is before carry forward requests and given that much of the net underspending relates to planned maintenance works, the total of carry forwards requested is expected to be as high as, if not greater than, the actual net underspend itself.
- With regard to Icelandic investments, initially the accounts are based on the following recovery rates for each bank, based on recent guidance:

Glitnir	100%
Landsbanki	95%
KSF	50%

In essence, these reflect that currently the Council is ranked as a preferential creditor of Glitnir and Landsbanki and also that the Administrator of KSF has so far estimated that minimum total returns should be in the region of 50%. The above recovery rates would mean that the potential net loss that the Council faces amounts to around £1.1M. This is not provided for specifically within the Accounts as under Government Regulations, Councils can defer the impact (as was the case in setting the 2009/10 Budget). That aside, an additional amount of £800K has been transferred into the general Capital Support Reserve in last year. Coupled with the unbudgeted interest from the Icelandic investments that may be repaid in the current year, a total of around £1.1M should be available –

either to make specific provision for Icelandic losses, or to provide additional funding for the Luneside project, depending on progress. (This latter item is referred to in the 'Contingent Liabilities' note on page 50 of the Accounts).

- 2.2 There will be many other issues to be considered as part of the outturn but as is usual, full reports will be presented to Cabinet and Budget and Performance Panel in due course. Other outline explanatory information on interpreting the accounts and the key issues arising are included in the 'Foreword' section, and Members may find this a useful overview and starting point in their deliberations. (Copies of this covering report and the Foreword to the Accounts have been sent specifically to Cabinet and Budget and Performance Panel Members, for information.) It is also highlighted that in line with recommended practice, there have been some further changes to the presentation of various elements of the accounts for 2008/09 and these too will be outlined at the meeting.

3 ACCOUNTS APPROVAL AND AUDIT OF ACCOUNTS PROCESS

- 3.1 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.
- 3.2 Subsequent to the accounts being approved, KPMG LLP, the Council's External Auditors, are due to commence the audit of accounts on Monday 20 July. The four week public inspection period commences on Monday 29 June, and the External Auditor will be available to answer local electors' questions relating to the accounts on Monday 27 July. In accordance with the Regulations, these dates have been advertised in the local press and are on the website.
- 3.3 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.
- 3.4 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.

4 Details of Consultation

No other consultation, other than the public inspection period as referred to above. As background information, Members may wish to refer to the Audit Commission's guidance to the public regarding public inspection, available through their website (<http://www.audit-commission.gov.uk/nationalstudies/localgov/>)

5 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.

6 Conclusion

6.1 The approval of the Accounts by the Committee would ensure that the statutory deadline is met. Again this represents a significant achievement by all those involved in the process. The resources required to produce the Accounts have increased substantially in recent years, and this looks set to continue in future as new requirements are introduced, e.g. adoption of International Financial Reporting Standards (IFRS).

CONCLUSION OF IMPACT ASSESSMENT

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

No implications directly arising.

FINANCIAL IMPLICATIONS

The Statement reflects the 2008/09 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 will be assessed and fed through into this year's corporate financial monitoring and the review of the Medium Term Financial Strategy and Capital Investment Strategy, as appropriate.

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.

DEPUTY MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

Accounting and Audit Regulations, as amended.

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Ref:



Statement of Accounts 2008-09

LANCASTER CITY COUNCIL
Promoting City, Coast & Countryside



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STATEMENT OF ACCOUNTS

EXPLANATORY FOREWORD

1 INTRODUCTION

This document sets out the City Council's annual accounts for the financial year ended 31 March 2009. The format follows the requirements for publication of financial information as set out by the Code of Practice on Local Authority Accounting: A Statement of Recommended Practice (SORP), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The document includes a statement of the accounting policies adopted by the Authority, together with a brief explanation of the purpose of and links between the main accounting statements.

The purpose of this foreword is to provide an overall summary of the Council's financial position for 2008/09 and assist in the interpretation of the accounting statements.

2 REVENUE POSITION

2.1 Revenue Summary

The table below summarises the General Fund revenue income and expenditure for the financial year 2008/09.

	2008/09			Variance from Revised Budget
	Original Budget	Revised Budget	Actual	
	£'000	£'000	£'000	£'000
Expenditure				
Central Services to the Public	1,653	1,735	2,499	764
Cultural, Environmental and Planning Services	17,711	17,938	18,160	222
Highways, Roads & Transport Services	967	1,634	1,551	(83)
Housing Services	2,729	2,070	3,601	1,531
Corporate & Democratic Core	2,976	2,942	4,297	1,355
Non Distributed Costs	396	644	529	(115)
Net Cost of General Fund Services	26,432	26,963	30,637	3,674
Corporate Income & Expenditure	(3,287)	(2,617)	(6,465)	(3,848)
Interest Payable & Similar Charges	1,632	1,632	1,597	(35)
Parish Precepts	285	285	285	0
Contribution to/(from) General Fund Reserve	(888)	(1,697)	(1,488)	209
NET REVENUE EXPENDITURE	24,174	24,566	24,566	0
Funded by :				
General Government Grants	(678)	(1,070)	(1,070)	0
Revenue Support Grant	(1,897)	(1,897)	(1,897)	0
National Non Domestic Rates	(13,626)	(13,626)	(13,626)	0
Council Tax	(7,973)	(7,973)	(7,973)	0
TOTAL FUNDING	(24,174)	(24,566)	(24,566)	0

2.2 General Fund

The General Fund accounts for income and expenditure associated with the day to day running of all the services that the Council provides, with the exception of local authority housing (see section 2.3 below). The General Fund Revenue Budget for 2008/09 was originally approved by Council on 27 February 2008 at £23.496M (after allowing for general grants of £678,000 and including £284,700 for precept payments to parishes) and assumed that balances would be £1.544M by 31 March 2009, though these were increased by a further £219,000 following the 2007/08 outturn.

At outturn for 2008/09 there has been a net underspending of £209,000 against the Revised Budget (or £600,000 against the Original Budget). The main savings relate to reduced Concessionary Travel costs, City Contract (Direct) Services functions, and staffing costs across a number of activities. There are some adverse variances in other areas, however, such as Salt Ayre Sports Centre operations and Investment Interest.

As a result of all these changes General Fund unallocated balances stand at £1.4M as at 31 March 2009, which is still in excess of the basic minimum £1M level. This is before consideration of any requests by Services to carry forward budgets; if any are approved this will effectively reduce available amounts. It is also highlighted that of the £1.4M, use of approximately £191K has already been built into the Council's revenue budget forecasts for 2009/10, as set out in its Medium Term Financial Strategy (MTFS).

During 2008/09 there were crises in a number of international financial markets, linked to the global economic downturn. This included the Icelandic banking sector, which effectively collapsed in October 2008 and at that time the Council had £6M invested with such institutions; these monies are now subject to recovery processes with the respective Administrators. In line with accounting practice and guidance, the 2008/09 accounts (i.e. the Income and Expenditure Account) show an investment loss currently estimated at around £1.6M. This represents the current estimate of total potential losses associated with these investments, in terms of principal and interest, but it assumes that interest at the original investment rates (of around 6%) would be receivable until all monies recoverable have been received. Effectively, around £0.4M of this loss has been provided for in 2008/09 (with some additional amounts in future years). In line with Government Regulations issued in December 2008, the remaining £1.2M of potential loss as at 31 March 2009 has been deferred and no specific provision has been made within the 2008/09 accounts. Other reserves have been increased by £800K, however. This, together with unbudgeted interest receivable in future years, will give the Council scope to address its investment position and/or other potential liabilities in 2009/10. There is the need though to keep estimated losses under regular review – as they could change significantly.

2.3 Housing Revenue Account (HRA)

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

As at 31 March 2009 the working balance on the Housing Revenue Account amounted to £494,000, giving a reduction of £223,000 from the position at the start of the year (and as originally budgeted). This still represents an improvement of £144,000 when compared with the Revised Budget, but this is before considering any requests to carry forward budgets into 2009/10. The main area of underspending relates to planned maintenance and the impact of this on the current year's maintenance programme is being assessed. Current Council Policy is to maintain unallocated housing balances at £350,000.

3 CAPITAL POSITION

In 2008/09 the City Council spent £13.551M on capital schemes. An analysis of the expenditure and funding is shown on the following page.

The Council's revised Capital Programme for 2008/09 was £15.246M but due to delays in starting a number of schemes, around £2.5M will need to be rolled forward into 2009/10.

The capital programme is financed from a variety of sources such as capital receipts, grants, revenue, reserves and borrowing. With regard to the latter, the Council can borrow money for capital purposes provided it can meet certain criteria, linked to affordability, sustainability and prudence, as determined by the Prudential Code Framework. As at 31 March 2009, the Council held £800K in capital receipts and around £7.2M in reserves, to help support future years' capital investment plans.

Summary of Capital Expenditure and its Financing

Capital Expenditure by Service	£'000	Capital Financing	£'000
Council Housing	3,034	Grants & Contributions	6,123
City Council (Direct) Services	363	Reserves	3,531
Health & Strategic Housing	3,113	Unsupported Borrowing	1,804
Cultural Services	605	Capital Receipts	2,093
Planning	997		
Economic Development	4,949		
Information & Customer Services	266		
Property Services	222		
Corporate Strategy	2		
Total	13,551	Total	13,551

In 2008/09 the net cost of financing external borrowing (e.g. interest charges) was £2.442M, and the value of long term debt owed as at 31 March 2009 amounted to £39.2M, which is £5.585M less than the previous year due to some early repayment of debt. The overall level of debt should be viewed in relation to the Council's long term assets, which had a net book value of around £292M as at 31 March 2009.

4 PENSION LIABILITIES

In accordance with recent changes to accounting practice, the Council must show the present surplus or deficit position on its share of the Pension fund. For Lancaster, the net position as at 31 March 2009 showed a liability of £40.910M compared to a liability of £41.517M for the previous financial year. This represents a decrease in liability of £607K.

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

Notwithstanding these points, however, the future costs and funding of pensions continue to be national issues, for consideration by Government.

5 CHANGES TO ACCOUNTING POLICIES

There have been a number of minor changes to the accounting policies for 2008/09. Firstly, the de-minimis level at which capital assets are recognised on the balance sheet as fixed assets has been aligned with the capitalisation policy at £10,000. Secondly, deferred charges have now been reclassified as revenue expenditure funded from capital under statute and the expenditure recognised as grant payments in the relevant service area, as opposed to a capital charge as previously. Thirdly, the quoted securities held as assets in the defined benefit pension scheme are now valued at bid price rather than mid market value.

All changes are to ensure the Council's accounts reflect current recommended accounting practice. In essence though these changes are mainly presentational; they have no direct impact on the Council's financial standing as at 31 March.

6 CONCLUSION

2008/09 has been a difficult financial year for the Council. In particular, the downturn in the global economy has affected the Council both in terms of its investments and investment interest generated from cash flows. On a more local level income receipts from some Council activities have also fallen, but savings have been generated in other areas. The Council's reported financial position has improved overall, with balances slightly higher than expected – but this should be considered in context of deferring the majority of currently estimated losses in connection with Icelandic investments. A more detailed report on the outturn position will be presented in due course to Cabinet and the Budget and Performance Panel. This scrutiny of the 2008/09 financial performance will then inform the review of the Council's Medium Term Financial Strategy, and the 2009/10 corporate financial monitoring processes.

STATEMENT OF ACCOUNTING POLICIES

1 GENERAL

The Statement of Accounts summarises the Council's transactions for the 2008/09 financial year and its position at the year end of 31 March 2009. The accounts of the authority have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice* (SORP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), taking account of the supplementary guidance notes issued by CIPFA on the application of the Statement of Recommended Practice to local authorities.

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

2 ACCRUALS OF INCOME AND EXPENDITURE

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as stocks on the Balance Sheet.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the Balance Sheet.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Provision has been made for doubtful debts, and known uncollectable debts have been written off during the year.

3 PROVISIONS

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by the making of a payment, but where the timing of the payment is uncertain.

Provisions are charged to the appropriate service revenue account in the year that the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the Provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle a provision is expected to be met by another party, this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

4 RESERVES

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Statement of Movement on either the General Fund Balance or on the Housing Revenue Account Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Net Cost of Services in the Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance or the HRA Balance statement so that there is no net charge against either the Council Tax or the Housing Rents for the expenditure.

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and these do not represent usable resources for the Council. Examples of these reserves are the revaluation reserve, financial instruments adjustment account, pension reserve and capital adjustment account.

5 GOVERNMENT GRANTS AND CONTRIBUTIONS (REVENUE)

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the authority satisfies the conditions of entitlement to the grant/contribution, there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant) are credited at the foot of the Income and Expenditure Account after Net Operating Expenditure.

6 RETIREMENT BENEFITS

The majority of employees of the Council are members of the Local Government Pension Scheme, administered by Lancashire County Council.

The Scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the council.

The Local Government Pension Scheme (LGPS)

The Local Government Scheme is accounted for as a defined benefits scheme:

The liabilities of the LGPS attributable to the council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projected earnings for current employees.

Under the 2008 SORP the Council has adopted an amendment to FRS17, Retirement Benefits. As a result, quoted securities held as assets in the defined benefit pension scheme are now valued at bid price rather than mid-market value.

The assets of the LGPS pension fund attributable to the council are included in the Balance Sheet at their fair value of:

- **quoted securities** – bid price
- **unquoted securities** – professional estimate
- **unitised securities** – average of the bid and offer rates
- **property** – market value.

The change in the net pensions liability is analysed into seven components:

- **current service cost** – the increase in liabilities as result of years of service earned this year – allocated in the Income and Expenditure Account to the revenue accounts of services for which the employees worked
- **past service cost** – the increase in liabilities arising from current year decisions where their effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs

- **interest cost** – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Income and Expenditure Account
- **expected return on assets** – the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Income and Expenditure Account
- **gains/losses on settlements and curtailments** – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs
- **actuarial gains and losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Statement of Total Recognised Gains and Losses
- **contributions paid to the LGPS pension fund** – cash paid as employers' contributions to the pension fund.

Statutory provisions limit the Council to raising council tax to cover the amounts payable by the Council to the Pension Fund in the year. In the Statement of Movement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the Pension Fund and any amounts payable to the Fund but unpaid at the year-end.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

7 VALUE ADDED TAX (VAT)

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from it.

8 OVERHEADS AND SUPPORT SERVICES

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Best Value Accounting Code of Practice 2008* (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the council's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Income and Expenditure Account, as part of Net Cost of Services.

9 INTANGIBLE ASSETS

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council is capitalised where it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue account over 5 years, representing the economic life of the investment and the pattern of consumption of benefits.

The categories of revaluation, disposals and impairment have limited applicability in the context of Intangible Assets. Insofar as they may be relevant, they will be applied in a manner consistent with that for Tangible Assets, as outlined under 11 below.

10 REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Legislation allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a fixed asset. The purpose of this is to enable it to be funded from capital resources rather than be charged to the General Fund and impact on that year's council tax. These items are generally grants and expenditure on property not owned by the Council. Such expenditure is charged to the Income and Expenditure Account in accordance with the general provisions of the SORP. Any statutory provision that allows capital resources to meet the expenditure is accounted for by debiting the Capital Adjustment Account and crediting the General Fund Balance and showing as a reconciling item in the Statement of Movement on General Fund Balance.

11 TANGIBLE FIXED ASSETS

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

11.1 Recognition

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

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

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

Capital expenditure incurred on fixed assets, which does not materially add to the value of the assets concerned, is charged through the Income and Expenditure Account to the Capital Adjustment Account, as an impairment loss.

11.2 Measurement

De minimis levels were revised in 2008/09 and set at £10,000 in line with the capitalisation threshold.

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

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

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

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

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

11.3 Revaluations

Assets included in the Balance Sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

11.4 Impairments

The values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for as follows:

- where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account
- otherwise – written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

11.5 Disposals

When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Amounts in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Usable Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the Statement of Movement on the General Fund Balance.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Statement of Movement on the General Fund Balance.

Any revaluation gains held within the Revaluation Reserve are generally written off to the Capital Adjustment Account, on asset disposal.

11.6 Depreciation

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

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

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

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

Generally revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

12 CHARGES TO REVENUE FOR FIXED ASSETS

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off.
- Amortisation of intangible fixed assets attributable to the service.

The council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to at least 4% of the underlying amount measured by the adjusted Capital Financing Requirement, excluding amounts attributable to HRA activity). Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

13 LEASES

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

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

14 FINANCIAL LIABILITIES

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For all of the Council's current borrowings, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Income and Expenditure Account is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid (subject to a maximum of 10 years in respect of discounts). The reconciliation of amounts charged to the Income and Expenditure Account to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

15 FINANCIAL ASSETS

Financial assets are classified into two main types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

In addition, certain financial assets should be held at fair value through profit and loss and accounted for in line with FRS 26: Financial Instruments Recognition and Measurement.

15.1 Loans and Receivables

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement. Fair value accounting applies only to the limited number of current loans which were originally arranged under forward agreements.

Should an asset be identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset will be written down and a charge made to the Income and Expenditure Account.

Should any gains and losses arise on the de-recognition of the asset, these will be credited/debited to the Income and Expenditure Account.

15.2 Available-for-sale Assets

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Income and Expenditure Account for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g., dividends) is credited to the Income and Expenditure Account when it becomes receivable by the Council.

Changes in fair value are balanced by an entry in the Available-for-sale Reserve and the gain/loss is recognised in the Statement of Total Recognised Gains and Losses (STRGL).

Should an asset be identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset will be written down and a charge made to the Income and Expenditure Account.

Should any gains and losses arise on the de-recognition of the asset, these will be credited/debited to the Income and Expenditure Account, along with any accumulated gains/losses previously recognised in the STRGL.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

16 STOCKS AND WORK IN PROGRESS

Goods and materials chargeable to revenue, which have not been consumed by the end of the year, have been carried forward to be charged in the accounting period in which they are consumed. Statement of Standard Accounting Practice (SSAP) 9 requires that stocks should be shown at the lower of cost or net realisable value. Stocks held in stores are shown in the accounts at their latest replacement cost net of provision for obsolescence / reduction in value, as an estimation of their net realisable value. Other stocks are shown at cost price.

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

17 CAPITAL RECEIPTS

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

Capital receipts other than from the sale of council houses can be fully utilised to finance capital expenditure. Capital receipts from asset sales are held in the usable capital receipts reserve until such time as they are required to fund other capital expenditure. There is a statutory de minimis

level of £10,000 in respect of capital receipts and sums received up to this limit are credited into the appropriate revenue account.

18 EXCEPTIONAL ITEMS, EXTRAORDINARY ITEMS AND PRIOR YEAR ADJUSTMENTS

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

Extraordinary items should be disclosed and described on the face of the Income and Expenditure Account after dealing with all items within the ordinary activities of the Authority and should be explained fully in a note to the accounting statements.

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

19 POST BALANCE SHEET EVENTS

Where a material post balance sheet event occurs which:

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

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

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

20 FOREIGN CURRENCY TRANSLATION

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

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

21 CONTINGENT ASSETS

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

22 CONTINGENT LIABILITIES

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

SUMMARY OF FINANCIAL STATEMENTS

Statement of Responsibilities

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

Statement of Accounting Policies

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

Annual Governance Statement

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

THE CORE FINANCIAL STATEMENTS

Income and Expenditure Account

This reports the costs for the year of the major functions for which the Council is responsible and compares that cost with the finance provided from Council Tax, redistributed Non Domestic Rates and General Grants from Central Government. It provides a performance statement for the Council applying the standard accounting practices applicable in the UK. However, because there are some specific requirements that apply only to local authorities, the surplus or deficit shown does not have a direct impact on the Council Tax.

Statement of Movement on the General Fund Balance

This takes as its starting point the surplus or deficit on the Income and Expenditure Account. It then takes into account the specific statutory and other items that apply to local authorities, to produce the overall impact on the General Fund, and so on the Council Tax.

Statement of Total Recognised Gains and Losses

Not all of the Council's gains and losses will be recognised in the Income and Expenditure Account, for example gains which result from revaluations of fixed assets. This statement includes these items and so illustrates the overall financial gain or loss for the year. The bottom line on this statement will be equal to the change in 'Total Equity' as shown in the Balance Sheet.

Balance Sheet

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

Cash Flow Statement

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

THE SUPPLEMENTARY FINANCIAL STATEMENTS

Housing Revenue Account Income and Expenditure Account

This is prepared on the same accounting basis as for the main Income and Expenditure Account above. It reflects a statutory obligation to account separately for local authority housing provision. It shows the major elements of housing revenue expenditure and how these are met by rents, subsidy and other income.

Statement of Movement on the Housing Revenue Account Balance

This serves the same purpose, for the Housing Revenue Account, as the equivalent statement above does for the Council as a whole. It brings into account specific statutory and other items, and produces a figure which shows the overall impact of the year's activities on council house rents.

Collection Fund

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

Group Accounts

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

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

Bequests, Endowments and Trust Funds

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

STATEMENT OF ACCOUNTS

STATEMENT OF RESPONSIBILITIES

1 THE AUTHORITY'S RESPONSIBILITIES

The authority is required to:

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

2 AUDIT COMMITTEE CHAIRMAN'S CERTIFICATE

I certify that the Statement of Accounts for the financial year 2008/09 was approved by the Audit Committee at its meeting held on 30 June 2009, prior to the audit being completed.

Cllr Janice Hanson

3 THE HEAD OF FINANCIAL SERVICES' RESPONSIBILITIES

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

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

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

The Head of Financial Services has also:

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

4 HEAD OF FINANCIAL SERVICES' CERTIFICATE

I certify that the Statement of Accounts presents fairly the financial position of the authority as at 31 March 2009 and the income and expenditure for the year then ended.

Nadine Muschamp, CPFA
Head of Financial Services

CORE FINANCIAL STATEMENTS

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2009

The Income and Expenditure Account shows the Council's actual financial performance, measured in terms of the resources consumed and generated over the financial year. However, the authority is required to raise Council Tax on a different accounting basis, the main differences being as follows;

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- The payment to the Government of a share of housing capital receipts counts as a loss in the Income and Expenditure Account, but is met from the monies from the capital receipts themselves, rather than from Council Tax.
- Retirement benefits are charged as amounts become payable to pensions funds and pensioners, rather than when future benefits are earned (for more detail see Note 36).

2007/08		2008/09			
		EXP	INC	NET	Notes
£'000		£'000	£'000	£'000	
1,631	Central Services to the Public	12,378	(9,879)	2,499	
14,582	Cultural, Environmental and Planning Services	37,737	(19,577)	18,160	
868	Highways, Roads and Transport Services	5,086	(3,535)	1,551	
(3,394)	Local Authority Housing (HRA)	15,966	(18,314)	(2,348)	
2,550	Other Housing Services	35,753	(32,152)	3,601	
2,861	Corporate and Democratic Core	5,190	(893)	4,297	
1,726	Non Distributed Costs	729	(200)	529	
20,824	Net Cost of Services	112,839	(84,550)	28,289	
0	(Gains) or Loss on Disposal of Fixed Assets	502	(502)	0	
271	Precepts of Local Precepting Authorities			284	
(536)	Surplus or Deficit of Trading Undertakings or Other Operations, including Dividends from Companies	11,125	(8,917)	2,208	2
3,630	Interest Payable & Similar Charges			2,443	28
1,520	Amounts Payable into the Housing Capital Receipts Pool			110	
0	Investment losses			1,632	25.1
(50)	Unattached Capital Receipts			0	
(1,139)	Interest & Investment Income			(1,144)	28
283	Pensions Interest Cost & Expected Return on Pensions Assets			1,977	36
0	Extraordinary Items			0	
24,803	Net Operating Expenditure			35,799	
(7,648)	Demand on the Collection Fund			(7,973)	
(3,240)	General Government Grants			(2,967)	8
(12,786)	Distribution from Non-Domestic Rate Pool			(13,626)	
1,129	(Surplus) / Deficit for the Year			11,233	

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE FOR THE YEAR ENDED 31 MARCH 2009

The Income and Expenditure account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last 12 months. However, the authority is required to raise precepts on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when fixed assets are consumed.
- The payment of a share of housing capital receipts to the Government scores as a loss in the Income and Expenditure Account, but is met from usable capital receipts balance rather than Council Tax.
- Retirement benefits are charged as amounts become payable to the pension fund and pensioners, rather than as future benefits are earned.

The General Fund Balance compares the Council's spending against the Council Tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

2007/08		2008/09	
£'000		£'000	
	OVERALL MOVEMENT ON THE GENERAL FUND BALANCE		NOTES
1,129	(Surplus) / Deficit for year on the Income & Expenditure Account	11,233	
(1,002)	Net additional amount required by Statute & Non-Statutory proper practices to be debited or (credited) to the General Fund Balance for the year	(9,745)	13
127	Net (Increase) / Decrease in General Fund Balance	1,488	
(3,015)	General Fund Balance brought forward	(2,888)	
(2,888)	General Fund Balance carried forward	(1,400)	

STATEMENT OF TOTAL RECOGNISED GAINS & LOSSES FOR THE YEAR ENDED 31 MARCH 2009

This statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the deficit on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

2007/08	2008/09
£'000	£'000
1,129 (Surplus) / Deficit for Year on the Income & Expenditure Account	11,233
(9,083) (Surplus) / Deficit for Year Arising on Revaluation of Fixed Assets	(19,140)
12,753 Actuarial (Gains) & Losses on Pension Fund Assets & Liabilities	(2,634)
<u>613</u> Any Other Gains or Losses required to be included in the STRGL	<u>38</u>
<u>5,412</u> TOTAL RECOGNISED (GAINS) & LOSSES FOR THE YEAR	<u>(10,503)</u>

BALANCE SHEET AS AT 31 MARCH 2009

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

2007/08		2008/09	NOTES
£'000		£'000	
678	Intangible Assets	474	22
	Tangible Fixed Assets		14
	Operational Assets :		
153,065	Council Dwellings	160,152	
49,363	Other Land & Buildings	47,994	
5,022	Vehicles, Plant & Equipment	4,675	
32,503	Infrastructure	33,808	
7,182	Community Assets	8,055	
	Non Operational Assets :		
10,987	Investment Properties	20,603	
3,284	Assets Under Construction	338	
15,490	Surplus assets, held for disposal	15,573	
277,574	TOTAL FIXED ASSETS	291,672	
1,004	Long Term Investments	0	
43	Long Term Debtors	29	
278,621	TOTAL LONG TERM ASSETS	291,701	
	Current Assets		
331	Stocks & Work in Progress	353	24
19,396	Debtors (Net of Bad Debt Provision)	15,301	25
10,265	Investments	12,588	29.6
	Current Liabilities		
0	Short Term Borrowing	(8,504)	29.5
(13,145)	Creditors	(9,708)	26
(1,948)	Bank Overdraft	(1,858)	
293,520	TOTAL ASSETS LESS CURRENT LIABILITIES	299,873	
(44,800)	Long Term Borrowing	(39,215)	29.5
(223)	Deferred Liabilities	(223)	
(51,896)	Government Grants & Contributions Deferred	(53,995)	
(698)	Provisions	(641)	31
(41,517)	Liability related to defined benefit pension scheme	(40,910)	36
154,386	TOTAL ASSETS LESS LIABILITIES	164,889	
176,161	Capital Adjustment Account	170,294	}
3,923	Revaluation Reserve	21,527	
(975)	Financial Instruments Adjustment Account	(2,027)	
1,364	Usable Capital Receipts Reserve	809	
40	Deferred Credits	26	
(41,517)	Pension Reserve	(40,910)	
5,827	Major Repairs Reserve	6,724	
5,969	Earmarked Reserves	6,621	
2,888	Fund Balances : General Fund	1,400	
717	Housing Revenue Account	494	
(11)	Collection Fund	(69)	
154,386	TOTAL EQUITY	164,889	

CASH FLOW STATEMENT AS AT 31 MARCH 2009

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

	NOTES	2007/08		2008/09	
		£'000	£'000	£'000	£'000
Revenue Activities					
<i>Cash Outflows</i>					
Cash paid to and on behalf of employees		(23,626)		(24,502)	
Other operating cash payments	★	(41,661)		(42,811)	
Housing Benefit paid out		(27,914)		(29,959)	
Non-Domestic Rates payments to National Pool		(35,891)		(31,695)	
Precepts paid		(53,236)		(54,938)	
Payments to Capital Receipts Pool		(1,716)		(94)	
TOTAL PAYMENTS			(184,044)		(183,999)
<i>Cash inflows</i>					
Rents (after rebates)		2,606		2,585	
Council Tax receipts		61,558		63,968	
NNDR receipts		34,851		32,799	
NNDR receipts from National Pool		12,786		13,626	
Revenue Support Grant	37.1	2,146		1,897	
DWP grants for benefits	37.1	34,141		35,959	
Other government grants	37.1	2,527		2,687	
Cash received for goods and services		27,207		29,749	
Other operating cash receipts / payments	★	12,093	189,915	6,181	189,451
NET CASH INFLOW FROM REVENUE ACTIVITY	37		5,871		5,452
Returns on Investments and Servicing of Finance					
Cash outflows : Interest paid		(2,488)		(2,443)	
Cash inflows : Interest received		688	(1,800)	1,144	(1,299)
Capital Activities	★				
Cash outflows : Purchase of fixed assets		(11,649)		(10,197)	
TOTAL PAYMENTS		(11,649)		(10,197)	
Cash inflows : Sale of fixed assets		1,236		1,538	
Capital grants received		8,034		2,995	
Other capital cash receipts		996		1,005	
TOTAL RECEIPTS		10,266		5,538	
NET CASH OUTFLOW FROM CAPITAL ACTIVITIES			(1,383)		(4,659)
NET CASH INFLOW/OUTFLOW(-) BEFORE FINANCING	37.4		2,688		(506)
Management of Liquid Resources					
Net (increase) / decrease in short term deposits			(765)		6,181
Financing					
<i>Cash outflows</i>					
Repayments of amounts borrowed		0		(5,585)	
<i>Cash inflows</i>					
New Loans Raised		0	0		(5,585)
NET CASH INFLOW/OUTFLOW(-)			(765)		596
NET INCREASE/(DECREASE) IN CASH			1,923		90

★ Note that some of the 2007/08 figures have been restated for comparative purposes as a result of the change in classification of Deferred Charges to Expenditure Funded from Capital Under Statute.

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

1 EXCEPTIONAL ITEMS, EXTRAORDINARY ITEMS AND PRIOR YEAR ADJUSTMENTS

There have been no material exceptional items, extraordinary items or prior year adjustments within the accounts, which required restatement of comparative figures for the previous year. Adjustments have been made in year regarding asset valuations, but these have been incorporated into the authority's rolling revaluation programme: see note 21 for more details.

2 TRADING SERVICES

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

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

For 2008/09, of the former DSO activities, trading accounts for Repairs and Maintenance and Highways Contractor were still operated. Any surplus/deficits in respect of Repairs and Maintenance are attributable to the Housing Revenue Account, and Highways are attributable to the General Fund. Following a review of the working arrangements under the Lancashire Highways Partnership (LHP), with effect from 01 July 2006 the City Council was retained as a preferred contractor for the LHP, with the exception of street lighting works.

	Income	Expenditure	2008/09 (Surplus) / Deficit	2007/08 (Surplus) / Deficit
	£'000	£'000	£'000	£'000
General highway and sewer work	(1,207)	1,025	(182)	(205)
Other maintenance work	(1,688)	1,688	0	(4)
Trade refuse collection	(848)	715	(133)	(136)
Markets	(794)	1,455	661	284
Commercial Properties / Industrial Units	(1,132)	2,994	1,862	(475)
Total (Surplus) / Deficit on Trading Undertakings	(5,669)	7,877	2,208	(536)

It should be noted that the deficit on Commercial Properties is due to two properties being subject to impairment (a reduction in value) following a revaluation review. The total value of the impairment is £2.3M and in line with proper accounting practices is shown against the relevant service area, however this does not impact on the overall outturn of the Council as it is reversed out in the Statement of Movement on General Fund Balance.

3 SECTION 137 EXPENDITURE

Section 137 of the Local Government Act 1972 empowers a local authority to make contributions to charities operating in the UK and to not for profit making bodies providing public services in the UK. The Council's expenditure under this power was £47,626, mainly on donations to voluntary bodies working in the local area (£51,094 in 2007/08). The table below breaks down this expenditure.

Analysis	2007/08 £	2008/09 £
Victim Support	4,600	5,000
Council for Voluntary Service	23,100	18,300
Lancaster DISC	5,700	6,000
Relate	6,400	6,800
Twining	4,000	4,100
Miscellaneous Grants	7,294	7,426
Total	51,094	47,626

4 PUBLICITY EXPENDITURE

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

Section 5 Local Government Act 1986	2007/08 £'000	2008/09 £'000
Promotions and Publicity	192	252
Recruitment Advertising	53	26
Other Advertising	29	22
TOTAL	274	300

5 BUILDING CONTROL TRADING ACCOUNT

The Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the building control function. Lancaster City Council sets charges for work carried out in relation to building regulations, with the aim of covering all costs incurred. However, certain activities performed by the Building Control Unit cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the building control unit for 2008/09, divided between chargeable and non-chargeable activities.

2008/09	Chargeable £'000	Non- Chargeable £'000	Total Building Control £'000
Expenditure			
Employee Expenses	317	78	395
Transport	22	5	27
Supplies & Services	5	1	6
Central & Support Recharges	145	14	159
TOTAL EXPENDITURE	489	98	587
Income			
Building Regulation Charges	(304)		(304)
Miscellaneous Income	(33)		(33)
TOTAL INCOME	(337)	0	(337)
(Surplus)/Deficit for Year	152	98	250
Comparatives for previous year			
Expenditure	534	102	636
Income	(403)	--	(403)
(Surplus)/Deficit for Year	131	102	233

6 AGENCY SERVICE

On 01 July 2003 the Council entered into the Lancashire Highways Partnership (LHP) which replaced the work undertaken by the Council acting as highways agent for Lancashire County Council. The majority of LHP work is delivered through a single works contract with Lancashire County Engineering Services (LCES) in which City Council (Direct) Services (CC(D)S) are involved as a sub-contractor. The only area of work falling outside the single works contract is Highways Grounds Maintenance, which is carried out by CC(D)S and for which reimbursement is made subject to defined limits. Expenditure in this area of work amounted to £131,586, of which £98,000 was reimbursed by LCES and £33,586 was the contribution made by Lancaster City Council General Fund to provide a higher level of service in this area to its ratepayers.

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

7 LOCAL AUTHORITIES (GOODS AND SERVICES) ACT 1970

Under the Act the Council is empowered to provide goods and services to other public bodies. The authority provided grounds maintenance, cleansing, trade refuse and other minor services for Lancashire County Council and various schools to the value of £223,027 during 2008/09. Charging for such services is based on full cost recovery, and the expenditure relating to these functions is included within the Income and Expenditure Account.

8 GENERAL GOVERNMENT GRANTS

The Council receives grants from the Government which are not directly attributable to specific service delivery. A breakdown of these grants is provided below.

Grant	2008/09 £
Revenue Support Grant	1,896,848
Area Based Grant	725,971
Local Authority Business Growth Incentive Grant	344,417
Total For All Members	2,967,236

9 MEMBERS ALLOWANCES

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

Type of Allowance	2007/08 £	2008/09 £
Basic Allowance	185,147	192,623
Special Responsibility Allowance	86,901	95,833
Carer Allowance	1,768	850
Total For All Members	273,816	289,306

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

10 OFFICERS' EMOLUMENTS

Regulation 7(2) of the Accounts and Audit Regulations require a specific disclosure of officers' annual remuneration in excess of £50,000. Thirteen officers of the Council received in excess of this amount during 2008/09. The slight differences to the previous year's accounts relate to inflation, sick pay and a reduction in election expenses.

Remuneration Band	No. of Employees	
	2007/08	2008/09
£50,000 - £59,999	12	9
£60,000 - £69,999	0	1
£70,000 - £79,999	2	2
£80,000 - £89,999	0	0
£90,000 - £99,999	0	1
£100,000 +	1	0

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

11 RELATED PARTY TRANSACTIONS

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

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

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

12 AUDIT COSTS

In 2008/09 Lancaster City Council incurred the following fees relating to external audit and inspection:

	2007/08 £	2008/09 £
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	26,697	9,260
Fees payable to the Audit Commission in respect of statutory inspection	13,360	14,495
Fees payable to the Audit Commission for the certification of grant claims and returns	35,457	0
Fees payable to KPMG the certification of grant claims and returns	0	42,265
Fees payable to KPMG with regard to external audit services carried out by the appointed auditor	111,000	124,000
	186,514	190,020

13 RECONCILING ITEMS FOR THE STATEMENT OF MOVEMENT IN GENERAL FUND BALANCE

This note provides a break down of the amounts apart from the outturn on the Income and Expenditure Account required by statute or non-statutory proper practices to be debited or credited to the General Fund for the year.

	2007/08 £	2008/09 £
Amounts included in the income and expenditure account but required by Statute to be excluded when determining the Movement on the General Fund Balance for the year		
Amortisation of intangible fixed assets	(317)	(279)
Depreciation and impairment of fixed assets	(3,102)	(10,338)
Government Grants Deferred amortisation	4,026	4,024
Revenue expenditure funded from Capital under Statute	(3,407)	(4,056)
Net gain on sale of fixed assets	0	0
Unattached Capital Receipts	50	0
Differences between amounts debited / (credited) to the Income and Expenditure account and amounts payable / (receivable) to be recognised under statutory provisions relating to soft loans and premiums and discounts on the early repayment of debt	(132)	(1,201)
Net changes made for retirement benefits in accordance with FRS17	(964)	(1,765)
	(3,846)	(13,615)
Amounts not included in the income and expenditure account but required by Statute to be included when determining the Movement on the General Fund Balance for the year		
Statutory provision for repayment of debt	1,099	1,084
Capital expenditure charged to the General Fund Balance	542	560
Transfer from Usable Capital Receipts equal to amount payable to Housing Capital Receipts Pool	(1,519)	(110)
	122	1,534
Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year		
Housing Revenue Account Balance	1,508	1,256
Voluntary Revenue Provision for repayment of debt	491	458
Net transfer to / (from) earmarked reserves	723	622
	2,722	2,336
Net additional amount required to be (credited)/debited to the General Fund Balance for the year		
	(1,002)	(9,745)

14 MOVEMENT ON FIXED ASSETS

Movements in fixed assets during the year were as follows:

	Council dwellings £'000	Other land and buildings £'000	Vehicles plant and equipment £'000	Infrastructure assets £'000	Community assets £'000	Non-Operational properties £'000	TOTAL £'000
Gross book value as at 01 April 2008	173,361	54,390	6,755	37,811	7,182	30,637	310,136
Additions	2,938	1,044	468	2,809	873	4,234	12,366
Disposals	(92)					(1,530)	(1,622)
Revaluations / Adjustmts	6,454	4,979				7,707	19,140
Impairment		(6,411)				(555)	(6,966)
Transfers	55	43				(3,044)	(2,946)
Gross book value as at 31 March 2009	182,716	54,045	7,223	40,620	8,055	37,449	330,108
Depreciation as at 01 April 2008	(20,296)	(5,027)	(1,733)	(5,308)	0	(876)	(33,240)
Depreciation for year (on straight line basis)	(2,278)	(1,018)	(815)	(1,504)		(71)	(5,686)
Depreciation Adjustmts						0	0
Depreciation on assets sold / transferred	10	(6)				12	16
Balance as at 31 March 2009	(22,564)	(6,051)	(2,548)	(6,812)	0	(935)	(38,910)
Net book value as at 31 March 2009	160,152	47,994	4,675	33,808	8,055	36,514	291,198

It should be noted that adjustments have been made to both Gross Book Values and Depreciation to reflect revaluations originally undertaken in previous years.

15 CAPITAL EXPENDITURE AND FINANCING

Capital expenditure incurred during the year was £13.551M. The following table sets out how this was funded.

2008/09	£'000
Opening Capital Financing Requirement	45,595
Capital Investment	
Intangible Assets	75
Operational Assets	5,186
Non Operational Assets	4,234
Deferred Charges	4,059
Sources of Finance	
Capital Receipts	(2,093)
Government Grants, Contributions and Deferred	(6,123)
Other Revenue Provision	(5,073)
Closing Capital Financing Requirement	45,860
Explanation of Movements in Year	
Increase in underlying need to borrow (supported by Government financial assistance)	0
Increase in underlying need to borrow (unsupported by Government financial assistance)	(265)
Increase in Capital Financing Requirement	(265)

16 CAPITAL COMMITMENTS

As at 31 March 2009 the Council was contractually committed to capital works, which amounted to approximately £880K, details of which are shown in the following table.

Capital Projects	£
Council Housing Interior Refurbishments	454,742
Council Housing Exterior Refurbishments	338,829
Env Improvements/Games Area & Walkway	86,140

17 MAJOR FIXED ASSETS

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

	Number as 31/03/2008	Number as 31/03/2009
COUNCIL DWELLINGS	3,814	3,812
OPERATIONAL BUILDINGS		
Town Halls	2	2
Other Offices	8	8
Sports Centres with Pool	1	1
Depots	3	3
Surfaced Car Parks	16	16
Multi-Storey Car Parks	2	2
Cemeteries	7	7
Public Conveniences	9	9
OPERATIONAL EQUIPMENT		
Vehicles	29	29
Heavy Plant	13	13
COMMUNITY ASSETS		
Community Centres	1	1
Parks	15	15
Playing Fields	6	6
NON OPERATIONAL ASSETS		
Commercial/Investment Properties	58	57

18 LEASING AND OTHER LONG TERM COMMITMENTS

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

Leased Assets – Rentals (excluding staff car leases)	
	Operating Leases £000
Total rentals paid in 2008/09	717
Outstanding undischarged leasing obligations:	
< 1yr	21
1 - 2 years	0
2 - 5 years	281
5 + years	208

At 31 March 2009, 38 cars were leased for staff. The total cost in 2008/09 was £171,179 and after contributions by staff of £13,089, it resulted in a charge to the Authority of £158,090.

19 FINANCE LEASES

The Council had one finance lease in respect of a car park, which is subject to a peppercorn rent, however no charge has been levied in the current or previous years, and none are anticipated in future years. Details relating to the asset are shown as follows:

St.Nicholas Arcade Car Park:	£'000
Gross Book Value (31/03/08)	3,595
Accumulated Depreciation	(87)
Net Book Value (31/03/09)	3,508
Annual depreciation charge	14

20 PRIVATE FINANCE INITIATIVE (PFI)

The PFI is a mechanism by which private sector investment is used to assist in the delivery of public services, normally for large schemes such as new schools, etc. The Council has not entered into any PFI arrangements and therefore there are no PFI related assets as at 31 March 2009.

21 FIXED ASSET VALUATION

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

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

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

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

	Council dwellings	Other land and buildings	Vehicles plant and equipment	Infrastructure	Investment Properties	Non-Operational	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Valued at Historical Cost	--	--	--	--	--	--	0
Valued at Current Value							0
1999/2000	--	(1,496)	--	--	(127)	--	(1,623)
2000/2001	--	2,438	--	--	369	--	2,807
2001/2002	(61,723)	135	--	--	277	--	(61,311)
2002/2003	14,146	(2)	(3)	--	--	--	14,141
2003/2004	31,635	2,376	--	--	--	798	34,809
2004/2005	42,786	818	--	--	--	2,499	46,103
2005/2006	(7,469)	11,218	--	126	--	112	3,987
2006/2007	--	--	--	--	3,363	488	3,851
2007/2008	4,145	4,249	(1,259)	(185)	--	379	7,329
2008/2009	6,485	4,979	--	--	5,736	671	17,871
TOTAL CHANGE	30,005	24,715	(1,262)	(59)	9,618	4,947	67,964

22 INTANGIBLE ASSETS

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

Software Licences	31 March 08 £'000	31 March 09 £'000
Opening Balance	485	678
Amounts written off to Income and Expenditure Account		
Expenditure during the year	511	75
Written off to revenue in year	(317)	(279)
Closing Balance	679	474

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

23 NET ASSETS EMPLOYED

This summary gives details of the net assets employed during the year analysed over the Council's major accounts, namely General Fund and Housing Revenue Account.

	31 March 08 £'000	31 March 09 £'000
General Fund	8,170	10,551
Housing Revenue Account	146,206	154,278
	154,376	164,829
Proportion of Collection Fund Surplus/(Deficit) not attributable to the City Council	10	60
	154,386	164,889

24 STOCKS AND WORK IN PROGRESS

At 31 March 2009 the City Council held stocks and work in progress to the value of £328,000 (£304,000 for 2007/08), after allowing for the provision of £25,000 for obsolescence / reductions in value, and excluding internal work in progress of £178,000.

25 ANALYSIS OF DEBTORS

Since the Council's Balance Sheet represents assets at the end of the financial year (31 March 2009), there are outstanding monies owed to the Council in respect of the 2008/09 financial year which at that date were yet to be received as cash. The amount in the Balance Sheet therefore, represents amounts owed to the Council, which had not been received at 31 March 2009.

The Council makes provision for outstanding monies which it anticipates will not be recovered. The amount in the Balance Sheet is net of such provisions. The Debtors balance as at 31 March 2009 is analysed as follows.

DEBTORS	2007/08	£000	2008/09	£000
Government Departments	7,768		8,483	
Other Local Authorities	557		566	
Commercial Ratepayers	445		579	
Council Taxpayers	4,811		5,174	
Housing Rents	367		363	
Sundry Debtors and Accruals	8,351		3,328	
Provision for Bad Debts	(2,903)		(3,192)	
TOTAL	19,396		15,301	

26 ANALYSIS OF CREDITORS

Since the Council's Balance Sheet represents liabilities at the end of the financial year (31 March 2009), there are outstanding monies owed by the Council in respect of the 2008/09 financial year which at that date were yet to be paid. The amount in the Balance Sheet therefore, represents amounts owed **by** the Council, which had not yet been paid as at 31 March 2009. The Creditors balance as at 31 March 2009 is analysed as follows.

CREDITORS	2007/08	£000	2008/09	£000
Government Departments	(4,269)		(2,274)	
Other Local Authorities	(849)		(2,544)	
Commerical Ratepayers	(150)		(259)	
Council Taxpayers	(623)		(653)	
Housing Rents	(152)		(115)	
Sundry Creditors and Accruals	(7,102)		(3,863)	
TOTAL	(13,145)		(9,708)	

27 FINANCIAL LIABILITIES AND ASSETS

With effect from the financial year 2007/08, the Council is required to make certain adjustments to the Balance Sheet values of Financial Liabilities (i.e. the Council's borrowings) and Financial Assets (i.e. the Council's Investments), where these are necessary to reflect the 'Fair Value' of the item. In addition, during 2008/09 the Council had investments placed with Icelandic banks that are subject to special accounting treatments as laid down in the Local Authority Accounting Panel bulletins (LAAP) 78, 79 and 82. These bulletins are freely available via the Chartered Institute of Public Finance and Accountancy (CIPFA) website. The adjustments applied are summarised in the table below.

	Long term		Short term	
	2007/08	2008/09	2007/08	2008/09
Financial Liabilities	£000	£000	£000	£000
At Amortised Cost	44,800	39,215	0	8,504
At Fair Value through Income & Expenditure Account	0	0	0	0
	44,800	39,215	0	8,504
Financial Assets				
Loans and Receivables	1,005	0	10,265	12,588
Breakdown :				
Nominal Value of Investments	1,001	0	10,130	13,300
Net gains on assets held at fair value, through 'Profit & Loss' (at balance sheet date)	4	0	0	0
Net gains on assets held at fair value, through 'Profit & Loss' (at settlement date)	0	0	0	0
Impairment of Icelandic investments	0	0	0	(1,632)
Interest accrued for Icelandic investments	0	0	0	431
Other investments interest accrued	0	0	137	489
TOTAL	1,005	0	10,130	12,588

28 GAIN AND LOSS ON FINANCIAL ASSETS AND LIABILITIES

There have been no gains or losses recognised in the accounts in relation to fair value adjustments in 2008/09. All deals have either been fixed interest or instant access variable rate where no gain or loss would be applicable.

The total interest payable in 2008/09 was £2.443M; the total interest earned was £1.144M although this includes £340K of interest credited on impaired investments under the Local Authority Accounting Panel (LAAP) bulletins 78, 79 and 82. In addition, under these LAAP bulletins the Council is required to impair the value of its Icelandic investments by £1.632M, although the full impact of this on the General Fund has been deferred, by application of the Regulations contained within LAAP 79.

29 FAIR VALUE OF FINANCIAL LIABILITIES AND ASSETS CARRIED AT AMORTISED COST

Where required by the SORP, Financial Assets and Liabilities are shown at Fair Value, but in many instances they are shown at amortised cost, i.e. the nominal amount of the loan or investment. The table below illustrates what the impact on the Balance Sheet would be, were all such items to be shown at Fair Value.

	Carrying Value	Fair Value
	£'000	£'000
Financial Liabilities		
Amounts carried at Amortised Cost	47,719	60,518
Amounts carried at Fair Value	0	0
	47,719	60,518

The Fair Value is greater than the Carrying Value, because the majority of the Council's loans are at fixed interest rates which are greater than the current rates used by the lender to calculate any premium or discount applicable on early repayment. This increases the amount that the Council would have to pay if the lender requested, or agreed to, repayment at the Balance Sheet date.

	Carrying Value	Fair Value
	£'000	£'000
Financial Assets		
Amounts carried at Amortised Cost	12,588	12,588
	12,588	12,588

Where an investment matures in less than 12 months from the Balance Sheet date, the Carrying Amount is assumed to approximate to Fair Value. At 31 March 2009, the Council had no investments that fell into this category and so the carrying value is assumed to be a good estimate of fair value.

29.1 RISK AND ICELANDIC BANK DISCLOSURES FOR FINANCIAL INSTRUMENTS

The Council's activities expose it to a variety of financial risks, the key risks are:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Re-financing risk – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

29.2 OVERALL PROCEDURES FOR MANAGING RISK

The key policy document in relation to risk management for financial instruments is the Annual Treasury Management Strategy. The strategy covering 2008/09 was approved by Council at its meeting on 27 February 2008 and is freely available on the Council's internet site.

The procedures for risk management are set out through a legal framework under the Local Government Act 2003 and the associated Regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the Code of Practice;
- by approving annually in advance prudential indicators for the following three years limiting the Council's overall borrowing; its maximum and minimum exposures to fixed and variable rates; its maximum and minimum for exposures on the maturity structure of its debt and its maximum annual exposures to investments maturing beyond a year;
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance.

These policies are implemented by the Accountancy Section under the scrutiny of the S151 officer. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed periodically.

29.3 CREDIT RISK

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

The aim is to minimise this risk through the Annual Investment Strategy, which requires, amongst other constraints, that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Ratings Services. The Annual Investment Strategy also imposes a maximum amount and time to be invested with a financial institution located within each category. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria in the approved Annual Investment Strategy.

The following analysis summarises the Council's maximum exposure to credit risk. The table (from Fitch) gives details of global corporate finance average cumulative default rates (including financial organisations) for the period 1990 – 2007 on investments out to 5 years.

	31 March 09	Historical experience of default	Exposure
	£000 (a)	% (b)	£000 (a * c)
AAA rated counterparties	0	0.00%	0
AA rated counterparties	1,492	0.06%	1
A rated counterparties	6,297	0.65%	41
Icelandic investments	6,431	25.30%	1,632
Trade debtors	2,085	17.1%	358
Total	16,305		2,032

Whilst the current credit crisis in international markets has raised the overall possibility of default, the Council maintains strict credit criteria for investment counterparties.

The Council does not generally allow credit for its trade debtors, such that £1.7M of the £2.1M balance is past its due date for payment. The past due amount can be analysed by age as follows:

	31 March 08	31 March 09
	£'000	£'000
Current, < 28 Days	1,507	911
28-59 Days	139	139
60-91 Days	80	111
92-183 Days	120	162
184-364 Days	129	152
365+ Days	779	609
Total	2,754	2,085

29.4 LIQUIDITY RISK

The Council manages its liquidity position through the risk management procedures above as well as through a cash flow management system, as required by the Code of Practice. This seeks to ensure that cash is available when it is needed.

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to Councils (although it will not provide funding to a Council whose actions are unlawful). The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

29.5 REFINANCING AND MATURITY RISK

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved prudential indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council's approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows:

	31 March 08	31 March 09
	£'000	£'000
Less than one year	0	(8,504)
More than fifteen years	(44,800)	(39,215)
Total	(44,800)	(47,719)

The maturity analysis of financial assets is as follows:

	31 March 08	31 March 09
	£'000	£'000
Less than one year	10,265	12,588
Between one and two years	1,005	0
Total	11,270	12,588

29.6 INTEREST RATE RISK

The Council has a small exposure to interest rate risk on its borrowings as all borrowings are taken at fixed interest rates and mostly over long periods. No new long term loans were taken out during 2008/09 but the Council did take on short term borrowings during the year. Although these were at fixed rates, had the prevailing rates been higher, these would have been more expensive.

The Council's investments held within instant access Call accounts are affected by movements in interest rates and there has been a sharp decline in investment returns. The prevailing bank rate at the balance sheet date was 0.5%, meaning that returns have reduced sharply on the prior year. The Council also placed a number of fixed term investments during the year but had the prevailing rates been higher, it would have seen a corresponding increase in income. Sensitivity to an increase of 1% on interest rates during 2008/09 would have had the following effect:

	Actual	+1%
	£'000	£'000
New borrowings	(6)	(13)
New or variable investments		
Fixed term	714	815
Call accounts	257	320
Total	965	1,122

This highlights that most of the Council's borrowings were insensitive to interest rate changes during 2008/09. The investments placed and the instant access accounts were sensitive to interest rates and the 2009/10 budget process has taken into account the reduced investment income as a result of the current economic climate.

29.7 ICELANDIC BANKS

Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. A summary of the transactions, given the amounts the Council has invested, is presented at the bottom of this section.

The Council had £6M deposited across 3 of these institutions, with varying maturity dates and interest rates as follows:

Bank	Rate	Principal	Start date	End date	Value at 31/03/09
		£000			£000
Landsbanki Islands	6.25%	1,000	16/05/2007	15/05/2009	902
Glitnir	5.76%	3,000	14/01/2008	14/01/2009	2,977
Kaupthing, Singer & Friedlander	6.00%	2,000	16/05/2008	15/05/2009	920
Total		6,000			4,799

All monies within these institutions are currently subject to the respective administration and receivership processes. The amounts and timing of payments to depositors such as the authority will be determined by the administrators / receivers. However, the Local Authority Accounting Panel (LAAP) bulletin number 82 gave estimates of the timing and amount of cash payments in relation to deposit with these banks.

The current situation with regards to recovery of the sums deposited varies between each institution. Based on the latest information available the Council considers that it is appropriate to consider an impairment adjustment for the deposits. The value of the investments has been impaired based on the information detailed below and the accounting treatment as set out in LAAP 78, 79 and 82. As the available information is not definitive as to the amounts and timings of payments to be made by the administrators / receivers, it is likely that further adjustments will be made to the accounts in future years.

29.8 KAUPTHING SINGER AND FRIEDLANDER LTD

The creditor progress report issued by the administrators Ernst and Young, dated 17 April 2009 outlined that the return to creditors was projected to be a minimum of 50p in the £ but no

timescale is indicated. The administrator indicated that the estimate could be lower or higher if significant issues arose; the 50p in the £ stated is therefore the best estimate within a range of possible amounts. The first dividend payment of 10p in the £ minimum is due in the summer of 2009. The authority has decided to recognise an impairment based on it recovering 50p in the £ up to October 2012 (the date when the High Court has permitted the administration to be extended to).

In calculating the impairment the Council has therefore made the assumption that the remaining 40% recovery will be split evenly between December 2009, December 2010, December 2011 and October 2012.

Recoveries are expressed as a percentage of the Council's claim in the administration, which includes interest accrued up to 7 October 2008.

29.9 LANDSBANKI

Landsbanki Islands hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (new Landsbanki) with the management of the affairs of Old Landsbanki being placed in the hands of a resolution committee. Old Landsbanki's affairs are being administered under Icelandic law. Old Landsbanki's latest public presentation of its affairs was made to creditors on 20 February 2009 and can be viewed on its website. This and other relevant information indicates that recovery of between 90-100 % could be achieved, and the authority has taken a mid point position and assumed recovery at 95% by 2012. The Council has therefore decided to recognise an impairment based on it recovering 95p in the £.

Recovery is subject to the following uncertainties and risks:

- Confirmation that deposits enjoy preferential creditor status which is likely to have to be tested through the Icelandic courts.
- The impact of exchange rate fluctuations on the value of assets recovered by the resolution committee and on the settlement of the authority's claim, which may be denominated wholly or partly in currencies other than sterling.
- Settlement of the terms of a 'bond' which will allow creditors of old Landsbanki to enjoy rights in New Landsbanki.
- The impact (if any) of the freezing order made by the UK Government over Landsbanki's London branch assets.

Failure to secure preferential creditor status would have a significant impact upon the amount of the deposit that is recoverable. The total assets of the bank only equate to one third of its liabilities, assuming that the Bond remains at its current value. Therefore, if preferential creditor status is not achieved the recoverable amount may only be 33p in the £.

No information has been provided by the resolution committee about the timing of any payments to depositors. Because it is anticipated that all the assets of Landsbanki Islands will need to be realised to repay priority creditors, settlement in a single sum is unlikely. Therefore, in calculating the impairment, the authority has used the estimated repayment timetables for Heritable and KS&F as a basis for its assumption about the timing of recoveries. It is therefore assumed that the repayment will be split roughly evenly between March 2010, December 2010, December 2011 and December 2012.

Recoveries are expressed as a percentage of the Council's claim in the administration, which it is expected may validly include interest accrued up to 14 November 2008.

29.10 GLITNIR BANK HF

Glitnir Bank hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (new Glitnir) with the management of the affairs of Old Glitnir being placed in the hands of a resolution committee. Old Glitnir's affairs are being administered under Icelandic law. Old Glitnir's latest public presentation of its affairs was made to creditors on 6 February 2009 and can be viewed

on its website. This indicates that full recovery of the principal and interest to 14 November 2008 is likely to be achieved. Recovery is subject to the following uncertainties and risks:

- Confirmation that deposits enjoy preferential creditor status which is likely to have to be tested through the Icelandic courts.
- The impact of exchange rate fluctuations on the value of assets recovered by the resolution committee and on the settlement of the authority's claim, which may be denominated wholly or partly in currencies other than sterling.
- Settlement of the terms of a 'bond' which will allow creditors of old Glitnir to enjoy rights in New Glitnir.

The Council has therefore decided to recognise an impairment based on it recovering the full amount of principal and interest up to 14 November 2008 in the future. The impairment therefore reflects only the loss of interest to the Council until the funds are repaid.

Failure to secure preferential creditor status would have a significant impact upon the amount of the deposit that is recoverable. The total assets of the bank only equate to 40% of its liabilities, assuming that the Bond remains at its current estimated value. Therefore, if preferential creditor status is not achieved the recoverable amount may only be 40p in the £.

No information has been provided by the resolution committee about the timing of any payments to depositors. Since the value of deposits is small compared to the total asset value of the bank, in calculating the impairment the Council has therefore made an assumption that the repayment of priority deposits will be made by 31 March 2010.

Recoveries are expressed as a percentage of the Council's claim in the administration, which it is expected may validly include interest accrued up to 14 November 2008.

The impairment loss recognised in the Income and Expenditure Account in 2008/09, £1.632M, has been calculated by discounting the assumed cash flows at the effective interest rate of the original deposits, in order to recognise the anticipated loss of interest to the Council until monies are recovered.

Adjustments to the assumptions will be made in future accounts as more information becomes available.

29.11 IMPACT OF REGULATIONS ON FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

The Council has taken advantage of the Capital Finance Regulations to defer the impact of the impairment on the General Fund, and a sum of £1.201M has been transferred to the Financial Instruments Adjustment Account. The balance of £431K relates to interest which has been borne in full by the General Fund.

Bank	Impairment charge reversed to the FIAA	Interest credits reversed to FIAA.	Net Dr to the FIAA
	£000	£000	£000
Landsbanki Islands	215	(117)	98
Glitnir	232	(209)	23
Kaupthing, Singer & Friedlander	1,185	(105)	1,080
Total	1,632	(431)	1,201
Interest not received but credited in:			
2007/08		(91)	
2008/09		(340)	

The net position on the Financial Instruments Adjustment Account should be nil over the life of the impaired asset assuming that the projected cash flows are correct.

Discussions are ongoing with the Government to amend Regulations to allow councils to charge the relevant proportion of the impairment loss, including lost interest, to the Housing Revenue Account.

30 INTEREST IN COMPANIES

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

Lancaster City has relevant interests in the following companies:

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

For each of the above named companies Councillors have been nominated during 2008/09 as representatives of the Council, to act to some extent as liaison between the outside body and the Council. Where the appointment is to act as a Director or Trustee of a Board the Councillor has a duty to act in the interests of the company however, and not merely in accordance with Council policy. This is further evidenced by the fact that Councillors are bound by the Member's Code of Conduct and are required to register their personal interest in any body to which they are appointed by the Council. Where this interest may be prejudicial (when Council is debating grants to the organisation concerned for example) the Councillor is not allowed to participate in any debate or subsequent voting process.

Although Williamson Park is wholly controlled by Lancaster City Council by virtue of its right to nominate five of its Councillors as Directors of the company, none of the Council's interests in any of the above Companies are considered material when the tests as set out in the Code of Practice are applied with the aggregate financial liability totalling £26 (upper limit being £100,000). Consequently no Group Accounts are required to be prepared for the 2008/09 financial year.

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

30.1 WILLIAMSON PARK LTD

The Company is limited by guarantee and is wholly controlled by the Council by virtue of its right to nominate five of its Councillors as Directors. The City Councillors nominated during 2008/09 were E Blamire, S Burns, J Pritchard, T Johnson and J Whitelegg. The Council's Corporate Director (Finance & Performance) R Muckle undertook the role of Company Secretary.

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

The Company's previous financial accounting period ended on 31 January, however it has submitted a draft 2008/09 statement based on a 14 month financial accounting period to coincide with the Council's year end of 31 March. Consequently the information below differs slightly from the other financial information in this summary. This anomaly will no longer exist from 2009/10 onwards. The City Council provided revenue grant support of £222,200 to the Company during the Council's 2008/09 financial year (2007/08 £4,842 capital and £165,900 revenue of which £24,650 relates to the company's first two months of its extended 2008/09 financial year, i.e. February and March 2008).

	31 Jan 08	31 Mar 09
	£	£
Net assets	35,299	15,708
Profit/(Loss) before taxation	(71,317)	(16,353)
Profit/(Loss) after taxation	(71,317)	(16,353)

30.2 DUKES PLAYHOUSE LTD

The Company is limited by guarantee with no share capital. It is also a registered charity. Although the Council has nominated four of its City Councillors as trustees of the company there

is no ultimate controlling party. The City Councillors nominated during 2008/09 were J Ashworth, J Blakely, J Fletcher and M Thomas.

The principal activity and objective of the charity is to promote and advance artistic and aesthetic education and the public appreciation of the arts and manage a theatre, which is at the service of the whole community.

The City Council provided grant support totalling £165,300 to the Company during the 2008/09 financial year for its core activities (2007/08 £162,300). This included the provision of grant in lieu of rent free Council accommodation to the value of £13,500 (2007/08 £13,500). In addition, the Council also provided grant totalling £260,383 in its role as Accountable Body for North West Development Agency funding for capital conversion of the 'round' theatre. The Youth Arts Centre occupies a former church which is also owned by the Council. The Company maintains the building and pays an annual rent of £8,000 to the Council in respect of this (2007/08 £8,000).

Audited figures were provided for 2007/08, however these have now been re-stated as per the draft 2008/09 statement provided by the company. The reason for this is that the company has reclassified the capital grants from deferred capital grants into restricted funds in line with latest guidance and the SORP.

	31 March 08	31 March 09
	£	£
Net Assets	487,870	560,758
Profit/(Loss) before taxation	213,743	72,888
Profit/(Loss) after taxation		

30.3 HEYSHAM MOSSGATE (COMMUNITY FACILITIES) COMPANY LTD

The Company is limited by guarantee without share capital. Although the Council nominates one of its Councillors and also one of its Corporate Directors (Finance & Performance) as members of the company there is no ultimate controlling party. The City Councillor nominated during 2008/09 was M Greenall. The Council's Corporate Director (Finance & Performance) R Muckle also undertook the role of Company Secretary.

The principal activity of the company is the development of community facilities in the Mossgate area of Heysham on a non-profit making basis.

The 2007/08 figures were provided on a provisional basis last year, now audited the figures have been restated for 2007/08. Draft figures have been provided for 2008/09.

	31 March 08	31 March 09
	£	£
Net Assets	1,762,342	1,792,770
Profit/(Loss) before taxation	966,554	113,344
Profit/(Loss) after taxation	963,494	89,274

30.4 STOREY CREATIVE INDUSTRIES CENTRE

The Company is limited by guarantee and commenced trading on 25 September 2007. Although the Council nominates one of its Councillors as a Member of the company there is no ultimate controlling party. The City Councillor nominated during 2008/09 was A Bryning.

The principal activity of the company is the operation of the Storey Creative Industries Centre on a non-profit making basis. The company is satisfied that it is entitled to exemption from the provisions of the Companies Act 1985 relating to the audit of its financial statements. Consequently 2007/08 has been signed off by its Directors instead of being independently audited. Draft figures have been submitted for 2008/09.

The City Council provided revenue grant support of £85,426 during the 2008/09 financial year (2007/08 £40,222).

	31 March 08	31 March 09
	£	£
Net Assets	916	667
Profit/(Loss) before taxation	1,018	(249)
Profit/(Loss) after taxation	815	(249)

31 PROVISIONS

	Balance 01/04/08	Expenditure	Transfers	Income	Balance 31/03/09
	£'000	£'000	£'000	£'000	£'000
Revenue					
Insurance	246	(442)	100	385	289
Vehicle Replacements	95	0	0	0	95
Equal Pay	300	0	(200)	0	100
Williamson Park	0	0	100	0	100
Capital					
General Fund Clawback	57	0	0	0	57
TOTAL	698	(442)	0	385	641

The closing balance on the Insurance Provision is in respect of outstanding insurance claims to be settled by the Council. The Council provides an element of self insurance whereby it pays varying levels of excess depending upon the type of insurance policy. The balance on the provision is assessed throughout the year to ensure it is sufficient to meet all anticipated claims. At the end of 2008/09 there was a total of 248 claims outstanding with an estimated value of £556K, of which it is anticipated that approximately half will fall on the Council. As a result the provision has been set at £289K.

The vehicle provision was created in 2005/06 to cover future shortfalls in funding associated with timing differences when vehicles require replacement. The exact impact on the budget at the time of replacement is difficult to predict as it is dependent upon the procurement method used.

The Job Evaluation Provision was established in 2007/08 to cover the cost of anticipated Equal Pay claims. The process of settling these claims is still on-going, however indications are that they will not be as high as originally anticipated and the provision has therefore been reduced accordingly.

The capital Clawback provision is in respect of outstanding liabilities, where the Council has sold land originally financed by Derelict Land Grant. It is anticipated that the balance on this provision will be paid to English Partnerships in the near future.

A new provision totalling £100K has been created during 2008/09 to cover accumulated losses for the Williamson Park Ltd. As the company is wholly controlled by the City Council, provision must be made for any potential losses arising.

32 RESERVES

The Council keeps a number of Reserves on the Balance Sheet. Some of these are required to be held for statutory reasons, some are needed to comply with proper accounting practice, while others have been set up voluntarily to earmark resources for future spending plans.

Reserve	Balance at 1 April 2008 £'000	Net Movement in Year £'000	Balance at 31 March 2009 £'000	Purpose of Reserve	Further Detail of Movements
Revaluation Reserve	3,923	17,604	21,527	Store of gains on revaluation of fixed assets not yet realised through sales	See (a) below
Capital Adjustment Account	176,161	(5,867)	170,294	Store of capital resources set aside to meet past expenditure	See (b) below
Financial Instruments Adjustment Account	(975)	(1,052)	(2,027)	Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowing and investments	See (c) below
Usable Capital Receipts	1,364	(555)	809	The balance of proceeds from fixed assets sales that remains available to finance future capital expenditure	See (d) below
Deferred Credits	40	(14)	26	Balance of income due in future years, as a result of granting mortgages	Included in various other accounts
Pensions Reserve	(41,517)	607	(40,910)	Balance of pensions liability	See Note 29 below
Major Repairs Reserve	5,827	897	6,724	Resources available for capital investment in the Council's housing stock	See Note 2 to Housing Revenue Account statements below
Earmarked Reserves	5,969	652	6,621	Amounts set aside to meet specific future spending plans	See (e) below
General Fund Balance	2,888	(1,488)	1,400	Resources available to meet the Council's future general running costs	See Statement of Movement in General Fund Balance above
Housing Revenue Account Balance	717	(223)	494	Resources available to meet the future general running costs of the Council's housing stock	See Housing Revenue Account Statement of Movement in Balance below
Collection Fund Balance	(11)	(58)	(69)	Amount of Council Tax collected over and above the demands made by the Council and precepting authorities	See Collection Fund Income & Expenditure Account below
TOTAL	154,386	10,503	164,889		

(a) Revaluation Reserve		£'000
Balance at 1 April 2008		(3,923)
(Gains)/losses on revaluation of Fixed Assets		(19,140)
Depreciation adjustment for revalued assets		171
Amounts written off in respect of disposals		1,365
Balance at 31 March 2009		(21,527)
(b) Capital Adjustment Account		
Balance at 1 April 2008		(176,161)
Usable Capital Receipts applied		(2,093)
Capital expenditure financed from revenue		(2,150)
Capital expenditure financed from MRR		(1,380)
Depreciation		5,686
Net Write Down of Govt Grants Deferred		(993)
Amortisation of Intangible Assets		279
Impairment adjustments		6,966
Depreciation adjustment for revalued assets		(171)
Disposals & Fixed Asset changes		240
Net Deferred Charges		1,025
Minimum Revenue Provision		(1,084)
Additional voluntary provision for debt repayment		(458)
Balance at 31 March 2009		(170,294)
(c) Financial Instruments Adjustment Account		
Balance at 1 April 2008		975
Premia/Discounts written back		(158)
Gain/Loss on Assets held at fair value through profit & loss		9
Impairment of Icelandic investments		1,632
Interest realiting to Icelandic investments		(431)
Balance at 31 March 2009		2,027
(d) Usable Capital Receipts		
Balance at 1 April 2008		(1,364)
Amounts receivable in year		(1,538)

(e) Earmarked Reserves	Balance at 01 April 2008 £'000	Net Movement in Year £'000	Balance at 31 March 2009 £'000
Restructuring Reserve	0	(943)	(943)
Capital Support	(1,232)	1	(1,231)
Job Evaluation Reserve	(718)	65	(653)
Flats Planned Maintenance	(627)	(86)	(713)
Open Spaces Commuted Sum	(276)	13	(263)
Planning Delivery Grant Reserve	(262)	87	(175)
Renewals Reserve	(253)	55	(198)
Welfare Planned Maintenance	(243)	(17)	(260)
Concessionary Travel	(224)	224	0
Project Implementation Reserve	(224)	27	(197)
Welfare Equipment	(219)	(16)	(235)
Integrated Hsg Mgt Sys Replacement Reserve	(187)	(40)	(227)
Fixed Lifeline Equipment	(173)	63	(110)
Access To Services Reserve	(151)	12	(139)
Other Commuted Sums	(118)	(417)	(535)
Central Control Equipment	(118)	(10)	(128)
Welfare Support Grant Maintenance	(101)	(13)	(114)
Insurance Reserve	(100)	100	0
Business Continuity Reserve	(100)	50	(50)
Dispersed Lifeline Equipment	(86)	86	0
Other Reserves (less than £75,000)	(557)	107	(450)
Total	(5,969)	(652)	(6,621)

33 CONTINGENT ASSETS AND LIABILITIES

In summary, contingent assets and liabilities are where obligations or economic benefits are possible, but either it is not likely or certain (and outside the Council's control) as to whether they will occur, or their values cannot be estimated with any certainty. As such, they should not be accrued within the accounting statements, but they should be disclosed by way of notes.

The following material contingent assets existed as at 31 March 2009:

VAT on Cultural Activities

In March 2009 the Council submitted claims to recover VAT on various sporting, cultural and coaching services provided between 1977/78 and 1996/97. The total net value is estimated at around £600K but this is subject to review by Her Majesty's Revenue and Customs and it could change significantly. It is anticipated, however, that the outcome of the claims will be known during 2009/10.

The following material contingent liabilities existed as at 31 March 2009:

Luneside East Regeneration Scheme

In assembling land for this project, the Council used compulsory purchase powers and two significant compensation claims are still outstanding. The timing and likely settlement values are uncertain, although it is possible that settlement may be achieved during 2009/10. The Council has some financial provision available in connection with these claims, but at this stage any potential liabilities arising cannot be measured with any certainty.

The Council has also accounted for European Regional Development Funding of £2.5M in connection with this project to date, for which clawback liabilities may arise if the scheme does not achieve its planned outcomes. Given the commitment of partners to progress this scheme, however, and the specific market conditions giving rise to the current position, it is probable that a positive outcome will be forthcoming, thereby avoiding any material liabilities falling on the Council as at 31 March 2009.

34 AUTHORISATION OF ACCOUNTS FOR ISSUE

The Accounts were authorised for issue by The Head of Financial Services (the Council's Chief Financial Officer, or 's151' Officer) on 22 June 2009.

35 POST BALANCE SHEET EVENTS

Events arising after 31 March have been reflected in the accounts where they give additional support to conditions that existed at that date, but only where the originating event took place prior to the year end and the amounts involved are material.

Events arising after 31 March that relate to conditions that did not exist at that time should be disclosed by way of notes, if they are material. No such events have arisen.

36 PENSIONS

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

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

Under the 2008 SORP the Council has adopted the amendment to FRS17 Retirement benefits. As a result, quoted securities held as assets in the defined benefit pension scheme are now valued at bid price rather than mid market value. The effect of this change is that the net opening liability as at 31/3/2008 has increased by £196K from £41,517K as per the prior year accounts to £41,713K. Current and prior year surpluses have been unaffected.

The Council recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge it is required to make against the Council Tax is based on the cash payable in the year, so although the full cost of retirement benefits is contained out in the Income and Expenditure Account, this is partially offset by an adjustment within the Statement of Movement on the General Fund Balance. Changes in the actual employer contribution rates would lead to changes in the charges made against the General Fund.

The following transactions have been made in the Income and Expenditure Account during the 2008/09 year in accordance with FRS 17.

Net Cost of Services:	HRA	GF	Total
	£'000	£'000	£'000
Current Service Costs	(413)	(2,763)	(3,176)
Past Service & Curtailment (Gain)/Loss	0	(12)	(12)
Net Operating Expenditure			
Interest Costs	(1,096)	(7,333)	(8,429)
Expected return on Assets in the scheme	838.80	5,613	6,452
Employer's contributions payable to the scheme	408	2,730	3,138
Overall impact of FRS 17 transactions	(262)	(1,765)	(2,027)

This impact is balanced by contributions from the Pension Reserve and the Statement of Movement on the General Fund Balance and a contribution to the pension reserve in the corresponding statement for the Housing Revenue Account. The combined effect is as follows:

Statement of movement on general fund	2007/08	2008/09
Reversal of net charges made	964	2,027

In addition, there are actuarial gains and losses which impact on the value of the Balance Sheet but which do not go through the Income and Expenditure Account. These gains and losses are reflected in the Statement of Total Recognised Gains and Losses (STRGL) as follows:

STRGL entries	2007/08	2008/09
Actuarial gains and (losses)	(12,753)	2,634

As at 31 March 2009, the Council had the following overall assets and liabilities for pensions as disclosed in the Balance Sheet:

	2004/05	2005/06	2006/07*	2007/08*	2008/09
	£'000	£'000	£'000	£'000	£'000
Present value of liabilities	(114,767)	(132,216)	(131,840)	(138,363)	(117,345)
Fair value of assets	79,784	99,185	104,037	96,846	76,435
Surplus/deficit	(34,983)	(33,031)	(27,803)	(41,517)	(40,910)
Experience gains and losses as %	%	%	%	%	%
Assets	4.7%	13.7%	0.7%	13.4%	34.3%
Liabilities	1.3%	1.9%	0.0%	5.7%	0.0%

The scheme's assets and liabilities can be further split out as follows:

	LGPS Liabilities			Total
	Total	Unfunded	Funded	
	2007/08	2008/09	2008/09	2008/09
	£000	£000	£000	£000
Opening balance	(131,840)	(5,067)	(133,296)	(138,363)
Current service cost	(2,650)		(3,176)	(3,176)
Interest cost	(7,083)	(301)	(8,128)	(8,429)
Contributions by scheme participants	(971)		(1,072)	(1,072)
Actuarial gains and losses	176	735	28,347	29,082
Benefits paid	4,982	254	4,371	4,625
Past service cost	(977)		(12)	(12)
Closing balance	(138,363)	(4,379)	(112,966)	(117,345)

	LGPS Assets			
	Total	Unfunded	Funded	Total
	2007/08	2008/09	2008/09	2008/09
	£000	£000	£000	£000
Opening balance	104,037		96,846	96,846
Expected rate of return	6,800		6,452	6,452
Actuarial gains and losses	(12,929)		(26,448)	(26,448)
Employer contributions	2,949	254	2,884	3,138
Contributions by scheme participants	971		1,072	1,072
Benefits paid	(4,982)	(254)	(4,371)	(4,625)
Closing balance	96,846	0	76,435	76,435

Liabilities have been assessed on an actuarial basis using the projected unit method - an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The overall Pension Fund liabilities have been assessed by Mercer Human Resource Consulting Ltd., an independent firm of actuaries. The main assumptions used in their calculations are set out below, but it should be noted that as such, the position presented above represents an estimated snapshot position as at 31 March 2009, based on prevailing market and other economic conditions. Where relevant, assumptions were made for both the position at the beginning and end of the financial year, although the figures shown below represent the average assumptions applied for the year.

The figures quoted are based on the last full valuation of the Pension Fund. The deficit for accounting purposes also includes liabilities in respect of added years' enhancements for non-ill health early retirements, which are a charge directly on the Council's Income and Expenditure Account and not a charge to the Pension Fund.

The latest assessment took into account market movements up to 31 December 2008 and projected the likely position at 31 March 2009. It also took into account the funding methodology and assumptions considered appropriate, the length of any recovery plan and any smoothing mechanisms that might be adopted.

Local Government Pension Scheme			
Financial Assumptions	2007/08	2008/09	
	%	%	
Rate of inflation	3.6	3.3	
Rate of increase in salaries	5.4	5.1	
Rate of increase in pensions	3.6	3.3	
Rate of discounting scheme liabilities	6.1	7.1	
Proportion of employees opting to take a	50.0	50.0	

Demographic assumptions	Years	Years
Life expectancy of male current pensioner	86.1	86.2
Life expectancy of female current pensioner	89.0	89.0
Life expectancy of female future pensioner	90.0	90.0
Life expectancy of male future pensioner	87.2	87.2

Expected rate of return on assets	2007/08	2008/09
	%	%
Equity investments	7.5	7.5
Government Bonds	4.6	4.0
Other Bonds	6.1	6.0
Property	6.5	6.5
Cash/Liquidity	5.3	0.5
Other assets	7.5	7.5

Split of assets between investment categories	2007/08		2008/09	
	£'000	%	£'000	%
Equity investments	60,238	62.2	46,778	61.2
Government Bonds	6,876	7.1	5,962	7.8
Other Bonds	14,527	15.0	9,402	12.3
Property	5,811	6.0	5,656	7.4
Cash/Liquidity	3,196	3.3	3,745	4.9
Other Assets	6,198	6.4	4,892	6.4
	96,846	100	76,435	100

Changes to the LGPS permit employees retiring on or after 06 April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. On the advice of our actuaries we have assumed that 50% of employees retiring will take advantage of this change to the pension scheme.

Overall, the movement in the net pension liability for the year to 31 March 2009 is as follows:

Movement in Surplus during 2008/09	£'000
Surplus / (Deficit) at Beginning of Year	(41,517)
Current Service Costs	(3,176)
Employer Contributions	3,138
Past Service Cost / Curtailment Cost	(12)
Net Interest / Return on Assets	(1,977)
Actuarial Gain or (Loss)	2,634
Surplus / (Deficit) at End of Year	(40,910)

37 NOTES RELATING TO THE CASH FLOW STATEMENT

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

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

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

	£'000	£'000
Income and Expenditure Account		
Surplus/(Deficit)		
General Fund		(11,233)
Housing Revenue Account		1,256
		<u>(9,977)</u>
Net additional amounts required by statute to be debited or credited to the accounts in the year		
General Fund	9,745	
Housing Revenue Account	(1,479)	8,266
		<u>(1,711)</u>
Collection Fund Surplus/(Deficit)		(58)
ADD		
Provision for Debt Redemption	1,542	
Write Down of Deferred Assets	(1,065)	
Revenue Exp financed from Capital	(1,083)	
Direct Revenue Financing of Capital Expenditure	3,531	
Contribution from/(to) Earmarked Provisions	(58)	
Contribution from/(to) Earmarked Reserves	1,549	4,416
		<u>4,416</u>
Decrease/(Increase) in Debtors	4,202	
Decrease/(Increase) in Stocks	(22)	
Increase/(Decrease) in Creditors	(2,674)	1,506
		<u>1,506</u>
External Interest Paid	2,443	
Interest Received	(1,144)	1,299
		<u>1,299</u>
		<u>5,452</u>

37.1 GOVERNMENT GRANTS

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

Government grants in cash terms are outlined below.

	2007/08	2008/09
	£'000	£'000
Revenue Support Grant	2,146	1,897
DWP Grants - Housing Benefits and Council Tax		
Council Tax Collection		
Council Tax Preparation Grant	34,141	35,959
Benefit Fraud Grant		
Benefit Administration Grant	1,179	1,139
NNDR Administration	212	216
Planning Delivery Grant	235	245
LABGI	163	344
50 Forward	205	113
Concessionary Travel	0	487
Neighbourhood Management	145	0
Other Grants	388	143
	38,814	40,543

37.2 MOVEMENT IN LONG TERM BORROWING

	As at 31/03/2008 £'000	As at 31/03/2009 £'000	Movement in Cash £'000
Public Works Loans Board	44,800	39,215	(5,585)

37.3 MOVEMENT IN OTHER CURRENT ASSETS AND LIABILITIES

	As at 31/03/2008 £'000	As at 31/03/2009 £'000	Movement in Cash £'000
Stocks and Work in Progress	331	353	(22)
Debtors	15,697	11,495	4,202
Creditors	(12,219)	(9,545)	(2,674)
TOTAL	3,809	2,303	1,506

37.4 RECONCILIATION OF NET CASH FLOW

The Cash Flow Statement summarises the inflows and outflows of cash arising from transactions with third parties. This movement in cash should be reflected in the increase or decrease in cash and cash equivalent between the 2007/08 and the 2008/09 Balance Sheets.

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

	As at 31/03/2008 £'000	As at 31/03/2009 £'000	Movement in Cash £'000
Short Term Borrowing	0	(8,504)	(8,504)
Long Term Borrowing	(44,800)	(39,215)	5,585
Temporary Investments	10,265	12,588	2,323
Cash in Hand and at Bank	(1,948)	(1,858)	90
TOTAL	(36,483)	(36,989)	(506)

SUPPLEMENTARY FINANCIAL STATEMENTS

HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2009

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

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

2007/08 £'000	2008/09 £'000	Notes
Income		
(10,713) Dwelling Rents	(11,001)	
(267) Non-Dwelling Rents	(186)	
(1,677) Charges for Services & Facilities	(1,868)	
(8) Contributions Towards Expenditure	(8)	
(165) Sums Directed by the Secretary of State that are Income in accordance with UK GAAP	(165)	
(12,830) Total Income	(13,228)	
Expenditure		
3,406 Repairs & Maintenance	3,801	
3,038 Supervision & Management	3,222	
108 Rents, Rates, Taxes & Other Charges	97	
820 Negative Housing Revenue Account Subsidy Payable	1,361	7
91 Increase in Bad Debt Provision	265	
2,305 Depreciation & Impairments of Fixed Assets	2,315	4 & 5
1 Debt Management Costs	1	
0 Sums Directed by the Secretary of State that are Expenditure in accordance with UK GAAP	0	10
9,769 Total Expenditure	11,062	
(3,061) Net Cost of HRA Services per Authority Income and Expenditure Account	(2,166)	
0 HRA Services Share of Corporate & Democratic Core	0	
0 HRA Share of other Amounts Included in the Whole Authority Net Cost of Services but not Allocated to Specific Services	0	
(3,061) Net Cost of HRA Services	(2,166)	
HRA share of the operating income and expenditure included in the whole authority accounts		
0 Gain or Loss on Sale of HRA Fixed Assets	(3)	
851 Interest Payable & Similar Charges	838	
1,002 Amortisation of Premiums & Discounts	0	
(336) Interest & Investment Income	(182)	
36 Pensions Interest Costs & Expected Return on Pensions Assets	257	8
(1,508) (Surplus) or deficit for the year on HRA Services	(1,256)	

STATEMENT OF MOVEMENT IN THE HOUSING REVENUE ACCOUNT BALANCE FOR THE YEAR ENDED 31 MARCH 2009

This statement takes the outturn on the HRA Income and Expenditure Account and reconciles it to the surplus or deficit on the HRA Balance.

2007/08 £'000		2008/09 £'000	Notes
(1,508)	(Surplus) / Deficit for Year on the HRA Income & Expenditure Account	(1,256)	
1,549	Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year	1,479	12
41	(Increase) or decrease in Housing Revenue Account Balance	223	
(758)	Housing Revenue Account Balance brought forward	(717)	
(717)	Housing Revenue Account Balance carried forward	(494)	

NOTES TO THE HOUSING REVENUE ACCOUNT

1 NUMBER AND VALUES OF DWELLINGS

As at 31 March 2009 the Council held the following dwellings:

Bedsits		117
1 Bedroom	Houses & Bungalows	649
	Flats & Maisonettes	510
2 Bedroom	Houses & Bungalows	506
	Flats & Maisonettes	682
3 Bedroom	Houses & Bungalows	1,259
	Flats & Maisonettes	7
4 or more bedroomed dwellings		82
TOTAL ALL DWELLINGS		3,812

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

	Bal b/fwd 01/04/2008 £'000	Bal c/fwd 31/03/2009 £'000
Operational		
Council Dwellings	153,065	160,152
Other land and buildings	19	113
	153,084	160,265
Non-operational Assets	1,091	1,122
TOTAL	154,175	161,387

Dwellings are valued on the basis of Existing Use Value (Social Housing). This basis was first introduced on 01 April 2001, following the introduction of Resource Accounting in the HRA, with values then being rebased annually, with periodic full revaluation exercises every 5 years, the third year of which has now updated all values to 01 April 2005. The figures for 2008/09 incorporate the first annual rebasing exercise on the April 2005 revaluation and this has resulted in an increase in asset values of £8,698,809 in the year, which is the major part of the net movement in asset values shown above. This is principally attributable to a difference between the accumulated values from the annual rebasing exercises, and those contained in the recent full revaluation. The Major Repairs Allowance of £2,277,500, for 2008/09 has been used as a proxy for depreciation on dwellings. Non-dwelling assets were also revalued at 01 April 2005.

The vacant possession value of dwellings held on 01 April 2008 was £338,560,335. The difference between this and the EUV-SH valuation of £162,508,946 (i.e. the update figure after the 2008/09 rebasing exercise effective as of 01 April 2008 but before depreciation, disposals etc) represents the economic cost to the Government of providing Council Housing at less than open market rents.

2 MOVEMENT ON THE MAJOR REPAIRS RESERVE

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

Summary of Movements on Major Repairs Reserve 2008/09		£'000
Opening Balance 01 April		5,827
Transfer from General Reserves		0
Transfer to MRR – Depreciation		2,315
Transfer to HRA - Depreciation Adjustment		(38)
Capital Expenditure		
- Land		
- Houses		(1,380)
- Other property.		
Closing Balance 31 March		6,724

3 CAPITAL EXPENDITURE

Capital expenditure of £3,033,000 was incurred during the year, of which £2,938,000 was on works and improvements to dwellings, £78,000 on non dwellings and £17,000 on intangible assets. This was financed as follows:

	£'000
Borrowing	0
Usable Capital Receipts	46
Direct Revenue Financing	1,451
Earmarked Reserves	139
Majors Repairs Reserve	1,380
Grants and Contributions	17
Total Capital Financing	3,033

Capital Receipts totalling £163,000 were received during the year from the following sources:

	£'000
Sale of dwellings	128
Sale of land	21
Repayment of Principal on Mortgages	14
Repayment of Right to Buy discounts	0
Total Capital Receipts	163

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

4 DEPRECIATION

Total depreciation charges for the year were:

	£'000
Council Dwellings	2,277
Other land and buildings	1
Non-operational Assets	37
TOTAL	2,315

5 IMPAIRMENT CHARGES

There were no impairment charges for the financial year.

6 INTANGIBLE ASSETS

A charge of £3,000 was made during the year in respect of software purchased for Task Total Repairs which is an upgrade of the contractor system. The asset is to be amortised to revenue over a 5 year period which is consistent with the consumption of the economic benefit controlled by the Council.

7 HOUSING REVENUE ACCOUNT SUBSIDY

The total Negative Housing Subsidy payable for the year 2008/09 was £1,345,000, the analysis of which is shown in the table below, and the actual negative subsidy paid this year amounted to £1,360,000. The additional payment of £16,000 is in respect of 2007/08 was due to a lower rental constraint allowance being applied at final determination, than originally estimated.

	£'000
Management Allowance	1,990
Maintenance Allowance	3,809
Major Repairs Allowance	2,277
Admissible Allowances	0
Anti-Social Behaviour Allowance	0
Charges for Capital	1,779
Rent Rebates	0
Notional Rent	(11,197)
Interest on Receipts	(3)
Government Grants	0
Rental Constraint Allowance	0
Total Housing Subsidy	(1,345)

8 CONTRIBUTION TO/FROM THE PENSION RESERVE

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

9 RENT ARREARS

Total arrears of rent at 31 March 2009 amounted to £362,000. An amount of £526,000 was held as provision for bad debts; this includes rent arrears and all other debts outstanding to the Housing Revenue Account. The significant increase in provision this year is directly attributable to increase in invoices raised in respect of rechargeable repairs and a new provision for current tenant court costs. This represents allowances of 95% for arrears from former tenants and 25% for arrears from current tenants and leaseholders, in addition to 95% of other outstanding debts.

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

There have been no transfers to or from the General Fund as directed by the Secretary of State.

11 EXCEPTIONAL ITEMS, EXTRAORDINARY ITEMS AND PRIOR YEAR ADJUSTMENTS

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

12 NOTES TO STATEMENT OF MOVEMENT ON THE HRA BALANCE

	2007/08	2008/09
	£'000	£'000
Additional amounts required by Statute & Non-Statutory Proper Practices to be taken into account in determining the movement in the HRA Balance		
Difference between Interest Payable and Similar Charges including Amortisation of Premiums & Discounts determined in accordance with the SORP & those determined in accordance with Statute	(843)	159
Difference between any other item of Income & Expenditure determined in accordance with the SORP and determined in accordance with Statutory HRA requirements	0	0
Gain or Loss on Sale of HRA Fixed Assets	0	0
Net charges made for retirement benefits in accordance with FRS17	3	(262)
Sums Directed by the Secretary of State to be debited or credited to the HRA that are not Income or Expenditure in accordance with UK GAAP	0	0
	(840)	(103)
Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year		
Transfer to/(from) Major Repairs Reserve	371	(38)
Transfer to/(from) Housing Repairs Account	0	0
Transfer to/(from) Earmarked Reserves	250	30
Capital Expenditure funded by the Housing Revenue Account	1,768	1,590
Voluntary set aside for debt repayment	0	0
	2,389	1,582
Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year	1,549	1,479

COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT 2008/09

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

2007/08 £'000	INCOME	See Note	2008/09 £'000
	Council Tax		
(52,033)	Income from Council Tax	1	(54,255)
	Transfers from General Fund:		
(8,681)	Council Tax Benefits		(9,038)
	Business Rates		
(33,650)	Income from Business Ratepayers	2	(30,346)
	Contributions		
(336)	From Provisions for Council Tax Amounts Written Off		(282)
<hr/>			
(94,700)	TOTAL INCOME		(93,921)
	EXPENDITURE		
	Precepts and Demands		
45,298	Lancashire County Council		46,475
7,648	Lancaster City Council (including parish precepts)		7,973
5,451	Lancashire Police Authority		5,867
2,487	Lancashire Fire Authority		2,596
	Business Rates		
33,438	Payment to National Pool		30,135
212	Cost of Collection Allowance		211
	Council Tax Bad and Doubtful Debts		
336	Write-offs		282
437	Contribution to Provision for Non-Collection		440
<hr/>			
95,307	TOTAL EXPENDITURE		93,979
	FUND BALANCE		
607	(Surplus)/deficit for year		58
(596)	(Surplus)/deficit as at 01 April (Brought forward)	3	11
<hr/>			
11	(Surplus)/Deficit as at 31 March (Carried forward)	4	69

NOTES TO THE COLLECTION FUND ACCOUNT

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

1 COUNCIL TAX

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

The Council Tax base represents the number of chargeable dwellings in each banding (i.e. the number of properties, adjusted for discounts etc.) multiplied by a set proportion to give the number of Band D equivalents. The estimated collection rate is then applied to the Band D equivalent total, to give the Council's Tax Base for that year. For 2008/09 the numbers are as follows:-

	Chargeable Dwellings	Band D Equivalents
Band A	16,578	11,049
Band B	13,136	10,217
Band C	10,028	8,914
Band D	5,446	5,446
Band E	3,394	4,149
Band F	1,722	2,487
Band G	748	1,246
Band H	39	78
Total	51,091	43,586
<i>Collection Rate</i>		<i>99%</i>
Council Tax Base		43,150

2 BUSINESS RATES

The City Council collects National Non-Domestic Rates (NNDR) for its area. NNDR is based on rateable values set by the Inland Revenue, multiplied by a Uniform Business Rate set by Central Government. For most businesses, this was set at 46.2p per £ for 2008/09 (44.4p for 2007/08). For local businesses with a rateable value of less than £15,000, a discount of 0.4p was allowed giving a rate of 45.8p. The rateable value at 31 March 2009 was £80,614,155 (£87,977,782 for 2007/08). The total amount due, after adjusting for certain reliefs and other deductions, is paid into a central pool (the NNDR pool) managed by Central Government. The Government redistributes the sums paid into the pool back to local authorities' in proportion to population. Lancaster's share of the pool for 2008/09, paid directly to the Income and Expenditure Account, amounted to £13.626M.

3 DISTRIBUTION OF COLLECTION FUND (SURPLUSES) OR DEFICITS

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

As at 01 April 2008 the Council Tax deficit was shown as £11,000, as this was a small balance no distributions were made during 2008/09.

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

The movements in the Collection Fund during 2008/09 are summarised below.

	Residual Community Charge £'000	Council Tax £'000	TOTAL £'000
(Surplus)/Deficit 01/04/08	--	11	11
Distributions in Year	--	--	0
Net Transaction in Year	--	58	58
(Surplus)/Deficit 31/03/09	0	69	69

Of the £69,000 deficit as at 31 March 2009, £60,000 is attributable to other Local Authorities as follows:

	£'000
Lancashire County Council	51
Lancashire Police Authority	6
Lancashire Fire Authority	3

BEQUESTS, ENDOWMENTS AND TRUST FUNDS

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

At 31 March 2009 the Council was responsible for 43 of these Trust Funds, the balances of which are shown below.

Revenue Accounts	Balance b/f 01/04/08 £	Income £	Expenditure £	Balance c/f 31/03/09 £
Bequests and Endowments				
(a) Council sole trustee				
Ashton Memorial	0	0	0	0
Williamson Park	0	0	0	0
Other	(4,987)	(4,589)	4,721	(4,855)
(b) Council not sole trustee	(9,095)	(504)	0	(9,599)
School etc. Prize Funds				
(a) Council sole trustee	(22,860)	(1,251)	0	(24,111)
(b) Council not sole trustee	(1,846)	(103)	0	(1,949)
TOTAL	(38,788)	(6,447)	4,721	(40,514)

	Fund Balances £	Cash and Fund Investments £
Bequests and Endowments		
(a) Council sole trustee		
Capital		
Ashton Memorial	0	0
Williamson Park	0	0
Other	1,962	1,962
Revenue	0	0
Cash and Debtors	51,015	50,883
(b) Council not sole trustee		
Capital	0	0
Revenue	2,045	1,000
Cash and Debtors	9,096	10,643
School etc. Prize Funds		
(a) Council sole trustee		
Capital	0	0
Revenue	1,630	874
Cash and Debtors	23,726	25,734
(b) Council not sole trustee		
Capital	0	0
Revenue	0	0
Cash and Debtors	2,204	2,307
TOTAL	91,678	93,403

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

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

Income & Expenditure Account	2007/08	2008/09
	£	£
Income		
Interest	(9,842)	(6,447)
Capital		
	(9,842)	(6,447)
Expenditure		
Ashton Memorial	1,405	1,338
William Smith Festival	345	312
Whalley Playground	658	658
Lune Bank Gardens	123	99
Williamson Park	1,941	1,924
War Memorial Fund	20	16
Other	5	374
	4,497	4,721
Excess Income	(5,345)	(1,726)
Balance Sheet	2007/08	2008/09
	£	£
Assets		
Investments	3,836	3,836
Debtors	1,923	2,023
Bank	85,919	87,544
	91,678	93,403
Represented by:		
Reserves as at 31st March	86,333	91,677
Income in year	5,345	1,726
	91,678	93,403

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

Ashton Memorial

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

Williamson Park

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

William Smith Festival

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

Whalley Playground

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

Lune Bank Gardens

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

Crook of Lune

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

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

GLOSSARY OF TERMS USED IN THE ACCOUNTING STATEMENTS

Accounting Policies

Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements through

- recognising
- selecting measurement bases for, and
- presenting

assets, liabilities, gains, losses and changes to reserves.

Accounting policies do not include estimation techniques.

Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the revenue account or Balance Sheet it is to be presented.

Acquired Operations

Operations comprise services and divisions of service as defined in BVACOP. Acquired operations are those operations of the local authority that are acquired in the period.

Actuarial Gains and Losses

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

- (a) events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses), or
- (b) the actuarial assumptions have changed.

Capital Expenditure

Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset.

Class of Tangible Fixed Assets

The classes of tangible fixed assets required to be included in the accounting statements are:

Operational assets

- Council dwellings
- Other land and buildings
- Vehicles, plant, furniture and equipment
- Infrastructure assets
- Community assets

Non-operational assets

- Investment properties
- Assets under construction
- Surplus assets, held for disposal

Further analysis of any of these items should be given if it is necessary to ensure fair presentation.

Community Assets

Assets that the local authority intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and historical buildings.

Consistency

The principle that the accounting treatment of like items within an accounting period and from one period to the next is the same.

Constructive Obligation

An obligation that derives from an authority's actions where:

- (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the authority has indicated to other parties that it will accept certain responsibilities, and
- (b) as a result, the authority has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Contingent Asset

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the local authority's control.

Contingent Liability

A contingent liability is either:

- (a) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the authority's control, or
- (b) a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

Corporate and Democratic Core

The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single-purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

Current Service Cost (Pensions)

The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

Curtailement

For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

- (a) termination of employees' services earlier than expected, for example as a result of closing a factory or discontinuing a segment of a business, and
- (b) termination, or amendment to the terms, of a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

Defined benefit Scheme

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

Defined Contribution Scheme

A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Depreciation

The measure of the cost or revalued amount of the benefits of the fixed asset that have been consumed during the period. Consumption includes the wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, effluxion of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

Discontinued Operations

Operations comprise services and divisions of service as defined in CIPFA's Standard Classification of Income and Expenditure. An operation should be classified as discontinued if all of the following conditions are met: Operations not satisfying all these conditions are classified as continuing.

- (a) The termination of the operation is completed either in the period or before the earlier of three months after the commencement of the subsequent period and the date on which the financial statements are approved.
- (b) The activities related to the operation have ceased permanently.
- (c) The termination of the operation has a material effect on the nature and focus of the local authority's operations and represents a material reduction in its provision of services resulting either from its withdrawal from a particular activity (whether a service or division of service or its provision in a specific geographical area) or from a material reduction in net expenditure in the local authority's continuing operations.
- (d) The assets, liabilities, income and expenditure of operations and activities are clearly distinguishable physically, operationally and for financial reporting purposes.

Discretionary benefits

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the authority's discretionary powers, such as the Local Government (Discretionary Payments) Regulations 1996, the Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998, or the Local Government (Discretionary Payments) Regulations (Northern Ireland) 2001.

Estimation Techniques

The methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, losses and changes to reserves. Estimation techniques implement the measurement aspects of accounting policies. An

accounting policy will specify the basis on which an item is to be measured; where there is uncertainty over the monetary amount corresponding to that basis, the amount will be arrived at by using an estimation technique. Estimation techniques include, for example:

- (a) methods of depreciation, such as straight-line and reducing balance, applied in the context of a particular measurement basis, used to estimate the proportion of the economic benefits of a tangible fixed asset consumed in a period
- (b) different methods used to estimate the proportion of debts that will not be recovered, particularly where such methods consider a population as a whole rather than individual balances.

Events After the balance Sheet Date

Events after the Balance Sheet date are those events, favourable and unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

Exceptional Items

material items which derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

Expected Rate of Return on Pensions Assets

For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Extraordinary Items

material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the authority and which are not expected to recur. They do not include exceptional items nor do they include prior period items merely because they relate to a prior period.

Fair value

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

Finance Lease

A finance lease is one that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. It should be presumed that such a transfer of risks and rewards occurs if at the inception of a lease the present value of the minimum lease payments including any initial payment, amounts to substantially all (normally 90% or more) of the fair value of the leased asset. The present value should be calculated by using the interest rate implicit in the lease. However, where the present value of the minimum lease payments does not amount to 90% or more of the fair value of the leased asset, it should not be automatically assumed that the lease is not a finance lease. FRS 5 requires that the substance of the transaction be reflected and therefore the lease may still need to be classified as a finance lease.

Notwithstanding the fact that the lease meets the definition above, the presumption that an asset should be classified as a finance lease may in exceptional circumstances be rebutted if it can be clearly demonstrated that the lease in question does not transfer substantially all the risks and rewards of ownership (other than legal title) to the lessee.

Going Concern

The concept that the authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and Balance Sheet assume no intention to curtail significantly the scale of operations.

Government Grants

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

Impairment

A reduction in the value of a fixed asset below its carrying amount on the Balance Sheet.

Infrastructure Assets

Fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

Interest Cost (Pensions)

For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Investment Properties

Interest in land and/or buildings:

- (a) in respect of which construction work and development have been completed, and
- (b) which is held for its investment potential, with any rental income being negotiated at arm's length.

Liquid Resources

Current asset investments that are readily disposable by the authority without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount, or traded in an active market.

Long-term Contracts

A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long-term contracts if they are sufficiently material to the activity of the period.

Net book value

The amount at which fixed assets are included in the Balance Sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

Net Current Replacement Cost

The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Net Debt

The authority's borrowings less cash and liquid resources. Where cash and liquid resources exceed borrowings, reference should be to net funds rather than net debt.

Net Realisable value

The open market value of the asset in its existing use (or market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

Non-operational Assets

Fixed assets held by a local authority but not used or consumed in the delivery of services or for the service or strategic objectives of the authority. Examples of non-operational assets include investment properties and assets that are surplus to requirements, pending their sale. It should be noted that the incidence of rental income does not necessarily mean that the asset is an investment property; it would be deemed an investment property only if the asset is held solely for investment purposes and does not support the service or strategic objectives of the authority and the rental income is negotiated at arm's length.

Operating Leases

A lease other than a finance lease.

Operational Assets

Fixed assets held and occupied, used or consumed by the local authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility or for the service or strategic objectives of the authority.

Past Service Cost

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Prior Period Adjustments

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Projected Unit Method

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to: The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

- (a) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases, and
- (b) The accrued benefits for members in service on the valuation date.

Related Parties

Two or more parties are related parties when at any time during the financial period:

- (i) one party has direct or indirect control of the other party, or
- (ii) the parties are subject to common control from the same source, or
- (iii) one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests, or
- (iv) the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Examples of related parties of an authority include:

- (i) central government
- (ii) local authorities and other bodies precepting or levying demands on the council tax
- (iii) its subsidiary and associated companies
- (iv) its joint ventures and joint venture partners
- (v) its members
- (vi) its chief officers, and
- (vii) its pension fund.

These lists are not intended to be comprehensive.

For individuals identified as related parties, the following are also presumed to be related parties:

- (i) members of the close family, or the same household, and
- (ii) partnerships, companies, trusts or other entities in which the individual, or a member of their close family or the same household, has a controlling interest.

Related Party Transaction

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made. Examples of related party transactions include:

- (i) the purchase, sale, lease, rental or hire of assets between related parties
- (ii) the provision by a pension fund to a related party of assets of loans, irrespective of any direct economic benefit to the pension fund
- (iii) the provision of a guarantee to a third party in relation to a liability or obligation of a related party
- (iv) the provision of services to a related party, including the provision of pension fund administration services
- (v) transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as council tax, rents and payments of benefits.

This list is not intended to be comprehensive.

The materiality of related party transactions should be judged not only in terms of their significance to the authority, but also in relation to its related party.

Remuneration

All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by the employer are excluded.

Residual value

The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

Retirement benefits

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either (i) an employer's decision to terminate an employee's employment before the normal retirement date or (ii) an employee's

decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

Revenue Expenditure Funded from Capital Under Statute

Prior to the 2008 SORP, authorities used deferred charges to recognise expenditure that regulations permitted to be funded from capital resources, but which did not satisfy the SORP's criteria to be classified as capital expenditure. Examples of deferred charges included work on property not owned by the authority and grants for economic development purposes (where the grant was spent on capital items). Deferred charges have now been reclassified as Revenue Expenditure Funded from Capital Under Statute and are shown as grant payments within the Income and Expenditure Account under the relevant Service area.

Scheme Liabilities

The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

Settlement (re pension matters)

An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

- (a) a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits
- (b) the purchase of an irrevocable annuity contract sufficient to cover vested benefits, and
- (c) the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme

Stocks

The amount of unused or unconsumed stocks held in expectation of future use. When use will not arise until a later period, it is appropriate to carry forward the amount to be matched to the use or consumption when it arises. Stocks comprise the following categories:

- (a) goods or other assets purchased for resale
- (b) consumable stores
- (c) raw materials and components purchased for incorporation into products for sale
- (d) products and services in intermediate stages of completion
- (e) long-term contract balances, and
- (f) finished goods.

Tangible Fixed Assets

Tangible assets that yield benefits to the local authority and the services it provides for a period of more than one year.

Useful Life

The period over which the local authority will derive benefits from the use of a fixed asset.

Vested Rights

In relation to a defined benefit scheme, these are:

- (a) for active members, benefits to which they would unconditionally be entitled on leaving the scheme
- (b) for deferred pensioners, their preserved benefits
- (c) for pensioners, pensions to which they are entitled.

AIDE MEMOIRE FOR S151 OFFICER AND MEMBERS (FROM CIPFA)

Purpose of the questions below is to help establish and provide evidence of a robust review of the accounts by the S151 officer and members.

	Issue	S151 / members comment and evidence
1	Was the closedown plan (which allows the statement of accounts to be approved by members by 30 June 2009) achieved? (Does this allow sufficient time for member review?)	
2	Have the auditors received regular updates on the plan and been warned of potential problems.	
3	Have staff preparing the accounts attended CIPFA/Audit Commission workshops and aware of the key issues and changes in the CIPFA Statement On Recommended Practice (SORP) 2008?	
4	Do staff preparing the accounts have up to date CIPFA guidance notes for practitioners?	
5	Are the draft accounts complete, with all the required statements and notes and unnecessary notes and disclosures removed?	
6 S151 only	Are the accounts and notes readily understandable and in line with my expectations?	
7	Have the accounts been checked for casting errors, internal inconsistency and cross referencing? (All numbers which are expected to agree do agree). A ticked copy of the statements and completion of any checklists can provide this evidence.	
8	Does the explanatory forward set out the results for the year and comparison to budget, commenting on significant items? Do the figures quoted reconcile to the main statements? Is the foreword understood by members?	
9	Has the audit of the accounts been advertised and accounts made available for public inspection? Have members of the public raised any objections? (If so, what are they?)	
10	Has the disclosure checklist been completed in detail and emailed, together with a set of completed accounts, to the auditor as part of the accounts working papers protocol?	
11	Has a bank reconciliation been completed as at the 31 March with no unexplained entries?	
12	Are all year-end control accounts reconciled? How have you maintained control when staff are involved in budget preparations Nov to Feb time – any significant slippages in reconciling suspense accounts? e.g. cash suspense.	

13	Are there any significant unexplained budget variances and latest forecasts? Can members demonstrate that they understand or have been informed of year on year variances in the main accounting statements?	
14	Have working papers been completed in accordance with the auditor's final accounts protocol? Are they ready for the start of the audit?	
15	Is there a sufficient basket of evidence gathered to allow S151 officer and members to conclude on the effectiveness of Internal Audit, in relation to the Statement on Internal Control / Annual Governance Statement? E.g. Self assessment by Internal Audit Manager, External Audit view of Internal Audit, Heads of Service views, etc (e.g. specific question on the Managers' Assurance Statement).	
16	Has the action plan from the previous year's Statement on Internal Control been complied with? Are there any remaining control risks that undermine the content of the Annual Governance Statement or the Accounts?	

AUDIT COMMITTEE**External Auditor's Report – Review of Internal Audit
30 June 2009****Report of the Internal Audit Manager****PURPOSE OF REPORT**

To inform the Committee of, and seek its views on, the results of a review of the Council's Internal Audit function, carried out by the external auditors, KPMG, as part of the 2007/08 audit.

This report is public

RECOMMENDATIONS

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

1.0 Introduction

- 1.1 As part of its responsibilities to review local authorities' internal control arrangements, the appointed external auditors are required to review and comment on an annual basis on the effectiveness of Internal Audit arrangements. In practice, this takes the form of a detailed review every three years, with an overview/update being carried out in intervening years. The Council's auditors, KPMG undertook a detailed review as part of their 2007/08 audit, the focus for which was the CIPFA 2003 Code of Practice for Internal Audit in Local Government in the United Kingdom.

2.0 Proposal Details

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

- 2.2 The report is positive about the quality of the Internal Audit function and it is pleasing that the external auditor has concluded that “... *the section contributes to the overall internal control environment of Lancaster City Council*” and that it has “... *developed good practice in a number of areas*”. The report has concluded that the section meets seven out of the eleven standards in the Code.
- 2.3 Notwithstanding the positive conclusions reached, the external auditor has identified a number of areas where further improvements could be made to help Internal Audit fully meet the organisational and operational standards that are set out in the CIPFA Code. These include:
- developing an annual certificate for staff to complete to register independence, compliance with ethical behaviour, confidentiality and to show an understanding of the fraud guidelines;
 - distributing the Annual Audit Plan to the Departmental Management Teams; and
 - introduction of a formal quality assurance process.
- 2.4 The report and action plan have been agreed with the Council’s External Audit Manager by the Internal Audit Manager and the Head of Financial Services. Arrangements are being made to implement the agreed actions (as set out in pages 20 to 22 of the report).

3.0 Details of Consultation

- 3.1 Not applicable.

4.0 Options and Options Analysis (including risk assessment)

- 4.1 The options available to the Committee are either to accept and endorse the external auditor’s report and the resulting action plan as presented, or to request further consideration of any aspect of the review and the agreed actions.

5.0 Conclusion

- 5.1 The external auditor’s report into its review of the Internal Audit function provides assurance that it is substantially meeting the organisational and operational standards expected by the Code of Practice. The report includes an action plan setting out areas in which further improvements are to be made to the service provided.

CONCLUSION OF IMPACT ASSESSMENT

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

Not applicable

FINANCIAL IMPLICATIONS

None arising from this report

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

None arising from this report

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments

BACKGROUND PAPERS

None

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INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

Lancaster City Council

Review of Internal Audit

April 2009

AUDIT

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Executive Summary

Overall conclusions

From the review of Internal Audit we have concluded that the section contributes to the overall internal control environment of Lancaster City Council.

Internal Audit has developed good practice in a number of areas, including:

- developing a detailed Internal Audit Charter that sets out aims, objectives and responsibilities;
- developing effective working relationships with Management Teams and the Audit Committee;
- operating as an appropriately staffed Internal Audit team in terms of numbers, grades, qualification levels and experience;
- the competency Framework for assessing Internal Auditors; and
- the use of standard working papers and report templates on each internal audit assignment.

The table below outlines our assessment of whether Internal Audit has met the standards in CIPFA's Code of Practice for Internal Audit.

Standard	Whether Internal Audit has met the standard
Scope of Internal Audit	Partially met
Independence	Partially met
Ethics for Internal Auditors	Partially met
Audit Committees	Met
Relationships	Met
Staffing, Training and Continuing Professional Development	Met
Audit Strategy and Planning	Met
Undertaking Audit Work	Met
Due Professional Care	Partially met
Reporting	Met
Performance, Quality and Effectiveness.	Met

Executive Summary *(continued)*

The table shows the areas where Internal Audit has met and partially met the standard. Further arrangements are required to fully meet all of the standards. Areas where improvements should be made include:

- developing an annual certificate for staff to complete to register independence, compliance with ethical behaviour, confidentiality and to show an understanding of the fraud guidelines;
- distributing the Annual Audit Plan to the Departmental Management Teams; and
- introduction of a formal quality assurance process.

Way forward

The recommendations included within this report are consolidated in the form of an action plan. We will follow up the actions taken as part of our 2008/09 audit.

Introduction

Internal Audit

Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment by evaluating its effectiveness in achieving the organisation's objectives. The control environment comprises risk management, control and governance. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

Background

Internal Audit at Lancaster City Council (Lancaster CC) is managed by the Internal Audit Manager, who reports to the Head of Financial Services.

Internal Audit comprises 4.81 full time equivalent staff members who have a range of experience and relevant qualifications.

The Internal Audit service is provided across all departments as set out in the three year strategic audit plan.

Audit approach

Our approach in reviewing the Internal Audit section is to:

- evaluate whether Internal Audit meet the required professional standards. This is completed cyclically;
- update our understanding of the quality of Internal Audit work. This is completed annually;
- annually review specific pieces of Internal Audit work on which we seek to place reliance.

We have reviewed Internal Audit's work against the required standards in the CIPFA Code of Practice for Internal Audit in Local Government 2006, as listed below.

More details of what each standard requires, the good practice demonstrated by Lancaster CC and the scope for improvement is in the relevant sections of this report.

- Scope of internal audit
- Independence
- Ethics for Internal Auditors
- Audit Committees

Introduction (continued)

- Relationships
- Staffing, training and continuing professional development
- Audit strategy and planning
- Undertaking audit work
- Due professional care
- Reporting
- Performance, quality and effectiveness.

We gained an understanding of the arrangements in place and evaluated their adequacy in practice through discussions with Internal Audit officers and reviewing the following documents:

- Audit plans
- Internal Audit Charter
- Audit working papers/files:
 - Ordering and Payments
 - NNDR (Business Rates)
 - Performance Management
- Audit reports
- Financial regulations
- Internal Audit manual

Scope of Internal Audit

The Standard

CIPFA guidance states that to achieve full effectiveness the terms of reference of Internal Audit should be formally defined and should establish responsibilities and objectives, reporting lines and rights of access.

The standard also states that:

- provision should be made to form an opinion on key systems operated for other bodies;
- the scope of Internal Audit should be dependant on the results of the organisation's risk management processes;
- arrangements should be in place to ensure all cases of suspected fraud and corruption are referred to Internal Audit.

Good practice at Lancaster CC

Internal Audit has recently developed terms of reference that have been agreed with the Council's Audit Committee. The terms of reference set out the objectives and responsibilities of the service. Internal Audit plans for the terms of reference to be reviewed and reported annually to the Audit Committee.

Internal Audit has developed an audit approach which encompasses the risk management processes of Lancaster CC. Meetings are held with Service Heads to explore service objectives, risks identified on the risk register and other sources of assurance. These meetings are used to identify potential audit areas and then to scope those areas identified.

Internal Audit carry out proactive fraud work, for example, as part of the 2008/09 audit plan a review is being undertaken of the fraud arrangements across the Council. Internal Audit also take part in the National Fraud Initiative. The approach taken by the Council encompasses people wider than Internal Audit, which raises the profile of this work.

Scope for improvement

The Financial Regulations set out the need and responsibilities for effective Internal Audit, however, there is no reference to the Internal Audit Charter, either as a separate document or as an appendix.

Financial regulations explain that any instances of fraud must be reported to Internal Audit, in line with the procedures set out in the Authority's fraud strategy. However, the fraud strategy states it should be reported to an 'appropriate manager or Internal Audit Manager, if necessary'. Our review of this strategy has revealed that it has not been updated since 2002.

Scope of Internal Audit (continued)

Recommendation 1

The Financial Regulations should be expanded to give reference to the Internal Audit Charter either as a separate document or as an appendix.

Recommendation 2

Lancaster CC should ensure that the Anti Fraud Strategy is regularly updated and approved to ensure that all staff are following the correct procedures in relation to reporting suspected cases of fraud to Internal Audit.

Overall assessment

The overall assessment is that the standard has been partially met. This assessment has been made on the basis that the scope for improvement identifies only some areas of non-compliance with the standard.

Independence

The Standard

The CIPFA standards states that Internal Audit should be sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations. Internal auditors should have no operational responsibilities.

The status of Internal Audit and the Head of Internal Audit and the rights of access to records, assets, personnel and premises have significant impact on the ability of Internal Audit to maintain its independence.

Good practice at Lancaster CC

Internal Audit has prepared a three year Strategic and Business Plan and annual audit plan in liaison with the service's customers that has been presented to the Audit Committee.

Only the Internal Audit Manager has operational duties, such as the role of deputy s151 officer. Individual Internal Auditors have no operational duties.

Scope for improvement

The Internal Audit Manager is joint Deputy s151 Officer with the Accountancy Services Manager. As this role is an operational role, there is potential for conflicts of interest. This potential conflict should be acknowledged and plans to mitigate any conflict should be developed and included in the Internal Audit Manual and Strategic and Business Plan.

The declarations of interest for Internal Audit staff, other than the Internal Audit Manager and the Principal Auditor, have not been up-dated since 1999/2002. These should be up-dated on a regular basis. It is best practice for declarations of interest to apply to all staff appointed within the Internal Audit function.

Recommendation 3

The Internal Audit Manager performs a dual role, which could create a conflict of interest. This should be acknowledged and plans to mitigate any conflict should be developed and included in the Internal Audit Manual and Strategic and Business Plan.

Overall assessment

The overall assessment is that the standard has been partially met. This assessment has been made on the basis that the scope for improvement identifies some areas of non-compliance with the standard.

Ethics for Internal Audit

The Standard

The CIPFA standard notes that the Head of Internal Audit should regularly remind Internal Audit staff of their ethical responsibilities. The standard notes four main principles that should be observed:

- integrity;
- objectivity;
- competence; and
- confidentiality.

Good practice at Lancaster CC

The Internal Audit Charter picks up on the four core principles (that is, integrity, objectivity, competence and confidentiality) outlined in the standard.

Work of auditors is supervised by senior auditors and audit managers within the section. This ensures that support is available where auditors may have less experience in an area being audited.

Employee development plans are in place to ensure that auditors are equipped with the skills, and are therefore competent, to carry out their duties.

Scope for improvement

There is no record held within Internal Audit that confirms whether staff have received regular ethics and independence guidance. In addition, declarations of interest for staff below the Principal Auditor are not mandated.

Recommendation 4

In order to comply with the Code of Conduct for Local Government, the Internal Audit team should be issued with ethics guidance and declare any interests that compromises their position as an Internal Auditor. This could be done by completing an annual certificate to register independence, compliance with ethical standards, confidentiality and to acknowledge understanding of the fraud procedures.

Overall assessment

The overall assessment is that the standard has been partially met. This assessment has been made on the basis that the scope for improvement identifies some areas of non-compliance with the standard.

Audit Committees

The Standard

The CIPFA standard states that the main objective of an audit committee or equivalent is to independently contribute to the organisation's overall process for ensuring that an effective internal control environment is maintained. The primary focus of this work has historically related to internal financial control matters such as the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information. With the requirement to make wider the statements on internal control (or Annual Governance Statement), organisations are increasingly looking to audit committees to provide assurance on wider arrangements relating to all internal controls.

Good practice at Lancaster CC

Lancaster CC has an Audit Committee which meets regularly. Terms of reference states that the Audit Committee will review summary Internal Audit reports, receive annual reports and approve Internal Audit plans and strategy. This has been confirmed through the review of Committee papers.

The Internal Audit Manager attends all Audit Committee meetings.

Lancaster CC is a member of the Lancashire District Audit Group that analyses/benchmarks performance of the service against similar services around the Lancashire region.

Scope for improvement

Although Internal Audit distributes post audit customer satisfaction questionnaires, response from its customers is optional.

The Audit Committee does not currently receive any performance information in relation to Internal Audit's work, such as the proportion of recommendations accepted by management. Internal Audit should liaise with the Audit Committee to assess the Committee's appetite for such information. This could assist Audit Committee's assessment of the effectiveness of Internal Audit.

Recommendation 5

Internal Audit should actively pursue non receipt of post audit customer satisfaction questionnaires after the completion of audit work.

Audit Committees *(continued)*

Recommendation 6

Internal Audit should liaise with the Audit Committee to assess the Committee's appetite for performance information in relation to the work of Internal Audit.

Overall assessment

The overall assessment is that the standard has been met. This assessment has been made on the basis that the scope for improvement identifies only non-significant areas for improvement that would further improve the achievement of the standard.

Relationships

The Standard

The CIPFA standard states that Internal Audit should seek to co-ordinate Internal Audit plans and activities with line managers, other Internal Auditors, external audit, inspection bodies and other review agencies to ensure the most effective audit coverage is achieved and duplication of effort is minimised.

Good practice at Lancaster CC

Timing of audit work is agreed with departmental contacts prior to the audit visit except where the visit is an unannounced visit.

Prior to the issuing of the final audit report, recommendations are discussed with management and adjustments are made where appropriate. Reports are issued when all recommendations have been approved.

The Internal Audit Manager reviews progress of the implementation of recommendations on a quarterly basis. The results are reported to the Audit Committee.

Meetings take place between Internal Audit and External Audit to coordinate the managed audit process and to avoid the duplication of work, wherever possible. This relationship is developing well.

Scope for improvement

Although the annual audit plan is presented to the Audit Committee, copies are not currently distributed to the Departmental Management Teams. However, as the plan develops Internal Audit will keep in contact with Service Heads in identifying areas for audit and scoping pieces of work.

Recommendation 7

Internal Audit should distribute the annual audit plan to the Departmental Management Teams. This would give them the opportunity to feed this information back to an operational level.

Overall assessment

The overall assessment is that the standard has been met. This assessment has been made on the basis that the scope for improvement identifies only non-significant areas for improvement that would further improve the achievement of the standard.

Staffing, Training and Continuing Professional Development

The Standard

The CIPFA standard states that Internal Audit should be appropriately staffed in terms of numbers, grades, qualification levels and experience, having regard to its objectives and to the CIPFA standards. Internal auditors should be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate ongoing development programme.

Good practice at Lancaster CC

Internal Audit is staffed appropriately in terms of experience, grades, qualifications and specialist knowledge. The Internal Audit function has five staff (four of which are full time employees). The Internal Audit Manager is a member of the Chartered Institute of Public Finance Accountants and all other officers are members of the Association of Accounting Technicians.

All Internal Audit staff receive an annual Employee Development and Performance Appraisal Interview that considers strengths and areas for development in the future. Staff Development Interviews identify training requirements that are entered into an individual's Performance Appraisal Development Action Plan.

Internal Audit have created a Competency Framework against which individual auditors are assessed on a six monthly basis.

Personal specifications include relevant experience and personal attributes required for Internal Audit staff.

Scope for improvement

We have not identified any scope for improvement in relation to this area of the standard.

Overall assessment

The overall assessment is that the standard has been met. This assessment has been made on the basis that we have not identified any areas with scope for improvement in relation to this standard.

Audit Strategy & Planning

The Standard

The CIPFA standard states that the audit strategy is the high-level statement of how the Internal Audit service will be delivered and developed. It can be presented as a document in its own right or integrated into an existing document, such as the business or service plan. To implement the audit strategy, Internal Audit should prepare a risk-based audit plan.

Good practice at Lancaster CC

Internal Audit has produced a draft three year strategic and business plan that has been presented to and approved by the Audit Committee.

Internal Audit's audit plan is risk-based, incorporating information from each departmental risk register. The plan identifies the resource requirements to implement the plan. Appropriate levels of contingency are built into the plan to reflect emerging risks and changing priorities.

Scope for improvement

None of the strategic documents that have been written by Internal Audit give reference to Internal Audit's involvement in the preparation of the Annual Governance Statement, review of corporate governance arrangements, risk management processes and key internal system controls.

The audit plan presented to the Audit Committee does not document the scope of the work being undertaken on the systems and other areas of the audit plan. Best practice is to highlight to Audit Committee a brief description of the scope and objective of individual audit assignments, where this does not conflict with the nature of the assignment.

Recommendation 8

Internal Audit should develop the strategic and business plan to include Internal Audit's input into the Annual Governance Statement, corporate governance arrangements, risk management processes and key internal system controls.

Audit Strategy and Planning *(continued)*

Recommendation 9

The annual audit plan presented to the Audit Committee may benefit from giving a brief description of the scope and objective of individual audit assignments, where this does not conflict with the nature of the assignment.

Overall assessment

The overall assessment is that the standard has been met. This assessment has been made on the basis that the scope for improvement identifies only non-significant areas for improvement that would further improve the achievement of the standard.

Undertaking Audit Work

The Standard

The CIPFA standard states that the management of audit assignments should ensure audit assignments have appropriately detailed briefs. A systematic approach should be applied in conducting the assignment. All assignments should be documented to the standard required by the Head of Internal Audit. The Head of Internal Audit should also identify arrangements for following up previous audit findings.

Good practice at Lancaster CC

Internal Audit assignments are recorded on standard documents and working papers. Before work commences a work brief is completed and approved stating the objectives, methods, time budgets and allocation of responsibilities for each assignment.

The Internal Audit Manual contains guidance on the required standards for working papers and audit documentation. The Internal Audit Manual has a section dedicated to Audit Documentation.

The Internal Audit Manager has implemented monitoring arrangements to follow up progress on implementation of recommendations made in the audit reports. Where the system opinion is assessed as weak/limited, the Audit Committee is informed on a quarterly basis of progress on the introduction of recommendations.

Internal Audit has recently developed the Audit Working Papers, including the introduction of an electronic issues log, where the Supervisor and Auditor can raise and resolve issues. This acts as an electronic record of the review process.

Audit briefs are also signed off electronically by the Supervisor to evidence that the brief has been agreed with the departmental manager(s).

Scope for improvement

We have not identified any scope for improvement in relation to this area of the standard.

Overall assessment

The overall assessment is that the standard has been met. This assessment has been made on the basis that we have not identified any areas with scope for improvement in relation to this standard.

Due professional care

The Standard

The CIPFA standard states that due professional care is the care and skill that prudent and competent Internal Auditors will apply in performing their duties:

- Due care is working with competence and diligence. It does not imply infallibility.
- Due professional care is the use of audit skills, knowledge and judgement based on appropriate experience, training (including continuing professional development), ability, integrity and objectivity.

Due professional care should be appropriate to the objectives, complexity, nature and materiality of the audit being performed.

Good practice at Lancaster CC

Review of individual Internal Audit assignments did not identify any cases where there were concerns that facts had been incorrectly recorded or reported.

Scope for improvement

Internal Audit has a set of ethical standards that staff are expected to follow however staff are not currently required to periodically sign that they will abide by the ethical standards.

As stated in recommendation 4, Internal Audit staff should complete an annual certificate to register independence, compliance with ethical standards, confidentiality and to acknowledge understanding of the fraud procedures.

Overall assessment

The overall assessment is that the standard has been partially met. This assessment has been made on the basis that the scope for improvement identifies some areas of non-compliance with the standard.

Reporting

The Standard

The CIPFA standard states that the Head of Internal Audit should determine the way in which audit assignments and their results will be reported, subject to the CIPFA standards and the requirements of those charged with governance. An important requirement is to formally report annually on a number of factors which include:

- an opinion on the overall adequacy and effectiveness of the organisation's internal control environment;
- a summary of the audit work undertaken to formulate the opinion;
- a statement on whether Internal Audit comply with the CIPFA standards;
- a summary of Internal Audit's performance.

Good practice at Lancaster CC

Internal Audit reports an annual opinion to the Audit Committee on the internal control environment of the Council. This report details the sources of assurance to come to this opinion. In addition, regular reports are taken to Audit Committee during the year regarding progress in gaining evidence for the 'assurance opinion'.

Final versions of Internal Audit reports are presented in a timely fashion after recommendations have been agreed. Recommendations made in Internal Audit reports are given ratings depending on their significance to the Council.

Internal Audit reporting arrangements are set out in the terms of reference for the service and have been agreed by the Audit Committee.

Scope for improvement

As noted in recommendation 6, Internal Audit should assess what information the Audit Committee requires in relation to the performance of the Internal Audit function.

Overall assessment

The overall assessment is that the standard has been met. This assessment has been made on the basis that the scope for improvement identifies only non-significant areas for improvement that would further improve the achievement of the standard.

Performance, Quality and Effectiveness

The Standard

The CIPFA standard states that the work of Internal Audit should be controlled at each level of operation to ensure that a continuously effective level of performance, compliant with the CIPFA standards, is being maintained.

Internal Audit should develop a quality assurance programme designed to gain assurance by both internal and external review that the work of Internal Audit is compliant with the CIPFA standards and achieves its objectives, and to sustain a commentary on compliance with these standards in the annual audit report.

Good practice at Lancaster CC

Internal Audit has tailored the CIPFA Internal Audit manual to reflect circumstances at Lancaster CC. The Audit Manual is available to all staff on the shared network drive.

Internal Audit are reviewed annually by the external auditors for the purposes of the financial statements audit, to allow reliance to be placed upon the work of Internal Audit. This review would highlight any concerns the external auditors have with the work and processes of Internal Audit to both the Internal Audit Manager and the Audit Committee.

Scope for improvement

Lancaster CC is a member of the Lancashire District Audit Group that analyses performance of the service against similar services around the Lancashire region. This results of this benchmarking exercise are not formally presented to the Audit Committee.

There is currently no formal quality assurance process above and beyond the assignment level review. Such a quality assurance process would provide an independent check of files to ensure work has been performed in line with the Code of Practice and Internal Audit Manual.

Recommendation 10

Internal Audit should introduce a formal quality assurance process above and beyond assignment level review. This process should select assignment files at random to ensure that files meet the required consistent standards.

Overall assessment

The overall assessment is that the standard has been met. This assessment has been made on the basis that the scope for improvement identifies only non-significant areas for improvement that would further improve the achievement of the standard.

Management Action Plan

The recommendations from this review are to be addressed by Lancaster CC as shown in the table below.

Recommendation	Priority	Response	Responsibility & due date
<p>1. The Financial Regulations should be expanded to give reference to the Internal Audit Charter either as a separate document or as an appendix.</p>	Low	Agreed. Arrangements will be made to include this in the next update of the Financial Regulation	IAM 30/09/09
<p>2. Lancaster CC should ensure that the Anti-Fraud Strategy is regularly updated and approved to ensure that all staff are following the correct procedures in relation to reporting suspected cases of fraud to Internal Audit.</p>	Medium	Agreed. The Strategy is scheduled for review in 2009/10.	IAM 30/09/09
<p>3. The Internal Audit Manager performs a dual role, which could create a conflict of interest. This should be acknowledged and plans to mitigate any conflict should be developed and included in the Internal Audit Manual and Strategic and Business Plan.</p>	High	Agreed. This will be addressed in the 2009/10 IA Strategy and Business Plan	IAM 30/06/09
<p>4. In order to comply with the Code of Conduct for Local Government, the Internal Audit team should be issued with ethics guidance and declare any interests that compromises their position as an Internal Auditor. This could be done by completing an annual certificate to register independence, compliance with ethical standards, confidentiality and to acknowledge understanding of the fraud procedures.</p>	Medium	<p>Agreed. A reminder of ethical standards required under the Code of Practice was discussed at the IA Team Meeting on 7th April 2009.</p> <p>Newly drafted Annual Certificates to register independence, compliance with ethical standards, etc are to be completed in April 2009.</p>	IAM 30/04/09

Management Action Plan (continued)

Recommendation	Priority	Response	Responsibility & due date
5. Internal Audit should actively pursue non receipt of post audit customer satisfaction questionnaires after the completion of audit work.	Low	Agreed. Customer satisfaction questionnaires and procedures are to be reviewed and refreshed during 2009/10.	IAM 30/06/09
6. Internal Audit should liaise with the Audit Committee to assess the Committee's appetite for performance information in relation to the work of Internal Audit.	Low	Agreed. IAM will liaise with the Audit Committee Chairman prior to the June meeting of the Audit Committee and seek a decision on the level of performance information to be provided at that meeting.	IAM 30/06/09
7. Internal Audit should distribute the annual audit plan to the Departmental Management Teams. This would give them the opportunity to feed this information back to an operational level.	Low	Agreed.	IAM 30/06/09
8. Internal Audit should develop the strategic and business plan to include Internal Audit's input into the Annual Governance Statement, corporate governance arrangements, risk management processes and key internal system controls.	Low	Agreed. The IA S&B plan will incorporate reference to Internal Audit's input into the Annual Governance Statement, corporate governance arrangements, risk management processes and key internal system controls. This will be presented for consideration by the Audit Committee on 30 June 2009.	IAM 30/06/09
9. The annual audit plan presented to the Audit Committee may benefit from giving a brief description of the scope and objective of individual audit assignments, where this does not conflict with the nature of the assignment.	Low	Agreed. To be addressed in the 2009/10 Audit Plan to be presented to Audit Committee in June 2009.	IAM 30/06/09

Management Action Plan (continued)

Recommendation	Priority	Response	Responsibility & due date
<p>10. Internal Audit should introduce a formal quality assurance process above and beyond assignment level review. This process should select assignment files at random to ensure that files meet the required consistent standards.</p>	<p>Low</p>	<p>Agreed. To be implemented during 2009/10.</p>	<p>IAM 30/09/09</p>

AUDIT COMMITTEE**Internal Audit Annual Report and
Assurance Statement 2008/09****30 June 2009****Report of Internal Audit Manager****PURPOSE OF REPORT**

To inform the Committee of the extent and outcome of Internal Audit work during the 2008/09 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 2.13 to 2.22) 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 2008/09

- 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 2008/09 was based on the provision of 870 days of Internal Audit work. In terms of Assurance Work, the plan provided for 520 days work and the production of from 35 to 45 audit reports and assurance opinions.
- 2.3 The detailed outturn position at 31st March 2009 is attached as Appendix A with a summary of the final position for the year being set out in the following table. Please note that in the printed agenda, the appendices will be in black and white, but may be viewed in colour on computer screens.

Area of work	Resources (audit days)			Outputs (audit reports & opinions)	
	Planned	Actual	Variance	Planned	Actual
Core Financial Systems	100	28	-72	8-10 reports	8 reports
Core Management Arrangements	125	127	+2	8-10 reports	5 reports
Risk Based Assurance Audits	250	284	+34	19-25 reports	14 reports
Follow-Up Reviews	45	67	+22		
Sub-Total, Assurance Work	520	506	-14	35-45 reports	27 reports
Advice & Support Work	105	145	+40		
Efficiency & VfM	100	0	-100		
Investigations	35	76	+41		
Audit Management	60	77	+17		
Non Audit Duties	10	90	+80		
General Contingency	40	0	-40		
Total Chargeable Days	870	894	+24		
Non-Chargeable Activities (note 1)	146	148	+2		
Total Available Days	1,016	1,042	+26		

Note 1 Non-chargeable activities include team meetings, section and service management, general administration, EDPA, regional audit group meetings, etc.

- 2.4 Twenty-seven new audit reports produced during the year have been taken into account in informing the assurance opinion given later in this report. This total falls short of the range targeted for the year but has been seriously affected towards the end of the year by the demand for investigative work.

Explanation of Major Variances

- 2.5 As can be seen from the table, the total number of available days has been exceeded by 26 days, this being a combination of:
- 10 days (2 days per person) being lost through strike action;
 - 7 days of annual leave not taken during the year (these have been carried forward to 2009/10);
 - Sickness levels being lower than provided for (the section had an average of 2.2 days per person); this provided an additional 8 days availability;
 - "Other" absences being 6 days less than provided for (this covers authorised absences such as election duties, compassionate leave, etc)

- Training days being 6 fewer than provided for (staff received an average of 5 days training).
- Unpaid overtime providing an additional 7 days

This extra availability has translated into an additional 24 days of chargeable work being delivered, although there have been some significant variations across the areas in the plan. Changes in demand for Internal Audit work have been managed so as to ensure that an acceptable level of assurance work is delivered. Significant changes in the range of work undertaken have resulted from:

- Investigations arising in the final quarter, diverting resources from planned assurance work
- Under "Support Work", the major piece of work being undertaken by the Principal Auditor in the mapping and evaluation of the Council's significant partnerships. This required 41 days work during the year and is continuing during 2009/10.
- Under "Non Audit Duties", the direct involvement of the Internal Audit Manager in the Fair Pay project in undertaking the pay modelling process. This role, which is ongoing, required 74 days work which was not included in the original plan.
- Fair Pay has also required the most resource demanding piece of assurance work, accounting for 55 days during 2008/09. This work will also continue whilst the Fair Pay project is running.
- No work being undertaken on "Efficiency and VfM". This was mainly due to the above mentioned demands, being perceived as a lesser priority during 2008/09 than the mainstream assurance work programme.

2.6 In terms of reports produced, the table indicates that, although the level of resources devoted to assurance work is only slightly below plan, the number of reports produced is more adrift. At the 31st March 2009, 27 reports had been completed compared with the target of between 35 and 45. It should be noted that there were 17 audits in progress at that date which will culminate in an audit report. Progress on many of these audits has suffered as a result of the demand for investigations work, which is still ongoing.

Quality Considerations

2.7 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 B.

2.8 The summary represents the average scores obtained from 33 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. In both instances, the average score has improved marginally from last year. The second page of Appendix B details the below target responses received regarding these two questions. It can be seen that the most significant responses contributing to the lower score were those relating to audits of NNDR, Cultural Services Webstaff Payments, and Marketing & Promotions (circled in red on the report). A comment added to the response on the latter of these stated "*We were already reasonably aware of risks following a similar audit a couple of years ago*". This is an audit planning issue which has been addressed by improving consultation with Service Heads in developing audit plans.





- 2.9 As in previous years, lower than average scores have again 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

- 2.10 The Account & Audit Regulations 2003 (as amended in 2006) require the Council 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

- 2.11 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. The assurance 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.

- 2.12 The Table in Appendix C sets out the assurance opinions issued from audits and follow-up reviews completed since 31st March 2008, and any subsequent changes in assurance level.

Controls Assurance Statement

- 2.13 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.
- 2.14 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 C. The following table summarises the assurance opinions covered in the appendix, based on the most recent review.

Assurance Level (at most recent review)	No of Audits
Substantial	1
Reasonable	28
Limited	8
Minimal	0

- 2.15 The results demonstrate that procedures for following up audits (focusing on those not having achieved a reasonable assurance level) and reporting progress to Audit Committee are continuing to operate effectively.

Financial Systems

- 2.16 Assurance levels on the Council's key financial systems are consistently good, with all audits included in Appendix C with the exception of "Income Management – Housing Rents Direct Debit Payments", "Income Management – Cultural Services Webstaff" and of Payroll having resulted in a "reasonable" assurance level.
- 2.17 Issues relating to Housing Rents Direct Debits are concerned with the inability of the current Rents system to transfer information to the General Ledger, and the consequent need for an inefficient and error-prone system of manual intervention. This issue is under ongoing review and will continue to be reported to the Audit Committee.
- 2.18 In the case of Cultural Services' Webstaff system, agreed actions relating to the recording of customers' credit card information had been implemented, but at the time of the follow-up review it was found that there had been a procedural breakdown resulting in an error being made. This failure has been readdressed and will be reviewed again by Internal Audit.
- 2.19 As regards Payroll, outstanding issues at the time of the most recent update (March 2009) centred around a planned review of personnel policies and procedures and the planned procurement of an integrated HR and Payroll system. These are long-term actions for which progress will be reported to the Audit Committee.
- 2.20 With these exceptions, 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

- 2.21 Audits of Risk Management, Performance Management, Business Continuity Planning and Partnership Arrangements resulted in a "reasonable" assurance opinion. A "limited" assurance opinion resulted from the audit of "Procurement and Contract Management". In this area, a wide ranging programme of action is being pursued in support of the revised corporate procurement strategy. All of these areas are key elements of the Council's governance arrangements and the main messages arising from the audits have been incorporated in the governance review and Annual Governance Statement.

Other Audits

- 2.22 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.

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 2008/09 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.

<p>CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</p> <p>This report has no direct impact on these areas.</p>	
<p>FINANCIAL IMPLICATIONS</p> <p>None arising from this report.</p>	
<p>SECTION 151 OFFICER'S COMMENTS</p> <p>The s151 Officer has been consulted and has no further comments.</p>	
<p>LEGAL IMPLICATIONS</p> <p>None arising from this report</p>	
<p>MONITORING OFFICER'S COMMENTS</p> <p>The Monitoring Officer has been consulted and has no further comments.</p>	
<p>BACKGROUND PAPERS</p> <p>Internal Audit Plan 2008/09 Internal Audit Files</p>	<p>Contact Officer: Derek Whiteway Telephone: 01524 582028 E-mail: dwhiteway@lancaster.gov.uk Ref: aud/ctte/aud/0910/300609IAAnnRep</p>

Internal Audit Annual Plan 2008/09 - Final Outturn

Appendix A

Area of Work	2008/09 Planned Days	Work Allocations		Actuals to 31/03/09	Status at 31/03/09
		Job No	Title		
CORE FINANCIAL SYSTEMS					
		07/0660	Housing Rents	1.7	✓
		07/0688	Income Tax & NI	1.3	✓
		07/0696	NNDR	0.1	✓
		07/0708	Income Management (Rents Direct Debits)	1.4	✓
		07/0709	Payroll 2007/08	10.8	✓
		07/0710	Ordering & Payments 2007/08	3.4	✓
		07/0711	Sundry Debtors 2007/08	2.8	✓
		07/0717	Income Management (Cultural Webstaff)	1.3	✓
		08/0739	Creditors 2008/09	3.9	⚠
		08/0746	Treasury Management	0.7	CFwd
		08/0752	Main Accounting	0.6	⚠
		08/0756	Debt Management	0.4	✗
ST Core Financial Systems	100			28.4	
CORE MANAGEMENT ARRANGEMENTS					
		07/0697	Performance Management	3.9	✓
		07/0701	Procurement & Contract Management	13.6	✓
		08/0703	Fraud & Corruption Arrangements	13.3	⚠
		07/0704	Partnership Arrangements	5.1	✓
		08/0736	Business Continuity Planning	24.2	✓
		08/0742	Risk Management	36.9	✓
		08/0721	National Fraud Initiative 2008/09	24.3	∞
		08/0757	Information Management	0.9	✗
		08/0761	Financial Management	4.4	⚠
ST Core Mgt Arrangements	125			126.6	
RISK BASED ASSURANCE WORK PROGRAMME					
		07/0676	Salt Ayre Sports Centre	12.6	✓
		07/0677	Cemeteries	0.1	✓
		07/0678	Insurances	0.1	✓
		07/0679	Markets	20.3	✓
		07/0682	Vehicles	3.1	✓
		08/0683	Storey Institute Project	5.7	✓
		08/0684	Civica Financials Project	4.2	✓
		08/0685	Electronic Document Management	6.7	✓
		08/0686	Sustainable Community Strategy Project	5.0	✓
		08/0714	Fair Pay Project	54.6	∞
		08/0723	Arts Development	19.6	⚠
		08/0724	Land Charges	12.7	✓
		08/0725	Members Expenses & Civic Functions	11.7	⚠
		08/0726	Children & Young People	0.4	CFwd
		08/0727	Public Health & Safety	10.3	✓
		08/0728	Enforcement	7.7	⚠
		08/0729	Street Cleansing	13.7	✓
		08/0730	Climate Change	15.5	⚠
		08/0732	Econ Dev Marketing & Promotions	8.7	✓
		08/0733	Planning For Floods	17.0	✓
		08/0737	Leisure Development	1.6	CFwd
		08/0738	Information Security	6.1	⚠
		08/0745	Elections Management	0.2	✗

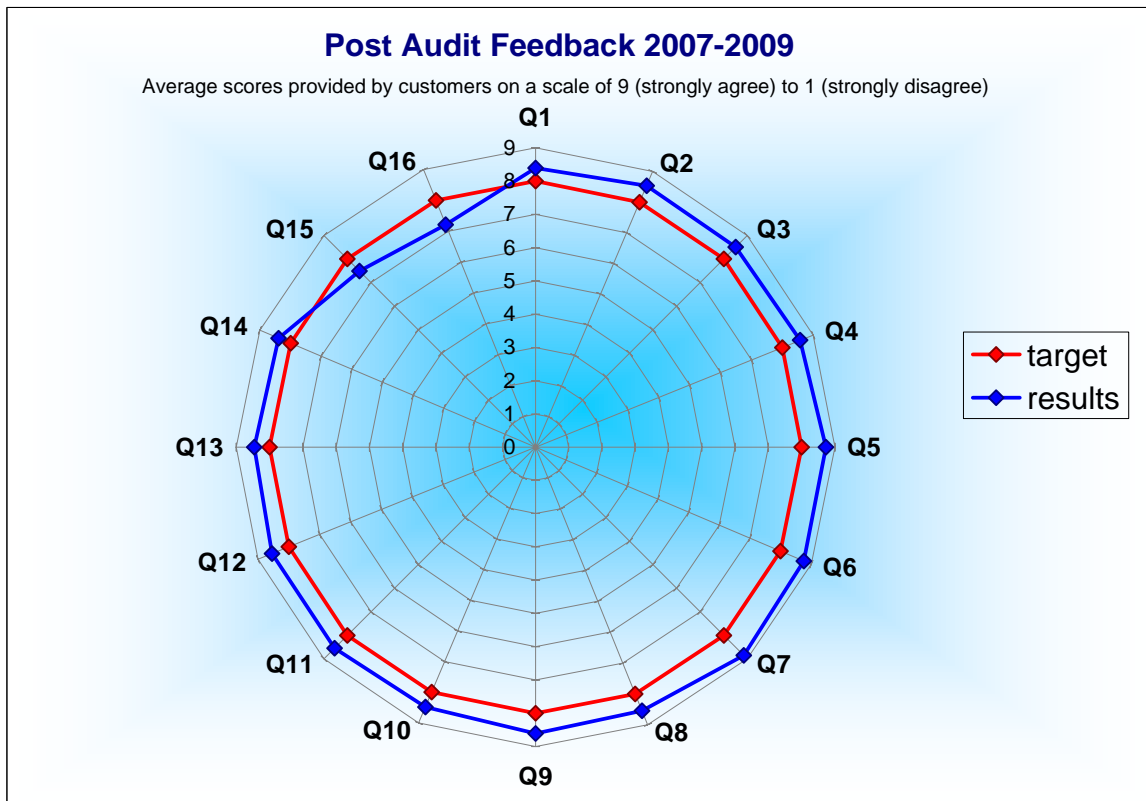
Internal Audit Annual Plan 2008/09 - Final Outturn

Appendix A

Area of Work	2008/09 Planned Days	Work Allocations		Actuals to 31/03/09	Status at 31/03/09
		Job No	Title		
RISK BASED ASSURANCE WORK PROGRAMME (Cont'd)					
		08/0747	Council Housing Repairs & Maintenance (Procurement)	3.6	
		08/0748	Sickness Absence Management	1.9	CFwd
		08/0749	Cycling & Walking	10.3	
		08/0750	Academy Interfaces	3.5	
		08/0751	Parks & Open Spaces	2.3	
		08/0754	Modern.Gov System	7.7	
		08/0755	Contaminated Land	2.4	
		08/0758	Licensing & Enforcement - Caravan Sites	0.1	
		08/0759	Housing Standards	10.3	
		08/0763	External Funding Arrangements (ERDF)	2.3	
		08/0765	Income Management	1.7	
ST Risk Based Work	250			283.7	
FOLLOW UP REVIEWS	45			67.4	
ST - ASSURANCE WORK	520			506.1	
2. CONSULTANCY WORK					
Support Work (projects and other)					
		08/0633	Risk Management Steering Group	2.2	
		08/0591	Access To Services Focus Group	0.9	
		08/0693	Business Recovery Team	1.0	
		08/0695	Asset Management Working Group	1.8	
		08/0700	Corporate Governance Framework Development	5.1	
		08/0716	LAA Officer Group	0.5	
		08/0509	RIPA Monitoring	5.0	
		08/0735	Partnership Mapping & Evaluation	41.2	
		08/0740	Conditions of Service Procedures	2.6	
		08/0741	Whistleblowing Policy Review	2.6	
		08/0743	Procurement Group	1.5	
		08/0744	Money Laundering Policy Development	4.5	
		08/0753	Williamson Park - Financial Procedures	15.0	
ST Support Work	45			83.9	
Ad-Hoc Advice	60			61.8	
Efficiency & VfM	100			0.0	
ST - CONSULTANCY WORK	205			145.7	
3. OTHER					
Non Audit Duties	10	08/0392	Deputy s151 Duties	15.1	
		08/0760	Fair Pay - Pay Modelling	73.8	
ST - OTHER	10			88.9	
4. AUDIT MANAGEMENT	60			77.7	
5. CONTINGENCIES					
General Contingency	40				
Investigations	35			75.8	
ST - CONTINGENCIES	75			75.8	
TOTALS	870			894.2	

Key: Completed In Progress Not Yet Started Continuous or Multi-Year Activity
 Carried Forward to 2009/10 Plan Abandoned

Appendix B

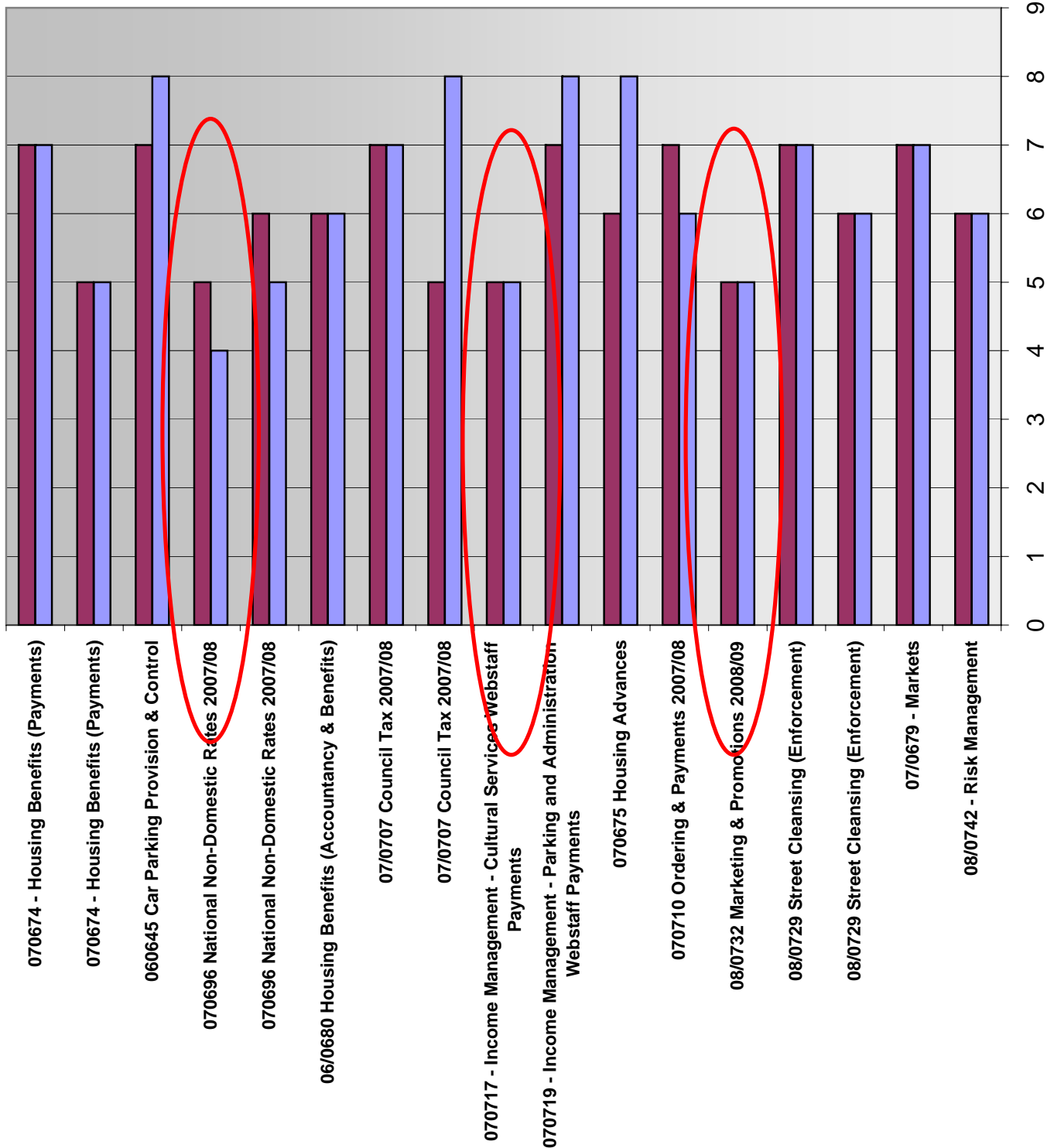


Questions:		Target	Actual	Priority for Action
Q1	I was given adequate notification of the audit	8	8.4	3
Q2	The audit work was undertaken at an agreed and convenient time.	8	8.5	8
Q3	The audit process and objectives were adequately explained to me	8	8.5	7
Q4	I was sufficiently involved in identifying and analysing risk and determining the scope of the audit	8	8.6	12
Q5	The work was conducted in my section in a proficient manner	8	8.7	14
Q6	The appropriate staff were consulted for the areas covered	8	8.8	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	8
Q9	The results and conclusions were based on sound and thorough analysis/evaluation of the major risks	8	8.6	13
Q10	I was sufficiently involved in discussing and agreeing the report and action plan	8	8.5	6
Q11	My views and comments were adequately presented in the final report	8	8.5	8
Q12	The final report presented a balanced and accurate picture of the results of the audit	8	8.5	8
Q13	The action plan was easy to agree and was based on practical and realistic recommendations	8	8.5	5
Q14	The final report was produced promptly	8	8.4	3
Q15	The audit has helped develop our identification and understanding of risk in this area	8	7.5	2
Q16	The audit has helped improve the way in which we manage risk in this area	8	7.2	1

Results are based on the responses provided by 33 respondents

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

Audit Customer Feedback - Analysis of Individual Responses




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

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

Internal Audit - Assurance Opinion Results 2008/09

Appendix C


05/0610 Internal Communications

09-Sep-08 Reasonable  Of the five risks reviewed two are now well managed, improvements are in hand to manage another two, and management of the remaining risk will be addressed during re-development of the Intranet to be completed by the end of March 2009. Therefore, Internal Audit are able to provide a reasonable level of assurance on the areas included within the scope of this review.


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.


06/0636 Value Added Tax 2006/07

19-Sep-08 Reasonable  Training has been provided along with AF implementation training but no Service has requested more in-depth training. Still concerns over effectiveness of training, but regular updates of VAT manual should help improve matters.


06/0642 Building Control

25-Feb-09 Limited  Building Control arrangements are currently under review and procedures may be subject to change. This review will include implementation of the agreed actions relating to the management of the building control account; introduction of procedures to support chargeable and non-chargeable work and monitoring of the partnership agreement with Lancashire County Council, at which point a 'Reasonable' level of assurance will be achieved.

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.


07/0658 Licensing


24-Nov-08 Reasonable  Three of the four risks identified for audit are well managed, and improvements are in hand to manage the fourth. Therefore a reasonable level of assurance can be provided.


19-Sep-08 Reasonable  Most agreed actions implemented (5 still outstanding/in progress) Formal PAR to be undertaken in next month or two.


06/0660 Housing Rents (debit control)

14-May-09 Reasonable  Progress has been made in relation to six of the seven actions agreed with improvements being made to procedures for reconciling properties to the asset register, and arrangements being in hand with regard to verification of amendments made to the debit. Arrangements for reconciling the net debit to the general ledger are now in place, however it should be noted that these arrangements are heavily reliant on the experience of the staff currently involved, and the good working relationships maintained.

23-Mar-09 Limited  Progress has been made to reconcile properties to the asset register and the net debit to the general ledger, although there are some information technology matters still to be resolved. The follow-up review, currently underway, will determine whether sufficient progress has been made to raise the level of assurance to 'Reasonable'.















12-Dec-08 Limited  Little progress has been made due to other/increasing work commitments and cover for officers who have left the Council and have not been replaced and long-term sickness. A new version of the Task job management system is due to be implemented early in the new year, however, after which arrangements will be made to consider implementation of the required Anite system upgrade with a view to addressing the key action of implementing new arrangements for reconciling the Housing net debit to the General Ledger












24-Sep-08 Limited  Progress has been delayed due to resources being focussed on ongoing work with Anite Housing and Anite (EDMS) modules and new financial monitoring responsibilities. The majority of actions are now scheduled to be implemented by 31/12/08 at which point a formal follow-up will be undertaken.

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 2008/09

Appendix C





07/0675 Housing Advances			
04-Nov-08	Reasonable		All agreed actions have now been implemented.
25-Jun-08	Reasonable		With the exception of one, all actions agreed at the time of the audit had been implemented.
07/0676 Salt Ayre Sports Centre			
27-Mar-09	Reasonable		Good progress has been made to implement agreed actions relating to the reconciliation of income to the general ledger and management of the Centre's booking system. An action still outstanding is the proposed staff restructure to introduce effective segregation of duties, internal check and supervision. Management state that implementation of these necessary changes are currently on hold in line with the corporate suspension on recruitment
23-Dec-08	Limited		Some progress has been made in implementing agreed actions, although a number of longer term actions have yet to be implemented including a proposed restructure within the Sports Centre due to completed by April 2009.
12-Sep-08	Limited		Raising the assurance level to reasonable could be achieved by the implementation of agreed actions relating to: reconciliation of income to the general ledger; appropriate segregation of duties; and management of the booking system.
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.
07/0678 Insurances			
09-Feb-09	Reasonable		At the time of the audit measures were required to improve management of two risks. Improvements are now in hand in relation to one of these risks, and the action agreed to improve management of the remaining one is not yet due for implementation. Therefore, the assurance which can be provided on arrangements in place remains at a reasonable level.
07/0679 Markets			
09-Feb-09	Limited		Given that income collection arrangements are currently under review, and procedures are subject to change, Internal Audit are only able to provide limited assurance at this time. A formal follow up will be carried out in August '09 to establish developments in terms of income collection arrangements, and progress made with the action plan.
07/0680 Housing Benefits (Accounting and Subsidy)			
16-Apr-08	Reasonable		Actions are ongoing to enhance arrangements.
07/0682 Vehicles			
11-Mar-09	Reasonable		Of the ten risks evaluated, nine are now well managed and improvements are in hand to manage the tenth. Therefore, a reasonable level of assurance can be provided on arrangements in place.
24-Sep-08	Reasonable		Most agreed actions have either been implemented or are ongoing . Formal PAR to be undertaken in next month or two.
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.
07/0683 Storey Creative Industries Centre Project Assurance			
18-Nov-08	Reasonable		The project has been well managed by the Project Board who have adhered to the principles and standards of the LAMP methodology and reasonable assurance can be given that the project will successfully deliver the business need. Actions agreed going forward towards the closure of the project should help to achieve this.
07/0684 Civica Financials System Project Assurance			
02-Jul-08	Reasonable		The project has been well managed ensuring that the project remains consistent with, and continues to meet, the specified business needs. The project has followed the LAMP project management methodology resulting in successful delivery.

07/0685 Electronic Document Management System Project Assurance		
26-Aug-08	Reasonable	 Overall, the project has been well managed and was delivered within time and budget. Reasonable assurance can be given that the project will deliver its specified business needs but this should be tested further during the post project review. Lessons learned from the project and the outcomes of the post project review should inform the ongoing roll out of EDMS to other Council Services
07/0688 Income Tax and National Insurance 2007/08 (Expenses and Benefits)		
20-Mar-09	Reasonable	 Consultation on new guidance and procedures has been completed and will be published soon, subject to a response expected from Her Majesty's Revenues and Customs on a further Income Tax dispensation. Electronic upgrades to the computerised expenses system, PUMA, have been successfully completed and the module allowing electronic submission of expenses claims is being rolled out shortly.
09-Dec-08	Limited	 Significant progress has been made in that a full review of expenses and benefits has been carried out and comprehensive guidance and procedures have been drafted for employees by the Exchequer Services Manager. Legal and HR aim to review the guidance this month which should enable the implementation of related agreed actions by the end of March 2009. If target dates are achieved and the guidance is approved, launched and implemented the assurance rating at the formal follow-up scheduled for the end of March 2009 should be 'Reasonable'.
23-Sep-08	Limited	 The new Exchequer Services Manager has taken responsibility for taxation relating to Expenses and Benefits and is in the process of implementing the action plan. Most significantly a full review of benefits and expenses payments is to be carried out to ensure compliance with tax legislation and dispensations will be applied for as appropriate. Assurance level is raised to "Limited". Completion of the remaining actions scheduled for 31/03/09 should raise the assurance level to "Reasonable". A formal follow-up review will be undertaken at that stage.
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.
07/0696 National Non-Domestic Rates 2007/08		
30-Jul-08	Reasonable	 An interface between the Academy and Civica systems has been implemented and work is ongoing in order to improve current reconciliation processes.
07/0697 Performance Management 2007/08		
23-Dec-08	Reasonable	 The Corporate Director (Finance and Performance) reports significant progress having been made in implementing the agreed actions ensuring appropriate information is reported and scrutiny arrangements are effective. The majority of the remaining outstanding agreed actions relate to the review of business planning which is currently underway.
23-Sep-08	Limited	 Progress is being made against the action plan and the review of business planning, which is fundamental to the successful implementation of several agreed actions, is about to start. A number of key actions are scheduled to be implemented by 31/03/09 and a formal follow-up review will be undertaken at that point. It has been agreed with the Corporate Performance Manager that the assurance opinion should remain unchanged at 'Limited'.
19-May-08	Limited	 The Performance Management Framework is well designed but work is required to ensure appropriate information is reported and scrutiny arrangements are effective.
07/0701 Procurement and Contract Management 2007/08		
24-Mar-09	Limited	 The 'Limited' assurance opinion reflects aspects of the wide agenda for procurement that still needed to be addressed at the time of the audit. Some progress has been made to implement the agreed actions, specifically the workshop involving contract managers which is informing the way forward on a number of corporate procurement aims and objectives. Outstanding actions are expected to be implemented by the summer, at which point the level of assurance should be raised to 'Reasonable'
01-Oct-08	Limited	 The opinion relates to the areas covered which were selected for review on the basis that they are areas where more work is required. It does not provide an opinion on corporate achievements relating to procurement. Clearly stated corporate procurement aims and objectives, corporate engagement and an effective means to monitor performance and progress are needed to raise the opinion to 'reasonable'.


Internal Audit - Assurance Opinion Results 2008/09

Appendix C





07/0704 Partnership Arrangements 2007/08

23-Mar-09	Reasonable		The 'mapping' exercise to determine the number, types and significance of partnerships within the Council's adopted definition has been successfully completed and a work programme has agreed to evaluate eight of the Council's major partnerships during 2009/10, the outcomes of which will be scrutinised by the Budget & Performance Panel.
12-Dec-08	Limited		<p>Significant progress has been made in recent months following the setting up of a Project Team to deliver the core objectives of undertaking a 'mapping' exercise to determine the number, types and purpose of existing partnerships and to follow this up with an evaluation of those considered to be of 'major' significance to the Council. The mapping exercise is on track to be completed by the end of December and, following a successful pilot, the evaluation toolkit is scheduled to be rolled out from January 2009.</p> <p>Assurance is likely to be raised to 'Reasonable' following implementation of the toolkit and planned actions to develop the performance management and governance arrangements relating to partnership working</p>
19-Sep-08	Limited		<p>The proposed partnership performance framework was considered by the Budget and Performance Panel on 15/07/08 and approved by Individual Cabinet Member Decision on 22/08/08.</p> <p>A 'mapping' exercise is underway to determine the number, type and purpose of existing partnerships and to follow this up with an assessment of the impact and effectiveness of individual partnerships. Pilot studies using the Partnership Development & Evaluation Toolkit are due to commence for the Community Safety Partnership and the Museums Partnership by the end of September 2008.</p> <p>The Principal Auditor is acting as project manager for this implementation (scheduled to be complete by 31/03/09) and will provide updates to each future meeting of the Audit Committee.</p>
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

24-Sep-08	Reasonable		One of two agreed actions has been fully implemented and work to document reconciliation procedures and improve year end processes is ongoing.
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07/0708 Income Management (Housing Rents Direct Debit Payments)

20-Mar-09	Limited		Little progress has been made due to other work commitments and a delay in the next Release of the Housing Rents system by Northgate OHMS (formerly Anite Housing). A 'Reasonable' assurance opinion will be achieved through improvements provided by the new Release and the introduction of automated direct debit payments for Housing Rents. A Post Audit Review is due at the end of April.
12-Dec-08	Limited		Progress has been limited due to other work commitments and operational issues around the EDMS implementation. Assurance opinion will remain at 'limited' until such time as the Anite Direct Debit Module is fully tested and implemented
23-Sep-08	Limited		Actions relating to the EDMS implementation within Council Housing Services have been completed, although some operational procedures need to be reviewed following its implementation. The key action required to raise the assurance opinion to "reasonable" is the implementation of the Anite Direct Debit module, which is now expected to be during Summer 2009. A formal follow-up review will be undertaken at that time.
30-Apr-08	Limited		Reasonable assurance could be achieved through implementation of the Electronic Documentation Management System (EDMS) and the Anite Direct Debit Module.

07/0709 Payroll 2007/08

26-Mar-09	Limited		Good progress has been made to implement agreed actions, although a number of significant issues are still to be addressed, specifically a planned review of recruitment policies and procedures and the procurement of an integrated Human Resources and Payroll system. These are longer term actions (Implementation Target Date 30/09/09), implementation of which will result in a 'Reasonable' level of assurance.
04-Dec-08	Limited		Limited assurance can be placed on current payroll arrangements until significant control issues are addressed. Raising the assurance level to reasonable should be achieved through implementation of the agreed action plan though full implementation is expected to take in excess of twelve months.

Internal Audit - Assurance Opinion Results 2008/09

Appendix C

07/0710 Ordering and Payments 2007/08

16-Oct-08	Reasonable		Work is ongoing to address the agreed actions from the original review, the most significant relating to the production and reviewing of system reports to facilitate the identification of potential errors (e.g. duplicate payments).
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

30-Jan-09	Reasonable		Eight out of the ten risks identified for audit are now well managed and measures are currently being taken to improve management of the remaining two.
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.

07/0717 Income Management (Cultural Services Webstaff Payments)

19-Mar-09	Limited		Despite enhanced processes to ensure compliance with the Data Protection Act and the Payment Card Industry Data Security Standards, an incident resulting in non-compliance occurred on 7th January 2009. Whilst the Service has taken positive action to enhance control further, only a 'Limited' assurance opinion can be given as insufficient time has passed to be confident that these new controls are working effectively in practice. Provided there have been no further breaches by the time of the next follow-up review a 'Reasonable' level of assurance will be achieved.
24-Sep-08	Reasonable		Significant improvements have been made to ensure that the Service is compliant with the Data Protection Act and the Payment Card Industry Data Security Standards. The installation of a dedicated telephone line for ticket sales has been introduced thus enabling all card transactions to be processed via the Webstaff system promptly upon receipt and negating the need for a booking form (inc card details) to be completed and retained. Full card details are no longer entered into the PASS ticketing system unnecessarily, thus avoiding non compliance issues. Regular reconciliations between the Webstaff system and the general ledger have been introduced ensuring that differences between income taken and the general ledger are highlighted and investigated as necessary.
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.

08/0724 Land Charges

23-Mar-09	Limited		Whilst good progress has been made to strengthen risks relating to income management and reconciliation arrangements, guidance from Central Government to address the most significant risk is still awaited. Implementation of this guidance will enable the Council to demonstrate that the provision of Land Charges search fees are cost effective and identify what costs can be legitimately recovered, at which point a 'Reasonable' level of assurance will be achieved. The position will be reassessed during the follow-up review in June.
05-Nov-08	Limited		Limited assurance can be placed on current arrangements for the provision of local land charge searches until significant control issues are addressed. Raising the assurance level to reasonable should be achieved through implementation of the agreed action plan.

08/0725 Member Expenses and Civic Functions

27-May-09	Reasonable		A reasonable level of assurance can be provided in relation to the effectiveness of arrangements for member development, member expenses and the mayoral function. Implementation of the agreed action plan will enhance current arrangements and ensure that the aims and objectives of the mayoral function are appropriately aligned to corporate plan priorities.
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08/0727 Public Health and Safety

02-Dec-08	Substantial		All areas covered were well managed, a quality management system is in place and the Service can demonstrate good practice in several areas. Issues raised during the course of this review were promptly and thoroughly investigated by the Service and procedures have been enhanced accordingly.
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08/0729 Street Cleansing (Enforcement)

11-Dec-08	Reasonable		Whilst the Authority's approach to enforcement is evolving City Council (Direct) Services are clearly focussed, understand the issues faced and are seeking to incorporate good practice into their arrangements for maximum effect.
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08/0732 Economic Development - Marketing and Promotions 2008/09

12-Dec-08 Reasonable  Six of the seven risks covered during this audit are considered well managed and the Service is in the process of improving management of the remaining risk.


08/0733 Planning for Floods

25-Feb-09 Limited  Until local authority responsibilities have been clarified the Service is unable to effectively respond to the recommendations made by the Pitt Review and provide effective leadership in terms of managing local flood risk.

08/0736 Business Continuity Planning

05-Dec-08 Reasonable  Internal Audit is confident that the Authority has a suitable framework in place to effect a response in the event of a business continuity incident. The agreed actions arising from this review focus on improving Business Continuity Plans and embedding arrangements throughout the Authority.

08/0742 Risk Management

13-Mar-09 Reasonable  A reasonable level of assurance can be provided in relation to the effectiveness of the Authority's risk management arrangements. However, this could be enhanced through implementation of the agreed action plan.

AUDIT COMMITTEE**Review of Governance and the
Annual Governance Statement 2008/09****Report of Corporate Director (Finance & Performance)****PURPOSE OF REPORT**

To seek the Committee's approval for the draft Annual Governance Statement for the 2008/09 financial year.

This report is public

RECOMMENDATIONS

- (1) That the draft Annual Governance Statement for 2008/09 (attached as Appendix C) be approved for signing by the Leader of the Council, Chief Executive, Section 151 Officer and Monitoring Officer.

1.0 Introduction

- 1.1 The terms of reference of the Audit Committee include: *To monitor the effective development and operation of risk management and corporate governance in the Council and to oversee the production of the authority's annual Governance Statement and 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 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.

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 is demonstrated in the Overview Charts (including a comparison with the 2007/08 results) and Evaluation Reports which are attached at Appendix A. Please note that these will be printed in black and white but may be viewed in colour on computer screens.
- 3.3 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

- 3.4 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

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

Audit and External Audit reports, to procedures such as one-to-one management meetings.

- 3.5 As in previous years, individual “assurance statements” have been sought from Service Heads in relation to internal control and governance arrangements within their areas. This assurance has been built in to the overall evaluation.

Review of the Effectiveness of the System of Internal Audit

- 3.6 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.
- 3.7 The established format for this review is a self-assessment of the Internal Audit function and its contribution to governance, which 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”
- 3.8 A separate report elsewhere on this agenda provides details of the results of the external auditor’s review of Internal Audit undertaken during 2008/09. This effectively provides the first part of the review, mentioned above. The second part of the self-assessment, relating to “characteristics of effectiveness” is attached at Appendix B.
- 3.9 Taking the external auditor’s report and the self assessment together 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 substantially in accordance with appropriate standards and is delivering an effective service. An action plan has been agreed in response to those areas for development identified by the external auditor.
- 3.10 In conclusion, it is felt that the Audit Committee can take reasonable 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

- 3.11 The charts and table of results shown in Appendix A show that, whilst there have not been any dramatic changes in the evaluation, there have been gradual improvements in a number of areas. In consequence, the number of factors in which there remains a perceived shortfall in performance has reduced. Where a shortfall exists, comments are included in the evaluation on the current position and plans to improve the position during 2009/10 and beyond.

The Draft Annual Governance Statement

- 3.12 Following the evaluation exercise, the Management Group has developed the draft Annual Governance Statement which is attached at Appendix C).

- 3.13 The timescale for the production of the Statement coincides with that for the approval of the financial accounts (i.e. 30 June 2009) 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
- 3.14 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

- 3.15 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

- 3.16 As in previous years, actions relating to those “Significant Governance Issues” identified in section 5 of the draft Governance 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 As part of the assurance gathering exercise, all Service Heads have provided an assurance statement for their areas of responsibility. Significant matters raised in those statements have been included in the Governance Statement.

5.0 Options and Options Analysis (including risk assessment)

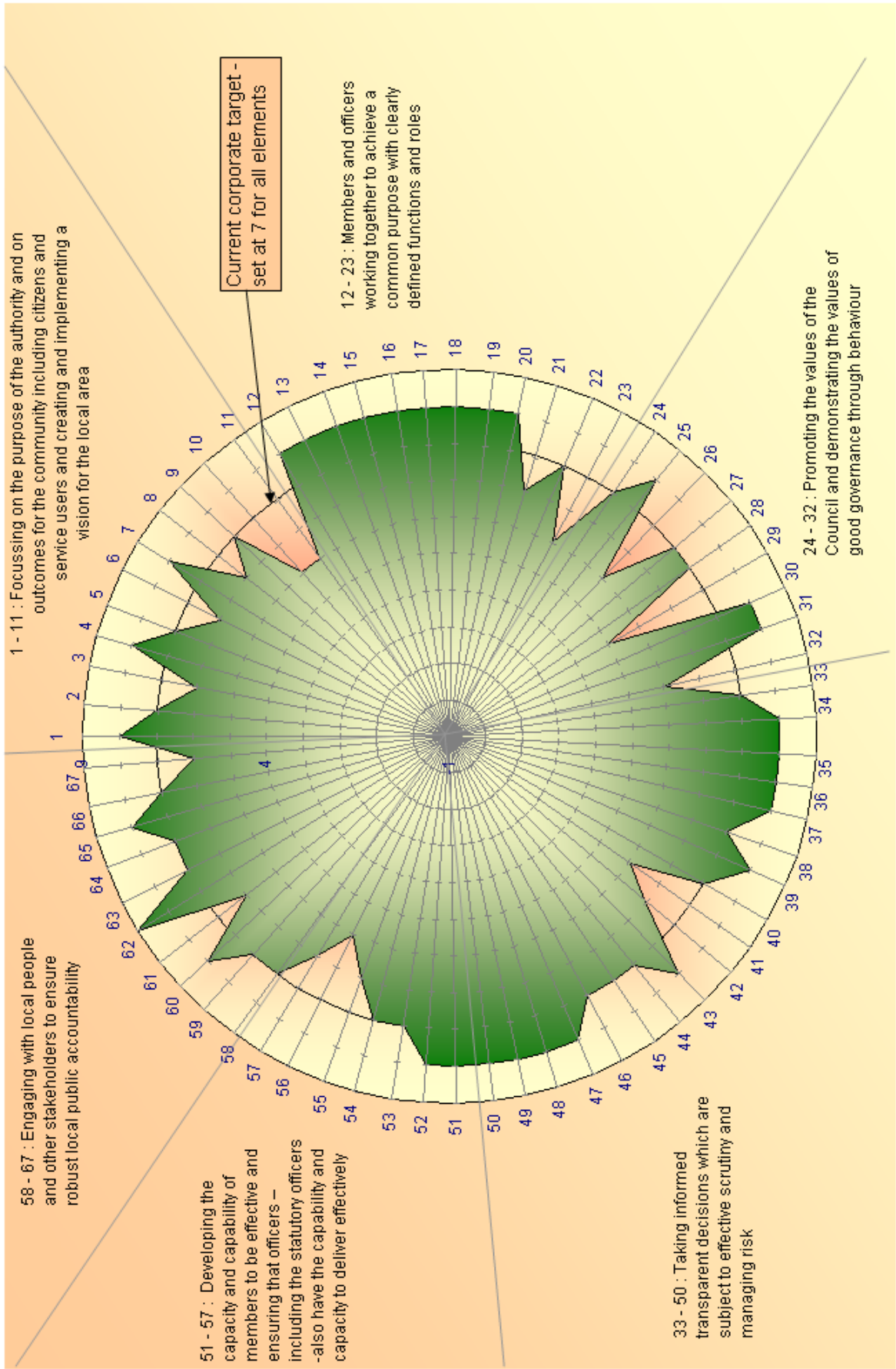
- 5.1 As the production of an annual statement is a legislative requirement, no alternative options are identified.

6.0 Conclusion

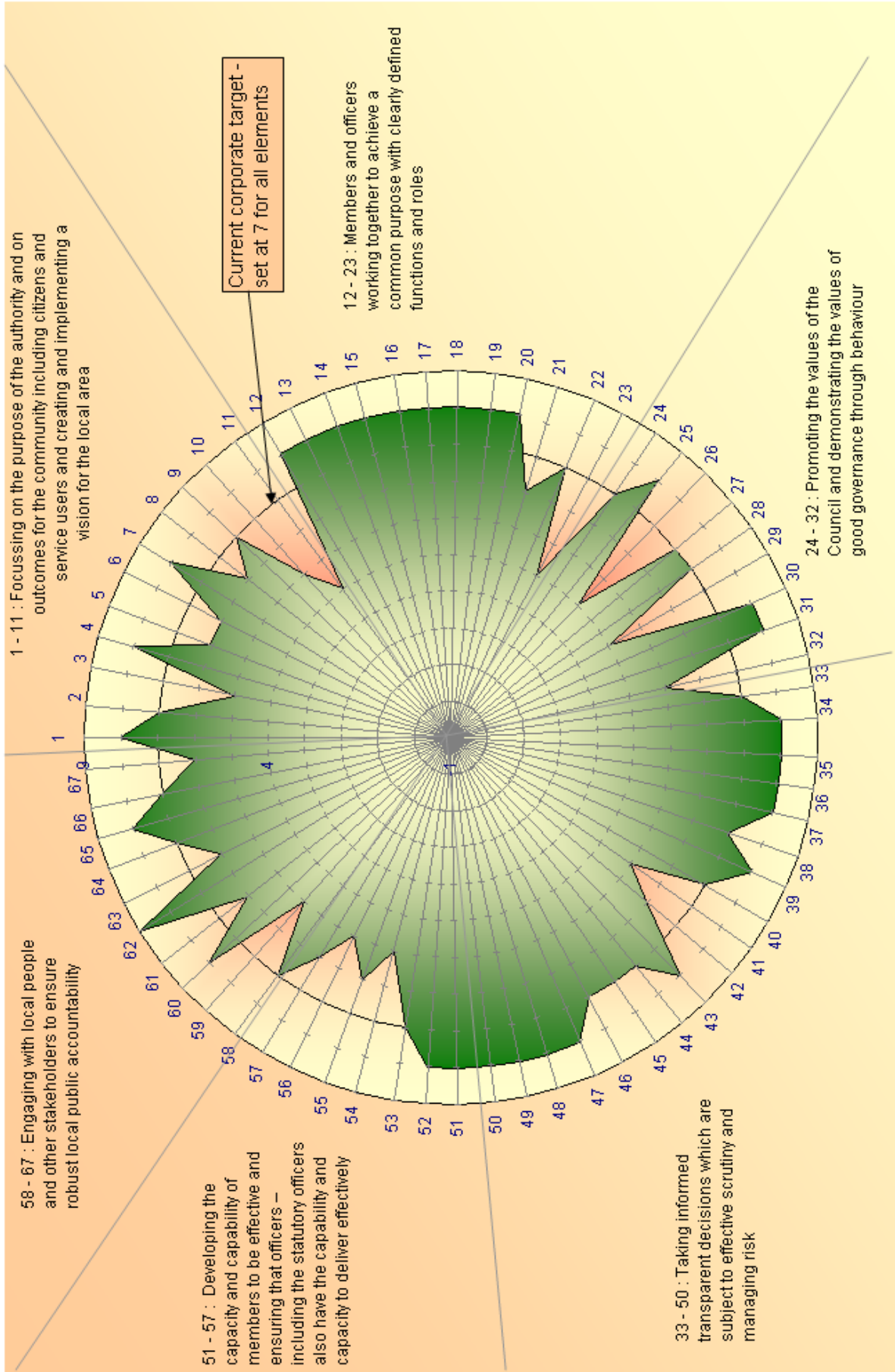
6.1 The draft Annual Governance Statement and the results of the review undertaken by the Management Group reflect the developments and progress made by the Council during the last twelve months. Addressing the issues identified in the statement will help maintain this progress and contribute, not only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

<p>CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</p> <p>The report has no direct impact on the above issues.</p>	
<p>FINANCIAL IMPLICATIONS</p> <p>There are no direct financial implications arising from this report</p>	
<p>SECTION 151 OFFICER'S COMMENTS</p> <p>The s151 Officer has been involved in the governance review process and has no further comments.</p>	
<p>LEGAL IMPLICATIONS</p> <p>Legal Service have been consulted and have no further comments.</p>	
<p>MONITORING OFFICER'S COMMENTS</p> <p>The Monitoring Officer has been involved in the governance review process and has no further comments.</p>	
<p>BACKGROUND PAPERS Accounts and Audit Regulations 2003 (as amended).</p>	<p>Contact Officer: Derek Whiteway Telephone: 01524 582028 E-mail: dwhiteway@lancaster.gov.uk Ref: aud/cttee/audit/0910/300609/ags</p>

Annual Governance Review 2008-09 - Evaluation Results Appendix A



Annual Governance Review 2007-08 - Evaluation Results



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	6	The Partnership Evaluation Framework has been agreed and is now being rolled out. Mapping exercise and pilot study completed during 2008/09 - extended programme of evaluations (8 key partnerships) agreed for 2009/10
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	7	A review of Performance Management was undertaken during 2008/09 and this is now more focussed. Further development is required in understanding and measuring levels of absolute and relative performance.
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.
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 the key corporate performance indicators in the Corporate Plan. To be addressed by implementation of a Corporate Improvement & Efficiency Plan.
11	Measuring the environmental impact of policies, plans and decisions.	5	Reflected in Corporate Plan objective number 3 (develop locals responses to 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	<p>When working in partnership, ensuring that:</p> <ul style="list-style-type: none"> members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the Council; there is clarity about the legal status of the partnership; representatives of partner organisations both understand and are committed to meeting clearly defined good governance principles; and representatives of organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions. 	5	<p>The Partnership Evaluation Framework has been agreed and is now being rolled out. Mapping exercise and pilot study completed during 2008/09 - extended programme of evaluations (8 key partnerships) agreed for 2009/10</p>

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	5	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 ongoing review of Performance Management 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 have been clarified under the revised Risk Management strategy; there is a need for these to be publicised so as to improve understanding amongst management.
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			
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	7	
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	Community Engagement Framework has been recently launched & managed by the LSP. Should generate improvements during 2009/10.
57	Ensuring that effective Member development and employee development strategies and actions are in place	6	Award-winning Member Development strategu and programme introduced. HR business plan includes objective to implement Workforce Planning & Development.

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	7	Service Heads, in their individual assurance statements, have confirmed that this happens. This has not yet been subject to independent evaluation.
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	7	See no 56. Service Heads, in their individual assurance statements, have confirmed that this happens. This has not yet been subject to independent evaluation.
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)

Internal Audit – Review of Characteristics of Effectiveness

Appendix B

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 efficiency/value for money. Individual assignments may be catalyst for change.	Consider scope for IA's contribution to the efficiency agenda and VFM arrangements.
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, fair pay project.	Continue to 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.	Review IA's role in service improvement and in project and programme management.

Internal Audit – Review of Characteristics of Effectiveness

Appendix B

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.</p> <p>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>Continue to 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 2008/09

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 the Council's 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 2009 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 *Sustainable 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 the 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 the Council operates, 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 established codes of conduct for employees and elected Members. Standards of probity are maintained through the *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 a bi-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 four 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 for investigation by its Assessment Sub-Committees.
- 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 2008/09 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 March 2009 the Council's external auditors, KPMG in their *Annual Audit and Inspection Letter*, reported that the Council had made good overall progress in delivering its priorities and that services were improving at a faster rate than other councils. The auditors concluded that the Council had adequate arrangements in place for securing value for money. The auditor's views drew on their assessments of the Council's "Direction of Travel" and "Use of Resources", in which they judged the Council to be "consistently above minimum requirements – performing well".
- In their *Audit and Inspection Letter*, the external auditors advised the Council on areas where action was needed, including its efficiency programme; effective partnership working in health initiatives; managing levels of sickness absence; and improving public satisfaction levels. These have been taken into account in developing the Council's improvement plans.

SIGNIFICANT GOVERNANCE ISSUES

Work carried out by both the Council's 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 the Council's attention.

That said, as a result of the Icelandic Banking collapse during 2008/09 the Council has £6M of investments at risk; more detailed information is included within the Statement of Accounts. National reviews of the situation, including governance aspects, have been undertaken by the Audit Commission and by Government Select Committees. This process is still underway to an extent; many recommendations have been made for various parties to take forward, but it is not yet clear what specific actions the Council will need to take in connection with any new regulations and/or guidance arising. For the interim, however, further controls were adopted by the Council in March 2009, as part of approving its 2009/10 treasury strategy.

Given these points, and from the assurances provided from the review of the effectiveness of the systems of the corporate governance framework and system of internal control, it is the Council's opinion that they accord with current proper practice and are working effectively.

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

- **Improve decision making** by undertaking a further 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**; the Council and its key partnerships provide, through a review of the *Value for Money Strategy* and the implementation of a *Corporate Improvement and Efficiency Plan*.
- **Continue to strengthen delivery of customer-focussed services** by continuing the programme of service integration into the Council's Customer Service Centres and by continuing to improve how the Council undertakes consultation and community engagement, thereby contributing to more focussed business planning and allocation of resources.
- **Continue to develop the effectiveness of partnership working** by rolling out a programme reviewing and evaluating the governance arrangements of the Council's key partnerships.
- **Improve the measurement and monitoring of the environmental impact** of the Council's 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.
- **Implement any changes required to the Council's Treasury Management framework**, in responding to any new regulations and guidance that are issued following the Icelandic banking collapse.

The Council proposes, over the coming year, to take steps to address the above matters to further enhance its governance arrangements. The Council is satisfied that these steps will address the need for improvements that were identified in the review of effectiveness and will monitor their implementation and operation as part of the next annual review.

S Langhorn
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****30 June 2009****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 2009/10

This report is public

RECOMMENDATIONS

1. **That the Internal Audit Strategic and Business Plan for 2009/10 to 2011/12 be approved.**
2. **That the Internal Audit Annual Operational Plan for 2009/10 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 Audit¹ specifies 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 2009/10 to 2011/12**

- 2.1 The Internal Audit Business and Strategic Plan (attached at Appendix A) has been developed using the Council's revised 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, namely:

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 2009/10

- 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 similar lines at that for the 2008/09 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 explicit about the resources to be devoted to other “support” work aimed at helping the Council’s ongoing improvement programme; and
 - 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 At the time of writing, a detailed programme of audit assignments has not been finalised. Following the recent approval by Council of the Corporate Plan and the drafting by Service Heads of their Service Business Plans, the Internal Audit Manager is now in a position to undertake the normal consultation process with Directors, Service Heads and Statutory Officers to inform and develop the detailed programme.
- 2.4 As the detailed programme is developed, this will be publicised both to Members of the Audit Committee and to Service Heads and senior managers as well as the plan being formally reported to and monitored by each meeting of the Audit Committee. This is an extension and refinement of the approach originally introduced in 2007/08 with the objective of enabling greater flexibility in selecting, scoping and budgeting for specific audits, thereby giving more effective audit coverage and assurance. Whilst the approach is felt to be working in helping achieve a more focused, varied and flexible plan, there is scope to improve the way in which senior managers and Audit Committee are informed of and engaged in Internal Audit’s detailed work schedules.
- 2.4 The annual plan for 2009/10 is based on estimated available resources of 880 days, this being delivered by the in-house team of 4.8 FTE staff. The continued involvement of the Internal Audit Manager in the Fair Pay Project and his role as Deputy s151 Officer has been estimated as requiring 60 days. This gives a total allocation to audit activity of 820 days.

3.0 Details of Consultation

- 3.1 No specific consultation has been undertaken in compiling this report. Management Team, Service Heads and the Statutory officers are to be consulted in detail in the preparation of Internal Audit’s detailed work programme for 2009/10.

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 2009/10 to 2011/12 and the Internal Audit Annual Plan for 2009/10. No alternative options are identified.

5.0 Conclusion

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

CONCLUSION OF IMPACT ASSESSMENT

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

This report has no direct impact on these areas.

FINANCIAL IMPLICATIONS

None arising from this report.

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

None arising from this report

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

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**LANCASTER CITY COUNCIL
INTERNAL AUDIT
BUSINESS AND STRATEGIC PLAN**

2009/10 TO 2011/12

SUBMITTED TO AUDIT COMMITTEE 30/06/09

PREPARED BY THE INTERNAL AUDIT MANAGER

May 2009

Revision History

Date of this revision:

Revision Date	Summary of Changes	Version
May 2009	Initial Draft	0.01

Distribution

Name	Title

Approvals

Name	Date Approved	Link to Approval Minutes	Version

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

- Provide the Council with independent assurance regarding the effectiveness of its systems of Governance and Internal Control
- Support the Council's improvement programme
- Help the Council secure and demonstrate value for money throughout its activities

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				
Work Area	2008/09 Plan		2009/10 to 2011/12	
	Plan Days	Actual Days	2009/10 Plan Days (see note)	2011/12 Target Days
Assurance work, covering:				
o Core Financial systems	100	28	90	100
o Core Management arrangements	125	127	75	115
o Other systems, projects and management arrangements (based on quarterly review of risk and the assurance framework)	250	284	225	265
o Follow-up work	45	67	50	50
Sub-Total, Assurance Work	520	506	440	530
Ad-hoc advice	60	62	60	60
Support (general and project support)	45	84	45	45
Efficiency & VFM	100	0	50	100
Investigations contingency	35	76	125	35
Planning & Monitoring	60	77	60	60
Non-audit duties	10	89	60	10
General contingency	40	0	40	40
Totals	870	894	880	880

Note: The allocation of planned days for 2009/10 is distorted by a) an ongoing investigation requiring significant resources and b) the Internal Audit Manager's ongoing involvement in the Fair Pay Project, reflected in "Non-audit duties".

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 and coordinating 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)

The work of Internal Audit in reviewing key financial and managerial systems and controls plays a major part in the Council's annual review of its governance arrangements. The Internal Audit Manager, in a management group including the Section 151 Officer, Monitoring Officer and the Corporate Director (Finance & Performance), takes a leading role in the coordination of the annual governance review, which results in the drafting of the annual Governance Statement.

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, reviewing the Corporate Plan and individual Service Business Plans 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
- Consideration of the Corporate Risk Register
- 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	Planned days provided 2009/10 (note 1)	Target days provided 2011/12
Internal Audit Manager	44-47	167	169
Principal Auditor	38-41	184	184
Senior Auditor x2	14-34	374	377
Assistant Auditor (0.81 fte)	14-34	145	150
Bought in resources (note 2)		0	0
Total resources		870	880

Notes

1. The number of planned days to be provided in 2009/10 is affected by the Internal Audit Manager and one Senior Auditor having carried forward unused annual leave entitlement as at 31st March 2009 (7 days).
2. There are no standing arrangements or plans to buy in additional internal audit resources; this position will be reviewed during the year in the context of demands for audit work and the Service's budget for consultancy services.

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 2007/08 audit and is due to be reported to Audit Committee on 30 June 2009.

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 considered in the annual "Use of Resources" Key Line of Enquiry (KLOE) regarding Internal Control.

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 2009/10. In total, the service has been allocated £9,400 for training in 2009/10.

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

Development Areas

- Need to consider and address the potential impact of the recession, regarding:
 - The robustness of financial systems;
 - The increased potential for fraud and corruption;
 - The requirements to achieve efficiencies and savings.
- 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 Assessment.
- Contributing to the work of the newly formed Programmes and External Funding Team
- Increased focus on efficiency, VfM and business improvement. To play a leading role in a review of the Council's Value for Money strategy and corporate efficiency arrangements.
- Continuing focus on the governance and performance of the Council's main partnerships, connected with corporate priorities and the CAA.

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"> ➤ Internal Audit Manager's role as Deputy s151 Officer and involvement in operational matters (e.g. the Fair Pay Project) could cause a conflict of interest. 	<ul style="list-style-type: none"> ➤ Where there is call for internal audit review and opinion on any area in which the Internal Audit Manager has fulfilled an operational role, this will be managed and reported by the Principal Auditor.
<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"> ➤ Nature and scope of IA involvement in key areas of proactive work to be clearly defined and agreed.
<ul style="list-style-type: none"> ➤ Lack of skills to undertake specific pieces of work. ➤ Potential staff retention issues resulting from Fair Pay. 	<ul style="list-style-type: none"> ➤ Continuing development of staff through the EDPA process. Review of the competency framework. ➤ Review of IA's positioning and service delivery. ➤ Active management of staff development issues.

Internal Audit Business Plan 2009/2010

Service Purpose:

To provide the Council with independent assurance regarding the effectiveness of its systems of Governance and Internal Control

To support the Council's improvement programme

To help the Council secure and demonstrate value for money throughout its activities

Link to Corporate Improvement	Service Actions	Performance Indicators	Business Risk	Mitigation	Lead Officer
Value for Money strategy and efficiency programmes	<p>To review the Council's VfM Strategy and research and recommend development as appropriate</p> <p>To provide assurance on the effectiveness of the Council's procedures and on its delivery of annual efficiency targets</p>	<p>Production of an Internal Audit report and recommendations for improvement by September 2009</p> <p>Included in above.</p>			Internal Audit Manager
Working in partnership	Lead on the roll-out of the approved partnership evaluation framework and toolkit	Completion of work programme for 2009/10 (covering 8 major partnerships)	Lack of resources corporately to support development / management of partnerships could create additional calls on IA time.	Clarify and agree nature and scope of IA staff involvement / contribution.	Principal Auditor
Development of corporate project and programme management and the use/management of external funding	<p>To contribute to the development of the Programmes and External Funding Team</p> <p>To provide independent assurance on the effectiveness of management of key programmes and projects</p>	Production of Internal Audit reports as appropriate	Demands on IA time may become too onerous and divert resources from other work programmes.	Clarify and agree nature and scope of IA involvement / contribution.	Principal Auditor
Performance management and risk management	<p>Contribute to ongoing corporate development of the Council's performance management framework.</p> <p>Appraise integration of risk management within Escendency.</p>	<p>Escendency updated and being used from PRT Qtr 1 2009/10</p> <p>Through Financial Services PRT meetings and supporting arrangements.</p>			<p>Lead Officers for Service– Internal Audit Manager</p> <p>(Mgmt Team, Corporate Strategy. but also all other services.)</p>
	<p>To support and promote the development and implementation of the Council's Risk Management Strategy.</p>	<p>Annual update of Risk Management Policy and Strategy documents</p> <p>Other targets to be considered in view of performance mgmt framework developments, insurance impact, and Use of Resources.</p>			<p>Lead Officers Internal Audit Manager / Risk & Insurance Manager</p> <p>(Internal Audit & Risk Mgmt Steering Group)</p>
High standards of Corporate Governance (CG) and Internal Control (IC).	<p>Undertake audit work sufficient to provide assurance as to the effectiveness of arrangements to deliver high standards of CG</p>	<p>Assurance statement provided by Internal Audit for 2008/09 year, and action plan agreed as appropriate.</p>	IA resources diverted away from assurance work on to responsive tasks, e.g. investigations	Consider availability of consultancy budget and other ways of resourcing responsive work.	Internal Audit Manager / Head of Financial Services
	<p>Undertake audit work sufficient to provide assurance that appropriate and robust internal financial controls are in place.</p>	<p>Individual reports on financial systems.</p> <p>Annual Internal Audit assurance statement</p>			
	<p>To promote and provide assurance on the standards of CG, in support of the Council's requirement to produce an Annual Governance Statement</p>	<p>Positive assurance report and annual governance statement reported to Committee June 2009.</p>			

Link to Corporate Improvement	Service Actions	Performance Indicators	Business Risk	Mitigation	Lead Officer
Member and Committee development	To improve the governance and internal control knowledge and skills of Members, particularly those on the Audit Committee	<p>Training in governance and internal control to be provided to/accessible by Members.</p> <p>No. of courses in Member Development Plan delivered / positive feedback.</p>	Low take-up of training opportunities	<p>Consider building training activities into the scheduled Audit Committee agendas.</p> <p>Development of working relationship with the Audit Committee Chair</p> <p>Provide committee members with a briefing on their role.</p> <p>Seek elected members' views on training.</p>	Internal Audit Manager
	Develop the Audit Committee's role in seeking assurance on matters of CG and IC	Establishment of a work programme for the Audit Committee and/or evidence of members being proactive in relation to their assurance responsibilities.	Limited time available for members to take a proactive role.	Consider alternatives to providing information in a formal setting.	Internal Audit Manager
HR Management	Contribute to improving staff attendance (reducing sickness absence) and increasing productivity (chargeability) levels	<p>No. days lost per staff member</p> <p>Sickness target - average 10 days for 2009/10 (actual 2008/09 was 2.2 days)</p> <p>Chargeability target 2009/10 – 87% (actual 2008/09 was 85.8%)</p>	<p>Lack of skills to undertake specific pieces of work.</p> <p>Potential staff retention issues resulting from Fair Pay.</p>	<p>Continuing development of staff through the EDPA process. Review of the competency framework.</p> <p>Review of IA's positioning and service delivery.</p> <p>Active management of staff development issues.</p>	Internal Audit Manager

Internal Audit Annual Plan 2009/10

1. ASSURANCE WORK		
CORE FINANCIAL SYSTEMS		
Approach and objectives	Covers the following areas:	Planned Days
<p>Internal audit work in 2009/10 will focus on:</p> <ul style="list-style-type: none"> ➤ the operation of key controls; ➤ probity considerations, i.e. that transactions are appropriate, properly authorized and provide value for money; ➤ exposure to fraud and corruption. <p>The objective is to provide assurance that in practice, key systems are operating securely and efficiently and that exposures to error, waste and fraud are identified and effectively managed</p>	Main Accounting	90
	Asset Management	
	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		
Approach and objectives	Covers the following areas:	Planned Days
<p>Internal Audit continues to play an active role in supporting the Council's development of its management arrangements (see the "Support" section below).</p> <p>Assurance work in 2009/10 will focus on areas where Internal Audit has no active involvement, with the objective of providing assurance that arrangements are robust and reliable.</p>	Financial Management	75
	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		
Approach and objectives	The following areas are currently in progress or registered as potential audits in 2009/10:	Planned Days
<p>Drawing on the Corporate Plan and Service Business Plans, the risk based programme is developed and reviewed in consultation with Directors and Service Heads, taking account of the nature and levels of risk in their spheres of activity.</p> <p>The main objective in this work is to provide assurance that:</p> <ul style="list-style-type: none"> ➤ sound arrangements are in place to identify and assess risks; and ➤ risks are being effectively managed 	Climate Change	225
	Cycling & Walking	
	Contaminated Land	
	Academy Interfaces	
	Modern.Gov System	
	Housing Standards	
	Income Management	
	Children & Young People	
	Leisure Development	
	Sickness Absence Management	

Appendix B

FOLLOW-UP REVIEWS		
Approach and objectives	Covers the following areas:	Planned Days
<p>Following the production of an Internal Audit report and assurance opinion, a follow-up review is undertaken at an agreed time (usually after 6 months) to review progress with the agreed action plan.</p> <p>Progress is reported to management and to the Audit Committee.</p>	All Internal Audit reports which result in the production of an assurance opinion and action plan.	50
SUB-TOTAL – ASSURANCE WORK		440

2. CONSULTANCY WORK		
Work Area and Objectives	This Covers	Planned Days
<p>Ad-Hoc Advice</p> <p>To provide an on-demand advice service in respect of day-to-day internal control, risk management and governance matters.</p>	<ul style="list-style-type: none"> ➤ Advice provided on request from employees and elected members; ➤ Liaison with the external auditor and other agencies; ➤ Publication of fraud alerts and other guidance notices; ➤ Provision of training. 	60
<p>Efficiency & Value for Money (VfM)</p> <p>The primary objective in 2009/10 is to review the Council's Value for Money Strategy and corporate arrangements for managing its efficiency programme.</p>		50
<p>Support Work (projects and other support)</p> <p>To provide support and advice to management in the development and implementation of new policies, systems and projects.</p>	<p>Current support areas include:</p> <ul style="list-style-type: none"> ➤ Risk Management Steering Group ➤ Partnership Mapping & Evaluation ➤ Williamson Park - Financial Procedures ➤ Money Laundering Policy Development 	45
SUB-TOTAL – CONSULTANCY WORK		155

Appendix B

3. OTHER		
Work Area and Objectives	This Covers	Planned Days
<p>Non Audit Duties</p> <p>The professional standard regarding independence states that Internal Auditors should have no operational responsibilities.</p> <p>Internal Audit currently departs from this expectation in the following areas:</p> <p>The Internal Audit Manager currently shares Deputy Section 151 duties with the Accountancy Services Manager, and is also actively involved in the Fair Pay Project.</p>	<ul style="list-style-type: none"> ➤ Deputy Section 151 duties (10 days) ➤ Fair Pay Project (50 days) 	60
4. AUDIT MANAGEMENT		
Work Area and Objectives	This Covers	Planned Days
Planning, Monitoring and Committee Work	<ul style="list-style-type: none"> ➤ Development and updating of Internal Audit Strategic and Annual Plans; ➤ Monitoring and review of activity; ➤ Reporting to and attending Audit Committee / other member meetings 	60
5. CONTINGENCIES		
Work Area and Objectives	This Covers	Planned Days
<p>Investigations</p> <p>Requests to undertake investigative work are irregular and unpredictable. A significant ongoing investigation means that resources allocated to this activity are much greater than would normally be the case.</p>	<ul style="list-style-type: none"> ➤ Investigating and reporting on alleged malpractice ➤ Attending and submitting evidence to disciplinary hearings as necessary 	125
<p>General Contingency</p> <p>A general provision made to help accommodate unforeseen variations in demand for Internal Audit work during the year</p>	<ul style="list-style-type: none"> ➤ Additional calls for work, particularly in areas such as investigations, or in support of corporate initiatives/major projects. 	40
TOTAL – ALL ACTIVITIES		880

AUDIT COMMITTEE**Training Programme for Audit Committee Members
30 June 2009****Report of the Internal Audit Manager****PURPOSE OF REPORT**

To seek Members' views on training needs in the role and operation of the Audit Committee and options for delivery during the coming year.

This report is public

RECOMMENDATIONS

- (1) **That the Committee considers whether it wishes to receive training in any of the roles and responsibilities of the Audit Committee during the current municipal year, and if so, the timing and format in which it would prefer to receive any such training.**

1.0 Introduction

1.1 The constitution and operation of the Audit Committee is considered as a specific element within the external auditor's annual assessment of the Council's "Use of Resources" (UoR). The Council's Audit Committee is established so as to cover all the core functions expected of an audit committee and has therefore been well placed to date to contribute to a positive assessment.

1.2 As the focus of UoR assessments moves more towards effectiveness and outcomes, the expectations of the Audit Committee are reflected in the following statements from the UoR:

- *"The council can demonstrate that it is effectively delivering the core functions of an audit committee, as identified in the CIPFA guidance; that it provides challenge to the Executive when required and provides for effective leadership on governance, financial reporting and audit issues."* (descriptor for "level 3"); and
- *"An audit committee ... provides effective challenge across the council and independent assurance on the risk management framework and associated internal control environment to members and the public, and can demonstrate the impact of its work."* (descriptor for "level 4")

2.0 Proposal Details

2.1 As this is the first meeting of the Committee in the current municipal year, it is an appropriate opportunity to consider the levels of knowledge and experience held by the Committee and assess whether, and what, training might be beneficial.

2.2 The core functions of the Committee are set out in its Terms of Reference which are attached as Appendix A. In terms of developing and demonstrating the Committee's effectiveness, the key elements, which Members may wish to consider as potential training topics, are:

- Monitoring arrangements for efficient and effective financial and operational resource management;
- Reviewing and approving the annual Statement of Accounts;
- Evaluating the effectiveness of Internal Audit and the use of Audit resources;
- Evaluating the adequacy and effectiveness of the Council's financial and operational policies and procedures (including financial and accounting management);
- Reviewing the findings of both Internal and External Audit examinations and ensuring that appropriate action is taken to remedy any weaknesses identified;
- Monitoring the effective development and operation of risk management and corporate governance by considering the effectiveness of the Council's adopted local Code of Governance; and
- Reviewing the operation of the Constitution. to ensure the aims and principles of the Constitution are given full effect.

2.3 It is anticipated that training would normally be delivered by officers of the Council and/or the external auditors. Options for delivering training are identified as:

- Inclusion of a training item (usually in the form of a short presentation) on the agenda for Committee meetings;
- Separate training sessions in addition to the normal Committee schedule;
- Provision of briefing notes on specific subjects/roles.

3.0 Details of Consultation

3.1 No consultation has been carried out.

4.0 Options and Options Analysis (including risk assessment)

4.1 The options available to the Committee are to consider the range and format of training it might wish to receive. The delivery of training could involve one, or a combination of options identified in § 2.3.

5.0 Conclusion

5.1 It is an opportune time for the Committee to consider whether and in what areas, training during the year would assist with its operation and help demonstrate its effectiveness. Any proposals for training will be taken forward in liaison with Democratic Services in their implementation of the Member Development Strategy and recently published Member Training and Development Programme.

<p>CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</p> <p>Not applicable</p>	
<p>FINANCIAL IMPLICATIONS</p> <p>None arising from this report</p>	
<p>SECTION 151 OFFICER'S COMMENTS</p> <p>The s151 Officer has been consulted and has no further comments.</p>	
<p>LEGAL IMPLICATIONS</p> <p>None arising from this report</p>	
<p>MONITORING OFFICER'S COMMENTS</p> <p>The Monitoring Officer has been consulted and has no further comments</p>	
<p>BACKGROUND PAPERS</p> <p>None</p>	<p>Contact Officer: Derek Whiteway Telephone: 01524 582028 E-mail: dwhiteway@lancaster.gov.uk Ref: aud/comm/aud/090630/ACtraining</p>

SECTION 8 – AUDIT COMMITTEE

Composition: 7 Members of the Council on a PR basis, Chairman and Members of the Committee appointed by Council annually. The Chairman must not be a member of Cabinet or Overview and Scrutiny. Changes can be made by Council during the course of the year.

Terms of Reference

- 8.1 To review all matters relating to Internal and External Audit. It will have the right of access to all the information it considers necessary and can consult directly with Internal and External Auditors.
- 8.2 To monitor arrangements for discharging the Council's responsibilities for efficient and effective financial and operational resource management. In pursuing this aim, it will consider:-
- the soundness, adequacy and application of controls;
 - compliance with policies, procedures and statutory requirements;
 - arrangements for safeguarding the Council's assets and interests;
 - the integrity and reliability of management information and financial records;
 - the economic, efficient and effective use of resources.
- 8.3 To approve the annual Statement of Accounts, income and expenditure and balance sheet or record of payments and receipts under the Account and Audit Regulations 1996.
- 8.4 To approve the Audit Plan of the External Auditor.
- 8.5 To monitor the External Auditor's progress with the Annual Plan, including his comments on the Best Value Performance Plan and the production of agreed outputs.
- 8.6 To approve Internal Audit strategic plans and the Annual Internal Audit Plan.
- 8.7 To monitor Internal Audits progress with the Annual Audit Plan, evaluating the effectiveness of Internal Audit and the use of Audit resources and recommending adjustments to the Audit Plan.
- 8.8 To review and comment upon liaison arrangements between Internal and External Audit with a view to optimising the effective deployment of Audit resources.
- 8.9 To evaluate the adequacy and effectiveness of the Council's financial and operational policies and procedures including financial and accounting management through discussions with the External Auditors, Internal Auditors and appropriate officers.
- 8.10 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.
- 8.11 To receive the annual Internal Audit Report and annual controls assurance statement.
- 8.12 To monitor the effective development and operation of risk management and corporate governance by considering the effectiveness of the Council's adopted local Code of Governance. Also to oversee the production of the authority's annual Governance Statement and recommend its adoption.

- 8.13 To prepare an annual Report to full Council setting out the committee's work and performance during the year and to refer to Council any matters it shall see fit.
- 8.14 To consider any matters referred to it by the Monitoring Officer in accordance with Overview and Scrutiny Procedure Rule 12.
- 8.15 With the Monitoring Officer to monitor and review the operation of the Constitution to ensure the aims and principles of the Constitution are given full effect.
- 8.16 To consider and approve amendments to the Council's Financial Regulations and Contract Procedure Rules.
- 8.17 To consider and propose to Council any other amendments to the Constitution as necessary.
- 8.18 To act as the mechanism for Members of the Council to liaise with the Independent Remuneration Panel on the Members' Allowances Scheme.
- 8.19 To review any issue referred to it by the Chief Executive or a Director or any Council body.
- 8.20 To approve a Statement of Purpose for the Audit Committee.
- 8.21 To be consulted as part of the process in agreeing the appointment by the Audit Commission of the Council's external auditor.