



Committee: AUDIT COMMITTEE
Date: WEDNESDAY, 30 JUNE 2010
Venue: MORECAMBE TOWN HALL
Time: 6.00 P.M.

A G E N D A

1. **Apologies for Absence**
2. **Appointment of Vice-Chairman**
3. **Minutes**
Minutes of the Meeting held on 20 January 2010 (previously circulated).
4. **Items of urgent business authorised by the Chairman**
5. **Declarations of Interest**
6. **Statement of Accounts 2009/10** (Pages 1 - 4)
Report of the Head of Financial Services
Appendix A to the report will be circulated prior to the meeting.
7. **Results of Internal Audit Work** (Pages 5 - 12)
Report of Internal Audit Manager.
8. **Internal Audit Annual Report and Assurance Statement 2009/10** (Pages 13 - 26)
Report of Internal Audit Manager.
9. **Annual Governance Review and Governance Statement 2009/10** (Pages 27 - 43)
Report of Corporate Director (Finance & Performance).
10. **Annual External Audit Fee Letter 2010/11** (Pages 44 - 49)
Report of KPMG LLP, the Council's External Auditors
11. **Internal Audit Strategic and Annual Plans 2010/11** (Pages 50 - 66)
Report of Internal Audit Manager.

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

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

(ii) Substitute Membership

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

(iii) Queries regarding this Agenda

Please contact Tom Silvani, Democratic Services - 01524 582132 - 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 22 June 2010.

AUDIT COMMITTEE**Statement of Accounts 2009/10
30 June 2010****Report of Head of Financial Services****PURPOSE OF REPORT**

This report seeks Members' approval of the draft Statement of Accounts for 2009/10 (to be attached at **Appendix A**) and outlines the audit process for information.

This report is public.

RECOMMENDATIONS

- (1) That the Committee considers the Accounts and any issues arising.
- (2) That the draft Statement of Accounts for the financial year ended 31 March 2010 be approved, and that the Chairman signs and dates the Accounts accordingly.

1 ACCOUNTS AND AUDIT REGULATIONS (AS AMENDED)

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

- Date of Approval
Councils have to gain approval of their draft unaudited accounts by 30 June.
- Certification by Chief Financial Officer (CFO)
Previously the certification of the accounts by the CFO was on a 'presents fairly' basis. This was because nationally, and mainly as a result of legislative requirements, the presentation of local authority accounts departed significantly from various financial reporting standards and what is known as generally accepted accounting practice. As a result of all the changes that have been implemented in recent years, however, from 2009/10 the certification will now be on a 'true and fair' basis. Whilst this effectively confirms that local authority published accounts now meet higher standards of accounting practice, in itself this has no significant impact on the authority's actual financial position.

- Signing of Accounts by Chairman
The intention behind this requirement is that the Chairman's signature should represent the completion of the Council's approval process for its accounts. The requirement for him to sign does not relate to the role of the Chief Financial Officer mentioned above, as that officer alone is responsible for certifying that the statement of accounts is a proper reflection of the Council's financial affairs. Notwithstanding this, the Committee is required to consider the accounts though it is recognised that practically, it can be very difficult for Members (and others) to comment and challenge constructively on what is a very complex document. An overview of the accounts will be given at the meeting and in addition, Members may contact the Head of Financial Services beforehand, to discuss the accounts informally.

- Provision for Missing Deadline for Approval
Where an authority fails to approve its accounts by the 30 June deadline, e.g. because of discrepancies, it must hold a further meeting within 20 days to re-consider the accounts. If it still cannot approve the accounts then, it must publish a statement as to the reasons why. It is envisaged that these provisions would be used only in exceptional circumstances.

- Annual review and statement on internal control
This is the subject of an item elsewhere on the agenda, i.e. the Annual Governance Statement.

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

2 KEY ISSUES AND SUMMARY POINTS ARISING

- 2.1 Members will be aware that 2009/10 has been a challenging and uncertain year financially for the Council, particularly in view of the impact of the recession and the unclear prospects for recovery of Icelandic investments. The Statement of Accounts includes various associated disclosures but for clarity, some key points are summarised below:
- After allowing for some significant additional transfers to provisions and reserves, the net underspending on General Fund was around £0.25M. There are also a number of budget carry forward requests expected from services for consideration by Members and if any are approved, this would further reduce the surplus created by the underspending.

 - The Housing Revenue Account also had a net underspending of approaching £0.2M though again, this surplus may be affected by carry forward requests.

 - With regard to Icelandic investments, whilst legal advice remains that priority status should be gained for both Landsbanki and Glitnir, it is still the case that the Winding Up Boards (WUB) of the banks have taken separate views and these will be tested through the courts; Landsbanki WUB has initially awarded priority status; Glitnir WUB has not. This makes it more difficult to reach an informed view of the most likely outcome. For the purposes of the accounts therefore, provisions have been made for around £2.2M of potential losses, which uses up the capitalisation directive and part of the allocated budget, but additionally

further amounts have been provided for in reserves to provide full cover for estimated losses in the event that priority status is not gained. KSF' prospects are unaffected by Icelandic law and they are more straight forward; estimated recovery rates for this investment have improved over the last year.

- 2.2 There will be many other issues to be considered as part of the outturn but as is usual, full reports will be presented to Members in due course. Other explanatory information on interpreting the accounts and an outline of the key issues arising are included in the 'Foreword' section, and Members may find this a useful starting point in their deliberations. (Copies of this covering report and the Foreword to the Accounts have been sent specifically to Cabinet and Budget and Performance Panel Members, for information.) It is also highlighted that in line with recommended practice, there have been some further changes to the presentation of the accounts for 2009/10 and these too will be covered at the meeting.

3 ACCOUNTS APPROVAL AND AUDIT OF ACCOUNTS PROCESS

- 3.1 Under the Constitution, this Committee has specific authority to approve the Statement of Accounts. Subject to this approval being gained, the Chairman will be asked to sign and date a copy of the accounts for the purpose outlined above.
- 3.2 Subsequent to the accounts being approved, KPMG LLP, the Council's External Auditors, are due to commence the audit of accounts on Monday 05 July. The four week public inspection period commences on Wednesday 30 June and the External Auditor will be available to answer local electors' questions relating to the accounts from Wednesday 28 July. In accordance with the Regulations, these dates have been advertised in the local press and are on the website.
- 3.3 If any significant issues or 'non-trifling' matters arise during the audit these will need to be reported back for consideration by the Committee. In any event, the outcome of the audit will be included within the External Auditor's annual audit letter to the Authority, which will be reported to all Members in due course.
- 3.4 Once audited, the Statement of Accounts will be published by 30 September. Summary accounts and information will also be made available as appropriate, through other existing Council publications and the website.

4 Details of Consultation

Outline arrangements for the public inspection period are referred to above. As background information, Members may wish to refer to the Audit Commission's guidance to the public regarding public inspection, available through their website (<http://www.audit-commission.gov.uk/nationalstudies/localgov/>)

5 Options and Options Analysis (including risk assessment)

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

statutory deadline are outlined above. It is reiterated, however, that these provisions are designed to deal with exceptional circumstances, rather than being the norm.

6 Conclusion

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

Whilst 2009/10 has been a difficult year, as at 31 March the Council has improved its financial standing to a degree, through generating net savings and other underspendings. The Council has covered all potential estimated losses in Icelandic investments, as well as earmarking further reserves to help respond to the major financial challenges that are expected in the coming months and years.

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

No implications directly arising.

FINANCIAL IMPLICATIONS

The Statement reflects the 2009/10 provisional outturn position, which is to be reported in more detail to Cabinet towards the end of July. Any further implications arising for current and future years will be assessed and fed through into this year's corporate financial monitoring and the review of the Medium Term Financial as appropriate.

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

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

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

Accounting and Audit Regulations, as amended.

Contact Officer: Nadine Muschamp

Telephone: 01524 582117

E-mail: nmuschamp@lancaster.gov.uk

Ref:

Audit Committee**Results of Internal Audit Work****30th June 2010****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.
- (2) That in relation to previous audits where the assurance level has not yet reached "reasonable" (as set out in Appendix A):
 - a) Regarding audit ref 07/0708 - Income Management (Housing Rents Direct Debit Payments) - that Audit Committee consider the update report of the Head of Council Housing and determine whether they would wish any further action to be taken regarding the outstanding issues from the audit.
 - b) Regarding audit ref 07/0709 – Payroll - that Audit Committee consider the update report of the HR Manager and determine whether they would wish any further action to be taken regarding the outstanding issues.

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 15 June 2010

- 2.1 This report covers audit work and reports issued since the Results of Audit Work were last reported to Committee on 20th January 2010. 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 last meeting.

Audit Title		Report Date	Assurance Level	
New Audit Reports				
09/0778	Sundry Debtors	28/01/10	Reasonable	✓
08/0764	Investigation RMS	22/01/10	Minimal	⚠
09/0779	Housing Rents	12/04/10	Reasonable	✓
09/0776	Payroll 2009/10	04/06/10	Limited	⚠
09/0786	Treasury Management	04/06/10	Reasonable	✓
Follow up Reviews				
07/0676	Salt Ayre	23/02/10	Reasonable	✓
09/0779	Mod.gov System	29/04/10	Reasonable	✓

3.0 Matters Arising from Audit Reviews

- 3.1 Members' attention is drawn to the audits where a "reasonable" level of assurance has not been achieved as follows:

08/0764 – Investigation RMS

The investigation focused on subcontracting arrangements and particularly work awarded to the in-house contracting team. The audit report concentrated on system and procedural issues, matters of a disciplinary nature having been dealt with separately.

The report highlighted fundamental cultural problems in the Service relating to relationships within the Section and with sub-contractors, failings in the management structure and instances of staff ignorance of relevant Rules and Regulations. Both the Head of Council Housing Services and the Repairs and Maintenance Manager responded positively to the report, agreeing actions to address all recommendations made, and soon after they issued a discussion paper to relevant staff setting out the main findings and related corporate expectations. Staff receiving the paper were asked to attend workshops/briefing sessions which sought to ensure they understood the expectations whilst enabling frank and open discussions on the associated practicalities of adopting appropriate systems and procedures to move forward. Internal Audit officers attended the workshop involving office based staff to clarify any uncertainties regarding corporate policies and procedures.

It is recognised that it will take time for the Section to achieve a "reasonable" level of assurance and ongoing staffing issues, such as the Operations Manager post having been vacant for some time, will impact upon progress. However it is hoped significant progress will have been made by the time Internal Audit formally follow up progress starting in July 2010.

09/0776 – Payroll

A "limited" assurance opinion was provided, consistent with the previous audit (see Appendix A) on the basis that errors had been found in the Establishment Book. The audit recognised that errors are inherent with manual systems but an integrated HR/Payroll system, which reports by exception on discrepancies between the two modules could significantly improve control. Until such a system is in place HR have reviewed their procedures with a view to improving the accuracy of the

Establishment Book and the effectiveness of those procedures will be evaluated at the follow-up review scheduled for November 2010.

4.0 Update on Previous Assurance Opinions

- 4.1 The Audit Committee has previously received two updates on progress relating to an Internal Audit review of Salt Ayre Sports Centre. The assurance opinion has now been raised to “reasonable” as good progress has been made in implementing the agreed actions which include the introduction of a system to reconcile income to the general ledger. Management of the Centre’s booking system is also under review with a view to introducing an appropriate separation of duties and sufficient internal checking and supervision arrangements.
- 4.2 After three previous updates on progress in respect of implementing actions arising from the Land Charges review “reasonable” assurance has now been achieved. The cost of personal searches has been raised to the rate set by the Government and a review of the cost of full searches has concluded that the rate charged by the Authority was fair and appropriate at the time of the review. The situation is continually changing (e.g. the abolition of HIPs (Home Information Packs) has reduced the number of search requests) but further action by the Authority is considered inappropriate until the results of a pending Government review are published. Ultimately fees may be fixed by the Government, or even abolished given a significant amount of the information provided through searches is currently available free of charge under the Environmental Information Regulations 2004
- 4.3 Appendix A provides the updated position for all audits where the level of assurance has not yet reached “reasonable”.

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

- 5.1 Internal Audit has provided ad-hoc advice and support to all levels of management. The most significant was an analysis of overtime paid since April 2009 to enable the HR Manager to start a review with service managers which seeks to ensure arrangements for overtime are appropriate in terms of cost and personnel management.

6.0 Details of Consultation

- 6.1 Not applicable

7.0 Options and Options Analysis (including risk assessment)

- 7.1 Not applicable

CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing) None identified
FINANCIAL IMPLICATIONS None directly arising from this report
SECTION 151 OFFICER’S COMMENTS The Section 151 Officer has been consulted and has no further comments.
LEGAL IMPLICATIONS None directly arising from this report.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS







Internal Audit Files







Contact Officer: Derek Whiteway



Telephone: 01524 582028

E-mail: dwhiteway@lancaster.gov.uk

Ref: aud/audcomm/100630/ROIAW

Internal Audit Report		Latest Update		No of updates reported to Audit Committee	Internal Audit's opinion and recommendation
Job No & Title	Assurance Level and Date	Current Assurance Level	Comments (provided by)		
07/0708 - Income Management (Housing Rents Direct Debit Payments)	 Limited 30/04/08	 Limited	At its meeting on 20 January 2010, the committee resolved: <i>"That Audit Committee request the Head of Council Housing Services to attend the next meeting of the committee to provide a further update and assurance on Income Management (Housing Rents Direct Debit Payments)"</i> . An update on developments since the last meeting is appended at page 4 of this appendix	6	The Head of Council Housing Services has been requested to attend the meeting to report on the latest position. Recommendation: that Audit Committee consider what action they would wish to be taken regarding the outstanding issues from the audit.
07/0701 - Procurement and Contract Management	 Limited 01/10/08	 Limited	At its meeting on 20 January 2010, the committee resolved: <i>"That if the assurance level for 'Procurement and Contract Management' has not reached 'reasonable' by the time of the internal audit follow up review, the Head of Financial Services be asked to attend the next meeting of the committee to report on the position."</i>	4	The audit follow-up was completed in early June and will be reported to members of the committee in the near future. No further action necessary at this stage.
08/0753 - Williamson Park - Audit of Financial procedures	 Limited 26/11/08	 Limited	The process of returning the Park to council control is currently underway and an officer working group with representatives from various services, including Legal and Finance, is overseeing the transfer. All new financial and operational systems introduced following the audit have been successful and the Park is now operating within budget. Cabinet is due to receive an update on the Park's operational position and further information will be reported to Cabinet as appropriate. (Update provided by management)	3	A further audit review will be carried out during 2010/11 to assess the effectiveness of the new arrangements. Recommendation: there is no further recommendation at this stage.

Internal Audit Report		Latest Update		No of updates reported to Audit Committee	Internal Audit's opinion and recommendation
Job No & Title	Assurance Level and Date	Current Assurance Level	Comments (provided by)		
07/0709 - Payroll	 Limited 04/12/08	 Limited	The achievement of a 'reasonable' level of assurance is dependent upon the implementation of a replacement Payroll/HR system and a major review of recruitment policies and procedures. At its meeting on 20 January 2010, the committee resolved: <i>"That Audit Committee request a progress report on both the Payroll/HR system project, and the review of the recruitment policy and procedures, to be presented to the next committee meeting and the Human Resources Manager be invited to attend to present the report."</i>	4	The HR Manager has been invited to attend the meeting to report on the Payroll/HR system project and on the review of the recruitment policy and procedures. Recommendation: that Audit Committee consider whether they would wish any further action to be taken regarding the outstanding issues from the audit.
08/0733 - Planning for Floods	 Limited 25/02/09	 Limited	At its meeting on 20 January 2010, the committee resolved: <i>"That, if the assurance level for 'Planning for Floods' has not reached 'reasonable' by the time of the internal audit follow-up review, Audit Committee should seek a further report and assurances from the Head of Planning Services."</i>	3	The audit follow-up is nearing completion and will be reported to members of the committee in the near future No further action necessary at this stage.
07/0679 - Markets	 Limited 09/02/09	 Limited	At its meeting on 20 January 2010, the committee resolved <i>"That Audit Committee wishes to increase the amount of non cash payments in the Charter Market, the Festival market and the Assembly Rooms, and that a report be presented to the next Audit Committee as to the progress on this policy and the areas in which it can be applied."</i>	3	The Head of Financial Services will provide a verbal update on developments and a full report will be presented to the next meeting of the committee on 22 September 2010.

Internal Audit Report		Latest Update		No of updates reported to Audit Committee	Internal Audit's opinion and recommendation
Job No & Title	Assurance Level and Date	Current Assurance Level	Comments (provided by)		
08/0723 - Arts Development	 Limited 12/06/09	 Limited	The council's focus on arts development has changed significantly since the audit was undertaken and the arts strategy is primarily being taken forward by the LDLSP. It is now necessary to revisit the objectives and conclusions of the audit and consider whether and in what ways the action plan should be taken forward.	2	The Internal Audit Manager will be consulting the Head of Community Engagement to determine what further action to take with the audit and action plan. Any developments will be reported to Audit Committee. Recommendation: There is no further recommendation to Audit Committee at this stage.

Results of Internal Audit Work

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

As background, the supplier of the housing management system operated by the Council Housing Service (CHS) also supplies its own branded “primary housing solution”. In May 2009, the supplier had notified users of their intention to withdraw support from the product used by CHS and to ‘migrate’ users to their other solution.

Developments since the last update to committee in January 2010, are as follows:

By December 2009, the software suppliers had withdrawn their intention to remove support from the system currently being used by the CHS. This meant that CHS would not be forced to migrate to the supplier’s other solution and provided the opportunity to introduce the most recent release of the existing software, which includes the direct debits functionality.

This implementation was, however, delayed following approval of funding for a Choice Based Lettings system. The suppliers had already offered a “like for like” migration to their other software solution and an officer assessment on suitability of the choice based lettings system was commenced.

In April 2010, a further release of the existing software was made available to customers, offering increased direct debit functionality. There is an additional licence fee payable to be able to use this enhancement.

A detailed assessment of the supplier’s choice based lettings systems, completed in May 2010 concluded that it fell short of the council’s requirements, and compared unfavourably with other solutions on the market. This, together with an assessment of the existing systems, including the resources needed to deliver projects, concluded in a decision in early June 2010 not to migrate to the supplier’s other solution. The current proposal is therefore to upgrade the current software and set the procurement process in motion to procure an alternative choice based lettings system.

Officers are currently assessing whether or not to introduce the latest software release immediately, or wait for the next release which is due in October 2010. This decision will depend on the time taken to confirm that the upgraded software is fit for purpose, an assessment of resources and existing commitments within both CHS and Information Services and the identification of funding for costs (estimated at £8,400 in 2010/11 and £7,200 p.a. thereafter) to implement the new release of the existing software.

AUDIT COMMITTEE**Internal Audit Annual Report and
Assurance Statement 2009/10****30 June 2010****Report of Internal Audit Manager****PURPOSE OF REPORT**

To inform the Committee of the extent and outcome of Internal Audit work during the 2009/10 financial year and to present an annual Statement of Assurance regarding the Council's internal Control Framework.

This report is public

RECOMMENDATIONS

1. That the report be noted.
2. That the Controls Assurance Statement (paragraphs 2.10 to 2.20) be accepted and considered in relation to the proposed Annual Governance Statement (presented elsewhere on this agenda).

1.0 Introduction

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

2.0 Proposal Details

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

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

Annual Audit Plan 2009/10

- 2.2 Internal Audit plans and assignments are developed on a risk-based approach, seeking to identify and devote resources to the areas of greatest significance to the Council. The approved Internal Audit Plan for 2009/10 was based on the provision of 880 days of Internal Audit work divided evenly between assurance work (440 days) and other audit activity (440 days).
- 2.3 The detailed outturn position at 31st March 2009 is attached as Appendix A with a summary of the final position for the year being set out in the following table. Please note that in the printed agenda, the appendices will be in black and white, but may be viewed in colour on computer screens.

Area of work	Resources (audit days)		
	Planned	Actual	Variance
Core Financial Systems	90	85	-5
Core Management Arrangements	75	57	-18
Risk Based Assurance Audits	225	164	-61
Follow-Up Reviews	50	91	+41
Sub-Total, Assurance Work	440	397	-43
Advice & Support Work	105	153	+48
Efficiency & VfM	50	8	-42
Investigations	125	240	+115
Audit Management	60	70	+10
Non Audit Duties	60	30	-30
General Contingency	40	0	-40
Total Chargeable Days	880	898	+18
Non-Chargeable Activities (note 1)	122	125	+3
Total Available Days	1,002	1,023	+21

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

Explanation of Major Variances

- 2.4 As can be seen from the table, the total number of available days has been increased by 21 days, this being a combination of:
- Unpaid overtime providing an additional 7 days
 - Sickness levels being lower than provided for (the section had an average of 3 days per person); this provided an additional 5 days availability;
 - Training days being 9 fewer than estimated (staff received an average of 4.5 days training).

This extra availability has translated into an additional 18 days of chargeable work being delivered, although there have been some significant variations across the areas in the plan. Changes in demand for Internal Audit work have been managed so as to ensure that an acceptable level of assurance work is delivered. Significant changes in the range of work undertaken have resulted from:

- Investigations – Whilst a higher than normal allocation was made in the plan reflecting an ongoing investigation at the start of the year, this investigation and another arising later in the year made a major demand on resources, diverting resources from both planned assurance work.
- Under “Support Work”, the continued involvement of the Principal Auditor in leading the mapping and evaluation of the Council’s significant partnerships. This required 32 days work during the year. Under the service restructuring, this piece of work has now been taken on by the Technical Support Team in the new Community Engagement Service.
- The Principal Auditor taking a lead in the council’s provision of information for the external auditor’s Use of Resources assessment required 30 days work not originally budgeted for in the plan.
- Under “Non Audit Duties”, the original plan anticipated an ongoing direct involvement of the Internal Audit Manager in the Fair Pay project. This involvement was less than anticipated releasing 30 days for other work.
- As in 2008/09, the Fair Pay project was one of the most resource intensive pieces of assurance work, accounting for 33 days.
- The above mentioned demands again resulted in planned work under “Efficiency and Value For Money” being postponed. This is to be picked up again in the 2010/11 plan.

Quality Considerations

- 2.5 Customer satisfaction with Internal Audit work is judged through managers’ responses to a post-audit satisfaction survey sent out following the completion of each assignment. The questionnaire seeks views, expressed as scores on a range from 1 to 9, on sixteen aspects of the audit, covering aspects of communication and consultation, conduct, objectivity, reporting and impact of the work. Summary results from questionnaires returned over the past 18 months are demonstrated in the chart in Appendix B.
- 2.6 The summary represents the average scores obtained from 24 returned surveys. Against a target level of 8 for all aspects of the audit, three have not been met (albeit marginally), these being questions 8, 15 and 16.

The average score for question 8 – *“The results of the risk evaluation were discussed with the appropriate staff”* was affected by two low scores given by the Exchequer Services Manager in relation to the Sundry Debtors and Creditors audits. In these instances, the scope and objectives of the audit had been agreed with the Head of Financial Services to cover additional exposure to risk from the economic downturn. The risk evaluation was not discussed in detail with the managers and staff responsible for the corporate system. This position has been considered and will be borne in mind when undertaking similar audits in future.





Over the years, the average score for both questions 15 and 16 have consistently fallen marginally below the target of 8. There were no particularly revealing comments made in connection with these questions. The lower scores tended to result from audits, particularly those of core financial systems, where risks are already well understood and managed. In these instances, the main objective of the audit is to give assurance that controls are operating effectively.

Review of the Effectiveness of Internal Audit

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

Results of Assurance Work

- 2.8 In all cases, completed assurance audits have resulted in the production of a report and action plan, agreed by managers and submitted for consideration by the Audit Committee. The assurance system uses four levels of opinion, as follows:

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

- 2.9 The Table in Appendix C sets out the assurance opinions issued from audits and follow-up reviews completed since 31st March 2009, and any subsequent changes in assurance level.

Controls Assurance Statement

- 2.10 It must be recognised that Internal Audit can be expected to provide reasonable and not absolute assurance that control weaknesses or irregularities do not exist.
- 2.11 This assurance statement is drawn from both the results of individual internal audit assignments and the results of follow-up reviews into previously completed audits, as reflected in the contents of Appendix C. The following table summarises the assurance opinions covered in the appendix, based on the most recent review.

Assurance Level (at most recent review)	No of Audits
Substantial	2
Reasonable	16
Limited	9
Minimal	1

- 2.12 A substantial assurance opinion has been given as a result of both the NNDR and Council Tax audits, these systems being well-established and managed.

- 2.13 The sole minimal assurance opinion during the year resulted from the procedural review within Council Housing's Repair & Maintenance Service. This review stood alongside the disciplinary investigation undertaken by internal audit during 2009/10. The governance and internal control issues raised in this audit have also been referred to by the Head of Council Housing in his annual assurance statement. In the Internal Audit Manager's view, these issues are of sufficient significance to be mentioned in the annual governance statement.
- 2.14 Notwithstanding the above, the results demonstrate that procedures for reporting and following up audits (focusing on those not having achieved a reasonable assurance level) and reporting progress to Audit Committee are continuing to operate effectively.

Financial Systems

- 2.15 Assurance levels on the Council's key financial systems are consistently good, with both Council Tax and NNDR resulting in a substantial assurance opinion. All other financial system audits included in Appendix C with the exception of "Income Management – Housing Rents Direct Debit Payments", and "Payroll" having resulted in a "reasonable" assurance level. Progress with these audits continues to be monitored by Audit Committee.
- 2.16 Issues relating to Housing Rents Direct Debits are concerned with the inability of the current Rents system to transfer information to the General Ledger, and the consequent need to operate an inefficient and error-prone manual system. This is a long-standing issue which is under ongoing review and will continue to be reported to the Audit Committee.
- 2.17 As regards Payroll, outstanding issues are centred on a planned review of personnel policies and procedures and the planned procurement of an integrated HR and Payroll system. Progress and developments are being reported to and monitored by the Audit Committee.
- 2.18 With these exceptions, it can be taken that effective internal controls exist to ensure the accuracy and integrity of the information that the key financial systems provide and no significant control weaknesses have been identified.

Governance Arrangements

- 2.19 Audits of Performance Management and Business Continuity Planning resulted in a "reasonable" assurance opinion. The "limited" assurance opinion resulting from an audit of "Procurement and Contract Management" in 2008/09 has yet to improve. This reflects the wide ranging programme of action being pursued in support of the revised corporate procurement strategy. The level of progress and the assurance opinion are being assessed as part of the formal audit follow-up. The main messages arising from the audits have been incorporated in the governance review and Annual Governance Statement.

Other Audits

- 2.20 In the assurance work undertaken, Internal Audit activity during the year did not identify any control weaknesses of such significance that they would warrant disclosure in the Council's Annual Governance Statement. Where any control weaknesses have been identified, remedial action has been agreed and arrangements are in place to monitor the implementation of those actions and the level of assurance provided.

3.0 Details of Consultation

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

4.0 Options and Options Analysis (including risk assessment)


































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

5.0 Conclusion

5.1 The work of Internal Audit seeks to provide assurance to the Council as to the appropriateness and effectiveness of its internal control and corporate governance arrangements. During the 2009/10 financial year, Internal Audit's work has provided assurance in a variety of areas as well as incorporating a significant level input and contribution to the development of a number of key systems and processes.

<p>CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</p> <p>This report has no direct impact on these areas.</p>	
<p>FINANCIAL IMPLICATIONS</p> <p>None arising from this report.</p>	
<p>SECTION 151 OFFICER'S COMMENTS</p> <p>The 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 Internal Audit Files</p>	<p>Contact Officer: Derek Whiteway Telephone: 01524 582028 E-mail: dwhiteway@lancaster.gov.uk Ref: aud/ctte/aud/100630/IAAnnRep</p>

Internal Audit Annual Plan 2009/10 - Final Outturn at 31/03/10

Work Allocations		Actuals to 31/03/10	Status at 31/03/10
Job No	Title		
1. ASSURANCE WORK			
Core Financial Systems			
09/0715	Asset Management	1.7	
09/0739	Creditors	5.4	
09/0750	Academy/Civica Interfaces	17.5	
09/0752	Main Accounting	3.2	
09/0772	Value Added Tax	11.6	
09/0776	Payroll 2009/10	7.0	
09/0778	Sundry Debtors 2009/10	7.8	
09/0779	Housing Rents 2009/10	12.0	
09/0781	Council Tax 2009/10	7.0	
09/0782	NDR 2009/10	7.2	
09/0786	Treasury Management	4.1	
Sub-total - Core Financial Systems		84.5	
Core Management Arrangements			
08/0703	Fraud & Corruption Arrangements	6.8	
08/0721	National Fraud Initiative 2008/09	11.5	
08/0761	Financial Management	5.8	
09/0773	Performance Management	4.9	
09/0774	Ethical Governance Framework and Survey	26.9	
09/0777	Project Management	0.7	
Sub-total - Core Management Arrangements		56.6	
Risk Based Assurance Work Programme			
08/0129	Contracts Audit - Final Accounts	0.3	
08/0714	Fair Pay Project	32.5	
08/0723	Arts Development	1.6	
08/0725	Member Expenses & Civic Functions	2.5	
08/0728	Enforcement	6.2	
08/0730	Climate Change	42.4	
08/0733	Planning for Floods	0.5	
08/0749	Sustainable Travel	3.0	
08/0753	Williamson's Park Financial Procedures	0.9	
08/0754	Mod.Gov System	10.2	
08/0755	Contaminated Land	15.2	
08/0759	Housing Standards	18.8	
09/0738	Information Security	16.4	
09/0775	Customer Services	10.5	
09/0785	LAA 2006-2009 Performance Related Grant Claim	2.9	
Sub-total - Risk Based Assurance Work		163.9	
Follow-Up Reviews		91.4	
SUB-TOTAL - ASSURANCE WORK		396.4	
2. CONSULTANCY WORK			
Support Work (projects and other)			

Internal Audit Annual Plan 2009/10 - Final Outturn at 31/03/10

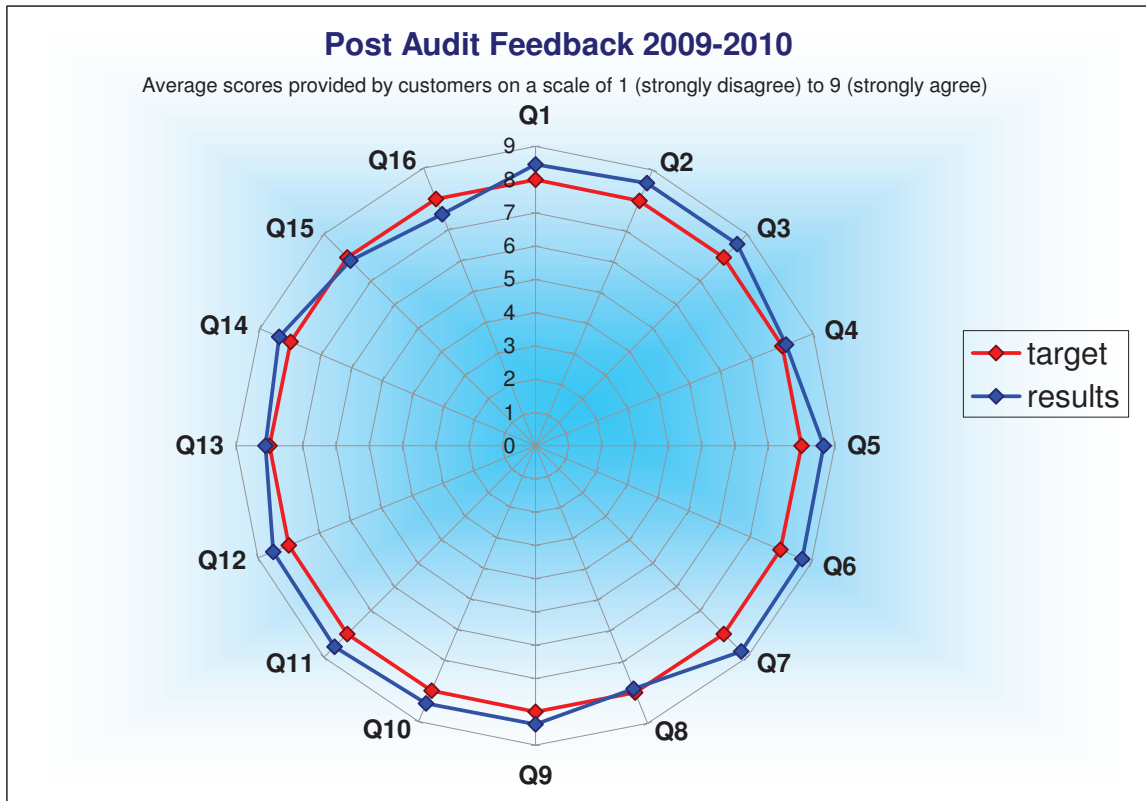
Work Allocations		Actuals to 31/03/10	Status at 31/03/10
Job No	Title		
08/0509	RIPA Monitoring	4.8	∞
08/0633	Risk Management Steering Group	1.3	∞
08/0700	Corporate Governance Framework Development	1.6	∞
08/0735	Partnership Mapping and Evaluation	32.1	✓
08/0740	Procedures for Changing Conditions of Service	0.2	✓
08/0744	Anti-Money Laundering Policy Development	5.1	✓
09/0768	Programme Management and External Funding	9.3	✓
09/0767	Use of Resources 2008/09	29.1	✓
09/0769	Corporate Procurement Arrangements	3.3	∞
Sub-total - Support Work		86.8	
Efficiency & VfM			
09/0770	Value For Money Strategy Review	8.3	⚠
Sub-total - Efficiency & VfM		8.3	
Ad-Hoc Advice		65.7	∞
SUB-TOTAL - CONSULTANCY WORK		160.8	
3. OTHER			
00/0392	Deputy s151 Duties	14.2	∞
08/0760	Fair Pay Project - Pay Modelling Work	16.2	✓
SUB-TOTAL - OTHER		30.4	
4. AUDIT MANAGEMENT			
08/0172	Committee Work	35.7	∞
08/0189	Audit Planning and Monitoring	34.3	∞
SUB-TOTAL - AUDIT MANAGEMENT		70.0	
5. CONTINGENCIES			
Investigations		239.5	⚠
General Contingency		0.0	
SUB-TOTAL - CONTINGENCIES		239.5	
TOTALS		897.1	

Key: ✓ Completed

⚠ In Progress

∞ Continuous or Multi-Year Activity

Appendix B





Questions:	Target	Actual	Priority for Action	
Q1	I was given adequate notification of the audit	8	8.5	9
Q2	The audit work was undertaken at an agreed and convenient time.	8	8.6	12
Q3	The audit process and objectives were adequately explained to me	8	8.6	12
Q4	I was sufficiently involved in identifying and analysing risk and determining the scope of the audit	8	8.1	4
Q5	The work was conducted in my section in a proficient manner	8	8.7	14
Q6	The appropriate staff were consulted for the areas covered	8	8.7	15
Q7	The consultation was conducted in a professional manner	8	8.8	16
Q8	The results of the risk evaluation were discussed with the appropriate staff	8	7.9	2
Q9	The results and conclusions were based on sound and thorough analysis/evaluation of the major risks	8	8.4	6
Q10	I was sufficiently involved in discussing and agreeing the report and action plan	8	8.4	8
Q11	My views and comments were adequately presented in the final report	8	8.5	11
Q12	The final report presented a balanced and accurate picture of the results of the audit	8	8.5	10
Q13	The action plan was easy to agree and was based on practical and realistic recommendations	8	8.1	4
Q14	The final report was produced promptly	8	8.4	6
Q15	The audit has helped develop our identification and understanding of risk in this area	8	7.9	2
Q16	The audit has helped improve the way in which we manage risk in this area	8	7.5	1

Results are based on the responses provided by 24 respondees

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

06/0642 Building Control


14-Dec-09 Reasonable  Good progress has been made since the appointment of the Building Control Manager to implement high priority actions including arrangements to improve the management of the building control account and procedures to support the monitoring and recovery of costs. Implementation of the fee charging structure, based on an assessment of risk, will be in place from 1st April 2010 and other operational actions addressed subject to approval of the Service restructure currently underway.

21-Aug-09 Limited  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.


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.

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


06/0660 Housing Rents (debit control)


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

07/0676 Salt Ayre Sports Centre


23-Feb-10 Reasonable  Good progress has been made with implementing agreed actions, including the introduction of arrangements to reconcile income to the general ledger. Therefore, the assurance level has been raised to reasonable. Responsibility for management of the booking is currently under review with a view to introducing appropriate division of duties, internal check and supervision.

07/0679 Markets


19-Jan-10 Limited  As income collection arrangements remain unchanged, and are still subject to review, Internal Audit feel that the level of assurance which can be provided at present remains limited. Until such time as the situation regarding invoicing and cash collection arrangements has been resolved, a reasonable level of assurance cannot be given.

27-Aug-09 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'




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

16-Jun-09 Reasonable  Significant progress has been made in that a full review of expenses and benefits has been carried out and comprehensive guidance and procedures has been completed and are soon to be published. All the Authorities dispensations have been reviewed and approved by the HMRC.


07/0697 Performance Management 2007/08

17-Nov-09 Reasonable  Excellent progress has been made with implementation of the action plan and all agreed actions have either been implemented or improvements are in hand. Most significantly a review of the business planning process has taken place, performance review team reports are more focussed and a savings and efficiency programme has recently been developed.



07/0701 Procurement and Contract Management 2007/08

11-Jun-10	Limited		The opinion has remained at 'limited' for some time, the lack of progress being attributed to other work commitments such as the implementation of e-procurement arrangements. The publication of the revised procurement strategy, the finalising of the update of the Constitution and improved contract management and monitoring arrangements should result in a 'reasonable' level of assurance..
21-Dec-09	Limited		Plans are being made for the revised procurement strategy to be published and promoted and for this to be supported by the Member Procurement Champion. Some agreed actions will be addressed through ongoing work commitments arising from the implementation of e-procurement arrangements and others relating to a consistent and established approach to contract management are ongoing or have been delayed as a result of other work commitments within the procurement section and a recent staff restructure to establish the Programmes and Fundings team within Economic Development. Sufficient progress on the outstanding actions in the next few months together with the publication and promotion of the procurement strategy should result in a 'Reasonable' level of assurance
19-Aug-09	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.



08/0703 Fraud & Corruption Arrangements

21-Aug-09	Limited		Given the greater emphasis on ethical behaviour and the higher risk of fraud in the current economic climate only limited reliance can be placed on the Council's existing arrangements. Completion of work that is already underway and implementation of the agreed actions will result in reasonable level of assurance
-----------	---------	---	--


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

15-Dec-09	Limited		A number of agreed actions remain outstanding including implementation of an automated direct debit module. This is largely on the basis that despite previous assurances the new providers of the Housing Rents system, Northgate, have failed to deliver as expected. Council Housing Services have had difficulty resourcing agreed alternative arrangements aimed at minimising the risk of error until such time as an automated direct debit system is in place. This risk was recently demonstrated when an elderly tenant paying by direct debit was overcharged by £2000 in error. On 14th December 2009, the council received a revised strategy from Northgate following a review and consultation with users. This latest strategy will be reviewed by Council Housing staff with a view to addressing the outstanding agreed actions.
05-Aug-09	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.



07/0709 Payroll 2007/08

07-Oct-09	Limited		Although excellent progress has been made to address the operational issues raised during the original review, achievement of a 'Reasonable' level of assurance is dependent upon the implementation of two significant issues which remain outstanding. The assurance opinion will remain as 'Limited' until these actions have been fully implemented though it is unlikely this will be achieved until the Fair Pay process has been completed and staff resources can be made available to take the work on.
18-Aug-09	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.




07/0717 Income Management (Cultural Services Webstaff Payments)

17-Aug-09	Reasonable		Since the incident in January 2009 all box office staff have been fully trained on the PCIDSS requirements and no further breaches have occurred. Customer details are now entered onto Webstaff at the point of sale and credit/debit card authorisations obtained whilst the caller is on the line.
-----------	------------	---	---


08/0723 Arts Development

17-Dec-09	Limited		<p>Agreed actions have not been implemented as expected, largely due to the resignation of three key members of staff which has reduced the Arts team to zero from December 2009, raising other potential risks which will be considered as part of the services restructure and review. In the meantime, the workload is being prioritised and temporarily picked up by other Cultural Services staff to ensure that commitments to ongoing projects are met, Service Level Agreements with arts organisations are managed and monitored to prevent any clawback from funding partners, and actions arising from the new arts strategy are supported. This additional work means that it is unlikely that any progress will be made in the short term to implement the agreed actions.</p> <p>In addition, a number of actions will change or be superseded following a recent decision by the LDLSP to work with partners and Cultural Services staff to take the arts strategy forward. On a positive note, this will be informed by the Key Cultural Partnership who have recently been evaluated, with support from Cultural and Financial Services staff, resulting in a much more focussed approach to delivering the arts.</p>
12-Jun-09	Limited		<p>The Limited level of assurance provided reflects the agreed scope of the audit in that the review concentrated on areas recognised by the Service as in need of improvement. Officers are taking positive steps to address the management of identified risks with plans already in hand and reports to Cabinet pending. Therefore, Internal Audit are confident that the assurance level could be raised to Reasonable once the agreed action plan has been implemented. A formal follow up will be carried out in November '09 to establish progress made.</p>


08/0724 Land Charges

01-Jun-10	Reasonable		<p>The assurance opinion has now been raised to reasonable as the cost of personal searches has been raised to the rate set by the Government and a review of the cost of full searches has concluded that the rate charged by the Authority was fair and appropriate at the time of the review.</p>
15-Dec-09	Limited		<p>Following government consultation and guidance the charge for personal Land Charges searches is to be increased from 1st January 2010 to a more cost effective level. An exercise is currently underway to establish the cost of provision of elements of the local search to ensure that the Council is fully compliant with legislation by 1st April 2010 at which point the level of assurance will be raised to 'Reasonable'</p>
18-Aug-09	Limited		<p>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.</p>


08/0725 Member Expenses and Civic Functions

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




08/0729 Street Cleansing (Enforcement)

04-Aug-09	Reasonable		<p>The role of enforcement in achieving the corporate objective to maintain the cleanliness of our streets and public spaces is recognised and current performance outturns suggest resources are being used effectively.</p>
-----------	------------	---	---


08/0730 Climate Change

10-Jun-10	Limited		<p>The main issues arising include the need to improve energy management arrangements, and in particular to consider the necessary resources and expertise required to reduce carbon emissions and achieve energy savings. These issues are currently being considered by the Climate Change Officer Working Group, and progress is being made to address issues raised in the audit. However, resources required to effectively plan to adapt to the impacts of climate change need to be identified. Arrangements to ensure that the council is adequately prepared to respond to the requirements of the Carbon Reduction Commitment also need to be put in place. As such, limited assurance can be provided in relation to overall management of the risks included in this review.</p>
-----------	---------	---	--


08/0733 Planning for Floods

15-Jun-10	Reasonable		Since the time of the audit the risks to the Authority have changed as the Pitt report allocated responsibilities in relation to the flood management to Lancashire County Council. City Council responsibilities have not yet been clarified, however good arrangements have been made to ensure officers remain up to date with developments and keep Members informed of potential capability and resource issues. Therefore, reasonable assurance can be provided in relation to arrangements in place.
15-Dec-09	Limited		The council is now working in partnership with other district councils, Lancashire County Council and the Environment Agency with a view to implementing the recommendations of the Pitt Review which includes changes to the flood management responsibilities of local authorities. The legislation for these changes will be contained in the Flood and Water Bill going before parliament and the council will continue to work closely with relevant agencies to address the longer-term implications of these new responsibilities
02-Sep-09	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.



08/0736 Business Continuity Planning

27-Oct-09	Reasonable		Whilst implementation of the agreed actions has not progressed as far as hoped significant progress has been made in improving the council's business continuity arrangements and the authority is in a much stronger position than it was at the time of the original review.
-----------	------------	---	--



08/0739 Creditors 2009/10

09-Apr-10	Reasonable		The Authority Financials system provides good controls for the ordering and payment of goods and services ensuring that the system remains efficient and effective in the current economic climate.
-----------	------------	---	---


08/0753 Williamson's Park - Audit of Financial procedures

15-Dec-09	Limited		Work in recent months has concentrated on addressing legal and operational issues surrounding the arrangements for the management of the Park returning to the council. Work has also been ongoing to ensure that effective budget monitoring and reporting arrangements are in place, and to improve value for money in the procurement of works, goods and services, as well as other operational improvements. A detailed report on progress is to be submitted to Cabinet in January 2010 with a view to the transition back into council control being in place by 1st April 2010. A further audit review will be carried out in order to assess the effectiveness of the new arrangements.
21-Jul-09	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

08/0754 Modern.Gov System

30-Mar-10	Reasonable		All five of the actions agreed at the time of the audit have been addressed, with three being fully implemented, one being partially implemented and improvements being in hand in relation to the remaining action. The level of assurance which can be provided in relation to the arrangements in place therefore remains at reasonable.
02-Sep-09	Reasonable		A reasonable level of assurance can be provided in relation to the arrangements in place for ensuring that the modern.gov system effectively supports the Authority's decision making process. The review of the system concentrated on five risks, three of which are considered well managed, arrangements are in hand to manage the fourth, and there is scope to improve management of the fifth risk. Actions agreed focus on improvements required to ensure that the system is used to its full potential.

08/0759 Housing Standards

13-May-10	Limited		Limited assurance is given on the basis that a comprehensive housing strategy is needed to ensure private sector work programmes are based upon up-to-date and accurate data on private sector stock condition and housing needs.
-----------	---------	---	---

08/0764 Investigation RMS

22-Jan-10 Minimal



This report focuses on systems and procedures to be addressed by the Service. Matters of a disciplinary nature have been dealt with outside this report. The opinion relates primarily to systems/procedures on the operational side of RMS and in particular arrangements for the management of contracts awarded in-house. However the investigation has highlighted a number of weaknesses which need to be addressed by the Service and by the Authority and actions have been agreed accordingly. Internal Audit recognises that the Service has been placed under pressure through the investigation impacting upon its staffing and is grateful for the positive contributions made by staff in difficult circumstances. It also recognises a positive attitude to improvement by key staff and actions already taken in advance of this report but it is felt there are fundamental cultural problems in the Section which need to be addressed before a higher level of assurance can be given. These relate to: relationship issues in the Section; failings in the management structure; instances of staff ignorance of relevant Rules and Regulations; and a reluctance to change being displayed by some staff.

09/0772 VAT

13-Jan-10 Reasonable



Other than identifying some minor training issues, testing confirmed that the risk of the Authority being fined or penalised through a failure to comply with HMRC VAT regulations is minimal.

09/0778 Sundry Debtors 2009/10

11-Jun-10 Reasonable



Measures are being taken to improve the management of cyclical debts through better use of the periodic income facility on the Authority Financials system and agreed actions have been implemented to improve the management of current periodic income accounts.

09/0779 Housing Rents 2009/10

19-Mar-10 Reasonable



Actions have been agreed to address the minor control weaknesses identified.

09/0781 Council Tax 2009/10

22-Apr-10 Substantial



Internal controls remain efficient and effective minimising the potential risk of increased fraud and error and increased arrears due to the current economic climate.

09/0782 NDR 2009/10

05-May-10 Substantial



Internal controls remain efficient and effective minimising the potential risk of increased fraud and error and increased arrears due to the current economic climate.

AUDIT COMMITTEE**Review of Governance and the
Annual Governance Statement 2009/10****Report of Corporate Director (Finance & Performance)****PURPOSE OF REPORT**

To seek the Committee's approval for the draft Annual Governance Statement for the 2009/10 financial year.

This report is public

RECOMMENDATIONS

- (1) That the draft Annual Governance Statement for 2009/10 (attached as Appendix C) be approved for signing by the Leader of the Council, Chief Executive, Section 151 Officer and Monitoring Officer.

1.0 Introduction

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

Accounts & Audit Regulations

- 1.2 In England, the preparation and publication of an annual governance statement in accordance with proper practices is necessary to meet a statutory requirement set out in Regulation 4(2) of the Accounts & Audit (Amendment) (England) Regulations 2006.

2.0 Report

- 2.1 In relation to the production of a Governance Statement, "proper practices" are defined as those set out in a framework and guidance issued by CIPFA & SOLACE¹ during 2007, applying from the 2007/08 financial year onwards. Specifically, the Council is required to develop and maintain a Local Code of Corporate Governance (this was approved by Audit Committee on 23rd January 2008) and to prepare a Governance Statement in order to report publicly on an annual basis on the extent to which the Council complies with its own Code.

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

3.0 Proposal Details

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

Review of Compliance with the Code of Governance

- 3.2 A review has been undertaken of the Council's position and performance against the Code of Governance approved in January 2008. The results of the Management Group's evaluation exercise is demonstrated in the Overview Charts (including a comparison with the 2008/09 results) and Evaluation Reports which are attached at Appendix A. Please note that these will be printed in black and white but may be viewed in colour on computer screens.
- 3.3 The Code of Governance consists of a set of sixty-seven elements within the following six core principles, which underpin a council's system of governance:

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

Assurance

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

Review of the Effectiveness of the System of Internal Audit

- 3.6 The Accounts & Audit (Amendment) Regulations 2006 introduced a requirement that local authorities undertake an annual review of the effectiveness of their system of internal audit and that this should form a part of the overall review of governance.

- 3.7 The established format for this review is a self-assessment of the Internal Audit function and its contribution to governance, which is divided into two parts:
- an assessment of arrangements against “proper practices” as defined in the CIPFA Code of Practice for Internal Audit (2006); and
 - an evaluation of performance against a range of “characteristics of effectiveness”
- 3.8 The council’s external auditors undertook a review of Internal Audit during the 2008/09 audit. The results of this were reported to Audit Committee in June 2009 and an action plan was agreed addressing the issues raised. This review effectively provides the basis for first part of the review, mentioned above. A formal follow-up of the action plan (which will be reported in due course to Audit Committee) has yet to take place, but all agreed actions have been progressed during the year. The second part of the self-assessment, relating to “characteristics of effectiveness” is attached at Appendix B.
- 3.9 Taking the external auditor’s report (acknowledging the progress made on the issues raised). and the self assessment together indicates that the system of Internal Audit (which includes the contribution made by the Audit Committee and management in responding to audit work) is established substantially in accordance with appropriate standards and is delivering an effective service.
- 3.10 In conclusion, it is felt that the Audit Committee can take reasonable assurance that Internal Audit is operating effectively and can place reliance on its reports and work in considering the overall effectiveness of governance arrangements.

Evaluation Results

- 3.11 The charts and table of results shown in Appendix A show that, whilst there have not been any dramatic changes in the evaluation, there have been gradual improvements in a number of areas. It also highlights in some areas that the financial climate and organisational change being experienced raise some additional challenges to maintaining effective governance.
- 3.12 In consequence, the number of factors in which there remains a perceived shortfall in performance has increased by one (from 17 to 18). In a number of areas, the gap has been reduced so that there is now no factor with a perceived shortfall of more than one point. Where a shortfall exists, comments/conclusions are included in the evaluation on the current position and any plans to improve arrangements during 2010/11 and beyond.

The Draft Annual Governance Statement

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

- 3.14 The timescale for the production of the Statement coincides with that for the approval of the financial accounts (i.e. 30 June 2010) and the Statement must be approved at a meeting of the Council or delegated committee (i.e. the Audit Committee). The Statement itself follows the statutorily prescribed format, with the following headings:
1. Scope of Responsibility
 2. The Purpose of the Governance Framework
 3. The Governance Framework
 4. Review of Effectiveness
 5. Significant Governance Issues
- 3.15 As well as addressing the requirements of the Accounts and Audit Regulations, the publication of an Annual Governance Statement incorporates and satisfies the requirement under the Local Government Statement of Recommended Practice (SORP) to produce a Statement on Internal Financial Controls (SIFC)

Signatories to the Statement

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

Action Plan

- 3.17 As in previous years, actions relating to those “Significant Governance Issues” identified in section 5 of the draft Governance Statement have already been acknowledged and incorporated into the Council’s Corporate Plan and individual Services’ Business Plans.

4.0 Details of Consultation

- 4.1 As part of the assurance gathering exercise, all Service Heads have provided an assurance statement for their areas of responsibility. Significant matters raised in those statements have been included in the Governance Statement.

5.0 Options and Options Analysis (including risk assessment)

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

6.0 Conclusion

6.1 The draft Annual Governance Statement and the results of the review undertaken by the Management Group reflect the developments and progress made by the Council during the last twelve months. Addressing the issues identified in the statement will help maintain this progress and contribute towards a further improved position for 2010/11.

CONCLUSION OF IMPACT ASSESSMENT

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

The report has no direct impact on the above issues.

FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

There are no legal implications arising from this report

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

Accounts and Audit Regulations 2003 (as amended).

Contact Officer: Derek Whiteway

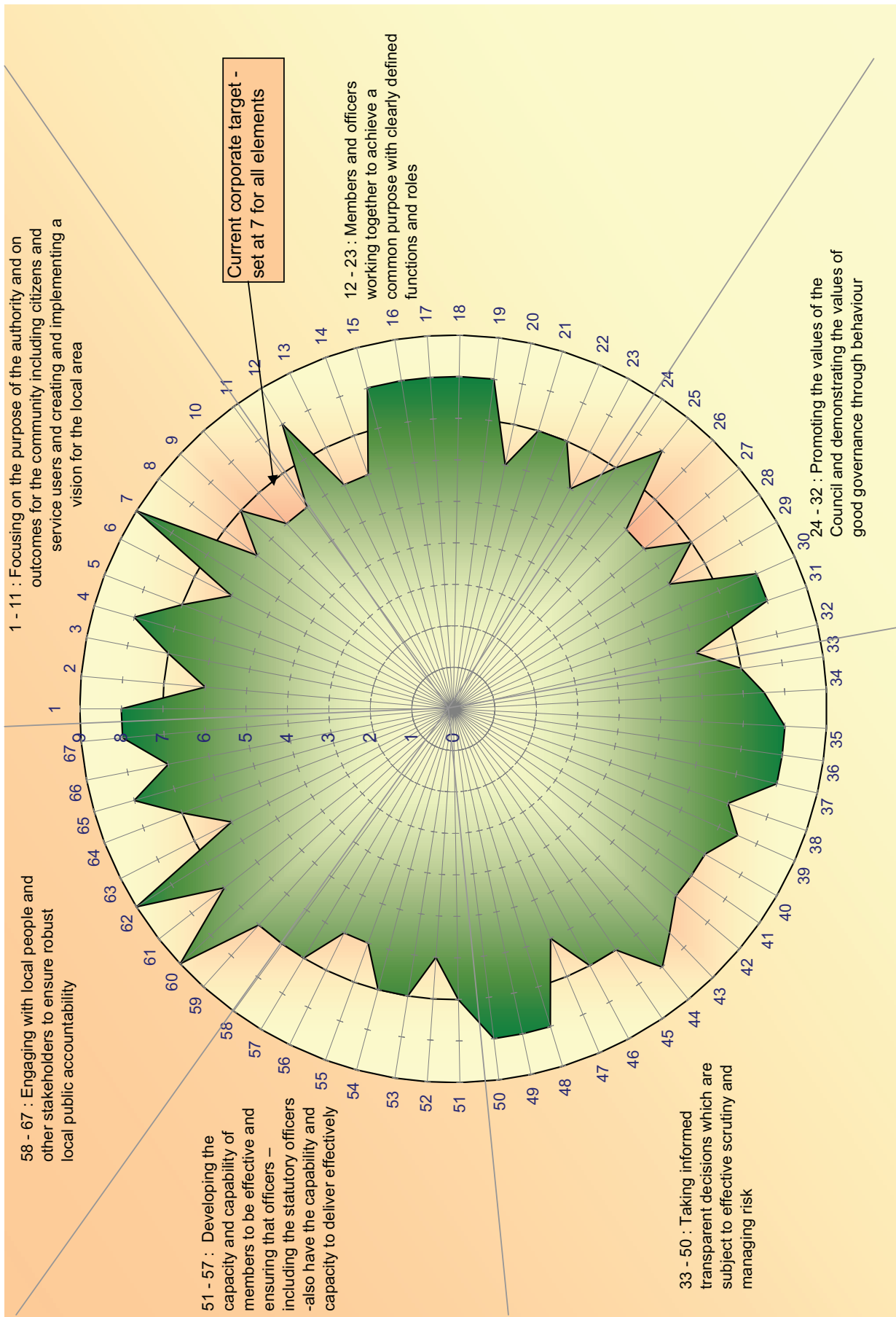
Telephone: 01524 582028

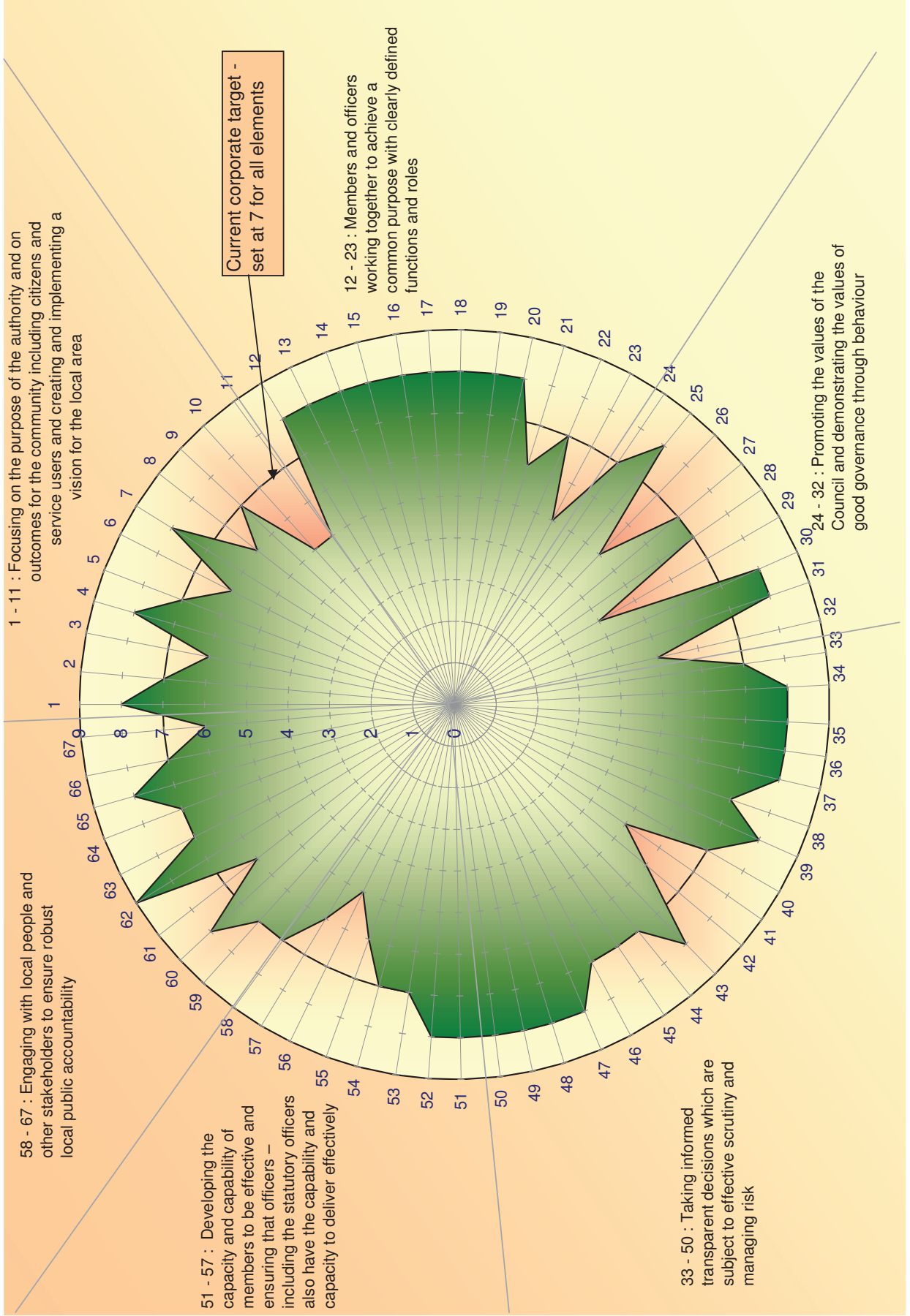
E-mail: dwhiteway@lancaster.gov.uk

Ref: aud/cttee/audit/1011/300610/ags

Governance Review 2009/10 - Evaluation Results

Appendix A





Principle 1 - Focusing on the purpose of the authority and on outcomes for the community including citizens and service users and creating and implementing a vision for the local area

No	Element	Score	Comments/Conclusions
1	Developing and promoting the authority's purpose and vision	8	
2	Reviewing on a regular basis the Council's vision for the local area and its implications for the Council's governance arrangements	6	The scope and extent of organisational change within the council brings a need to review and establish effective governance arrangements with the new structures and managerial arrangements.
3	Encouraging partnerships of which the Council is a member to be underpinned by a common vision of their work that is understood and agreed by all partners	7	Arrangements are improving with the ongoing roll-out of the partnership evaluation programme.
4	Ensuring that priorities and objectives are aligned to principal statutory obligations and available funding	8	
5	Knowing how well the Council is performing against planned outcomes	7	A review of the performance management framework in 2009/10 has improved the focus on performance. These improvements will need to be built on in implementing the management restructure.
6	Ensuring that knowledge of absolute and relative performances achieved is used to support decisions that drive improvements in outcomes	6	
7	Publishing an annual report on a timely basis to communicate the Council's activities and achievements, its financial position and performance	9	
8	Deciding how the quality of service for users is to be measured and making sure that the information needed to review service quality effectively and regularly is available.	6	As nos 5 & 6. Also, Corporate Plan action to review all statutory services to provide assurance that minimum standards can be met and to quantify any services provided above minimum standards standards (key action 4.1)
9	Putting in place effective arrangements to identify and deal with failure in service delivery	7	
10	Deciding how value for money is to be measured and making sure that the Council and its key partnerships have the information needed to review value for money and performance delivery.	6	Reflected in Corporate Plan Objective 5: "To continue to work with our partners to deliver the targets in the Sustainable Community Strategy and to bring about other improvements and efficiencies in the way that services are delivered locally.
11	Measuring the environmental impact of policies, plans and decisions.	6	Reflected in Corporate Plan Objective 1: "Energy Coast, and Environmental Technology" and Objective: 3. "To tackle the challenges of Climate Change"

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

No	Element	Score	Comments/Conclusions
12	Setting out a clear statement of the respective roles and responsibilities of the executive and of the executive's members individually and the Council's approach towards putting this into practice	8	
13	Setting out a clear statement of the respective roles and responsibilities of other Council members, members generally and of chief officers	6	Review required in light of the organisational and managerial change occurring within the council.
14	Determining a scheme of delegation and reserved powers within the constitution, including a formal schedule of those matters specifically reserved for collective decision of the Council, taking account of relevant legislation, and ensuring that it is monitored and updated when required	6	
15	Making the Council's Chief Executive responsible and accountable to the Council for all aspects of operational management	8	
16	Having arrangements in place for the Leader of the Council and the Chief Executive to discuss their respective roles early in the relationship and to maintain a shared understanding of roles and objectives	8	
17	Making the Head of Financial Services (as Section 151 officer) responsible to the Council for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control	8	
18	Making the Head of Legal and HR Services (as Monitoring Officer) responsible to the Council for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with	8	
19	Having protocols in place to ensure effective working relationships between members and officers in their respective roles	8	
20	Setting out the terms and conditions for remuneration of members and officers and having an effective structure for managing the process including an independent remuneration panel for elected members	6	The effective operation of the independent remuneration panel is currently compromised through a shortage of members and lack of a chairman; a recruitment exercise is being conducted. The post job-evaluation programme means that terms and conditions for officers continue to be under review.

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

No	Element	Score	Comments/Conclusions
21	Ensuring that effective mechanisms exist to monitor service delivery	7	
22	Ensuring that the organisation's vision, strategic plans, priorities and targets are developed through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated	7	
23	When working in partnership, ensuring that: members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the Council; there is clarity about the legal status of the partnership; representatives of partner organisations both understand and are committed to meeting clearly defined good governance principles; and representatives of organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions.	6	Arrangements are steadily improving with the ongoing roll-out of the partnership evaluation programme.

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

No	Element	Score	Comments/Conclusions
24	Ensuring that the Council's leadership sets the tone for the organisation by creating a climate of openness, support and respect	7	
25	Having Codes of Conduct in place to ensure that the standards of conduct and personal behaviour expected of members and staff are defined and communicated	8	
26	Having protocols in place to ensure that standards for joint working between members and staff and between the Council (members/officers), its partners and the community are defined and communicated	6	See no 23
27	Having arrangements in place to ensure that members and employees of the Council are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and having in place appropriate processes to ensure that they continue to operate in practice	6	Action is being taken to address specific failings identified during 2009/10 in the Council Housing Repairs & Maintenance Service. There is a need for expected standards of conduct to be regularly promoted within the Council.
28	Developing and maintaining shared values including leadership values both for the organisation and staff reflecting public expectations, and communicating these with members, staff, the community and partners	7	
29	Having arrangements in place to ensure that systems and processes are designed in conformity with appropriate ethical standards, and by monitoring their continuing effectiveness in practice	6	Improved focus on ethical considerations since 2008/09. Reviewing the effectiveness of systems and processes is inherent in internal audit activity and is monitored under the performance management framework.
30	Maintaining an effective standards committee	8	
31	Using the organisation's shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the Council	8	
32	In pursuing the vision of a partnership, agreeing a set of values (to be demonstrated both individually and collectively by partners) against which decision making and actions can be judged	6	See no 23

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

No	Element	Score	Comments/Conclusions
33	Maintaining an effective scrutiny function which encourages constructive challenge and enhances the Council's performance overall	7	
34	Maintaining open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based	7.5	
35	Having arrangements in place to safeguard members and employees against conflicts of interest and having appropriate processes to ensure that they continue to operate in practice	8	
36	Maintaining an effective audit committee which is independent of the executive and scrutiny functions	8	
37	Ensuring that effective, transparent and accessible arrangements are in place for dealing with complaints	8	
38	Ensuring that those making decisions, whether for the Council or one of its partnerships are provided with information that is fit for the purpose (i.e. is relevant, timely and gives clear explanations of technical issues and their implications)	7	
39	Ensuring that proper professional advice on all matters including those that have legal or financial implications is available and recorded well in advance of decision making and is used appropriately	7.5	
40	Ensuring that risk management is embedded into the culture of the Council, with members and managers at all levels recognising that risk management is part of their jobs	7	
41	Ensuring that risk management processes specifically consider risks in relation to significant partnerships and provide for assurances to be obtained about the management of those risks	7	
42	Ensuring that there are well-established and clear arrangements for financing risk	7	
43	Ensuring that sound financial management is promoted	7.5	
44	Having in place effective arrangements for whistle-blowing, to which officers, staff and all those contracting with or appointed to the Council have access	8	
45	Having effective arrangements to counter fraud and corruption	7	
46	Having effective arrangements in place to ensure business continuity	7	

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

No	Element	Score	Comments/Conclusions
47	Ensuring the safety of staff, contractors and visitors	6	Assessment lowered to reflect organisational change leading to accommodation changes raising potential access and security issues within council buildings.
48	Ensuring that the Council's internal control framework is subject to regular independent assessment	8	
49	Actively recognising the limits of lawful activity placed on the Council by, for example, the ultra vires doctrine but also striving to utilise available powers to the full benefit of its communities	8	
50	Observing all specific legislative requirements placed upon the Council, as well as the requirements of general law, and in particular integrating the key principles of good administrative law, viz rationality, legality and natural justice, into procedures and decision making processes	8	

Principle 5 - Developing the capacity and capability of members to be effective and ensuring that officers – including the statutory officers -also have the capability and capacity to deliver effectively

No	Element	Score	Comments/Conclusions
51	Providing induction programmes tailored to individual needs and opportunities for members and officers to update their knowledge on a regular basis	7	
52	Ensuring that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the Council	6	There is a need to consider the statutory officers' position in the new management structure and ensure that their roles are understood throughout the organisation.
53	Assessing the skills required by members and officers and making a commitment to develop those skills to enable roles to be carried out effectively	7	
54	Developing skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed	7	
55	Ensuring that effective arrangements are in place for reviewing and developing the performance of the executive as a whole and of its individual members	6	Developments made in assessing the effectiveness of elected members in the executive. With the implementation of the new management restructure, arrangements should be in place to assess the performance of the executive as a whole, including executive management.
56	Having effective arrangements in place which are designed to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the Council	6	The Council has not, to date, delivered its planned work surrounding equalities. The Corporate Plan 2010-2013 includes key actions to: "...deliver the council's agreed contributions to achieve the priorities and outcomes in the Sustainable Community Strategy and LDLSP's Thematic Group action plans including Equality and Diversity" (action ref 5.1); and "... become an 'achieving' authority' under the Equality Framework for Local Government' by March 2011" (action ref 5.5)
57	Ensuring that effective Member development and employee development strategies and actions are in place	7	

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

No	Element	Score	Comments/Conclusions
58	Making it clear within the organisation, its staff and the local community what the Council is accountable for and to whom	7	
59	Considering those institutional stakeholders to whom the Council is accountable and assessing the effectiveness of their relationships	7	
60	Producing an annual report on the activity of the scrutiny function	9	
61	Ensuring that clear channels of communication are in place with all sections of the community and other stakeholders, and having effective monitoring arrangements in place	7	
62	Holding meetings in public unless there are good reasons for confidentiality	9	
63	Having arrangements in place to enable the Council to engage with all sections of the community effectively. These arrangements recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands	6	See no 56
64	Operating a clear policy on the types of issues the Council will meaningfully consult on or engage with the public and service users about. This includes a feedback mechanism for consultees to demonstrate what has changed as a result	7	
65	Publishing an annual performance plan giving information on the Council's vision, strategy, plans and financial statements as well as information about its outcomes, achievements and the satisfaction of service users in the previous period	8	
66	Ensuring that the Council as a whole is open and accessible to the community, service users and its staff and ensuring that it has made a commitment to openness and transparency in all its dealings, including partnerships subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so	7	
67	Maintaining a clear policy on how staff and their representatives are consulted and involved in decision making	8	

Characteristic of 'effectiveness'	Evidence of achievement	Areas for development
<p>IA can demonstrate that its work provides assurance that the control framework is sound and that standards of risk management are improving.</p>	<p>Results of audit work reported to each Audit Committee and summarised in the annual report and assurance statement demonstrate the level of assurance provided and how improvements are being realised.</p>	
<p>IA understands its position in respect to the organisation's other sources of assurance and plans its work accordingly.</p>	<p>Internal audit identifies other sources of assurance and takes this into account when preparing the internal audit plan.</p>	
<p>Understands the whole organisation, its needs and objectives.</p>	<p>The audit plan demonstrates how audit work will provide assurance in relation to the authority's objectives. Individual audit assignments identify risks to the achievement of those objectives.</p>	<p>Greater consultation with Service Heads & Directors will enhance this aspect. Particularly significant given organisational change being undertaken.</p>
<p>Be seen as a catalyst for change at the heart of the organisation.</p>	<p>Supportive role of audit for corporate developments such as corporate governance review, risk management and efficiency/value for money. Individual assignments may be catalyst for change.</p>	<p>Consider and actively promote the scope for IA to contribute to the efficiency agenda and to implement organizational change.</p>
<p>Add value and assist the organisation in achieving its objectives.</p>	<p>Demonstrated through individual audit assignments and also corporate work, e.g. project management, partnership arrangements, fair pay project.</p>	<p>Continue to review scope and nature of IA's contribution and reflect this in future plans and development programmes.</p>

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

LANCASTER CITY COUNCIL
ANNUAL GOVERNANCE STATEMENT 2009/10 (DRAFT)

SCOPE OF RESPONSIBILITY

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

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

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

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

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

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

The governance framework has been in place at Lancaster City Council for the year ended 31 March 2010 and up to the date of approval of the *Annual Governance Statement* and the *Statement of Accounts*.

THE GOVERNANCE ENVIRONMENT

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

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

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

REVIEW OF EFFECTIVENESS

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

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

- The Audit Committee and the Head of Legal and HR Services, in her role as the council's Monitoring Officer, have a duty to monitor and review the operation of the *Constitution* to ensure that its aims and principles are given full effect. A function of full Council is to adopt and change the *Constitution* following recommendation(s) from the Monitoring Officer and/or Audit Committee
- The council's Overview and Scrutiny Committee has responsibility to consider and, if necessary, 'call-in' decisions made by Cabinet and the Budget and Performance Panel reviews the council's budget and performance at both a strategic and service level.
- The effectiveness of performance management arrangements is monitored by the executive, via quarterly Performance Review Team meetings and is reviewed by the overview and scrutiny function via the Budget & Performance Panel.
- The council's Standards Committee, chaired by one of four independent representatives, is responsible for promoting, reviewing and monitoring adherence with standards of conduct for elected members. The Committee conducts hearings in respect of any matters referred for investigation by its Assessment Sub-Committees.
- The Audit Committee has responsibility for reviewing the Code of Corporate Governance and the adequacy of internal controls and risk management arrangements. It also monitors the performance and effectiveness of Internal Audit and considers and monitors the external audit plan
- Internal Audit is responsible for providing assurance on the effectiveness of the council's systems of internal control, including arrangements for risk management and governance. Internal Audit's role is to assist managers by evaluating the control environment, providing assurance wherever possible and agreeing actions to optimise levels of control. The council's external auditors place reliance on the work of Internal Audit in fulfilling their statutory duties and regularly inspect Internal Audit work
- The Internal Audit Manager is responsible for submitting an annual report to the Audit Committee detailing the performance of Internal Audit for the previous financial year, and giving an opinion on the effectiveness of the council's systems of internal control.
- In January 2010 the external auditors KPMG, in their *Annual Audit Letter*, issued an unqualified opinion on the council's accounts for 2008/09. They concluded that the council had adequate arrangements in place for securing value for money. The auditor's views drew on their assessments of the council's "Direction of Travel" and "Use of Resources", in which they judged the council to be at level 2 - "meeting minimum requirements – performing adequately".

In their *Audit Letter*, the external auditors advised the council on areas where action was needed, including

- The requirement from 2010/11 to prepare financial statements under International Financial Reporting Standards (IFRS);
- The proposed requirement for all public sector bodies to report publicly on sustainability performance; and
- Continuing pressures on local authorities' funding in the medium term and the need to have comprehensive efficiency programmes and sound financial management arrangements and be prepared to take bold measures to mitigate the impact on priority services.

SIGNIFICANT GOVERNANCE ISSUES

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

A serious breakdown in standards of professional conduct and financial management was identified during the year in the Council Housing Service's Repair and Maintenance Service. An investigation resulted in disciplinary action being taken and a comprehensive action plan drawn up to remedy the procedural weaknesses identified. The Audit Committee will monitor progress with implementing this action plan.

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

The council recognises that financial pressures and the significant programme of structural and managerial change that it is currently undertaking present a new range of challenges to maintaining effective systems of governance. It is recognised that continued efforts is needed to address any significant issues affecting the council and to ensure a continuous improvement of governance controls, and to that end the council will:

- ***Continue to seek to identify efficiencies and improve the Value for Money the council*** and its key partnerships provide, through a continued focus on operational efficiency, a review of the *Value for Money Strategy*
- ***Continue to strengthen delivery of customer-focused services*** by continuing the programme of service integration into the council's Customer Service Centres and by reviewing the level of both statutory and non-statutory services provided with a view to achieving more focused and prioritised service planning and allocation of resources.
- ***Continue to develop the effectiveness of partnership working*** by extending the roll-out of a programme reviewing and evaluating the governance arrangements of the council's key partnerships.
- ***Use organisational change as an opportunity to review standards of governance*** and promote high standards of conduct, ethics and performance throughout the organisation.
- ***Continue to improve the measurement and monitoring of the environmental impact*** of the council's policies, plans and decisions.

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

S Langhorn
Leader of the Council

M Cullinan
Chief Executive

S Taylor
Head of Legal and HR Services
Monitoring Officer

N Muschamp
Head of Financial Services
(Section 151 Officer)

KPMG LLP
Audit
 St James Square
 Manchester
 M2 6DS

Tel +44 (0) 161 246 4758
 Fax +44 (0) 161 838 4000

Nadine Muschamp
 Head of Financial Services & s151 Officer
 Lancaster City Council
 Town Hall
 Dalton Square
 Lancaster
 LA1 1PJ

Our ref hg/016/Let-412

22 April 2010

Dear Nadine

Lancaster City Council - Annual Audit Fee Letter 2010/11

I am writing to confirm the audit work and fee that we propose for the 2010/11 financial year at Lancaster City Council. Our proposals:

- are based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2010/11; and
- reflect only the audit element of our work, and exclude any inspection and assessment fees which will be charged separately by the Audit Commission. Your Comprehensive Area Assessment Lead will be writing to you separately on these fees on behalf of the other inspectorates.

As I have not yet completed my audit for 2009/10 the audit planning process for 2010/11, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary. We will naturally keep you informed of any changes.

Audit fee

The proposed indicative fee for the audit for 2010/11 is £135,000 (plus VAT). This compares to the planned fee of £120,000 for 2009/10, a summary of this is shown in the table below.

Audit area	Planned fee 2010/11	Planned fee 2009/10
Audit fee – Lancaster City Council	135,000	120,000
Less: IFRS reimbursement (see above)	(8,351)	-
Total audit fee	126,649	120,000



We recognise that this is a significant fee increase. However, the current fee level at £120,000 is 7.9% below the "mid point scale fee". This low level of fee would only be sustainable if Lancaster City Council were an exceptionally high performing authority. This proposed increase reflects the fact that the "scale rate" for an authority such as Lancaster City Council should be £138,479 and the increased fee is still 2.5% below the midpoint.

In July 2009, in recognition of the financial pressures that public bodies are facing in the current economic climate, the Audit Commission confirmed that it would subsidise the 'one-off' element of the cost of transition to International Financial Reporting Standards (IFRS) for local authorities. To avoid any confusion with the annual audit fee, the Audit Commission will refund an amount based on a set proportion of the scale fee to individual bodies. The Council will therefore need to pay the total audit fee as stated above, but will be reimbursed £8,351 directly by the Audit Commission. This means the Council's net audit fee after the IFRS reimbursement is £126,649, representing an effective increase of 5.5% compared to 2009/10.

In addition when we were determining our 2010/11 fee for the Authority we took care to ensure that it also reflected our assessment of specific risks by the Authority. These risks include:

- the recent and ongoing financial pressures on the Authority due to the prevailing economic conditions and the Government's latest Comprehensive Spending Review. We will review and comment upon, as appropriate, the Authority's financial position as pressures on its resources develop;
- 2010/11 will be the first year local authorities will be required to prepare accounts in accordance with the International Financial Reporting Standards (IFRS). The transition to IFRS will increase our work, particularly in the first year when you will need to restate your previous year's accounts on the new basis, to provide prior year comparatives. A separate plan for the audit of the financial statements will be issued in December 2010. This will detail the risks identified, planned audit procedures and any changes in fee. If I need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with the Head of Financial Services and then prepare a report for the Audit Committee, outlining the reasons why the fee needs to change.

I have not included an estimated fee for the certification of grant claims and returns at this stage. I will write to you separately and provide an estimate of the fee when I have a better understanding of the likely scale of this work.

The Audit Commission will continue to undertake the delivery and support of the National Fraud Initiative (NFI) work. Consequently, the Audit Commission will be charging and billing the according fee scales directly to the Council. This will be in two instalments.



Use of Resources audit

Our use of resources assessments will be based upon the evidence from three themes:

- Managing finances;
- Governing the business; and
- Managing resources.

For the 2010 assessment, the timetable for the completion of Use of Resources work by auditors has been brought forward to enable auditors to complete their assessment on a phased basis with a view to completing the bulk of the work by the end of the financial year to which the assessment relates. This is to reduce the overlap with the final accounts audit and smooth the workload to reduce the burden on audited bodies and auditors during September.

The key lines of enquiry specified for the assessment are set out in the Audit Commission's work programme and scales of fees 2010/11. Our work on use of resources informs our 2010/11 value for money conclusion. At this stage I have identified one specific risk in relation to my value for money conclusion. For this risk I will consider the arrangements put in place by the Council to mitigate the risk and plan my work accordingly.

Risk	Planned work
The Authority faces financial pressures due to the prevailing economic conditions and the Government's latest Comprehensive Spending Review.	We will review and comment upon, as appropriate, the Authority's financial position as pressures on resources develop.

The above fee excludes any additional work we may agree to undertake at the request of the Lancaster City Council. Any such piece of work will be separately discussed and a detailed project specification agreed with you.



Audit team

The key members of our audit team for the 2010/11 audit are:

Name	Role	Contact details
Kevin Wharton	Engagement lead	kevin.wharton@kpmg.co.uk 0161 246 4758
Jillian Burrows	Senior Manager	jillian.burrows@kpmg.co.uk 0161 246 4705
Heather Garrett	Manager	heather.garrett@kpmg.co.uk 0161 246 4294
Karl Ballard	Assistant Manager	karl.ballard@kpmg.co.uk 0161 246 4314

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact KPMG's national contact partner for Audit Commission work, Trevor Rees (trevor.rees@kpmg.co.uk).

If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet '*Something to Complain About*', which is available from the Commission's website (www.audit-commission.gov.uk) or on request.

Yours sincerely

Kevin Wharton
Engagement Lead

cc: Roger Muckle, Corporate Director (Finance and Performance)
Derek Whiteway, Internal Audit Manager



Appendix 1 – Audit fee assumptions

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly increased from that identified for 2009/10;
- you will inform us of significant developments impacting on our audit;
- internal audit meets the appropriate professional standards;
- internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
- you will identify and implement any changes required under the CIPFA Code within your 2010/11 financial statements;
- your financial statements will be made available for audit in line with the timetable we agree with you;
- good quality working papers and records will be provided to support the financial statements by the date we agree with you;
- requested information will be provided within agreed timescales;
- prompt responses will be provided to draft reports; and
- additional work will not be required to address questions or objections raised by local government electors.

Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the opinion audit plan.

Changes to the plan will be agreed with you. These may be required if:

- new residual audit risks emerge;
- additional work is required by the Audit Commission, KPMG or other regulators; or
- additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.



Appendix 2: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Planned output	Indicative date
Audit plan	December 2010
Interim audit report	May 2011
Report to those charged with governance (ISA260 report)	September 2011
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2011
Use of resources report	September 2011
Annual audit letter	December 2011

AUDIT COMMITTEE

Internal Audit Strategic & Annual Plans

30 June 2010

Report of Internal Audit Manager

PURPOSE OF REPORT
To seek the Committee's approval for a proposed three-year Internal Audit Strategic Plan and Annual Operational Plan for 2010/11
This report is public

RECOMMENDATIONS

1. That the Internal Audit Strategic and Business Plan for 2010/11 to 2012/13 be approved.
2. That the Internal Audit Annual Operational Plan for 2010/11 be approved.

1.0 Introduction

- 1.1 The terms of reference of the Audit Committee include: *"To approve Internal Audit strategic plans and the Annual Internal Audit Plan"* (the Constitution, part 3 section 8, TOR 11).
- 1.2 The Code of Practice for Internal Audit¹ specifies that *"the Head of Internal Audit must produce an audit strategy; this is the high-level statement of how the internal audit service will be delivered and developed in accordance with its terms of reference and how it links to the organisational objectives and priorities."*

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

2.0 Proposal Details

Internal Audit Strategic and Business Plan 2010/11 to 2012/13

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

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

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

2.2 A key strategic theme for 2010/11 is to support the council's change programme by assisting where possible with the implementation of the new service structures. The change programme is viewed as an opportunity to review the efficiency of business processes and to revisit and develop standards of governance, internal control and conduct in the organisation.

Internal Audit Annual Plan 2010/11

2.3 The draft Internal Audit Annual Plan attached at Appendix B is designed, as required by the Code of Practice, to implement the internal audit strategy. The plan has been developed along similar lines to recent years and retains the following features:

- Being explicit about which elements of work are intended to provide assurance to support the overall annual opinion on the internal control environment;
- Being explicit about the resources to be devoted to other "support" work aimed at helping the Council's ongoing improvement programme; and
- Providing for a rolling programme of audit work to be operated within the plan which will provide greater flexibility and responsiveness to changes in the risk environment, and any emerging demands for internal audit assurance work.

2.4 The annual plan for 2010/11 is based on estimated available resources of 845 days, this being delivered by the in-house team of 4.8 FTE staff, adjusted to reflect a turnover vacancy in the Principal Auditor post. The Internal Audit Manager's role as Deputy s151 Officer has been estimated as requiring 15 days. This gives a net allocation to audit activity of 830 days.

2.5 At the time of writing, a detailed programme of audit assignments has not been finalised. Given the extent of organisational change being undertaken in the council, a key theme in the plan is to provide support to services and managers in implementing the change programme. It is anticipated that this will occupy a significant part of the section's workload during the first half of the year.

2.6 Following the recent approval by council of the Corporate Plan and the drafting by service heads of their Service Business Plans, the Internal Audit Manager is currently consulting with directors, service heads and statutory officers to inform and develop the detailed programme. It is anticipated that the scope and objectives of audit work during the year will be greatly influenced by the financial pressures affecting the council and the plan will be managed as flexibly as possible to ensure that audit effort is targeted as effectively as possible.

2.7 As the detailed programme is developed, this will be publicised both to Members of the Audit Committee and to service heads and senior managers as well as the plan being formally reported to and monitored by each meeting of the Audit Committee.

3.0 Details of Consultation

3.1 No specific consultation has been undertaken in compiling this report. Management Team, Service Heads and the statutory officers are being consulted in detail in the preparation of Internal Audit's detailed work programme for 2010/11.

4.0 Options and Options Analysis (including risk assessment)

4.1 The proposal is that the Committee approves both the draft Internal Audit Strategic and Business Plan 2010/11 to 2012/13 and the Internal Audit Annual Plan for 2010/11. No alternative options are identified.

5.0 Conclusion

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

<p>CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</p> <p>This report has no direct impact on these areas.</p>	
<p>FINANCIAL IMPLICATIONS</p> <p>None arising from this report.</p>	
<p>SECTION 151 OFFICER'S COMMENTS</p> <p>The 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>Contact Officer: Derek Whiteway Telephone: 01524 582028 E-mail: dwhiteway@lancaster.gov.uk Ref: aud/ctte/aud/100630/IAPPlans</p>



**LANCASTER
CITY COUNCIL**

Promoting City, Coast & Countryside

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

2010/11 TO 2012/13

PRESENTED TO AUDIT COMMITTEE 30/06/10

PREPARED BY THE INTERNAL AUDIT MANAGER

June 2010

Revision History

Date of this revision:

Revision Date	Summary of Changes	Version
June 2010	Initial Draft	0.01

Distribution

Name	Title

Approvals

Name	Date Approved	Link to Approval Minutes	Version

Draft

Introduction

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

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

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

Service Purpose

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

Strategic Aims & Objectives

- To support the Council in the implementation of its change and improvement programme and provide assurance on the effectiveness of new arrangements
- To support the Council in identifying efficiencies and achieving value for money in service delivery.
- To contribute to improving standards of internal control and governance within the authority and its key partnerships.
- To continue to develop the scope, robustness and effectiveness of Internal Audit's assurance and support work.

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

Situational and Risk Analysis

Services provided				
	2009/10 Plan		2010/11 to 2012/13	
Work Area	Plan Days	Actual Days	2010/11 Plan Days (see note)	2012/13 Target Days
Assurance work, covering:				
o Core Financial systems	90	85	90	90
o Core Management arrangements	75	56	150	100
o Other systems, projects and management arrangements (based on quarterly review of risk and the assurance framework)	225	164	135	260
o Follow-up work	50	91	70	60
Sub-Total, Assurance Work	440	396	445	510
Ad-hoc advice	60	66	65	65
Support (general and project support)	45	87	100	75
Efficiency & VFM	50	8	50	50
Investigations contingency	125	240	60	75
Planning & Monitoring	60	70	70	60
Non-audit duties	60	30	15	15
General contingency	40	0	40	40
Totals	880	897	845	890

Note: The total plan days for 2010/11 reflects the impact of a turnover vacancy in the Principal Auditor post from 01/06/2010.

The allocation of planned days for 2010/11 reflects the short/medium term objective of actively supporting the Council in the implementation of its change and improvement programme and to provide assurance on the effectiveness of new arrangements. This is specifically expressed in the increased allocations to “Core Management Arrangements” and to “Support” work.

As new structures and arrangements become established, the strategy is to gradually reduce support work and again raise the allocation of audit resources to independent assurance work.

Customers and Stakeholders

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

Internal Audit Opinion

Internal Audit opinion will be formed through:

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

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

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

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

Identifying and accommodating significant local and national issues

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

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

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

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

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

Resources			
In-House team (4.81 fte), consisting of:	Grade	Planned days provided 2010/11	Target days provided 2012/13
Internal Audit Manager	G8	175	175
Principal Auditor	G5	140	185
Senior Auditor x2	G4	380	380
Assistant Auditor (0.81 fte)	G3	150	150
Bought in resources (note 2)		0	0
Total resources		845	890

Notes

1. The plan days for the Principal Auditor in 2010/11 reflects the impact of a turnover vacancy in the post from 01/06/2010
2. There are no standing arrangements or plans to buy in additional internal audit resources; this position will be reviewed during the year in the context of demands for audit work and the Service's budget for consultancy services.

Performance Measurement and Management

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

All aspects of the service are assessed directly by the Council's external auditors as part of a three-yearly detailed review based on the Code of Practice. The most recent review was undertaken during the 2007/08 audit and was reported to Audit Committee on 30 June 2009.

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

Training and Development

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

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

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

Internal Audit's training plan is incorporated in Financial Service's full training plan for 2010/11. In total, the service has been allocated £9,500 for training in 2010/11.

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

Development Areas

- Need to consider and address the potential impact of reduced financial resources on:
 - The robustness of financial systems;
 - The increased potential for fraud and corruption;
 - The requirements to achieve efficiencies and savings.
- Development of capacity and skills to be able to actively support the council's efficiency programme.
- Further review and development of the assurance framework leading to improved and better evidenced provision of assurance from internal audit work and other assurance sources.
- Increased focus on efficiency, VfM and business improvement. To play a leading role in a review of the Council's Value for Money strategy and corporate efficiency arrangements.

Risks	Mitigation options
➤ Requirement to cover responsive work (investigations, etc) affects ability to deliver planned work.	<ul style="list-style-type: none"> ➤ Reviewing with the Head of HR the approach to disciplinary investigations, including alternative approaches to resourcing responsive work ➤ Review potential uses of existing consultancy budget.
➤ Internal Audit Manager's role as Deputy s151 Officer and involvement in operational matters could cause a conflict of interest.	➤ Where there is call for internal audit review and opinion on any area in which the Internal Audit Manager has fulfilled an operational role, this will be managed and reported on by the Principal Auditor.

Risks	Mitigation options
<ul style="list-style-type: none"> ➤ Too great an involvement in corporate development areas could undermine IA's independence and devalue the assurance function. 	<ul style="list-style-type: none"> ➤ Nature and scope of IA involvement in key areas of proactive work to be clearly defined and agreed.
<ul style="list-style-type: none"> ➤ Lack of skills to undertake specific pieces of work. ➤ Potential staff retention issues resulting from Fair Pay. 	<ul style="list-style-type: none"> ➤ Continuing development of staff through the EDPA process. Review of the competency framework. ➤ Review of IA's positioning and service delivery. ➤ Active management of staff development issues.

Draft

Internal Audit Business Plan 2010/11

Service Purpose:

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

To support the Council's improvement programme

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

Link to Corporate Improvement	Service Actions	Performance Indicators	Business Risk	Mitigation	Lead Officer
Implementation of the councils' service restructuring.	Support implementation by providing ad-hoc advice, support and guidance to managers in areas including: <ul style="list-style-type: none"> ➤ Governance ➤ Risk management ➤ Financial control 	Number of days delivered in supporting services and managers.	Reduction in resources devoted to core audit programme could undermine value of assurance provided.	Regular review and monitoring through Audit Committee.	Internal Audit Manager
Efficiency programme and Value for Money strategy.	To contribute to delivering efficiencies through audit activity.	Number of specific pieces of audit work undertaken with the objective of identifying efficiencies. Inclusion of efficiency conclusions in other audit reports.	Capacity and skills required to undertake specific efficiency reviews.	Formally consider training and development needs in efficiency auditing and other associated skills	Internal Audit Manager
	To review the Council's VFM Strategy and research and recommend development as appropriate To provide assurance on the effectiveness of the Council's procedures and on its delivery of annual efficiency targets	Production of an Internal Audit report and recommendations for improvement by December 2010 Included in above.			Internal Audit Manager
High standards of Corporate Governance (CG) and Internal Control (IC).	Undertake audit work sufficient to provide assurance as to the effectiveness of arrangements to deliver high standards of CG	Assurance statement provided by Internal Audit for 2009/10 year, and action plan agreed as appropriate.	IA resources diverted away from assurance work on to responsive tasks, e.g. investigations	Consider availability of consultancy budget and other ways of resourcing responsive work. Review investigation and disciplinary procedures in consultation with the HR manager.	Internal Audit Manager / Head of Financial Services
	Undertake audit work sufficient to provide assurance that appropriate and robust internal financial controls are in place.	Individual reports on financial systems. Annual Internal Audit assurance statement			
	To promote and provide assurance on the standards of CG, in support of the Council's requirement to produce an Annual Governance Statement	Positive assurance report and annual governance statement reported to Committee June 2010.			
Member and Committee development	Continue to develop the governance and internal control knowledge and skills of Members, particularly those on the Audit Committee	Training in governance and internal control to be provided to/accessible by Members. No. of courses in Member Development Plan delivered / positive feedback.	Low take-up of training opportunities	Provide training activities in the scheduled Audit Committee agendas. Development of working relationship with the Audit Committee Chair Provide committee members with a briefing on their role. Seek elected members' views on training.	Internal Audit Manager
	Continue to develop the Audit Committee's role in seeking assurance on matters of CG and IC	Evidence of members being proactive in relation to their assurance responsibilities.	Limited time available for members to take a proactive role.	Consider alternatives to providing information in a formal setting.	Internal Audit Manager

Link to Corporate Improvement	Service Actions	Performance Indicators	Business Risk	Mitigation	Lead Officer
HR Management	Contribute to improving staff attendance (reducing sickness absence) and increasing productivity (chargeability) levels	<p>No. days lost per staff member</p> <p>Corporate sickness target - average 9 days for 2010/11 (actual in 2009/10 was 3.0 days)</p> <p>Chargeability target 2010/11 – 88% (actual 2009/10 was 87.5%)</p>	<p>Lack of skills to undertake specific pieces of work.</p> <p>Potential staff retention issues resulting from Fair Pay.</p>	<p>Continuing development of staff through the EDPA process. Review of the competency framework.</p> <p>Review of IA's positioning and service delivery.</p> <p>Active management of staff development issues.</p>	Internal Audit Manager

Internal Audit Annual Plan 2010/11

1. ASSURANCE WORK		
CORE FINANCIAL SYSTEMS		
Approach and objectives	Covers the following areas:	Planned Days
<p>Internal audit work in 2010/11 will focus on:</p> <ul style="list-style-type: none"> ➤ the operation of key controls; ➤ efficiency of operation in devolved units, where applicable. <p>The objective is to provide assurance that in practice, key systems are operating securely and efficiently, particularly where new organizational structures are in place.</p>	Main Accounting	90
	Asset Management	
	Payroll	
	Ordering & Payments	
	Sundry Debtors	
	Income Management	
	Treasury Management	
	Council Tax	
	Housing Benefit & Council Tax Benefit	
	National Non-Domestic Rates	
Housing Rents		
CORE MANAGEMENT ARRANGEMENTS		
Approach and objectives	Covers the following areas:	Planned Days
<p>Internal Audit continues to play an active role in supporting the Council's development of its management arrangements (see the "Support" section below).</p> <p>Assurance work in 2010/11 will focus on key corporate systems with the objective of providing assurance that arrangements remain robust and reliable and efficient under changing organisational structures.</p>	Financial Management	150
	Performance Management	
	Human Resource Management	
	Risk Management	
	Information Management	
	Corporate Governance	
	Partnership Arrangements	
	Procurement & Contract Management	
	Project and Programme Management	
	National Fraud Initiative	
RISK BASED ASSURANCE WORK PROGRAMME		
Approach and objectives	The following areas are currently in progress or registered as potential audits in 2010/11:	Planned Days
<p>Drawing on the Corporate Plan and Service Business Plans, the risk based programme is developed and reviewed in consultation with Directors and Service Heads, taking account of the nature and levels of risk in their spheres of activity.</p> <p>The main objective in this work is to provide assurance that:</p> <ul style="list-style-type: none"> ➤ sound arrangements are in place to identify and assess risks; and ➤ risks are being effectively managed 	Learning and Development	135
	Contaminated Land	
	Information Security	
	Planning Probity	

FOLLOW-UP REVIEWS		
Approach and objectives	Covers the following areas:	Planned Days
<p>Following the production of an Internal Audit report and assurance opinion, a follow-up review is undertaken at an agreed time (usually after 6 months) to review progress with the agreed action plan.</p> <p>Progress is reported to management and to the Audit Committee.</p>	All Internal Audit reports which result in the production of an assurance opinion and action plan.	70
SUB-TOTAL – ASSURANCE WORK		445

2. CONSULTANCY WORK		
Work Area and Objectives	This Covers	Planned Days
<p>Ad-Hoc Advice</p> <p>To provide an on-demand advice service in respect of day-to-day internal control, risk management and governance matters.</p>	<ul style="list-style-type: none"> ➤ Advice provided on request from employees and elected members; ➤ Liaison with the external auditor and other agencies; ➤ Publication of fraud alerts and other guidance notices; ➤ Provision of training. 	65
<p>Efficiency & Value for Money (VfM)</p> <p>The primary objective in 2010/11 is to review the Council's Value for Money Strategy and corporate arrangements for managing its efficiency programme.</p>		50
<p>Support Work (projects and other support)</p> <p>To provide support and advice to management in the development and implementation of new policies, systems and projects.</p> <p>Additional resources have been allocated compared with previous years to support services and managers in implementing revised organisational structures.</p>	<p>Current support areas include:</p> <ul style="list-style-type: none"> ➤ Risk Management Steering Group ➤ Grey Fleet Review ➤ Procurement arrangements ➤ RIPA monitoring 	100
SUB-TOTAL – CONSULTANCY WORK		215

3. OTHER		
Work Area and Objectives	This Covers	Planned Days
<p>Non Audit Duties</p> <p>The professional standard regarding independence states that Internal Auditors should have no operational responsibilities.</p> <p>Internal Audit currently departs from this expectation in that the Internal Audit Manager currently shares Deputy Section 151 duties with the Accountancy Services Manager.</p>	<p>↓ Deputy Section 151 duties</p>	15
4. AUDIT MANAGEMENT		
Work Area and Objectives	This Covers	Planned Days
<p>Planning, Monitoring and Committee Work</p>	<p>↓ Development and updating of Internal Audit Strategic and Annual Plans;</p> <p>↓ Monitoring and review of activity;</p> <p>↓ Reporting to and attending Audit Committee / other member meetings</p>	70
5. CONTINGENCIES		
Work Area and Objectives	This Covers	Planned Days
<p>Investigations</p> <p>Requests to undertake investigative work are irregular and unpredictable. Time has been included to cover disciplinary hearings following on from investigations during 2009/10.</p> <p>At the time of preparing the plan the section was not involved in any ongoing investigations</p>	<p>↓ Investigating and reporting on alleged malpractice</p> <p>↓ Attending and submitting evidence to disciplinary hearings as necessary</p>	60
<p>General Contingency</p> <p>A general provision made to help accommodate unforeseen variations in demand for Internal Audit work during the year</p>	<p>↓ Additional calls for work, particularly in areas such as investigations, or in support of corporate initiatives/major projects.</p>	40
TOTAL – ALL ACTIVITIES		845