



Committee: AUDIT COMMITTEE
Date: WEDNESDAY, 23 SEPTEMBER 2009
Venue: MORECAMBE TOWN HALL
Time: 6.00 P.M.

A G E N D A

1. **Apologies for Absence**
2. **Minutes**
Minutes of the Meeting held on 30 June 2009 (previously circulated).
3. **Corporate Governance and the Audit Committee**
Verbal Presentation of the Internal Audit Manager to inform Members about Corporate Governance.
4. **Items of urgent business authorised by the Chairman**
5. **Declarations of Interest**
6. **Internal Audit Monitoring** (Pages 1 - 15)
Report of Internal Audit Manager.
7. **Anti-Money Laundering Policy** (Pages 16 - 52)
Report of Internal Audit Manager.
8. **Results of Internal Audit Work** (Pages 53 - 62)
Report of Internal Audit Manager.
9. **Statement of Accounts 2008/09** (Pages 63 - 64)
Report of Head of Financial Services

ADMINISTRATIVE ARRANGEMENTS

(i) **Membership**

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

(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 Tom Silvani, Democratic Services - telephone (01524) 582132 or email tsilvani@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 15 September 2009

AUDIT COMMITTEE**23rd September 2009****Internal Audit Monitoring****Report of Internal Audit Manager****PURPOSE OF REPORT**

To advise Members of the latest monitoring position regarding the 2009/10 Internal Audit Plan.

This report is public

RECOMMENDATIONS

- (1) That the current monitoring position is noted.
- (2) That the proposed adjustments to the Internal Audit Plan as set out in paragraphs 2.10 and 2.11 are approved.
- (3) That the proposed schedule of internal audit assurance work, attached at Appendix B, is endorsed.

1.0 Introduction

- 1.1 The 2009/10 Internal Audit Plan was approved by the Audit Committee at its meeting on 30th June 2009. This report is based on the monitoring position up to 26th August 2009.

2.0 Report

- 2.1 A detailed monitoring report as at 26th August 2009 is attached as Appendix A. In summary, the position as that date was as shown in the following table.

Area of work	Resources (audit days)				
	Actuals to 26/08/09	Remaining	Committed	Original Plan	Variance
Assurance Work					
Core Financial Systems	4.3	34.7	39.0	90	51.0
Core Management Arrangements	13.1	51.9	65.0	75	10.0
Risk Based Assurance Audits	28.4	63.3	91.7	225	133.3
Follow-Up Reviews	38.9	25.0	63.9	50	(13.9)
Sub-Total, Assurance Work	84.7	174.9	259.6	440	180.4
Consultancy Work					
Support Work	57.4	29.5	86.9	45	(41.9)
Efficiency & VfM	4.0	21.0	25.0	50	25.0
Ad-Hoc Advice	13.5	35.0	48.5	60	11.5
Sub-Total, Consultancy Work	74.9	85.5	160.4	155	(5.4)
Audit Management	33.2	21.0	54.2	60	5.8
Other Duties (Non-Audit)	12.6	15.4	28.0	60	32.0
Investigations	155.3	20.0	175.3	125	(50.3)
General Contingency	0.0	0.0	0.0	40	40.0
Total	360.7	316.8	677.5	880	202.5

- 2.2 Whilst this summary shows that, overall, audit resources are not yet fully committed (there being 202.5 days available), there are significant variances in some areas which are creating pressures within the plan.
- 2.3 Most significantly, a major ongoing investigation, which was known and planned for at the start of the year, has taken up more resources than anticipated. The Planned allocation of 125 days to investigative work has already been exceeded by 30 days and completion of existing work is anticipated to require a further 20 days.
- 2.4 Under the heading of Consultancy, the planned allocation for Support Work (45 days) has also been exceeded. This is mainly the consequence of additional work being undertaken in two areas, namely:
- Partnership mapping and evaluation (a commitment of 25 days); and
 - The council's Use of Resources submission (29 days)
- 2.5 The third area where planned allocation has been exceeded (by an additional commitment of 14 days) is in work to follow-up progress with action plans resulting from internal audit reports.
- 2.6 There is scope to partially mitigate these over-commitments, which total 106 days, through reduced commitment in some other areas. At the date of monitoring, it is anticipated that a reduced commitment in "Other Duties", particularly in work associated with the Fair Pay Project, will enable approximately 32 days to be freed up for other purposes. It is also anticipated that a smaller amount (approximately 6 days) may be freed up from "Audit Management" activity and approximately 11 days from "ad-hoc advice".

- 2.7 A further measure could be to allocate some or all of the general contingency of 40 days, although it would be unusual and possibly imprudent to fully expend this resource half way through the year.
- 2.8 It would also be possible to divert resources from the other headings in the plan, namely the programme of assurance work and the provision for efficiency and Value for Money. As these areas constitute the core elements of internal audit work on which management and the Audit Committee will rely in evaluating the council's internal control and governance arrangements, they should normally be regarded as a priority. It follows that diversion of resources from these programmes should be considered as a last resort.
- 2.9 A further option is to consider using some of the consultancy services budget available to Financial Services to provide temporary staff to assist with programmed work.
- 2.10 If the core internal audit programmes of assurance and efficiency & VfM work, are to be maintained, an additional 106 days of audit resource needs to be found to balance the Annual Plan. This can be partially achieved by diverting resources within the internal audit plan, as set out in the following table:

Plan Area	Measure	Resources
Support Work	Increase plan allocation	+42
Follow-Up Reviews	Increase plan allocation	+14
Investigations	Increase plan allocation	+50
Sub-total, increased allocations		+106
Ad-Hoc Advice	Reduce plan allocation	-11
Other Work (Non-Audit)	Reduce plan allocation	-32
Audit Management	Reduce plan allocation	-6
General Contingency	Apply 50% of contingency	-20
Sub-total, reduced allocations\contingency		-69
Balance remaining to be met		37

- 2.11 The above leaves a balance of 37 days to be met. It is proposed that this be managed by the Internal Audit Manager in consultation with the Head of Financial Services and the Chairman of the Audit Committee as necessary.

Future Work Programme

- 2.12 Following consultation with Service Heads, the rolling Risk-Based Assurance Audit work programme has been revised and is attached as Appendix B. The audit work included in this programme has again been prioritised from 1 – High to 3 – Low.
- 2.13 Members are asked to consider, comment on, and endorse the programme.

3.0 Details of Consultation

- 3.1 All Service Heads have been consulted in the development of the proposed Risk Based Audit Assurance Work Programme.

4.0 Options and Options Analysis (including risk assessment)

- 4.1 The options available to the Committee are either to approve the proposed adjustments to the Internal Audit Annual Plan which are set out in the table in § 2.10 and 2.11, or to propose that the additional commitments identified are met by a different combination of adjustments or measures.
- 4.2 The proposed adjustments are designed to ensure that the core programme of assurance work is safeguarded, and recognise that the overall position regarding work demands will develop and change during the remainder of the year. The proposal provides the Internal Audit Manager with the authority and flexibility to manage the plan. Should any more significant issues arise before the next scheduled meeting of the Committee, the Internal Audit Manager will advise and consult the Chairman on any proposed corrective measures.























5.0 Conclusion

- 5.1 Monitoring of the Annual Internal Audit Plan for 2009/10 shows a number of variations in demand for audit work, which need to be managed over the remainder of the year. It is anticipated at this stage that this can be managed so as not to affect the levels of assurance provided by Internal Audit's core programme of planned work.

<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 Section 151 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 2009/10</p>	<p>Contact Officer: Derek Whiteway Telephone: 01524 582028 E-mail: dwhiteway@lancaster.gov.uk Ref: aud/comm/audit/090923IAMon</p>

Internal Audit Annual Plan 2009/10 - Update at 26/08/09

Appendix A

Work Allocations		Actuals to 26/08/09	Remaining	Committed	Approved Plan	Variance	Status at 26/08/09
Job No	Title						
1. ASSURANCE WORK							
Core Financial Systems							
09/0715	Asset Management	0.9	4.1	5.0			
08/0752	Main Accounting	3.2	8.8	12.0			
09/0772	Value Added Tax	0.2	11.8	12.0			
08/0739	Creditors	0.0	10.0	10.0			
Sub-total - Core Financial Systems		4.3	34.7	39	90	51	
Core Management Arrangements							
08/0703	Fraud & Corruption Arrangements	4.8	0.2	5.0			
08/0721	National Fraud Initiative 2008/09	5.8	4.2	10.0			
08/0761	Financial Management	0.2	11.8	12.0			
09/0773	Performance Management	0.3	17.7	18.0			
09/0774	Ethical Governance Framework and Survey	2.0	18.0	20.0			
Sub-total - Core Management Arrangements		13.1	51.9	65.0	75	10	
Risk Based Assurance Work Programme							
08/0714	Fair Pay Project	1.2	18.8	20.0			
08/0723	Arts Development	1.4	0.0	1.4			
08/0725	Member Expenses & Civic Functions	2.5	0.0	2.5			
08/0728	Enforcement	3.8	1.2	5.0			
08/0730	Climate Change	6.0	9.0	15.0			
08/0733	Planning for Floods	0.5	0.0	0.5			
08/0749	Cycling and Walking	0.8	4.8	5.6			
08/0754	Mod.Gov System	9.2	0.5	9.7			
08/0755	Contaminated Land	2.4	9.6	12.0			
08/0759	Housing Standards	0.3	5.7	6.0			
08/0129	Contracts Audit - Final Accounts	0.3	1.7	2.0			
09/0775	Customer Services	0.0	12.0	12.0			
Sub-total - Risk Based Assurance Work		28.4	63.3	91.7	225.0	133.3	
Follow-Up Reviews		38.9	25	63.9	50.0	-13.9	
SUB-TOTAL - ASSURANCE WORK		84.7	174.9	259.6	440.0	180.4	

Internal Audit Annual Plan 2009/10 - Update at 26/08/09

Appendix A

Work Allocations		Actuals to 26/08/09	Remaining	Committed	Approved Plan	Variance	Status at 26/08/09
Job No	Title						
2. CONSULTANCY WORK							
Support Work (projects and other)							
08/0509	RIPA Monitoring	1.7	2.3	4.0			∞
08/0633	Risk Management Steering Group	0.7	1.3	2.0			∞
08/0700	Corporate Governance Framework Development	1.6	2.4	4.0			⚠
08/0735	Partnership Mapping and Evaluation	13.6	11.4	25.0			∞
08/0744	Anti-Money Laundering Policy Development	5.1	4.9	10.0			⚠
08/0753	Williamson's Park Financial Procedures	0.9	0.0	0.9			✓
09/0768	Programme Management and External Funding	4.1	5.9	10.0			⚠
09/0767	Use of Resources 2008/09	29.0	0.0	29.0			✓
09/0769	Corporate Procurement Arrangements	0.7	1.3	2.0			∞
Sub-total - Support Work		57.4	29.5	86.9	45.0	-41.9	
Efficiency & VfM							
09/0770	Value For Money Strategy Review	4.0	21.0	25.0			⚠
Sub-total - Efficiency & VfM		4.0	21.0	25.0	50.0	25.0	
Ad-Hoc Advice		13.5	35.0	48.5	60.0	11.5	∞
SUB-TOTAL - CONSULTANCY WORK		74.9	85.5	160.4	155.0	-5.4	
3. OTHER							
00/0392	Deputy s151 Duties	4.7	3.3	8.0			∞
08/0760	Fair Pay Project - Pay Modelling Work	7.9	12.1	20.0			⚠
SUB-TOTAL - OTHER		12.6	15.4	28.0	60.0	32.0	
4. AUDIT MANAGEMENT							
08/0172	Committee Work	14.3	9.0	23.3			∞
08/0189	Audit Planning and Monitoring	18.9	12.0	30.9			∞
SUB-TOTAL - AUDIT MANAGEMENT		33.2	21.0	54.2	60.0	5.8	
5. CONTINGENCIES							
Investigations		155.3	20.0	175.3	125.0	-50.3	⚠
General Contingency		0.0	0.0	0.0	40.0	40.0	
SUB-TOTAL - CONTINGENCIES		155.3	20.0	175.3	165.0	-10.3	
TOTALS		360.7	316.8	677.5	880.0	202.5	

Key: ✓ Completed ⚠ In Progress ⚠ Not Yet Started ∞ Continuous or Multi-Year Activity
 CFwd Carried Forward to 2010/11 Plan ✗ Abandoned

Internal Audit Plan 2009/10

Potential Assurance Audits identified through Service Head consultations

Note: In the following table, potential audits have been identified through meetings with Service Heads and the lists includes area of development which are to be kept under review, where assurance may be required at some future date.

Where a preferred timing of the audit has been identified, this is shown in the "Scheduling/Comments" column.

In assessing the relative priority of assignments, the following characteristics have been used as a guide:

Priority 1	Priority 2	Priority 3
<ul style="list-style-type: none"> ○ Key contribution to corporate priorities ○ Key element in Corporate Governance/Internal Control ○ Relates to a Strategic Risk ○ High levels of risk involved ○ Alternative sources of assurance are limited 	<ul style="list-style-type: none"> ○ Significant contribution to corporate priorities ○ Significant element in Corporate Governance/Internal Control ○ Significant levels of risk involved ○ Alternative sources of assurance are limited 	<ul style="list-style-type: none"> ○ Minor contribution to corporate priorities ○ Not a significant element in Corporate Governance/Internal Control ○ Low levels of risk involved ○ Alternative sources of assurance exist <p>OR Not currently relevant, but to be reviewed for future coverage</p>

A. Corporate Arrangements					
Area	Scope & Objectives	Services Involved	Priority	Scheduling / Comments	
Performance Management	To focus on the LAA (and potential MAAs) and arrangements for collecting and reporting NIs	All Services	1		
Financial Management	Review the arrangements and capacity of Services to effectively manage finances	Finance (Lead) All Services	1	Continuation of audit commenced in 2008/09	
External Funding	Efficiency and effectiveness of strategic approach to seeking, securing and managing external funding.	Finance (Lead) All Services	1		
Sickness Absence Management	Efficiency and effectiveness of the SAM policy and procedures and performance management arrangements	Legal & HR (Lead) All Services	1		
Climate Change	Efficiency and effectiveness of corporate strategy for climate change	Corporate Strategy (Lead) All Services	1	Continuation of audit commenced in 2008/09	Scope to be reviewed in view of other emerging issues (eg CRC)
	Effectiveness of energy efficiency arrangements for municipal buildings	Property Services (Lead) All Services	1		
	Implications/arrangements re the Carbon Reduction Commitment (CRC)	Property Services (Lead) All Services	2		
Children & Young People	Efficiency and effectiveness of arrangements to implement the Council's strategy and meet legislative change	Corporate Strategy (Lead) All Services	1	Held over from 2008/09 Plan	

Appendix B

A. Corporate Arrangements				
Area	Scope & Objectives	Services Involved	Priority	Scheduling / Comments
Information Security	Information Security Policy compliance with British Standard and with the Government Connect Code of Connection (CoCo). Efficiency and effectiveness of arrangements for data security, data exchange and access controls.	ICS (Lead) All Services	1	Currently ongoing but suspended due to other commitments
Asset Management	Efficiency and effectiveness of financial control and management of Council assets	Finance and Property (Leads) All Services	1	
Debt Management	Efficiency and effectiveness of corporate arrangements	Finance and Legal (Leads) All Services	2	
Employee Training and Development	Efficiency and effectiveness of EDPA system	Legal & HR (Lead) All Services	3	To be kept under review
Project Management	Review of effectiveness of LAMP methodology.	Corporate Strategy (Lead) All Services	2	
Cross-Cutting Initiatives	Efficiency and effectiveness of approach to identifying, resourcing and managing cross-cutting programmes/initiatives.	Potentially all Services	2	Put forward as a possible alternative to audits of individual cross-cutting initiatives, e.g. Climate Change, Children & Young People
Information Management	Efficiency and effectiveness of arrangements for managing and sharing information within the Authority and its partnerships	All Services	2	

Appendix B

A. Corporate Arrangements					
Area	Scope & Objectives	Services Involved	Priority	Scheduling / Comments	
Fraud and Corruption		All Services	1	Continuation of audit commenced in 2008/09	
Asset Management	Project assurance role re implementation of Technology Forge Asset Management system modules	Finance and Property	3	Not to be done yet – keep under review	
Partnership Mapping and Evaluation	Co-ordinate evaluation of major partnerships	All Services	1	Ongoing programme	

B. Cross-Cutting Areas					
Area	Scope & Objectives	Services Involved	Priority	Scheduling / Comments	
Customer Services	Efficiency and effectiveness of performance management relating to CSC information Performance in relation to NI 14 – avoidable contact indicator	Services covered by CSC	1		
Parks and Playgrounds	Effectiveness of strategies and plans to maintain the District's Parks and open spaces and to improve playground provision	CC(D)S Cultural	2		
Walking and Cycling	Effectiveness of the Walking and Cycling strategies and implementation of the Cycling Demonstration Town programme	Planning & Building Control Econ Dev & Tourism	2	Continuation of audit commenced in 2008/09	
Affordable Housing	Effectiveness of arrangements to meet planned provision of affordable housing and working arrangements with RSLs	Neighbourhood Management Taskforce Health & Strategic Housing Planning	1		
Grants to Voluntary Organisations	Efficiency and effectiveness of arrangements for making and managing grants as per Grants Task Group recommendations	Democratic (Lead)	2		
Supporting People programme	Effectiveness of arrangements for managing Council's input to the SP programme	Council Housing Health & Strategic Housing NM Taskforce	3	To keep under review – not scheduled at present	

C. Service Specific Areas				
Service	Area	Scope & Objectives	Priority	Scheduling / Comments
Property Services	Maintenance and use of municipal buildings	Efficiency and effectiveness of programme management arrangements	3	To be kept under review – currently being considered by Director's project
Council Housing	Emergency Call Centre	Project Assurance re implementation of replacement system	3	To be kept under review
Democratic Services	Implementation and operation of the Mod.Gov system	Efficiency and effectiveness of Mod.Gov system and plans for further implementation of services/features.	2	Continuation of audit commenced in 2008/09
Financial Services	Treasury Management	Efficiency and effectiveness of arrangements for managing counter-party risks and for cashflow forecasting and management	3	To be kept under review
Health & Strategic Housing	Contaminated Land	Effectiveness of arrangements to deliver Council's responsibilities for contaminated land	2	Continuation of audit commenced in 2008/09
Health & Strategic Housing	Housing Standards	Effectiveness of arrangements to provide advice, support and enforcement in the private rented sector, including plans to improve fire precautions in HMOs in South Lancaster	2	Needs scoping more
Planning & Building Control	Planning Decisions and Complaints	Probity of systems and protocols for handling and making planning decisions and complaints	2	

Appendix B

C. Service Specific Areas				
Service	Area	Scope & Objectives	Priority	Scheduling / Comments
Cultural Services	Cultural and Sports Development	Dependent on outcome of the Culture and Sport Improvement Toolkit (CSIT) development and implementation	3	To be kept under review in light of CSIT implementation
CC(D)S	Landfill Allowance Trading Scheme	Impact of the scheme	3	To keep under review.
CC(D)S	Recycling and Reuse of Bulky Waste	Review of Bulky Matters model	3	To keep under review.
CC(D)S	Street cleansing/recycling	Consider arrangements for maintaining cleanliness of streets and public spaces and recycling through education and co-ordinated service delivery	2	
CC(D)S	Toilet provision	Consider plans working with Parish Council's for toilet provision/maintenance from 2010 – efficiency savings	2	
Planning & Building Control	Section 106 Agreements and the Community Infrastructure Levy	Efficiency and effectiveness of arrangements for s106 Agreements and for implementing the Infrastructure Levy	3	To be kept under review

Appendix B

D. Financial Systems				
Service	Area	Scope & Objectives	Priority	Scheduling / Comments
Revenue Services	Council Tax, NNDR and Benefits	Probity, regularity and financial efficiency of system operation (see note below)	1	
Financial Services	Main Accounting		3	
Financial Services	Income Management	Probity, regularity and financial efficiency of system operation (see note below)	1	
Financial Services	Creditors	Probity, regularity and financial efficiency of system operation (see note below)	1	
Financial Services	VAT	Probity, regularity and financial efficiency of system operation (see note below) Link with assurance testing programme being introduced by Finance	1	
Financial Services	Payroll	Probity, regularity and financial efficiency of system operation (see note below).	1	
Financial Services	Payroll		1	Continuation of audit commenced in 2008/09
Financial Services	Sundry Debtors	Probity, regularity and financial efficiency of system operation (see note below). Focus on collection and recovery.	2	

Appendix B

D. Financial Systems				
Service	Area	Scope & Objectives	Priority	Scheduling / Comments
Financial Services	Income Tax and National Insurance		3	
Council Housing	Housing Rents	Probity, regularity and financial efficiency of system operation (see note below). Focus on arrears management.	1	

Note: "Probity, regularity and financial efficiency of system operation" is intended to provide assurance that these systems remain efficient and effective under the current economic climate. This will cover issues such as exposure to fraud; the potential for error, duplication, etc; and performance in areas such as arrears, collection rates, payment times, etc.

AUDIT COMMITTEE**23rd September 2009****Anti-Money Laundering Policy****Report of Internal Audit Manager****PURPOSE OF REPORT**

To seeks Members approval for a proposed policy dealing with the council's exposure and responsibilities in relation to money laundering activity and the proceeds of crime.

This report is public

RECOMMENDATIONS

- (1) That the proposed Anti-Money Laundering Policy attached as Appendix A is approved.**
- (2) That the proposed Anti-Money Laundering Guidance Notes attached as Appendix B are noted and endorsed.**
- (3) That the proposed amendments to Financial Regulations and Procedures set out in Appendix C are approved.**
- (4) That, as set out in the policy, the Internal Manager reviews and reports annually to the Audit Committee on its operation and effectiveness.**

1.0 Introduction

- 1.1 In recent years, there have been significant changes to the legislation concerning money laundering. The Proceeds of Crime Act 2002, the Terrorism Act 2000 and the Money Laundering Regulations 2007 place obligations on all individuals, including employees and elected members, and on the council to establish internal procedures to prevent the use of its services for money laundering.
- 1.2 Whilst the Internal Audit Manager has been informally identified as the Council's Money Laundering Reporting Officer (MLRO), a formal policy has not so far been established in relation to dealing with suspected money laundering activity.

2.0 Report

2.1 The draft Anti-Money Laundering Policy attached at Appendix A has been developed from best practice guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Policy describes:-

- what money laundering is;
- the obligations of the Council;
- disclosure procedures;
- the role of the MLRO in disclosures;
- reporting standards and related procedures; and
- policy review arrangements

2.2 The “related procedures” section of the policy sets out specific standards in relation to receipts and refunds. It is proposed within the policy that the Council will not accept any cash payment in excess of £1,000. This is intended as a preventative measure requiring notification to the MLRO of any attempted cash payment above this limit.

2.3 A detailed Anti-Money Laundering Guidance Note (attached as Appendix B) has been produced in support of the policy. It is proposed to use this document as the basis for providing appropriate levels of training and guidance to relevant employees and elected members. This will range from providing general awareness information to the majority of employees and elected members to more in-depth and targeted training for employees whose duties involve services and activities where the risk of money laundering activity is highest, for example property transactions, income handling and financial services generally.

2.4 Approval of the policy as drafted will require a number of changes to the existing Financial Regulations and Procedures; the proposed changes are set out in Appendix C. Authority to approve amendments to Financial Regulations is delegated to the Audit Committee under Article 15.02(a)(i).

3.0 Details of Consultation

3.1 Service Heads whose areas of responsibility involve the potential for money laundering activity have been consulted on both the Anti-Money Laundering Policy and Guidance Notes.

4.0 Options and Options Analysis (including risk assessment)

4.1 The options available are:

- A. To approve the draft policy as submitted, or with any amendments suggested by the Committee
- B. Not to proceed with the policy

4.2 Options analysis, based on associated risks and opportunities is set out in the following table:

Risk /Opportunity	Option A – Approve Policy	Option B – Do Not Proceed
Failure of the council to meet statutory requirements in identifying and responding to money-laundering activity	Adoption of the policy defines, in accordance with proper practice, the council’s responsibilities and how it will respond	Without a formal policy statement, the council’s response is likely to be inconsistent; statutory requirements may not be met
Failure of individuals to meet statutory expectations	The policy and guidance provide the framework for ensuring that individuals are aware of their own responsibilities	Individuals are unlikely to be aware of their personal responsibilities
Risk of financial loss to the council from a money-laundering offence	The policy is aimed at establishing risk-sensitive procedures within the council. Risks will be more fully understood and managed	Exposure to the risk of financial loss is likely to be poorly understood and managed

4.3 For the reasons covered in the above table, option A is the preferred option.

5.0 Conclusion

5.1 Legislative changes in recent years and the publication by CIPFA of professional guidance on money laundering and financial crime present an opportunity for the council to strengthen its commitment to combat crime. Approval of the proposed Anti-Money Laundering Policy and Guidance Note provide the framework for this commitment to be implemented and fulfilled.

<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 Section 151 Officer has been consulted and has no further comments.</p>
<p>LEGAL IMPLICATIONS</p> <p>It is appropriate in pursuance of its statutory requirements for the council to establish a money laundering policy. Legal Services have been consulted upon the proposed policy and are satisfied that it supports the council’s obligations under the legislation.</p>

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments

BACKGROUND PAPERS

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LANCASTER CITY COUNCIL
Promoting City, Coast & Countryside

Anti-Money Laundering Policy

Initial Draft

Version 0.02

30 July 2009

Version Control

Document Title: **Anti-Money Laundering Policy**

Document Ref: **Audit/Jobs/080744/Anti-Money Laundering Policy/Draft Anti-Money Laundering Policy.doc**

Version: **0.02**

Date: **30 July 2009**

Status: **Release 1**

Issue History:

Author: **Derek Whiteway, Internal Audit Manager**

Document History

Document Title	Version	Reference / Date	Comments
Anti-Money Laundering Policy	0.01	15/05/09	Initial draft of the Policy
	0.02	30/07/09	Draft incorporating amendments following consultation with relevant officers, also updates from new CIPFA publication " <i>Combating Financial Crime</i> "

LANCASTER CITY COUNCIL

ANTI MONEY LAUNDERING POLICY – INITIAL DRAFT

Introduction

1. The Proceeds of Crime Act 2002, the Terrorism Act 2000 and the Money Laundering Regulations 2007 place obligations on the Council and its employees to establish internal procedures to prevent the use of their services for money laundering.

Scope of the Policy

2. This Policy applies to all employees and elected Members of the Council and aims to maintain the high standards of conduct which currently exist within the Council by preventing criminal activity through money laundering. The Policy sets out the standards expected and key procedural points which must be followed (for example the reporting of suspicions of money laundering activity) to enable the Council to comply with its legal obligations.
3. Further procedural information and guidance is set out in the accompanying Guidance Note. Both the Policy and the Guidance Note sit alongside the Council's Whistleblowing Policy and Anti-Fraud, Theft and Corruption Strategy.
4. Failure by a member of staff to comply with the procedures set out in this Policy may lead to disciplinary action being taken against them. Any disciplinary action will be dealt with in accordance with the Council's Disciplinary Procedure.

What is Money Laundering?

5. Money laundering can be defined as "a process that makes money with an illegal origin appear legal so that it may be used". Legislation has now broadened the definition of money laundering and increased the range of activities caught by the statutory framework. As a result, there is an obligation on local authorities to establish internal procedures to prevent the use of their services for money laundering.
6. Money laundering is the term used for a number of offences involving the proceeds of crime or terrorism funds, as follows:
 - concealing, disguising, converting, transferring criminal property or removing it from the UK (section 327 of the 2002 Act);
 - entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (section 328);
 - acquiring, using or possessing criminal property (section 329).
 - failure to disclose any of the above offences; and
 - 'tipping off' a person suspected of being involved in money laundering or notifying them that they are the subject of a police investigation
7. Potentially any individual (including a member of staff or elected Member) can be subject to the money laundering provisions if they suspect money laundering and either become involved with it in some way and/or do nothing about it. The Guidance Note gives practical examples and sets out how any concerns should be raised.

What are the Council's obligations?

8. The statutory requirements concerning anti money laundering procedures are extensive and complex. The purpose of this policy is to enable the Council, its employees and its elected members to meet their legal obligations in a way that is proportionate to the low risk to the Council of contravening the legislative framework
9. Whilst the legislation applies to all individuals and organisations in the UK, the main obligations are placed upon individuals and businesses that fall within 'the regulated sector' and carry out 'relevant business'. This mainly means people or businesses who provide for example, accountancy, legal and property services to third parties. It is CIPFA's¹ view that the normal provision of such services within the Council does not count as 'relevant business' and that public authorities are not legally obliged to apply the provisions of the Money Laundering Regulations 2007. Nevertheless, it is CIPFA's view that as responsible public bodies, local authorities should employ policies and procedures which reflect the essence of the UK's anti-terrorist financing and money-laundering regimes.
10. The Council will therefore:
 - appoint a Money Laundering Reporting Officer (MLRO) to receive disclosures from employees or elected Members of money laundering activity;
 - implement a procedure to enable the reporting of suspicions of money laundering;
 - establish and maintain additional procedures in relevant circumstances (where it is operating within the 'regulated sector'); and
 - maintain appropriate record keeping procedures.
11. Given the current arrangements for collecting income, and particularly the restrictions on the collection of cash, it is felt that the Council's exposure to money laundering activity is restricted. It is, however, important that elected Members and employees, particularly those involved in activities identified as being exposed to potential money laundering activity, are familiar with their personal legal responsibilities, as serious criminal sanctions can be imposed for breaches of the legislation. Furthermore, if the Council were subject to a money laundering offence, this would reflect badly on its stewardship role and reputation.
12. The key requirement on employees and elected Members is to promptly report any suspected money laundering activity to the Money Laundering Reporting Officer. Vigilance by the Council, its employees and elected Members can help identify those who are or may be perpetrating crimes relating to the financing of terrorist activity and money laundering.

The Money Laundering Reporting Officer (MLRO)

13. The Council's nominated MLRO is the Internal Audit Manager, whose address is as follows:-

Internal Audit Manager
Financial Services
Town Hall
Lancaster
LA1 1PJ

¹ Chartered Institute of Public Finance and Accountancy

14. The current MLRO is Derek Whiteway who can be contacted on 01524 58(2028) (Direct Line) or dwhiteway@lancaster.gov.uk In the absence of the MLRO, the Principal Auditor, Bob Bailey is authorised to deputise. Bob can be contacted at the above address or on telephone number 01524 58(2018) (Direct Line) or rbailey@lancaster.gov.uk.
15. All disclosures will be reported in confidence to the Chief Executive, Monitoring Officer (currently the Head of Legal and Human Resources) and the s151 Officer (currently the Head of Financial Services).

Reporting Requirements

16. Where an employee or elected Member is aware that money laundering may have taken place (or may be taking place) he or she must contact the MLRO for guidance as soon as possible, regardless of the amount involved. If this involves the Council receiving money, no transaction may be made by anyone until this has been done.
17. Any person knowing or suspecting money laundering, fraud or use of the proceeds of crime must report this to the MLRO on the forms provided with the Guidance Note.
18. Upon receipt of a report the MLRO will consider all of the admissible information in order to determine whether there are grounds for suspecting money laundering.
19. If the MLRO determines that the information should be disclosed he will make a report to the Serious Organised Crime Agency (SOCA).
20. At no time and under no circumstances should any employee or elected Member voice any suspicions to the person(s) suspected of money laundering, even if the SOCA has given consent to a particular transaction proceeding.
21. The MLRO will keep the appropriate records in a confidential manner.

Related Procedures

22. The Council, has adopted the following procedural standards:
 - (i) Regular receipts – the Council in the normal operation of its business accepts payments from individuals and organisations in respect of a range of activities. If an employee or elected Member has reasonable grounds to suspect the existence of a money laundering activity or proceeds of crime or is simply suspicious, the matter should still be reported to the MLRO.
 - (ii) Cash receipts – if the money offered in cash is £1,000 or more then payment must not be accepted until the employee has received guidance from the MLRO.
 - (iii) Refunds – any significant overpayment which results in a repayment will need to be properly investigated and authorised before payment.
23. The Council will establish other procedures for internal control and communication as may be appropriate for the purpose of the prevention of money laundering.

Effectiveness

24. The Council's exposure to money laundering risks and the content and effectiveness of this policy shall be reviewed at least annually by the Internal Audit Manager and the Audit Committee.



LANCASTER CITY COUNCIL
Promoting City, Coast & Countryside

Anti-Money Laundering Policy

Guidance Notes

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LANCASTER CITY COUNCIL

ANTI MONEY LAUNDERING GUIDANCE NOTES – INITIAL DRAFT

Introduction

1. Historically, legislation seeking to prevent the laundering of the proceeds of criminal activity was aimed at professionals in the financial and investment sector, however it was subsequently recognised that those involved in criminal conduct were able to ‘clean’ the proceeds of crime through a wider range of businesses and professional activities.
2. More wide ranging obligations in respect of money laundering were therefore imposed by the Proceeds of Crime Act 2002 (as amended) and the Money Laundering Regulations 2007, which broadened the definition of money laundering and increased the range of activities caught by the statutory control framework. In particular, the duty to report suspicions of money laundering was strengthened and criminal sanctions imposed for failure to do so.
3. As a result, all individuals, including Council employees and elected Members are subject to the legislative controls. This is dealt with in Section 1 of the guidance, entitled “Normal Business Activities”. In addition, the Council may in some areas of activity be required, by law, to establish, maintain and monitor appropriate procedures designed to prevent the use of its services for money laundering. These circumstances and obligations are covered in Section 2, entitled “Regulated Business Activities”. The Council’s commitment to establishing effective arrangements is set out in the Anti-Money Laundering Policy.
4. This document describes the procedures established by the Council, provides practical help in implementing them and more detailed guidance on the legal requirements. All employees and elected Members should be aware of the content.

The Legal Requirements

5. Some parts of the anti-money laundering framework apply, potentially, to all individuals and organisations, whereas other parts only apply to organisations which are in the “regulated sector” or carry out certain “relevant business”.
6. The 2007 Money Laundering Regulations are clear that local authorities are not regulated bodies. The Council’s normal activities do not fall within the definition of the “regulated sector” as it is rare for the Council to provide relevant services to third parties on a commercial footing. Details of the type of “relevant activity” which the Council could potentially undertake, and the procedures required in those circumstances are set out in Section 2 of the guidance.
7. Although the conduct of regulated activity does not apply to the Council as a whole, all employees and elected Members are required to comply with the Council’s Anti-Money Laundering Policy in terms of reporting concerns about money laundering in the course of normal business activity. This will ensure consistency throughout the organisation and avoid offences being committed inadvertently.

Section 1 - Normal Business Activities

Money Laundering Offences

8. The scope of Money Laundering now goes beyond the transformation of the proceeds of crime into apparently legitimate money/assets. It now covers a range of activities regarding the proceeds of crime. These do not necessarily need to involve either money or 'laundering'.
9. Under the Proceeds of Crime Act 2002 (POCA 2002), the primary offences are defined as:
 - concealing, disguising, converting, transferring **criminal property** (see § 15) or removing it from the UK (section 327);
 - entering into or becoming concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (section 328); and
 - acquiring, using or possessing criminal property (unless there was adequate consideration) (section 329). This also includes an attempt, conspiracy or incitement to commit such an offence; or aiding, abetting, counselling or procuring such an offence
10. Any person found guilty of one of the primary offences is liable to imprisonment (maximum 14 years), a fine or both.

Prejudicing an Investigation offence

11. Under section 342 of POCA 2002 you may commit an offence if you know or suspect that an appropriate officer is, or is about to be, conducting a money laundering investigation and you make a disclosure to a third party that is likely to prejudice the investigation.
12. However, defences are available, if for example:
 - you did not know or suspect that the disclosure was likely to be prejudicial; or
 - you are a professional legal adviser and the disclosure was:
 - to a client (or their representative) in connection with the giving of legal advice;
 - to any person in connection with legal proceedings (existing or contemplated); but NOT where the information was given with the intention of furthering a criminal purpose.
13. Any person found guilty of a prejudicing an investigation offence is liable to imprisonment (maximum 5 years), a fine or both.

Terrorist property offence

14. An offence also exists under section 18 of the Terrorism Act 2000, namely becoming concerned in an arrangement facilitating concealment, removal from the jurisdiction, transfer to nominees or any other retention or control of **terrorist property** (see § 16).
15. In the above paragraphs, "criminal property" is widely defined: it is property representing a person's benefit from criminal conduct. It includes all property real or personal, including money, and also includes an interest in land or a right in relation to property other than land.
16. "Terrorist property" means money or other property which is likely to be used for the purposes of terrorism, proceeds of the commission of acts of terrorism, and acts carried out for the purposes of terrorism.

17. Under the legislation you are expected to take action on:

- suspicions that you actually have; or
- suspicions that ought to be obvious; or
- suspicions that an honest and reasonable person would have given the circumstances and the information available.

Consequently, if you deliberately ignore the obvious, this will not absolve you of your responsibilities under the legislation.

18. Although you do not need to have actual evidence that money laundering is taking place, mere speculation or gossip is unlikely to be sufficient to give rise to knowledge or suspicion that it is.
19. It is clear the legislation now goes beyond, for example, major drug money laundering operations, terrorism and serious crime to cover the proceeds of potentially any crime, no matter how minor and irrespective of the size of the benefit gained. There is no “de-minimis” level to the scope of the legislation. The case of *P v P* (8 October 2003) confirmed that *‘an illegally obtained sum of £10 is no less susceptible to the definition of criminal property than a sum of £1million. Parliament clearly intended this to be the case.’*
20. The broad definition of money laundering means that the Act applies to a very wide range of everyday activities within the Council and therefore potentially anybody (including any Council employee or elected Member) could conceivably commit a money laundering offence if they become aware of, or suspect the existence of criminal or terrorist property, and continue to be involved in the matter without reporting their concerns.
21. If you know or suspect, through the course of your work, that anyone is involved in any sort of criminal conduct then it is highly likely, given the wide definition of money laundering, that they are also engaged in money laundering and a report to the MLRO will be required (see §28-30). As explained earlier, the value involved in the offence is irrelevant.
22. The Council has appointed the Internal Audit Manager as its Money Laundering Reporting Officer (MLRO) to receive reports from employees of suspected money laundering activity.

Examples of money laundering activity

23. By way of example, consider the following hypothetical scenario:

‘A Housing Grants Officer is assessing a grant applicant’s finances to calculate how much should be paid towards the cost of improvement works, and then goes on to arrange for a grant to be awarded, in the course of which they become aware of, or suspect the existence of, criminal property.’

24. In this scenario the Housing Grants Officer may commit an offence under section 328 by *‘being concerned in an arrangement’* which they know or suspect *‘facilitates the acquisition, retention, use or control of criminal property’* if they do not report their concerns. Any lawyer involved could also be guilty of an offence if they assist in the transaction.
25. Any person found guilty of a primary money laundering offence is liable to imprisonment (maximum of 14 years), a fine or both; however an offence is not committed if the suspected money laundering activity is reported to the MLRO and, where necessary, official permission obtained to continue in the transaction.

26. Defences are available if, for example, the person:

- makes an 'authorised disclosure' under section 338 of the 2002 Act to the Serious Organised Crime Agency (SOCA) or the MLRO and SOCA give consent to continue with the transaction;
- intended to make such a disclosure but had a reasonable excuse for not doing so;
- was carrying out a function they have relating to the enforcement of the 2002 Act or any other enactment relating to criminal conduct (or benefit from it);
- in relation to POCA section 329, acquired, used or possessed the property for adequate consideration.

[The Law Society Guidance states that in relation to this particular defence "The Crown Prosecution Service guidance for prosecutors states that the defence applies where professional advisers, such as solicitors or accountants, receive money for or on account of costs whether from the client or from another person on the client's behalf. Disbursements are also covered. The fees charged must be reasonable and the defence is not available if the value of the work is significantly less than the money received."]

- in relation to the Terrorist Act, did not know and had no reasonable cause to suspect the arrangement related to terrorist property.

Possible indicators of money laundering

27. It is impossible to give a definitive list of ways in which to spot money laundering or how to decide whether to make a report to the MLRO. The following table gives the types of risk factors which may suggest the possibility of money laundering activity within the normal conduct of Council's activities:

Indicator	Area(s) of Activity	Comments
General		
a) Payment of a substantial sum in cash (over £1,000 in the case of this Council)	Any activity where cash payments are accepted	Cash payments in excess of £1,000 should not be accepted without referral to the MLRO.
b) Overpayments or money paid on account.	Council Tax Business Rates Housing Rents Other Rents Other Debts	Care must be taken, especially with requests for refunds. A significant overpayment (whether by cash or other means), which results in a repayment should be properly investigated and authorised before payment

Indicator	Area(s) of Activity	Comments
c) Where, without reasonable explanation, the size, nature and frequency of transactions is out of line with normal expectations	Council Tax Business Rates	A real threat is, for example a landlord who owns several properties, which were acquired through the proceeds of crime, who attempts to pay Council Tax on those properties in cash by way of several transactions, the aggregate of which exceeds the money laundering limit of €15,000 (currently c£13,900 in March 2009) (this is recognised nationally as a method of attempting to avoid detection)
d) Unusual patterns of transactions which have no apparent economic, efficient or visible lawful purpose		
e) The cancellation or reversal of an earlier transaction (where the person is likely to request the return of previously deposited monies).	Council Tax Business Rates Others??	Where a payment is made using a credit or debit card then any refund must be made to the credit or debit card in question and not, under any circumstances, in any other form because to do so one could unwittingly facilitate the laundering of money
f) Any other activity which is particularly likely by its nature to be related to money laundering or terrorist financing.	Markets Activities involving property visits/inspections	e.g. individuals holding or attempting to transfer/sell stocks of electrical goods

Indicator	Area(s) of Activity	Comments
Property Matters		
a) A cash buyer	Council property sales and purchases	Property transactions are a slightly higher risk for the Council. For example, if the Council agrees to sell a parcel of land to a developer or other third party, at a price that is far in excess of its estimated value, or the buyer offers to pay the full price in cash, then this may be evidence of money laundering activity
b) A sudden change of buyer		
c) Unusual property investment transactions if there is no apparent investment purpose or rationale	Conveyancing	
d) Re property transactions, funds received for deposits or prior to completion from an unexpected source or where instructions are given for settlement funds to be paid to an unexpected destination		
e) No clear explanation as to the source of funds along with lack of clarity as to how the party would be in a position to finance the purchase		
f) Money comes in from an unexpected source		

Your responsibilities and how to act

28. Facts which tend to suggest that something odd is happening may be sufficient for you to reasonably suspect money laundering. You should be on the look out for anything out of the ordinary. If something seems unusual, stop and question it. If you are unsure, seek guidance from the MLRO.
29. In short, the money laundering offences apply to your own actions and to matters in which you become involved. If you become aware that your involvement in a matter may amount to money laundering under the SOCA 2002 Act then you must discuss it with the MLRO and not take any further action until you have received, through the MLRO, the consent of SOCA.
30. Under either circumstance, you may decide or be advised by the MLRO to complete and submit a confidential disclosure report. The prescribed form is attached at Appendix C. If necessary, the MLRO will provide guidance on completing the form.

Consideration of disclosure report by MLRO

31. Where the MLRO receives a disclosure report he will seek to conclude:
 - Whether there is actual/suspected money laundering taking place, or there are reasonable grounds to suspect so; and
 - Whether he can identify the money launderer or the whereabouts of the laundered property; or
 - Whether he might reasonably believe that the information he has will assist in identifying the person/property.
32. If the MLRO reaches a positive conclusion on these points, he must make a report as soon as practicable to SOCA (in the manner prescribed by SOCA), unless there is a reasonable excuse for non-disclosure. Where relevant, the MLRO will also need to request from SOCA appropriate consent to proceed with any acts/transactions which would otherwise amount to prohibited acts under section 327 – 329 of the 2002 Act.
33. The MLRO may receive appropriate consent from SOCA in the following ways:
 - specific consent;
 - no refusal of consent during the notice period (seven working days starting with the first working day after the MLRO makes the disclosure); or
 - refusal of consent during the notice period but the moratorium period has expired (31 days starting with the day on which the MLRO receives notice of refusal of consent).
34. The MLRO may commit a criminal offence under section 331 of the SOCA 2002 Act if, under the circumstances set out in §31-32, he does not disclose the suspected activity as soon as practicable to SOCA.

Relevant guidance

35. When considering any offence under the legislation, the Court will consider whether you have followed any relevant guidance approved by the Treasury, a supervisory authority, or any other appropriate body. These will include, for example, the Law Society, the Financial Services Authority, the Chartered Institute of Public Finance & Accountancy and other such bodies. Such guidance is available for lawyers and accountants by their respective professional bodies.

Section 2 - Regulated Business Activity

Scope and definitions

36. The Money Laundering Regulations 2003 defined the regulated sector by reference to the type of activity undertaken. The details are set out in Appendix A.
37. Under the Money Laundering Regulations 2007 (which superseded the 2003 Regs), regulation is now defined by reference to the profession of relevant individuals and organisations rather than by activity, as follows:

- auditors, insolvency practitioners, external accountants and tax advisers;
- independent legal professionals;
- trust or company service providers; however the practical effect is the same.

38. In addition, the 2007 Regs excluded from regulation any organisation “*engaging in a financial activity on an occasional or very limited basis*”. It is therefore likely to be very rare that the Council will engage in any activity which would fall within the regulated sector.

39. On this issue, CIPFA¹ in 2005 concluded that the legislation does not oblige public service organisations to implement the requirements relating to the regulated sector, but go on to advise that:

“...they should recognise that the size and scope of...activities...is such that few, if any, are likely to be immune from the risks surrounding money laundering...therefore all public service organizations should embrace the underlying principles of the...legislation and regulations”.

This view has been recently restated by CIPFA and is expected to be confirmed in updated guidance due to be issued in 2009.

40. The Council has recognised that it needs to remain aware of the scope and nature of its activities and any associated risks related to money laundering, and be prepared to implement appropriate systems as necessary.

The remaining paragraphs of this guidance only apply in instances where the Council is operating within the regulated sector or it has otherwise determined that they should apply.

Money Laundering offences in the regulated sector

41. The money laundering offences referred to in Section 1 (§9-22) apply equally to business activity in the regulated sector. In addition, the legislation sets out the following offences which apply **only** to business activity in the regulated sector:

- Failure to disclose
- “Tipping-off”

Failure to disclose money laundering offences (s330-331, POCA 2002)

42. Failure to disclose offences may be committed where:
- you know or suspect, or have reasonable grounds to do so, that another person is engaged in money laundering;
 - you can identify the money launderer or the whereabouts of the laundered property (or you believe, or it is reasonable to expect you to believe, that the information you have will assist you to identify the person/property); and

¹ “Proceeds of Crime (Anti-Money Laundering) – Practical Guidance for Public Service Organisations Chartered Institute of Public Finance & Accountancy, 2005

- you do not disclose this as soon as is practicable to the MLRO (section 330 of the 2002 Act and section 21A of the 2000 Act).
43. The Council's Anti-Money Laundering Policy makes it clear that all members of staff should report any concerns they may have of money laundering activity, irrespective of their area of work and whether it is regulated business for purposes of the legislation.
 44. If you know or suspect, through the course of your work, that anyone is involved in any sort of criminal conduct then it is highly likely, given the wide definition of money laundering, that the client is also engaged in money laundering and a report to the MLRO will be required. As explained earlier, the value involved in the offence is irrelevant.
 45. There are various defences, for example where you have a reasonable excuse for non-disclosure (e.g. a lawyer may be able to claim legal professional privilege for not disclosing the information) or you did not know or suspect that money was being laundered and had not been provided by the Council with appropriate training. Given the very low risk to the Council of money laundering, this Guidance Note will provide sufficient information for most members of staff, although further guidance may be issued from time to time and targeted training provided to those staff more directly affected by the legislation.
 46. You must still report your concerns, even if you believe someone else has already reported their suspicions of the same money laundering activity. Such disclosures to the MLRO will be protected in that they will not be taken to breach any restriction on the disclosure of information.
 47. If you are in any doubt as to whether or not to file a report with the MLRO then you should err on the side of caution and do so – remember, failure to report may render you liable to prosecution (for which the maximum penalty is an unlimited fine, five years' imprisonment, or both). The MLRO will not refer the matter on to SOCA if there is no need.

Tippling-off offences (s333 POCA 2002)

48. Where you suspect money laundering and report it to the MLRO, it is vital to be very careful what you say to others afterwards. You may commit a further offence of "tippling off" (section 333 of the 2002 Act) if, knowing a disclosure has been made, you then divulge information to others which is likely to prejudice any investigation which might be conducted. For example, a lawyer who reports their suspicions of a money laundering offence by a client to the MLRO, may commit a tipping off offence if they then report their disclosure to that client. However, preliminary enquiries of a client to obtain more information (e.g. confirm their identity, clarify the source of funds) will not amount to tipping off unless you know or suspect that a report has been made.
49. Even if you have not reported the matter to the MLRO, if you know or suspect that such a disclosure has been made and you mention it to someone else, this could amount to a tipping off offence. Be very careful what you say and to whom in these circumstances.

Organisational requirements

50. There are additional requirements on organisations undertaking regulated business to:
 - implement a procedure to require the reporting of suspicions of money laundering, including the appointment of a Money Laundering Reporting Officer (MLRO) to receive disclosures from their staff of money laundering activity (their own or anyone else's);
 - apply certain customer due diligence procedures where necessary;
 - obtain information on the purpose and nature of certain proposed transactions/business relationships;
 - conduct ongoing monitoring of certain business relationships (including scrutiny of transactions undertaken);

- maintain record keeping and other specified procedures (e.g. internal control, risk assessment and management) on a risk sensitive basis; and
 - regularly train relevant employees.
51. It is clear that in-house lawyers and accountants are not intended to be caught within the regulated sector. However, although those Services are not external/independent advisers to the Council, they may be where they provide services commercially to any external clients. Any such external work is likely, therefore, to bring the Council within the regulated sector.
52. As mentioned earlier, the Money Laundering Regulations 2007 impose specific obligations on those carrying out regulated business, requiring them to:
- obtain sufficient knowledge to ascertain the true identity of clients in certain circumstances, by applying **customer due diligence measures**;
 - know the intended nature of business relationships and undertake ongoing monitoring of them (e.g. scrutiny of transactions for anything unusual);
 - maintain **record keeping procedures** (e.g. for evidence of identity obtained, details of transactions undertaken, for at least 5 years afterwards); and
 - establish and maintain other appropriate and risk-sensitive **policies and procedures** re reporting of concerns, internal control, risk assessment and management, the monitoring and management of compliance with, and the internal communication of, such policies and procedures, in order to prevent activities related to money laundering and terrorist financing.
53. Further explanation of these procedures is given below. Failure to comply with the above requirements is a criminal offence for which you may be liable to imprisonment for up to 2 years, a fine or both. The Court will take in to account whether any relevant guidance was followed.

Only those staff dealing with regulated business, or in specific circumstances as determined by the Council, need comply with these procedures.

Customer due diligence procedure

54. Where the Council is carrying out regulated business (accountancy, tax, audit and certain legal services) and:-
- forms an ongoing business relationship (a business, professional or commercial relationship which is expected to have an element of duration) with a client; or
 - undertakes an occasional transaction (a transaction other than one as part of a business relationship) amounting to 15,000 euro (c£13,900 as at March 2009) or more, whether carried out in a single operation or several linked operations ; or
 - suspects money laundering or terrorist financing (enhanced due diligence procedure will apply in this scenario); or
 - doubts the veracity or adequacy of documents, data or information previously obtained for the purposes of identification or verification;
- then the Customer Due Diligence Procedure (Appendix B) must be followed before any business is undertaken for that client
55. The legislation does allow organisations to vary customer due diligence and monitoring according to the risk of money laundering or terrorist financing which depends on the type of customer, business relationship, product or transaction. This recognises that not all clients present the same risk. The law states that particular care must be taken, and

enhanced due diligence carried out, (e.g. obtaining additional evidence of identity or source of funds to be used in the relationship/transaction) where:-

- the client is not physically present when being identified as it presents a higher risk situation; and
- the client is a '*politically exposed person*' (an individual who at any time in the preceding year has held a prominent public function outside of the UK, and EU or international institution/body, their immediate family members or close associates). This is unlikely to ever be relevant to the Council but the provision must be included in local procedures.

56. Conversely, where there is a low risk of money laundering or terrorist financing, simplified due diligence measures may be applied: under the legislation, there is **no need** to apply customer due diligence measures where the client is a **UK public authority**. Given that the Council is limited in who it can act for/provide services to, and most of these are public authorities or designated public bodies under the Local Authorities Goods and Services Act 1970, most of Legal Services' and Financial Services' clients will be covered by the exemption

Satisfactory evidence of identity

57. Satisfactory evidence is that which:

- is capable of establishing, to the satisfaction of the person receiving it, that the client is who they claim to be; and
- does in fact do so.

58. General guidance on the money laundering legislation suggests that fairly rigorous identification checks should be made. For example, in relation to an organisation, that evidence should be obtained as to the identity of key individuals within the organisation along with evidence of the identity of the business entity and its activity.

59. The Council's Customer Due Diligence Procedure (Appendix B, §8) indicates the type of check to be undertaken in normal circumstances. This procedure should enable us to have confidence in accepting instructions from a known client. The procedure also sets out examples of a wider range of evidence that you may also wish to consider if you are undertaking work for a new client.

Record keeping

60. The Council and contractors working for the Council conducting relevant business must maintain records of:-

- client identification evidence obtained, for 5 years after the end of the transaction or relationship; and
- details of all relevant business transactions carried out for clients for at least 5 years from the completion of the transaction. This is so that they may be used as evidence in any subsequent investigation by the relevant authorities into money laundering.

61. The MLRO must be informed of the existence and location of such records.

Conclusion

62. Given the nature of the Council's activities and who it can provide services for, instances of suspected money laundering are unlikely to arise very often, if at all. Nevertheless, we must be mindful of the legislative requirements, as failure to comply with them may render individuals personally liable to prosecution and could result in the Council's reputation and stewardship role being damaged.
63. For all transactions of land or property, or all large financial transactions (more than Euro 15,000 (fifteen thousand Euros) currently approximately £13,900 (at March 2009) the identity of the client must be checked).
64. **Please take prompt and proper action if you have any suspicions** and feel free to consult the MLRO at any time should you be concerned regarding a matter.

Money Laundering Regulations 2003

Definition of Relevant Business Activities

The Money Laundering Regulations 2003 listed the following as “relevant business” activities when undertaken commercially:

- Providing **accountancy** services to other persons (this does not include other public service organisations);
- Providing advice about the **tax** affairs of other persons;
- Participating in **financial** or real **property** transactions concerning:
 - a) the buying and selling of real property or business entities;
 - b) the managing of client money, securities or other assets;
 - c) the opening or management of bank, savings or securities accounts;
 - d) the organisation of contributions necessary for the creation, operation or management of companies; or
 - e) the creation, operation or management of trusts, companies or similar structures
- The provision to other persons by way of business by a firm ... of any of the [following] services....
 - a) **forming companies** or other legal persons;
 - b) acting, or arranging for another person to act:
 - as a **director** or secretary of a company;
 - as a **partner** of a partnership; or
 - in a similar position in relation to other legal persons;
 - c) providing a registered office, business address, correspondence or administrative address or other related services for a company, partnership or any other legal person or arrangement;
 - d) acting, or arranging for another person to act, as:
 - a trustee of an express trust or similar legal arrangement; or
 - a nominee shareholder for a person other than a company whose securities are listed on a regulated market

Note: This list is provided for information about the type of activity in which the Council might become involved and for which it may decide to implement specific systems to manage money-laundering risks.

Anti-Money Laundering Policy Customer Due Diligence Procedure

Customer Due Diligence

Introduction

1. Where the Council is carrying out certain 'regulated activities' then extra care needs to be taken to check the identity of the customer or client – this is known as carrying out customer due diligence.
2. Customer due diligence means:
 - identifying the customer and verifying their identity on the basis of documents, data or information obtained from a reliable and independent source;
 - identifying, where there is a beneficial owner who is not the customer, the beneficial owner and taking adequate measures, on a risk-sensitive basis, to verify his identity so that you are satisfied that you know who the beneficial owner is. This includes, in the case of a legal entity, trust or similar legal arrangement, taking steps to understand the ownership and control structure of the entity, trust or arrangement; and
 - obtaining information on the purpose and intended nature of the business relationship.
3. Generally, we will know most of our clients and those through whom they are acting - there is usually no, or very little, doubt as to their identity. Where we do provide regulated business activities, these are normally provided for the Council itself or for clients who are UK public authorities/designated public bodies. In general the Council's activities do not fall under the intended scope of the legislation, and/or are already subject to tight and prescriptive public sector controls. For example:
 - the Council's Treasury Management arrangements are carried out in accordance with CIPFA codes of practice;
 - the majority of the Council's income is received from other public service organisations or government bodies;
 - the Council does not carry out the type of trading activity which would generate a large volume of significant cash income transactions;

When to Apply Customer Due Diligence

4. The Regulations regarding customer due diligence are detailed and complex, but there are some simple questions that will help decide if it is necessary:
 - Is the service a regulated activity? (see §0 of this procedure and §36 of the Guidance)
 - Is the Council charging for the service i.e. is it 'by way of business'?
 - Is the service being provided to a customer other than a UK public authority?
5. If the answer to any of these questions is "no" then there is no need to carry out customer due diligence.

6. If the answer to all these questions is yes then customer due diligence must be carried out before any business is undertaken for that client. If there is uncertainty whether customer due diligence is required then the MLRO should be contacted for advice.

Regulated Activity

7. Regulated activity is defined as the provision 'by way of business' of:
- advice about tax affairs;
 - accounting services;
 - treasury management, investment or other financial services;
 - audit services;
 - legal services;
 - estate agency;
 - services involving the formation, operation or arrangement of a company or trust; or
 - dealing in goods wherever a transaction involves a cash payment of €15,000 (c£13,900 at the time of writing) or more.

Applying Customer Due Diligence

8. Where customer due diligence is required you should ensure the client provides satisfactory evidence of either:
- their personal identity, by means of:
 - a passport/photo driving licence; plus
 - one other document with their name and address e.g., utility bill, mortgage/building society/bank documents, pension/benefits book.
 - their corporate identity, by means of
 - company formation documents; or
 - business rates.
9. In any circumstances where the client cannot be physically identified you should be aware:
- that there is greater potential for money laundering where the client is not physically present when being identified;
 - if satisfactory evidence is not obtained the relationship or transaction should not proceed; and
 - if the client acts or appears to act for another person, reasonable measures must be taken for the purposes of identifying that other person
10. The requirement for customer due diligence applies immediately for new customers and should be applied on a risk sensitive basis for existing customers. Ongoing customer due diligence must also be carried out during the life of a business relationship but should be proportionate to the risk of money laundering and terrorist funding, based on the officer's knowledge of the customer and a regular scrutiny of the transactions involved.
11. If, at any time, it is suspected that a client or customer for whom the Council is currently, or is planning to carry out, a regulated activity is carrying out money laundering or terrorist financing, or has lied about their identity then this must be reported to the MLRO.

Enhanced Customer Due Diligence

12. In certain circumstances, enhanced customer due diligence must be carried out for example where:
 - the customer has not been physically present for identification;
 - the customer is a politically exposed person (an individual who at any time in the preceding year has held a prominent public function outside of the UK, and EU or international institution/body; also their immediate family members or close associates);
 - there is a beneficial owner who is not the customer – a beneficial owner is defined as any individual who holds more than 25% of the shares, voting rights or interest in a company, partnership or trust.
13. Enhanced customer due diligence could include obtaining any additional documentation, data or information that will confirm the customer's identity and/or the source of the funds to be used in the business relationship/transaction. If it is believed that enhanced customer due diligence is required then the MLRO should be consulted prior to carrying it out.
14. Enhanced customer due diligence could involve the following:
 - attending the client at their business address;
 - a search of the telephone directory;
 - asking the key contact officer and/or any individual who exercises control over the management of the body (e.g. the Chief Executive Officer, Managing Director) to provide evidence of their personal identity and position within the organisation.
15. If any such additional evidence is obtained, then copies should be sent to and retained by the MLRO in a central client identification file.

Confirming Identity and Address

16. The following are acceptable forms of identity and proof of an address for an individual:

Identity

- valid passport;
- valid photocard driving licence full or provisional
- a current UK full driving licence old version (not provisional)
- national identity card (non-UK nationals issued by EEA member states and Switzerland)
- evidence of entitlement to a state or local authority funded benefit i.e. housing benefit, council tax benefit, tax credit, pension, educational or other grant
- documents issued by HMRC, such as PAYE coding notice (Not employers documents e.g. P60)
- firearms certificate or shotgun licence

Evidence of address

- current council tax demand letter or statement
- current (within the last 3 months) bank statements or credit card statements issued by a regulated financial sector firm in the UK, EU or JMSLG equivalent jurisdiction (but not those printed off the internet)
- a recent (last available) utility bill i.e. gas, water, electricity or telephone (not mobile 'phone)
- valid photocard driving licence (full or provisional)
- a current UK full driving licence old version (not provisional)
- evidence of entitlement to a state or local authority funded benefit i.e. housing benefit, council tax benefit, tax credit, pension, educational or other grant
- documents issued by HMRC, such as PAYE coding notice (Not employers documents e.g. P60)
- firearms certificate or shotgun licence

CONFIDENTIAL

Report to the Money Laundering Reporting Officer (MLRO)

Alleged Money Laundering Activity

To: Derek Whiteway, Money Laundering Reporting Officer

From:
[insert name of employee]

Service:

Details of suspected offence

Name(s) and address(es) of person(s) involved:
[if a company/public body, please include details of nature of business]

Nature, value and timing of activity involved
[Please included full details, eg what, when, where, how]

Nature of suspicions regarding such activity

[Please continue on a separate sheet if necessary]

Has any investigation been undertaken (as far as you are aware)?

Yes

No

If Yes, please include details below:

Yes

No

Have you discussed your suspicions with anyone else?

If Yes, please specify below, explaining why such discussion was necessary:

Have you consulted any supervisory body guidance re Money Laundering (eg the Law Society)

Yes No

If Yes, please specify below:

Do you feel you have a reasonable excuse for not disclosing the matter to the SOCA? (eg are you a lawyer and wish to claim legal professional privilege?)

Yes No

If Yes, please set out full details below:

Yes No

**Are you involved in a transaction which might be a prohibited act under Sections 327 to 329 of the Act and which requires appropriate consent from the SOCA?
(see paras 8-10 of the Guidance)**

If Yes, please enclose details in the box below:

Please set out below any other information you feel is relevant

Signed:.....

Dated

Please do not discuss the content of this report with anyone you believe to be involved in the suspected money laundering activity described. To do so may constitute a tipping off offence, which carries a maximum penalty of 5 years imprisonment.

THE FOLLOWING PART OF THIS FORM IS COMPLETION BY THE MLRO

Date Report Received:

.....

Date Receipt of Report Acknowledged:

.....

Consideration of Disclosure:

Action Plan:

Outcome of Consideration of Disclosure

Are there reasonable grounds for suspecting money laundering activity?

If there are reasonable grounds for suspicion, will a report be made to the SOCA?

Yes No

If Yes, please confirm the date of report to SOCA:
..... and complete the box below:

Details of liaison with the SOCA regarding the report:

Notice period:to

Moratorium periodto

Is consent required from the SOCA to any ongoing or imminent transactions which would otherwise be prohibited acts?

Yes No

If Yes, please confirm full details in the box below:

Date consent received from SOCA:

Date consent given by you to employee:

If there are reasonable grounds to suspect money laundering, but you do not intend to report the matter to the SOCA, please set out below the reasons(s) for non disclosure:

Date consent given by you to employee for any prohibited act transactions to proceed

Other relevant information:

Signed: Money Laundering Reporting Officer

Dated:

THIS REPORT IS TO BE RETAINED FOR AT LEAST 5 (FIVE) YEARS

Proposed Anti-Money Laundering Policy**Proposed changes to the Constitution (Financial Regulations and Procedures)**

Section	Current wording	Proposed wording
Financial Regulations § C10 – Preventing Fraud and Corruption	The Section 151 Officer is responsible for the development and maintenance of an anti-fraud and anti-corruption policy.	The Section 151 Officer is responsible for the development and maintenance of policies to combat fraud, corruption and other forms of financial crime, including money laundering.
Financial Procedures Preventing Fraud & Corruption – Key Controls § 3.47(a)	the authority has an effective anti-fraud and anti-corruption policy and maintains a culture that will not tolerate fraud or corruption	the authority has effective anti-fraud, anti-corruption and anti-money laundering policies and maintains a culture that will not tolerate fraud or corruption
§ 3.47 (b)	Insert new paragraph	All Members and staff are provided with appropriate guidance/training on their responsibilities
Responsibilities of the Section 151 Officer § 3.48	To develop and maintain an anti-fraud and anti-corruption policy.	To develop and maintain policies for combating fraud, corruption and other financial crime including money-laundering.
Responsibilities of Corporate Directors and Service Heads § 3.55	New paragraph	To ensure that members of staff receive appropriate guidance/training on their individual responsibilities regarding the identification and reporting of suspected financial irregularities.

Section	Current wording	Proposed wording
<p>Treasury Management</p> <p>Responsibilities of the Section 151 Officer</p> <p>§ 3.116</p>	<p>New paragraph</p>	<p>To ensure that appropriate client identification procedures are followed in respect of any party with which the council is proposing to have dealings, in accordance with the Anti-Money Laundering Policy.</p>
<p>Income and Expenditure</p> <p>Key Controls</p> <p>§ 4.21 (d)</p>	<p>Insert new paragraph</p>	<p>To minimize the risk of exposure to money-laundering, no cash payment in excess of £1,000 is to accepted without referral to the councils Money Laundering Reporting Officer (currently the Internal Audit Manager)</p>

Audit Committee

Results of Internal Audit Work

23rd September 2009

Report of Internal Audit Manager

PURPOSE OF REPORT

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

This report is public

RECOMMENDATIONS

(1) That the report is noted.

1.0 Introduction

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

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

2.0 Results of Internal Audit Work to 28 August 2009

2.1 This report covers audit work and reports issued since the Results of Audit Work were last reported to Committee on 22nd April 2009. Summary reports are issued to Members for consideration and are also posted on the Council's Intranet.

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

2.3 The list below gives the assurance opinion issued for areas audited since the April 2009 meeting.

Audit Title		Report Date	Assurance Level	
New Audit Reports				
08/0729	Member Expenses & Civic Functions	27/05/09	Reasonable	✓
08/0723	Arts Development	12/06/09	Limited	⚠
Follow up Reviews				
06/0660	Housing Rents (Debit Control)	14/05/09	Reasonable	✓
07/0688	Income Tax & National Insurance – Expenses and Benefits	16/06/09	Reasonable	✓
07/0708	Income Management (Housing Rents Direct Debit Payments)	14/08/09	Limited	⚠
08/0724	Land Charges	18/08/09	Limited	⚠
08/0753	Williamson's Park – Financial Procedures	21/07/09	Limited	⚠

3.0 Matters Arising from Audit Reviews

3.1 Members' attention is drawn to the audits where a "Limited" assurance opinion has been issued; there have been no audits resulting in a "Minimal" assurance opinion. The following audits completed since the meeting held on 22nd April 2009 have been issued with a "Limited" assurance opinion:

08/0723 – Arts Development

The 'Limited' assurance opinion reflects the scope of the audit which concentrated on areas of work that Cultural Services had recognised were in need of improvement.

Good arrangements are being made to ensure that, subject to approval by Cabinet, the Service is in a position to fulfil the Council's strategic role in delivering the District Arts Strategy and to engage with key stakeholders and partners. Some work has commenced to review existing Service Level Agreements with Arts organisations currently in receipt of Arts Development funding, but there is a recognised need to undertake a much wider review of the aims and objectives of the funding policy and its alignment with corporate priorities. Following an externally commissioned 'audit' of public art in the district, there is also a need to develop a corporate strategy which clearly sets out how the Council intends to deliver and maintain an effective service in relation to public art.

A report to Cabinet on both the District Arts Strategy and proposals for a Public Arts Strategy will be submitted in October. The follow-up review, due in November 2009, will assess whether sufficient progress has been made to raise the assurance opinion to 'Reasonable'.

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

Achieving a 'Reasonable' level of assurance has largely been reliant on the implementation of an automated direct debit module for the Housing Rents system in order to reduce the risk of manual error resulting in late, incorrect or non-collection of direct debit payments.

This now seems unlikely to happen as the new providers of the Housing Rents system have signalled their intention to withdraw their support for the current system in the next few years. Given the short-term implications of this management have agreed to implement alternative actions aimed at minimising the risk of error until such time as an automated direct debit module is made available. Implementation of these alternative actions will result in a 'Reasonable' level of assurance.

08/0724 – Land Charges

Good progress has been made to strengthen controls relating to income management, accounting and reconciliation arrangements and the risks mitigated. Land Charges have contributed to a recent consultation on the cost of, and charging responsibilities for, personal searches and are currently awaiting further guidance from Central Government to take this forward. Government guidance is in place, however, regarding the costing and charging of 'Full' searches and work now needs to be completed in order to fully comply with the Local Authorities (Charges for Property Searches) Regulations 2008, which came into force on 1st April 2009. Compliance with this legislation will result in a 'Reasonable' level of assurance.

08/0753 – Williamson Park, Audit of Financial Procedures

The level of assurance remains at 'Limited' following the post audit review of arrangements at Williamson Park as fourteen of the twenty-two agreed actions have yet to be fully implemented.

It is recognised that Parks staff have been in a period of relative uncertainty surrounding the future of the Park and have had to deal with the long-term absence and subsequent resignation of the Parks Manager. Despite this and through support

from Cultural Services and other Council staff, progress is now being made and steps are being taken to implement the majority of the outstanding actions by the end of August 2009.

A new challenge will be the transition of the management and operation of Williamson Park back into Council control. Successful delivery of this project, together with the implementation of the outstanding actions, should result in the assurance opinion being raised to 'Reasonable'.

4.0 Update on Previous Assurance Opinions

- 4.1 The completed follow up reviews of the Housing Rents (Debit Control) and Income Tax and National Insurance (Expenses and Benefits) audits, previously reported to Audit Committee with 'Limited' and 'Minimal' assurance opinions, established that sufficient progress had been made to raise the levels of assurance to 'Reasonable'.
- 4.2 Cultural Services use a computerised system called Webstaff for the receipt of box office payments made by telephone. Following an incident in breach of the Data Protection Act and the Payment Card Industry Data Security Standards (PCIDSS) the level of assurance for the Income Management audit of Cultural Services was reduced to a 'Limited' at the time of the Follow-up review in March 2009. All box office staff have since been fully trained and no further breaches have occurred. In addition, procedures are now in place to ensure that customer details are entered onto Webstaff and credit/debit card authorisations obtained at the point of sale. On this basis the level of assurance has again been raised to 'Reasonable'.
- 4.3 Appendix A provides an updated position for all those audits where the level of assurance provided has not yet reached "Reasonable", including the Income Management (Housing Rents Direct Debit Payments), Land Charges and Williamson Park Audits referred to in §3.0 above.

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

- 5.1 Internal Audit have provided ad-hoc advice and support to all levels of management, the most significant of which relate to:
 - o Ongoing project assurance and related support work, notably the ongoing Fair Pay Project (Internal Audit Manager). Project assurance on the delivery of the Storey Creative Industries Centre (Principal Auditor) has now ended following its successful completion and handover.
- 5.2 The Principal Auditor is the Council's nominated Key Contact for the 2008/09 National Fraud Initiative (NFI) administered by the Audit Commission. The NFI is a statutory nationwide drive to crack down on the amount of public money lost each year due to fraud.

The Principal Auditor is responsible for managing the NFI which has involved the electronic uploading and subsequent investigation of 'data matches' from a wide range of personal data compared against other data held by the Council as well as that maintained by other public bodies. These include Payroll, Creditors, Housing Rents, Housing Benefit and Council Tax claimants, electoral registration, market traders, parking permits holders and insurance claims.

In total, 5,400 cases were referred back to the Council for follow up and officers have made excellent progress in investigating the data matches, with over 4,700 cases having been processed since February 2009, which is well ahead of the deadlines specified by the Audit Commission.

As at 19th August 2009, 171 'Errors' have been identified, the majority (157) being duplicate creditors with no financial implications for the Council. The remaining cases relate to 'customer errors' that have been or are in the process of being recovered, generating a saving of £11,924.

In addition, there are 129 cases designated as 'Frauds' of which, all but two, are false claims for Single Persons Discount identified through the matching of Council tax data against the Electoral Register. The long term recovery of these frauds will result in a saving of £53,743.

Upon completion of the NFI, the Principal Auditor will provide a full report to the Section 151 officer and Audit Committee on the final outcomes to ensure that steps are taken to improve any significant control weaknesses identified.

- 5.3 The Principal Auditor also continues to manage the work being undertaken to identify (map) the number, type and level of significance of the Council's partnerships and the development of a framework for evaluating their effectiveness and performance.

The 'mapping exercise' has been successfully completed with 23 partnerships being identified as being of 'major' significance to the Council. A work programme has been developed to evaluate these partnerships over the next three years using a *Partnership Development and Evaluation Toolkit*, including eight in 2009/10, the outcomes from which will be scrutinised by the Budget and Performance Panel.

- 5.4 The Senior Auditor continues to undertake a major investigation in accordance with the Council's Disciplinary Policy and Procedure. The investigation has required a substantial amount of audit resources in the last few months, with further work required in preparation for a second Disciplinary Hearing.

6.0 Details of Consultation




- 6.1 Not applicable

7.0 Options and Options Analysis (including risk assessment)






- 7.1 Not applicable




<p>CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</p> <p>None identified</p>	
<p>FINANCIAL IMPLICATIONS</p> <p>None directly arising from this report</p>	
<p>SECTION 151 OFFICER'S COMMENTS</p> <p>The Section 151 Officer has been consulted and has no further comments.</p>	
<p>LEGAL IMPLICATIONS</p> <p>None directly 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 Files</p>	<p>Contact Officer: Derek Whiteway Telephone: 01524 582028 E-mail: dwhiteway@lancaster.gov.uk Ref: aud/audcomm/230909/ROIAW</p>

Internal Audit - Assurance Opinion Monitoring as at 02 September 2009

Date of Assessment	Source	Level of Assurance Provided		Comments
06/0642 - Building Control				
29-Jul-07	Internal Audit - Final Report		N/A	Audit report pre-dates the provision of assurance opinions
25-Feb-09	Internal Audit - Follow-Up Review		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.
21-Aug-09	Management - Post Audit Review		Limited	<p>Progress has been made through the introduction of a time recording system and the regular monitoring of fee income to assess trends, which will place the Service in a good position to deal with expected Government proposals to introduce a new means of charging for Building Control work. The Service still finds itself in a difficult position however due to the downturn in the building industry which continues to significantly reduce fee income. The Head of Planning, together with the Building Control Manager are considering various revisions to the current staff structure aimed at providing a solution to the current situation whilst being aware of the potential problems that will be caused by an eventual up turn in work load and income.</p> <p>The Building Control Model has yet to be fully revised as it has not proven possible to update on a monthly basis, this is currently being reviewed by finance. Fee income is regularly monitored to assess trends, government propose to introduce a new means of charging for Building Control in conjunction with new CIPFA guidance on the management of Building Control accounts.</p> <p>A time recording system is now in place and 24 weeks of data have been collected. The current results show that time split is different to the current 80/20</p>

Date of Assessment	Source	Level of Assurance Provided	Comments
07/0679 - Markets			
09-Feb-09	Internal Audit - Final Report	 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.
27-Aug-09	Management - Post Audit Review	 Limited	There has been little change in income management arrangements at the Markets with the majority of tenants continuing to pay rent by cash rather than by more cost efficient methods. This is likely to remain unchanged until such time as the future of Lancaster Market has been determined, although plans are being made to introduce a debit/credit card payment facility at the Festival Market by the end of September. The follow-up review currently underway will specify what further action is needed to raise the assurance opinion to 'Reasonable'
07/0701 - Procurement and Contract Management 2007/08			
01-Oct-08	Internal Audit - Final Report	 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'.
24-Mar-09	Management - Post Audit Review	 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'
19-Aug-09	Management - Post Audit Review	 Limited	A revised Procurement Strategy has been drafted, taking into account the agreed actions arising from the audit, and will soon be published. Feedback from the workshop with contract managers is being used effectively to improve/revise contract documentation and to develop a new contract register. Work is ongoing to establish contract management, monitoring and reporting arrangements in line with LAMP, and the review and update of the Constitution has yet to commence. Completion of the outstanding work and publication of the revised Procurement Strategy will result in a 'Reasonable' level of assurance.

Date of Assessment	Source	Level of Assurance Provided	Comments
07/0708 - Income Management (Housing Rents Direct Debit Payments)			
30-Apr-08	Internal Audit - Final Report	 Limited	Reasonable assurance could be achieved through implementation of the Electronic Documentation Management System (EDMS) and the Anite Direct Debit Module.
23-Sep-08	Management - Post Audit Review	 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.
12-Dec-08	Management - Post Audit Review	 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
20-Mar-09	Management - Post Audit Review	 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.
05-Aug-09	Internal Audit - Follow-Up Review	 Limited	Achieving a 'Reasonable' level of assurance level was reliant on the introduction of automated direct debit payments for Housing Rents. It now seems unlikely that the Anite Direct Debit Module will be available to the Authority as expected as the new system providers have signalled their intention to withdraw support for the product. As a result, reasonable assurance is now reliant on implementation of an alternative action which seeks to minimise the risk of error until such time as an automated system is implemented by Council Housing Services.

Date of Assessment	Source	Level of Assurance Provided	Comments
07/0709 - Payroll 2007/08			
04-Dec-08	Internal Audit - Final Report	 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.
26-Mar-09	Management - Post Audit Review	 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.
18-Aug-09	Management - Post Audit Review	 Limited	Excellent progress has been made by Exchequer Services to introduce effective segregation of duties within the Section and in relation to the roles and responsibilities of Legal and Human Resources. Achievement of a 'Reasonable' level of assurance is dependent upon completion of a major review of the Council's recruitment policy and procedures and completion of a detailed specification, taking into account the agreed actions, for the proposed integrated Payroll/HR computerised system. This work has been significantly delayed due to the Fair Pay Project and other work commitments within Legal and HR Services.

Date of Assessment	Source	Level of Assurance Provided	Comments
08/0724 - Land Charges			
05-Nov-08	Internal Audit - Final Report	 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.
23-Mar-09	Management - Post Audit Review	 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.
18-Aug-09	Internal Audit - Follow-Up Review	 Limited	Excellent progress has been made to strengthen controls relating to income management, accounting and reconciliation arrangements and the risks mitigated. Land Charges have contributed to a recent consultation on the cost of, and charging responsibilities for, personal searches and are currently awaiting further guidance from Central Government to take this forward. Government guidance is in place, however, regarding the costing and charging of 'Full' searches and work now needs to be completed in order to fully comply with the Local Authorities (Charges for Property Searches) Regulations 2008, which came into force on 1st April 2009. Compliance with this legislation will result in a 'Reasonable' level of assurance.
08/0733 - Planning for Floods			
25-Feb-09	Internal Audit - Final Report	 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.
02-Sep-09	Management - Post Audit Review	 Limited	Many of the agreed actions are reliant on Lancashire County Council fully assessing the implications of the Pitt Review on the effective management of flood risks and informing local authorities and other partners of their responsibilities. This assessment is not yet complete, although a partnership working group is set to commence in September. Further updates on the implications of the new arrangements on the Council are planned to be reported to Cabinet in October and the follow-up audit review will commence in November.

Date of Assessment	Source	Level of Assurance Provided	Comments
08/0753 - Williamson's Park - Audit of Financial procedures			
26-Nov-08	Internal Audit - Final Report	 Limited	A number of significant control issues need to be addressed covering payment of works, goods and services, receipting, collection and banking of income and procurement, budgetary control and security arrangements.
21-Jul-09	Internal Audit - Follow-Up Review	 Limited	Whilst some progress has been made a number of agreed actions have yet to be, or have only partially been implemented. In light of the decision that the management and operation of Williamson Park will come back under the Council's control urgent action needs to be taken to address the payment of works, goods and services and procurement arrangements generally, as well as ongoing security and budgetary control issues

AUDIT COMMITTEE**Statement of Accounts 2008/09
23 September 2009****Report of Head of Financial Services****PURPOSE OF REPORT**

This report updates Members on the outcome of the audit of the Statement of Accounts for 2008/09, and the Council's Use of Resources assessment.

This report is public.

RECOMMENDATIONS

- (1) That the Committee notes the report for 2008/09 issued by the Council's External Auditors, and the letter of representation signed by the s151 Officer, and makes any other recommendations as appropriate.**

REPORT

- 1.1 At the last Committee meeting held on 30 June the draft Statement of Accounts for 2008/09 were presented for approval, together with information on the audit process. The Council's External Auditors commenced the audit of accounts on Monday 21 July.
- 1.2 The audit is now substantially complete and the Auditor is currently producing a report for Members' consideration (i.e. "to those charged with governance"). This will be circulated as soon as it has been received.
- 1.3 The Auditor will also be attending the meeting to present the report but in summary, the main points are expected to be as follows:
- It is anticipated that an unqualified opinion on the 2008/09 Accounts will be issued. A small number of relatively minor adjustments are to be made to the accounts since they were presented to Committee in June, but it is important to note that they will not have any impact on the Council's overall financial position, or on its balances.
 - The report will also set out the Auditor's conclusion on whether the authority has adequate arrangements in place to ensure effective use of its resources. This will draw on the findings from the new use of resources assessment framework now in place; Members may be aware that the timescales for such assessment

have been brought forward and this fits far better with the closure of accounts and associated reporting requirements.

- 1.4 Since the draft accounts were approved back in June, there has been further accounting guidance received very recently regarding Icelandic investments. Whilst the new guidance assumes a reduced return overall for Landsbanki (from 95% to 83%), it is now known that claims against Landsbanki and Glitnir will provide for interest up to a later date (assumed to April 2009, rather than November 2008) and also penalty interest will apply to Glitnir (assumed at 22% from January to April 2009). In effect, the key changes would lower the impairment charge (i.e. estimated loss) by around £100K net. However, given the inherent uncertainty surrounding recovery prospects, the comparative size of the adjustments when compared with the Council's balance sheet overall, and the fact that there would be no material bottom line impact on the Council's financial position as at 31 March (as the Council has relied on Government Regulations not to make full provision for estimated losses), the accounts have *not* been updated to take account of this latest guidance, on the grounds of materiality. Nonetheless, the most up to date information will be taken account of in reviewing the Council's financial projections, in support of the forthcoming budget and future financial strategy.
- 1.5 In support of completing the accounts, a copy of a 'letter of representation' will also be circulated as soon as it is available. The letter will be signed by the Section 151 Officer but the Committee is also requested to note it. This is on the basis that those charged with governance should be aware of the representations on which the auditor relies, in expressing his opinion on the Accounts.
- 1.6 Once the governance report and the letter of representation have been considered, it is expected that the Auditor will complete the statements and conclude the audit, in order that the final audited Accounts can be published by the deadline of 30 September.

CONCLUSION OF IMPACT ASSESSMENT

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

No implications directly arising.

FINANCIAL IMPLICATIONS

There are no financial implications directly arising at this stage.

DEPUTY SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

Legal Services have been consulted and have no comments to add, subject to receiving the Auditor's report.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no comments to add, subject to receiving the Auditor's report.

BACKGROUND PAPERS

Statement of Accounts 2008/09.
Accounts and Audit Regulations 2006.

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