



Committee: AUDIT COMMITTEE
Date: WEDNESDAY, 29 JUNE 2011
Venue: LANCASTER TOWN HALL
Time: 6.00 P.M.

Please note that an induction training session for Audit Committee members will take place at 5.00 p.m. at Lancaster Town Hall before Audit Committee.

A G E N D A

1. **Apologies for Absence**
2. **Appointment of Vice-Chairman**
3. **Minutes**
Minutes of the meeting held on 19 January 2011 (previously circulated)
4. **Items of Urgent Business authorised by the Chairman**
5. **Declarations of Interest**
6. **External Audit Plan 2010/11** (Pages 1 - 22)
7. **External Audit Plan and Fees 2011/12** (Pages 23 - 26)
8. **Internal Audit Annual Report and Assurance Statement 2010/11** (Pages 27 - 37)
9. **Internal Audit Strategic and Annual Plans 2011/12** (Pages 38 - 51)
10. **Audit Committee Work and Training Programme** (Pages 52 - 57)

ADMINISTRATIVE ARRANGEMENTS

(i) **Membership**

Councillors Malcolm Thomas (Chairman), Jon Barry, Geoff Knight, Richard Newman-Thompson, Ian Pattison, Vikki Price and Peter Williamson

(ii) **Substitute Membership**

Councillors Roger Dennison, Melanie Forrest, Geoff Marsland, Sylvia Rogerson, Susan Sykes and David Whitaker

(iii) Queries regarding this Agenda

Please contact Jane Glenton, Democratic Services - telephone (01524) 582068, or email jglenton@lancaster.gov.uk.

(iv) Changes to Membership, substitutions or apologies

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

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

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PUBLIC SECTOR

Lancaster City Council

Financial Statements Audit Plan 2010/11

23 February 2011

AUDIT

AUDIT ■ TAX ■ ADVISORY

Contents

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This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document. External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public 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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Steve Clark who is the engagement lead to the Council, telephone: 0113 231 2910, email: stephen.clark@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4000, email trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

Summary

Our audit is divided into:

- use of resources; and
- financial statements.

This document describes how we will deliver our audit work for Lancaster City Council.

Our statutory responsibilities and powers are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Audit Commission's *Code of Audit Practice (the Code)*.

The Audit Commission's Code summarises our responsibilities into two objectives, requiring us to review and report on your:

- *financial statements (including the Annual Governance Statement):* providing an opinion on your accounts; and
- *use of resources:* concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The Audit Commission's Statement of Responsibilities of Auditors and Audited Bodies sets out the respective responsibilities of the auditor and the Council. The table below summarises the work we will do this year.

Our Responsibility	Risks, Proposed work and output
<p>Financial Statements and Annual Governance Statement</p>	<p>Our audit work is based on an assessment of risk. The key risks we have currently identified are:</p> <ul style="list-style-type: none">● Medium Term Financial Plan (MTFP)/Financial Standing: The Council will need to give careful consideration to its MTFP especially in light of the CSR which will require the Council to make significant savings. The Council has plans to set a balanced budget for 2011/12. If the budget is delivered, along with all of the planned savings, the Council would realise a contribution to balances of £500k. However, 2012/13 and 2013/14 will be tougher with a need to identify savings of £921k and £657k, respectively.● Implementation of International Financial Reporting Standards (IFRS): All local authorities are required to implement IFRS in 2010/11, including restating prior period figures. This will result in some fundamental differences in accounting and will require significant planning to ensure your financial statements reflect the new standards (see page 7 for more details).● Contingent liabilities: the Council needs to reflect the latest position in relation to these events surrounding Luneside East, to ensure the financial statements are not significantly mis-stated.● Shared Services: the Council must ensure it manages the use of the Shared Services centre for Benefits and Revenues effectively to realise the efficiencies this is planned to bring. <p>Our work will encompass:</p> <ul style="list-style-type: none">● Review of the controls over the completion of the accounts, relying on Internal Audit wherever possible to avoid duplication.● A detailed audit of the financial statements, associated disclosure notes and the Annual Governance Statement.● Review of the key risks identified, addressed through our detailed audit work and discussions with senior finance officers. <p>The findings of this work will support the audit opinion that we issue on your financial statements.</p>

Summary (continued)

<p>Our audit is divided into:</p> <ul style="list-style-type: none"> ● use of resources; and ● financial statements. <p>This document describes how we will deliver our audit work for Lancaster City Council.</p>	<p>Our Responsibility</p> <p>Use of Resources / Value for Money work</p>	<p>Risks, Proposed work and output</p> <ul style="list-style-type: none"> ● In response to the changing financial environment, the Audit Commission has introduced a new approach to local value for money (VFM) work at those bodies previously subject to a use of resources (UoR) assessment. The new, more focused approach could reduce the work auditors do to meet their statutory VFM responsibilities. <p>Our work will encompass:</p> <ul style="list-style-type: none"> ● A risk assessment to identify the required amount and focus of local VFM work. ● Where applicable, undertaking local VFM work to address the risks identified in the risk assessment. <p>The findings of this work will inform our value for money conclusion.</p>
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The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary. The remainder of this document provides details of our risk assessment, proposed work and fees for our work on the financial statements audit. It supplements the high level audit plan presented in 2010. We will provide further details separately on our VFM audit work.

Audit overview

We undertake our work on your financial statements and Annual Governance Statement (AGS) in four key stages.

Our work results in our audit opinion on your financial statements.

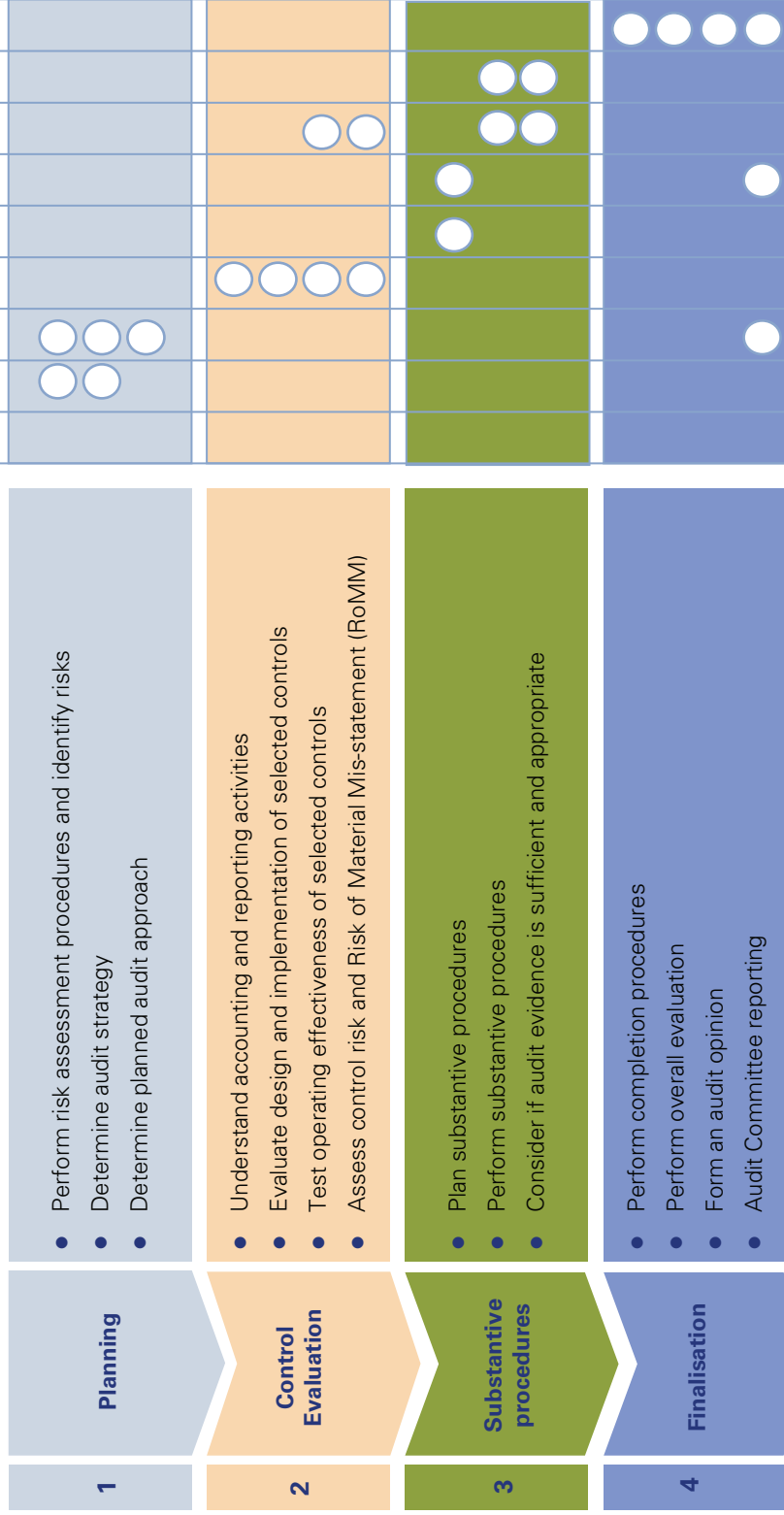
We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We are required to provide an audit opinion on the accounts.

We are also required to satisfy ourselves that your Annual Governance Statement (AGS) is consistent with our understanding of your operations. Our review of the work of Internal Audit and consideration of your risk management and governance arrangements are key to this opinion.

In addition to the Council's financial statements, we are also required to audit and provide an opinion on the Whole of Government Accounts return submitted to central government.

Our Audit Process

We have summarised the four key stages of our financial statements audit process for you below:



Audit overview (continued)

We work with your Finance Team and Internal Audit team to enhance the efficiency of the accounts audit.

Our Audit Process (continued)

As part of our audit process, we will work closely with the Finance Team to understand and continually improve the accounts production process. At the planning stage of our audit we will issue the Council with a 'prepared by client' list which will include a detailed schedule of information requests to support the financial statements.

Our audit procedures also include an assessment of your arrangements to deliver your responsibilities to prevent and detect fraud. The auditing standard for fraud, ISA240 (revised), responds to the increased sensitivity to fraud and the importance given to auditors' work on fraud. Additionally, the Fraud Act 2006 and the Government Review of Fraud 2006 may impact on your responsibilities to manage fraud.

Liaising with Internal Audit

We have a strong working relationship with Internal Audit and we will continue to work closely with them to maximise the use of their work on core financial systems and governance at the Council.

International Financial Reporting Standards (IFRS)

All local authorities are required to implement IFRS for 2010/11 financial statements. This replaces the current practice of reporting under UK GAAP (Generally Accepted Accounting Practices). We will continue to work closely with the Finance Team to ensure the smooth transition to IFRS. We will audit the restated 2009/10 balances prior to the final visit in order to provide early assurance on key aspects of your IFRS migration work and identify any issues on a timely basis. This will also ensure some accounting and audit effort is brought forward to alleviate the busy closedown and final accounts audit season.

To prepare for the implementation of IFRS we have been discussing the Council's progress with the Accountancy Services Manager and the Head of Financial Services. We have given them guidance where requested and will review their workings in relation to this during February 2011. This will ensure that any issues arising in the restatement of prior year balances are resolved prior to the final audit.

Whole of government accounts (WGA)

KPMG are required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office. The 2010/11 WGA consolidated pack will need to be produced in accordance with the International Financial Reporting Standards (IFRS).

National Fraud Initiative

The Council participates in the National Fraud Initiative, which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated against public bodies. During our audit we will review the Council's progress and actions in following up the matches identified.

Elector Challenge

The Audit Commission Act 1998 gives electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on any elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised. The costs incurred in responding to questions or objections raised by electors are not covered by our audit fee. This work will be charged in accordance with the Audit Commission's fee scales.

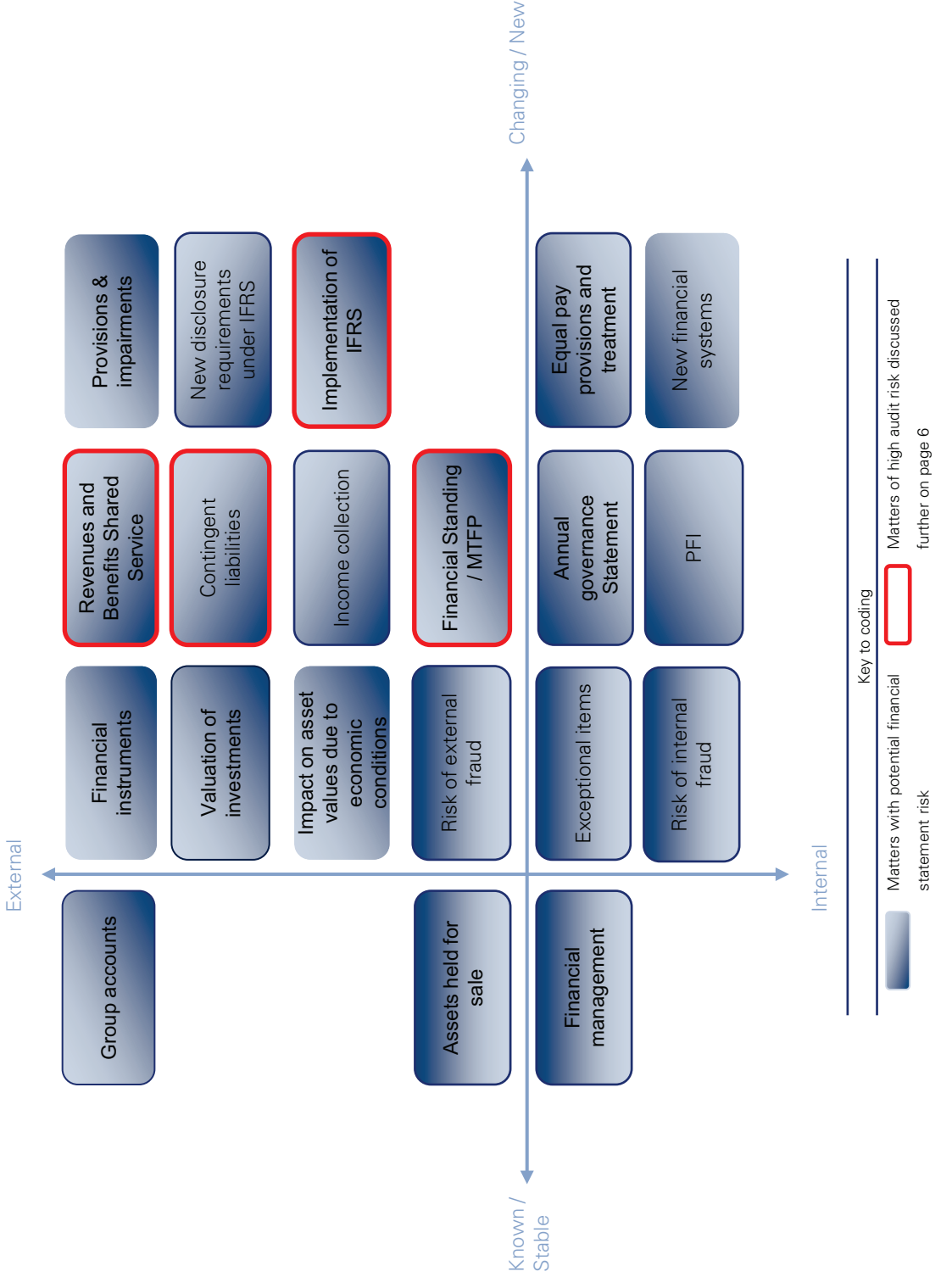
Over the last two years we have carried a number of pieces of work in response to questions/issues raised by electors.

Key financial statement audit risks

These are the key financial statement risks identified for 2010/11 and some examples of other risks that we will consider during the audit. We seek to tailor our audit approach to reflect this risk assessment.

We have identified high audit risk in the following areas:

- Implementation of IFRS
- Contingent Liabilities
- Financial Standing/MTFP
- Revenues and Benefits Shared Service



Key financial statement audit risk - IFRS

Key audit risks	Impact on audit plan
<p>For each key risk audit area we have outlined the impact on our audit plan.</p> <p>We will provide updates to the Audit Committee on these risk issues throughout our audit.</p> <p>The key risks identified are:</p> <ul style="list-style-type: none"> the Council's Medium Term Financial Planning and Financial Standing; the Council's transition to IFRS; 	<p>Financial Standing / MTFP</p> <ul style="list-style-type: none"> Linking with our value for audit work, we will consider the Council's general financial standing and in particular its approach to medium term financial planning. This is of particular importance following the Comprehensive Spending Review which will require the Council to make significant cost savings over the next four years. The Council needs to save £912k in 2012/13 and £657k in 2013/14 in order to set a balanced budget. The Council has planned, as part of its budget setting process, to contribute £500k to balances in 2011/12. This is due to the savings identified, including its early implementation of the senior management restructure and its use of a Shared Service for revenues and benefits. We will consider the potential impact of the outcome from this work on our financial statements audit.
<p>Audit areas affected</p> <ul style="list-style-type: none"> Reserves and Balances 	<p>IFRS conversion process</p> <p>For the year ended 31 March 2011 local authorities are required to implement IFRS.</p> <p>Impact of conversion process</p> <ul style="list-style-type: none"> The Council has been following a conversion plan and has a project team to assist in achieving a smooth transition to IFRS. The IFRS conversion process is being led by the Accountancy Services Manager at the Council with his team preparing many of the working papers supporting the transition. The Council has ensured that relevant services have input into the process, for example Property Services. We have maintained a continuous dialogue with the Council on its progress. <p>Our audit work</p> <ul style="list-style-type: none"> We will audit the re-stated 2009/10 financial statement figures in February. During this time we will review the restated balances and working papers to ensure compliance with the CIPFA Code. We will discuss any issues arising with officers. During the final accounts audit we will audit the financial statements in line to ensure that they are in compliance with IFRS.
<p>Audit areas affected</p> <ul style="list-style-type: none"> Restated opening balances Various balances and disclosures within 2010/11 financial statements 	

Key financial statement audit risk – IFRS (continued)

For each key risk audit area we have outlined the impact on our audit plan.

We will provide updates to the Audit Committee on these risk issues throughout our audit.

Key audit risks



Impact on audit plan

Leases

Impact of IAS 17

- The impact of IAS 17 generally is that there is an increased number of finance leases as IAS 17 gives a broader definition of finance leases than the UK standard. This results in more assets coming on to balance sheet.
- The Council has reviewed its lease register and its general ledger to ascertain there is a complete record of all leases. It has then considered the treatment of these leases against the criteria of IAS 17. The Council believes that there are no additional finance leases as a result of IFRS.

Our audit work

- During the restatement audit we will assess the Council's process for ensuring that there is a complete record of all leases.
- We will also review all material leases and contracts to determine whether they have been correctly treated as an operating lease or finance lease under IAS 17 following the Council's assessment of its lease arrangements.

Employee benefits

Impact of IAS 19


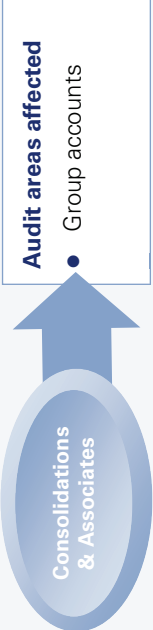
- A new liability will be recognised on the balance sheet where there is a requirement to pay wages and salaries, bonuses and holiday pay.
- At present the Council has prepared an accrual for employee benefits based on accrued annual leave and accrued flexi-time. This information has been collected for the separate service areas and the expenditure recorded in each of the relevant services.

Our audit work



- During the audit of the re-stated 2009/10 balances we will assess the Council's process for calculating the employee benefit and need.
- We will also audit the balance using the data collated by the Council to ensure it is line with the requirements of the standard.



Key financial statement audit risk – IFRS (continued)

<p>For each key risk audit area we have outlined the impact on our audit plan.</p> <p>We will provide updates to the Audit Committee on these risk issues throughout our audit.</p>	<p>Key audit risks</p>  	<p>Impact on audit plan</p> <p>Property, plant and equipment Expected impact of IAS 16</p> <ul style="list-style-type: none"> Local authorities are to component account for any additions or valuations on or after 1 April 2010. This means when an item of property, plant and equipment comprises individual components for which significantly different depreciation methods or rates are appropriate each component is accounted for separately. For example, a house will be split between structure, roof, windows and any other significant components. <p>Our audit work</p> <ul style="list-style-type: none"> During the interim visit we will assess the controls in place to ensure that additions/valuations are being addressed as components and appropriately recorded in the fixed asset register. During the final phase of our audit we will substantively test additions and valuations to ensure that these are correctly accounted for in line with the component requirements of IAS 16. <p>Consolidations and Associates Expected impact of IAS 27 & 28</p> <ul style="list-style-type: none"> UK GAAP emphasises the substance of control eg rather than legal voting rights whereas IFRS considers the power to control. As a result there may be a different interpretation of those entities consolidated into group financial statements. <p>Our audit work</p> <ul style="list-style-type: none"> During the interim audit we will consider the Council's evaluation of its relationships with external partners to assess whether they should now be consolidated under the new standards. We will audit the consolidated statements during the final phase in line with IAS 27 & 28.
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Key financial statement audit risks (continued)

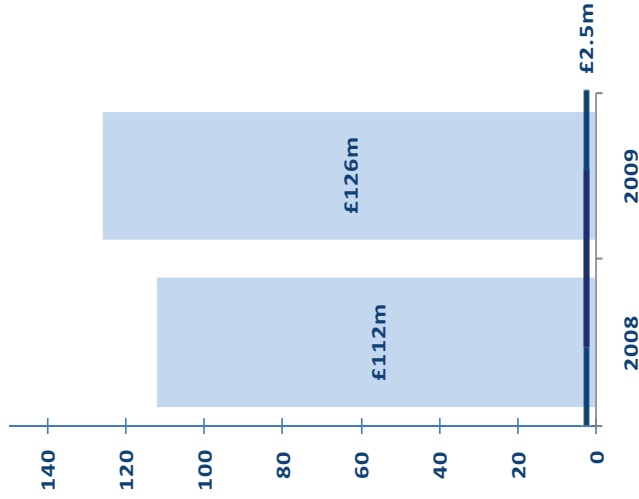
<p>For each key risk audit area we have outlined the impact on our audit plan.</p> <p>We will provide updates to the Audit Committee on these risk issues throughout our audit.</p>	<p>Key audit risks</p>	<p>Impact on audit plan</p>
	<p>Contingent Liabilities</p> <p>The contingent liabilities disclosed in the financial statements in 2009/10 could be financially significant if they were to crystallise. Therefore, if the Council does not reflect the latest position in relation to these events the financial statements could be significantly mis-stated.</p> <ul style="list-style-type: none"> • We have discussed the latest position of Luneside East with the Head of Financial Services. We will also meet with the Monitoring Officer to keep aware of further developments. • We will critically review any correspondence received from legal representatives regarding Luneside East and take account of any hearings, rulings or appeals. 	<p>Contingent Liabilities</p> <p>The contingent liabilities disclosed in the financial statements in 2009/10 could be financially significant if they were to crystallise. Therefore, if the Council does not reflect the latest position in relation to these events the financial statements could be significantly mis-stated.</p> <ul style="list-style-type: none"> • We have discussed the latest position of Luneside East with the Head of Financial Services. We will also meet with the Monitoring Officer to keep aware of further developments. • We will critically review any correspondence received from legal representatives regarding Luneside East and take account of any hearings, rulings or appeals.
	<p>Revenues and Benefits Shared Service</p> <p>The use of new Shared Service for revenues and benefits with Preston City Council to administer and collect the revenues and benefits applicable to Lancaster from 1 July 2011 will pose particular challenges for the Council. These will include a change to processes in relation to revenues and benefits and ensuring the Council maintains close oversight of the performance and control environment of this Shared Service centre. In addition, the Council will need to ensure that the Shared Service delivers the planned efficiencies in the budget.</p> <ul style="list-style-type: none"> • We have discussed the arrangements for the move to the Shared Service for revenues and benefits processing with the Accountancy Services manager and will update our understanding at the interim visit. • We will test the controls around revenue and benefits, in liaison with Preston City Council's auditors, to ensure that our audit approach is efficient and to gain assurances that appropriate controls are in place over balances, so that they are not materially mis-stated. 	<p>Revenues and Benefits Shared Service</p> <p>The use of new Shared Service for revenues and benefits with Preston City Council to administer and collect the revenues and benefits applicable to Lancaster from 1 July 2011 will pose particular challenges for the Council. These will include a change to processes in relation to revenues and benefits and ensuring the Council maintains close oversight of the performance and control environment of this Shared Service centre. In addition, the Council will need to ensure that the Shared Service delivers the planned efficiencies in the budget.</p> <ul style="list-style-type: none"> • We have discussed the arrangements for the move to the Shared Service for revenues and benefits processing with the Accountancy Services manager and will update our understanding at the interim visit. • We will test the controls around revenue and benefits, in liaison with Preston City Council's auditors, to ensure that our audit approach is efficient and to gain assurances that appropriate controls are in place over balances, so that they are not materially mis-stated.

Materiality

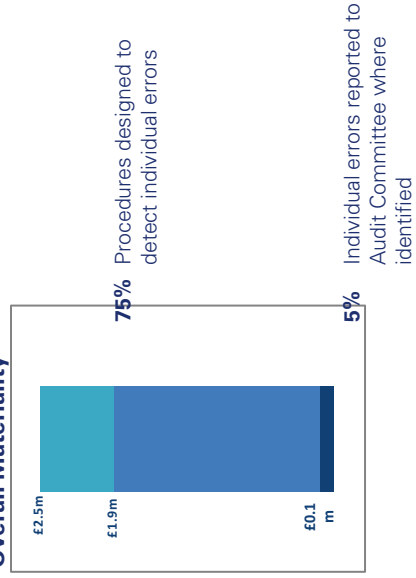
Our audit work is planned to detect errors that are material to the accounts as a whole.

Our materiality of this year is £2.5m

Total revenue



Overall Materiality



What do we mean by materiality?

In layman terms, materiality is the margin of error we will accept before we qualify our opinion on the accounts.

Why do we have a level of materiality?

We only have a limited time in which to complete our work. As a result, we focus our testing on a sample of transactions rather than everything. To make our sample testing most effective, our work is driven by an assessment of risk and a level of materiality. This means we sample test the transactions that are more likely to be prone to significant fraud or error.

Determining materiality

- We consider quantitative and qualitative factors in setting materiality and in designing our audit procedures.
- Materiality has been set at £2.5m million which is 2% of total revenues.
- We design our procedures to detect errors at a lower level of precision, i.e. £1.9 million. We have some flexibility to adjust this level downwards.

Reporting to Audit Committee

- To comply with auditing standards, the following three types of audit differences will be presented to the Audit Committee:
 - summary of adjusted audit differences
 - summary of unadjusted audit differences
 - summary of disclosure differences (adjusted and unadjusted).
- We will not report audit and disclosure differences that are considered to be trivial.

Note: Materiality may be updated on receipt on the draft financial statements
Source: Management accounts / forecast (2010)

Audit Team

Our audit team has changed from last year. Contact details are shown on page 1

The audit team will be assisted by other specialist KPMG staff as necessary.



Steve Clark
Engagement Lead

My role is to lead our team and ensure the delivery of a high quality external audit opinion. I will be the main point of contact for the Audit Committee and the Chief Executive.



Heather Garrett
Audit Manager

I will direct and help coordinate the audit and will work closely with Steve Clark to ensure we add value. I will be the main contact for the Head of Financial Services.



Karl Ballard
Audit Assistant Manager

I will be your day to day contact and will work closely with Heather Garrett to deliver a coordinated and efficient audit. I will be the main contact for the Accountancy Services Manager.

Independence confirmation

Our independence and objectivity responsibilities under the Code are summarised in Appendix 3.

We confirm our audit team's independence and objectivity is not impaired.

Independence and objectivity confirmation

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The ISA defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 *Integrity, Objectivity and Independence* requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Confirmation statement

We confirm that as of 1 February 2011, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Appointed Auditor and audit team is not impaired.

Audit fees

The audit fee has not changed from that agreed in the high level audit strategy in April 2010.

We agreed our fee for the audit with the Council earlier this year. The fee is calculated with reference to a number of factors including your turnover and our assessment of audit risk and control environment. This year's fee represents a 5.5% increase over last year (2009/10 = £120,000). This brings the fee in line with the Audit Commission scale fee.

Element of the audit	Fee 2010/11
Audit fee	£135,000
Less: IFRS Reimbursement	(£8,351)
TOTAL AUDIT FEE	£126,649
Certification of claims and returns (estimate)	£36,000

To enable you to benchmark our fee proposal we provide below some comparative information.

Source of fee comparative / benchmark	£
Audit Commission suggested fee range	£96,935 - £180,023
Audit Commission suggested scale fee	£138,479
2010/11 audit fee	£135,000

Audit fees (continued)

Our audit fee is indicative and based on you meeting our expectations of your support.

Meeting these expectations will help to the delivery of our audit within the proposed audit fee.

Audit fee assumptions

The audit fee is indicative and is based on you meeting our agreed expectations as outlined in Appendix 2. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the CIPFA Code of Practice on Local Authority Accounting within your 2010/11 financial statements (note 2010/11 is the first year based on IFRS);
- your financial statements are made available for audit in line with the agreed timescales;
- you will make available the re-stated 2009/10 figures in line with the agreed timescales and ensure they are in line with IFRS requirements;
- good quality working papers and records will be provided at the start of the final accounts audit;
- requested information will be provided within the agreed timescales;
- prompt responses will be provided to queries and draft reports;
- Internal Audit meets appropriate professional standards;
- Internal Audit completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

Changes to the audit plan

Changes to this plan and the audit fee may be necessary if:

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

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Head of Financial Services, as Section 151 Officer.

Audit timeline & deliverables

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agreed each report with the Council's officers prior to publication.

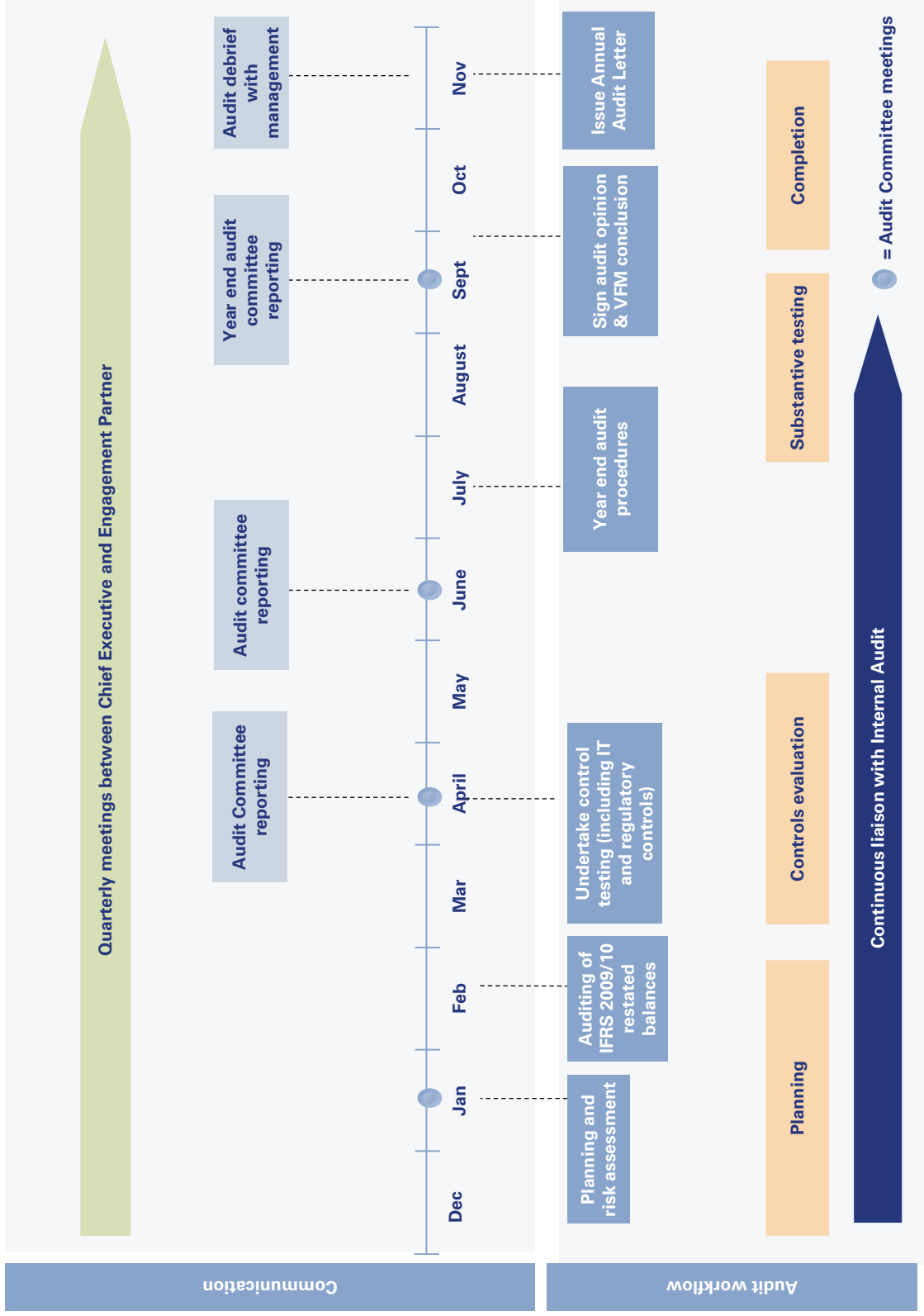
Deliverable	Purpose	Timing
Planning		
Audit plan	<ul style="list-style-type: none"> Outline audit approach Identify areas of audit focus and planned procedures Confirm plan with Audit Committee 	February 2011
Interim		
Interim report	<ul style="list-style-type: none"> Details and resolution of control and process issues 	April 2011
Report on restated 2009/10 figures	<ul style="list-style-type: none"> Feedback on audit work undertaken on 2009/10 restated balances in line with IFRS Identify areas of improvement to ensure 2010/11 financial statements are fully compliant with IFRS 	April 2011
Year end audit		
Report to those charged with governance (ISA 260)	<ul style="list-style-type: none"> Commentary on financial statements Commentary on the Council's value for money arrangements Details the resolution of key audit issues Communication of adjusted and unadjusted audit differences Performance improvement recommendations identified during our audit 	September 2011
Opinion on financial statements	<ul style="list-style-type: none"> Independent auditors' report to the Members of the Council 	September 2011
Annual audit letter	<ul style="list-style-type: none"> Summaries the audit we have performed with key audit issues and outputs 	November 2011

Audit timeline & deliverables (continued)

Key formal interactions with the Audit Committee are:

- April: Interim issues
- September: Year end conclusions.

We will be in continuous dialogue with you throughout the audit.



Appendix 1: Meeting your expectations

How we will conduct ourselves

Communications

- We will be proactive in developing relationships with your staff where our audit work requires their input.
- We will ensure that all letters and emails are answered within five working days of receipt. All telephone messages received will receive a prompt response, either by the individual concerned or Karl Ballard.
- We will ensure that all recommendations, and in particular those relating to our performance management work, are included within our Annual Audit Letter only after having been agreed with relevant Directors.
- Steve Clark or Heather Garrett will attend Audit Committee meetings and ensure that other relevant KPMG staff are invited as appropriate.
- We have been working with you throughout 2009/10 providing guidance on key issues in the transition to IFRS. We will continue working with the Finance Team to provide advice and review progress during 2010/11.

Working together

- We will ensure that the Director of Finance, Chief Accountant and other key members of staff are kept informed of the progress of our audit work throughout the year.
- We will liaise with staff at all levels of the Council to ensure that our work is appropriately planned and completed and where recommendations are made these are agreed with the likely responsible officer.

Cooperating with the Council

- We will continue to coordinate our work with that of Internal Audit and ensure that we provide appropriate proactive commentary to the finance function on issues that affect the Council's accounts.
- We will respond promptly to requests for comment on aspects of the Council's operations, where appropriate.

Our expectations of your support

Audit Plan

- Brief our staff on key issues affecting the Council.
- Review and agree the draft plan.

Interim Audit

- Facilitate the completion of Internal Audit's work (particularly on core financial systems) to timetable.
- Ensure that key officers are available for the duration of our audit.
- Respond to and agree our draft reports in good time.

Accounts Audit

- Ensure that a full draft of the accounts is available at least one week prior to the agreed start date of our audit, and that only agreed adjustments are put into the accounts following receipt of this draft.
- Produce the documents listed within our prepared by client request by the agreed start date of our audit.
- Ensure that the mandatory content of the Annual Report is available at the agreed time of our final account audit.

Annual Audit Letter

- Discuss and agree our draft Annual Audit Letter in good time for the Audit Committee.
- Ensure that all action plans are agreed and followed up in due course.

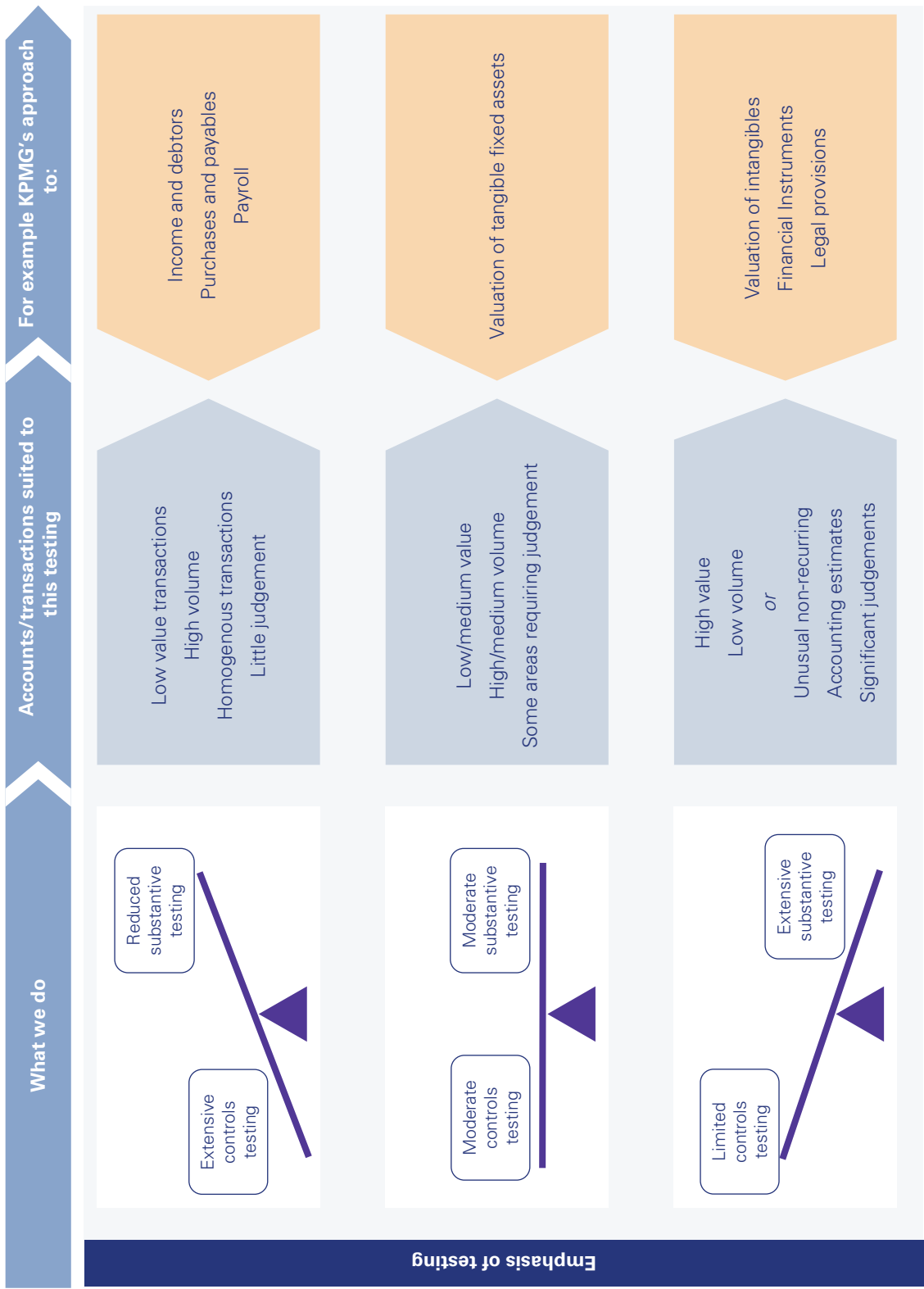
IFRS

- Ensure a full set of 2009/10 restated figures compliant with IFRS are available to audit in good time prior to the final visit.

Other work

- Agree a key Council contact as a focal point for the study or work.
- Discuss and review our findings so that action plans can be fully completed and implemented.

Appendix 2: Balance of internal controls and substantive testing



This appendix illustrates how we determine the most effective balance of internal controls and substantive audit testing

Note: Assuming controls are found to operate as designed

Appendix 3: Independence and objectivity requirements

This appendix summarises auditors' responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Council invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner.
- Audit staff are expected not to accept appointments as lay school inspectors.
- Firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned.
- Auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on each audit at least once every five years (subject to agreed transitional arrangements). Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- The Commission must be notified of any change of second in command within one month of making the change. Where a new Engagement Lead or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

Appendix 4: Quality assurance and technical capacity

We continually focus on delivering a high quality audit. This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff. Quality must build on the foundations of well trained staff and a robust methodology. The diagram summarises our approach and each level is expanded upon below.

We recruit the best staff through our rigorous selection and assessment criteria. In addition, we expect that future talent to develop with our application of most effective in-house and external training support.

Our audit methodology determines that we use a standardised audit approach and pro forma work papers. We also have standards of audit evidence and working papers including requirements for working paper retention.

At critical periods of the audit we conduct both manager and engagement leader review of the work completed. Upon final completion, managers and directors complete a checklist to indicate the satisfactory conclusion of the audit under the audit methodology.

Partners who meet certain skills and experience criteria, conduct quality control reviews of individual audits depending on the level of audit risk. Their role is to perform an objective evaluation of the significant accounting, auditing and financial reporting matters with a high degree of detachment from the audit team. This provides an objective internal assessment on the quality of our audit. Peer review is undertaken across the firm, with an annual sample of our work being undertaken from a different national office. This encourages a constant focus on quality and ensures there is continuous improvement and that best practice is shared.

Our quality review results

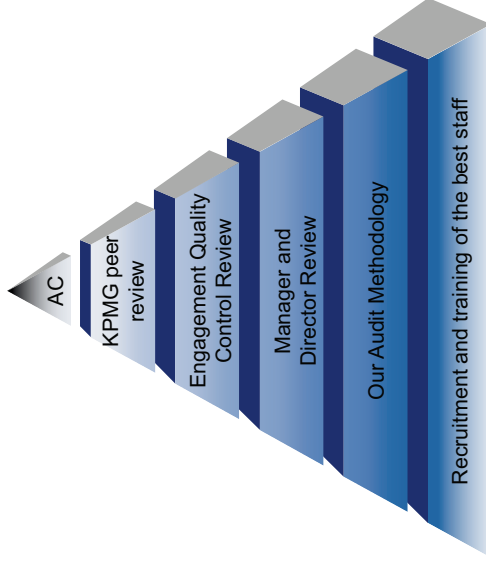
We are able to evidence the quality of our audits through the results of National Audit Office and Audit Commission reviews. The results of the Audit Commission's annual quality review process is made publicly available each year (www.audit-commission.gov.uk/reports/). The latest report dated October 2010 showed that we performed highly against all the Commission's criteria.

Resolving Accounting and Financial Report Issues and Emerging Issues with the Independent Regulator

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director (based in our London office) who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA and the Audit Commission) as well as acting as a sounding board for our auditors.
- A national technical network of public sector audit professionals (that meets on a quarterly basis) and is chaired by our national technical director.
- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's Code of Audit Practice.
- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based bi-monthly technical training.

When dealing with the Audit Commission, as you would expect we both attend and cascade across the firm the papers considered by their various technical groups for auditors. In addition, as the Audit Commission has developed we have established a series of formal and informal relationships. These benefit both the Audit Commission and our Local Authority clients. As a result of all of these factors, and combined with our overall audit approach, we seek to offer early warnings of issues arising with the independent regulator and provide pragmatic solutions.



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Private & confidential

Ms N Muschamp
Head of Financial Services & s151 officer
Lancaster City Council
Town Hall
Dalton Square
Lancaster
LA

Our ref Sc/hg/016/let599

Contact Stephen Clark
0113 231 3148

13 April 2011

Dear Nadine

Annual audit fee 2011/12

I am writing to confirm the audit work and fee that we propose for the 2011/12 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 2011/12.

As we have not yet completed our audit for 2010/11 the audit planning process for 2011/12, 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.

The proposed indicative fee for the audit for 2011/12 is £128,250 (plus VAT). This compares to the planned fee of £135,000 for 2010/11.

At this stage I estimate that the fee for the certification of 2011/12 grants and returns will be £40,000. As the amount of work will depend on a number of factors that cannot be predicted with certainty at this early stage, including the number and nature of the schemes which will require certification, I will provide an update to this estimate at a later date. I will write to you separately when I have a better understanding of the likely scale of this work.

The indicative fee is based on a number of assumptions, which I have summarised in Appendix 1 to this letter. The Audit Commission has published its work programme and scales of fees 2011/12 and the scale fee for Lancaster City Council is £128,250. The fee proposed for 2011/12 is in line with the scale fee. Fees have reduced compared to 2010/11 because some of the additional audit costs associated with the introduction of International Financial Reporting Standards last year are not present in 2011/12.

In setting the fee at this level, I have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified to 2010/11. A separate plan for the audit of the 2011/12 financial statements will be issued later this year. This



will detail the risks identified, planned audit procedures and (if required) 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 you and then prepare a report for the Audit Committee, outlining the reasons why the fee needs to change.

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

The key members of our audit team for the 2011/12 audit are:

Name	Role	Contact details
Stephen Clark	Director	stephen.clark@kpmg.co.uk 0113 231 3148
Heather Garrett	Manager	heather.garrett@kpmg.co.uk 0161 246 4294
Karl Ballard	Assistant Manager	karl.ballard@kpmg.co.uk 0161 246 4134

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

Stephen Clark
 Director



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 different from that identified for 2010/11;
- 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 IFRS-based Code of Practice on local Authority Accounting within your 2011/12 financial statements;
- your financial statements will be made available for audit in line with the timetable we agree with you;
- good quality working papers and records will be provided to support the financial statements in line with our *prepared by client* request and 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 or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Improvements to the above factors may allow reductions to the audit fee in future years. 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 revisited when we issue the financial statements audit plan.

Any changes to our audit plan and fee will be agreed with you. Changes 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
Financial Statements audit plan	January 2012
Report to those charged with governance (ISA260 report)	September 2012
Auditor's report giving the opinion on the financial statements, value for money conclusion and audit certificate	September 2012
Opinion on Whole of Government Accounts return	September 2012
Annual audit letter	November 2012
Certification of grant claims and returns	February 2013

AUDIT COMMITTEE**Internal Audit Annual Report and
Assurance Statement 2010/11****29 June 2011****Report of Internal Audit Manager****PURPOSE OF REPORT**

To inform the Committee of the extent and outcome of Internal Audit work during the 2010/11 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 2.12 to 2.23) be accepted and considered by the Committee in relation to the annual governance review and Annual Governance Statement which will be presented to the September meeting of the Committee.

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 2010/11

- 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 Internal Audit Plan for 2010/11 approved by the Committee in June 2010 was based on the provision of 845 days of Internal Audit work divided evenly between assurance work (445 days) and other audit activity (400 days). At its January 2011 meeting the Committee approved variations to this plan, taking account of staffing reductions in internal audit, resulting in a revised plan to provide 690 days.
- 2.3 The detailed outturn position at 31st March 2011 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)			
	Original Plan	Revised Plan	Actual	Variance
Core Financial Systems	90	90	123	+33
Core Management Arrangements	150	85	98	+13
Risk Based Assurance Audits	135	200	165	-35
Follow-Up Reviews	70	70	71	+1
Sub-Total, Assurance Work	445	445	457	+12
Advice & Support Work	165	123	126	+3
Efficiency & VfM	50	12	2	-10
Investigations	60	30	27	-3
Audit Management	70	65	55	-10
Non Audit Duties	15	15	16	+1
General Contingency	40	0	0	0
Total Chargeable Days	845	690	683	-7
Non-Chargeable Activities (note 1)	125	140	147	+7
Total Available Days	970	830	830	0

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 (830) in the revised plan was met exactly.
- 2.5 The number of chargeable days delivered was 7 less than planned, this reflecting additional time devoted to reviewing working practices and team building following the staffing changes made during 2010.
- 2.6 In chargeable works areas, changes in demand for Internal Audit work have been managed so as to ensure that an acceptable level of assurance work is delivered. Overall, 12 additional days of assurance work were delivered; a greater proportion of this work was devoted to core financial systems and management arrangements with fewer days work done in the "risk based assurance" category.
- 2.7 In other areas, a planned value for money study into the Council's use of mobile phones and other technology is currently on hold and will be picked up again during 2011/12. There was a reduction in time devoted to audit management, this mainly reflecting the cancellation of Audit Committee meetings in April and November 2010 and April 2011.





- 2.8 Following the completion of a major investigation started during 2009, the level of resources required on investigative work remained manageable.

Review of the Effectiveness of Internal Audit

- 2.9 The Accounts & Audit Regulations 2011 require the Council to conduct an annual review of the effectiveness 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 will be included within the report on the annual review of governance to be considered at the next meeting of the Committee.

Results of Assurance Work

- 2.10 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
Maximum		The Authority can place high levels of reliance on the arrangements/controls. Best practice is demonstrated in some or all areas.
Substantial		The Authority can place substantial (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.

- 2.11 The Table in Appendix B sets out the assurance opinions issued from audits and follow-up reviews completed since 31st March 2010, and any subsequent changes in assurance level.

Controls Assurance Statement

- 2.12 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.
- 2.13 This assurance statement is drawn from both the results of individual internal audit assignments and the results of follow-up reviews into previously completed audits, as reflected in the contents of Appendix B. 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
Maximum	4
Substantial	13
Limited	12
Minimal	0

- 2.14 A maximum assurance opinion has been given as a result of both the NNDR and Council Tax audits, these systems being well-established and managed. Maximum assurance has also been given in two separate audits of Treasury Management arrangements, the most recent of these (report issued in June 2011) taking account of the Council's implementation of the new CIPFA code of practice.

- 2.15 There have been no audits resulting in a minimal assurance opinion during the year. Through the established system, the Audit Committee will continue to receive updates on progress with those audits which have not reached at least the “substantial” assurance level. At the present time this consists of the 12 audits whose assurance ratings stand as “limited”. These procedures for reporting and following up audits and reporting progress to Audit Committee continue to operate effectively.
- 2.16 In the Internal Audit Manager’s view, the internal audit work undertaken has not identified any issues of sufficient significance to warrant specific mention in the annual governance statement.

Financial Systems

- 2.17 Assurance levels on the Council’s key financial systems remain consistently high, with both Council Tax and NNDR resulting in a maximum assurance opinion. The “maximum” assurance opinion in audits of Treasury Management arrangements reflect a positive and concerted response to the revised code of practice issued by CIPFA in the aftermath of the Icelandic Banking crisis.
- 2.18 All other financial system audits included in Appendix B resulted in a “substantial” assurance level, with the exception of “Income Management – Housing Rents Direct Debit Payments”, and “Payroll”.
- 2.19 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.
- 2.20 As regards Payroll, outstanding issues are tied in with an ongoing corporate review of the provision of HR and Payroll services. Progress and developments are being reported to and monitored by the Audit Committee.
- 2.21 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

- 2.22 An audit of Risk Management resulted in a “substantial” assurance opinion and an audit of Corporate Learning & Development resulted in a “limited” assurance opinion. A follow-up review of this audit is due in the summer. The main messages arising from these audits will be incorporated in the governance review and Annual Governance Statement.

Other Audits

- 2.23 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 2010/11 financial year, Internal Audit's work has provided assurance in a variety of areas as well as incorporating input and contribution to the development of a number of key systems and processes.

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

This report has no direct impact on these areas.

FINANCIAL IMPLICATIONS

None arising from this report.

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

None arising from this report

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

Internal Audit Plan 2010/11
Internal Audit Files

Contact Officer: Derek Whiteway
Telephone: 01524 582028
E-mail: dwhiteway@lancaster.gov.uk
Ref: aud/ctte/aud/110629/IAAnnRep

Internal Audit Annual Plan 2010/11 - Final Outturn to 31st March 2011


Work Allocations		Actuals to 31/03/11 (Days)	Approved Plan (19/01/11)	Variance	Job Status at 31/03/11
Job No	Title				
1. ASSURANCE WORK					
Core Financial Systems					
08/0739	Creditors 2009/10	2			✓
09/0776	Payroll 2009/10	1			✓
09/0781	Council Tax 2009/10	2			✓
09/0782	NNDR 2009/10	2			✓
09/0786	Treasury Management 2009/10	9			✓
10/0806	Treasury Management 2010/11	12			⚠
10/0801	Transactional Applications	49			⚠
10/0811	Creditors 2010/11	6			⚠
10/0809	Expenses 2010/11	8			⚠
10/0812	Car Parking 2010/11	1			⚠
10/0815	Income Tax & NI 2010/11	4			⚠
10/0816	Income Management 2010/11	0			⚠
10/0810	Payroll 2010/11	6			⚠
10/0813	Debtors 2010/11	4			⚠
10/0814	VAT 2010/11	6			⚠
10/0817	Main Accounting 2010/11	4			⚠
10/0818	Purchasing	7			⚠
Sub-total - Core Financial Systems		123	90	33	
Core Management Arrangements					
08/0738	Information Management & Security	14			✓
08/0774	Ethical Governance Framework	10			✓
10/0787	NFI 2010/11	14			⚠
10/0791	Corporate Learning & Development	9			✓
10/0797	Budgetary Control	51			⚠
Sub-total - Core Management Arrangements		98	85	13	
Risk Based Assurance Work Programme					
08/0714	Fair Pay Project	3			✓
08/0730	Climate Change	2			✓
08/0755	Contaminated Land	12			✓
08/0579	Housing Standards	8			✓
10/0762	Regeneration & Policy Probity	22			✓
10/0789	Development Management Capacity	26			✓
10/0794	Employees Pension Contribution Rates	28			✓
10/0795	Capital Contract Management	45			✓
10/0796	Contracted Services and SLAs	6			CFwd
10/0799	IT Standards and Change Control	10			✓
10/0802	Performance Reward Grant 2010 Claim	3			✓
Sub-total - Risk Based Assurance Work		165	200	-35	
Follow-Up Reviews		71	70	1	∞
SUB-TOTAL - ASSURANCE WORK		457	445	12	

Internal Audit Annual Plan 2010/11 - Final Outturn to 31st March 2011


Work Allocations		Actuals to 31/03/11 (Days)	Approved Plan (19/01/11)	Variance	Job Status at 31/03/11
Job No	Title				
2. CONSULTANCY WORK					
Support Work (projects and other)					
10/0793	Counter Crime Policy & Strategy	13			
10/0509	RIPA Monitoring and Central Register	1			
10/0633	Risk Management Steering Group	1			
09/0788	Annual Governance Review & Statement 2009/10	5			
10/0803	Annual Governance Review & Statement 2010/11	2			
10/0790	Overtime	4			
10/0792	Grey Fleet Review	16			
10/0735	Partnership Mapping and Evaluation	2			
10/0768	Programmes, Projects & Funding Arrangements	5			
10/0807	Information Management Group	2			
10/0808	Budget & Policy Framework Review	6			
10/0820	Financial Regulations Review	3			
Sub-total - Support Work		60	58	2	
Efficiency & VFM					
10/0798	Mobile Telephones/SIMS VFM	2			CFwd
Sub-total - Efficiency & VFM		2	12	-10	
Ad-Hoc Advice		66	65	1	
SUB-TOTAL - CONSULTANCY WORK		128	135	-7	
3. OTHER					
08/0392	Deputy s151 Officer Duties	16			
SUB-TOTAL - OTHER		16	15	1	
4. AUDIT MANAGEMENT					
10/0172	Committee Work	18			
10/0189	Audit Planning & Monitoring	37			
SUB-TOTAL - AUDIT MANAGEMENT		55	65	-10	
5. CONTINGENCIES					
Investigations		27	30	-3	
General Contingency		0	0	0	
SUB-TOTAL - CONTINGENCIES		27	30	-3	
TOTALS		683	690	-7	

Key: Completed In Progress Not Yet Started Continuous or Multi-Year Activity
 Carried Forward to 2011/12 Plan Abandoned

08/0703 Fraud & Corruption Arrangements


20-Oct-10	Substantial		Reasonable assurance is given on the basis of: <ul style="list-style-type: none"> - progress in implementing the agreed actions from the original review; - a recent Internal Audit review of the council's ethical governance framework finding the elements of such a framework are in place; and - Internal Audit reviews carried out on financial systems in the last year, many of which focussed on risks associated with the economic downturn, found no evidence of an increased risk of exposure to fraud and corruption.
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07/0708 Income Management (Housing Rents Direct Debit Payments)


01-Jun-11	Limited		Implementation of the Direct Debits module now depends on the installation of a recently released update to the rents system (release 47). Information Services and Council Housing have identified data loss problems with the test system which is on release 45. The test system will have to be upgraded and tested again before upgrading the live system.
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30-Jun-10	Limited		No significant change in the situation
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07/0709 Payroll 2007/08

30-Jun-10	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. The HR Manager has been invited to attend the Audit Committee meeting to report on the Payroll/HR system project and on the review of the recruitment policy and procedures.
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08/0723 Arts Development

30-Jun-10	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.
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08/0724 Land Charges

01-Jun-10	Substantial		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.
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08/0725 Member Expenses and Civic Functions

02-Sep-10	Substantial		Measures are being taken to ensure that the aims and objectives of the mayoral function are aligned to those of the council.
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09/0730 Climate Change


10-Jun-10	Limited		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.
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08/0733 Planning for Floods


13-Jul-10	Substantial		Since the time of the audit the risks to the Authority have changed as the Pitt report allocated responsibilities in relation to 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.
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09/0739 Creditors 2009/10


03-Nov-10	Substantial		Action is ongoing to address the minor control weakness identified during the original review.
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09-Apr-10	Substantial		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.
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08/0742 Risk Management


29-Jun-10 Substantial  Five actions were agreed at the time of the audit of which three have been implemented, one is in the process of being implemented and the remaining one is still outstanding. The level of assurance which can be provided in relation to the arrangements in place therefore remains at reasonable.


09/0750 Academy/Civica Interfaces

20-Oct-10 Limited  The opinion remains limited on the basis that issues with the Council Tax feeder are still in the process of being resolved. However, Internal Audit is satisfied that related figures in Academy are correct, thus enabling accurate year-end accounts.


25-Jun-10 Limited  The assurance opinion is restricted to limited until such time that the problems on the Council Tax and NNDR feeders are rectified. The feeders populate control accounts which help prove the year end figures.


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

25-Feb-11 Limited  The original review sought to improve financial procedures at Williamson Park through applying or adapting a number of Lancaster City Council financial regulations and procedures. Since the original review back in November 2008 the Park has transferred back to the City Council and operations of Williamson Park therefore now need to be brought fully in line with Council policies and procedures. Whilst a number of agreed actions have either been addressed or are no longer relevant due to this transfer there still remains a number of significant control issues that need to be addressed which has resulted in a limited assurance opinion being given. Implementation of the actions in the attached exception report should enable a 'reasonable level' of assurance to be achieved.


30-Jun-10 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.

09/0759 Housing Standards


09-Mar-11 Limited  Although good progress has been made to implement the agreed actions, it is felt that at present the level of assurance remains at limited as a comprehensive housing strategy for the district is still required. However, it is evident that work is ongoing to develop this strategy, ensuring that it is based on up-to-date data and with all relevant services feeding into its development. Audit is therefore satisfied that a 'reasonable' level of assurance will be achieved once this strategy is in place. It is hoped that this strategy will be available by December 2011.

08-Jul-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.

10/0762 Regeneration and Policy Probity

21-Mar-11 Substantial  The opinion relates to current arrangements for demonstrating probity and transparency in decisions relating to planning, property and regeneration. There is currently insufficient information available to provide an assurance opinion on the restructuring proposals but Internal Audit is concerned that the risk of external challenge and related costs may increase if responsibilities are not appropriately assigned.


08/0764 Investigation RMS


10-Dec-10 Limited  Significant progress has been made in the last two months following the new Operations Manager starting work. He demonstrates a clear understanding of what needs to be done and has developed his own action plan and work programme to implement the actions arising from the investigation.

09/0772 VAT


29-Sep-10 Substantial  Implementation of the agreed actions has further reduced the risk of non compliance with HMRC VAT regulations.

09/0776 Payroll 2009/10

28-Jan-11 Limited  The assurance opinion remains limited as it is still felt that ongoing issues will not be fully addressed until an integrated HR/Payroll system is available which exception reports discrepancies between the two modules.

04-Jun-10 Limited  The assurance opinion, which is consistent with that of the previous audit (07/0709) is limited on the basis that errors have been found in the Establishment Book. The format and procedures for updating the Book are being reviewed but it is felt the issue will only be truly addressed through an integrated HR/Payroll system which exception reports discrepancies between the two modules.


09/0778 Sundry Debtors 2009/10


11-Jun-10 Substantial  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


17-Jan-11 Substantial  Arrangements have been made to implement all actions resulting from the original review.


09/0781 Council Tax 2009/10

08-Oct-10 Maximum  Substantial assurance can be given that internal controls remain efficient and effective. The potential for fraud and/or error being further reduced through implementation of the agreed actions.


22-Apr-10 Maximum  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


08-Oct-10 Maximum  Substantial assurance can be given that internal controls remain efficient and effective. The potential for fraud and/or error being further reduced through implementation of the agreed action.

05-May-10 Maximum  Internal controls remain efficient and effective minimising the potential risk of increased fraud and error and increased arrears due to the current economic climate.


09/0786 Treasury Management 2009/10

09-Sep-10 Maximum  Substantial assurance can be given that the risks identified during the original audit are now well managed. It should be noted that the opinion relates to procedural requirements per the old CIPFA Code of Practice on Treasury Management, the new code having been adopted since the audit. This follow-up cannot therefore comment on overall arrangements for managing treasury management risk at this time.


10/0789 Development Management Capacity

01-Dec-10 Limited  Limited assurance is given on the basis that of the four risks evaluated during the course of this review there is scope to improve management of two of them. Measures are currently being taken to improve management of the third and the fourth is well managed.


10/0791 Corporate Learning and Development

19-Jan-11 Limited  The opinion is 'limited' on the basis that corporate procedures for learning and development require improvement to make the most of resources invested and there is scope for the corporate Learning and Development Team to take a more proactive role in developing the workforce through innovative, flexible and more cost-effective learning and development activities based on an informed strategy and sound and fair priority setting process.


10/0795 Capital Contract Management

17-Feb-11 Limited  There is no comprehensive list of contracts managed by the Authority. Contract Procedure Rules provide a good framework to ensure contracts are let appropriately and fairly but there is no mechanism ensuring all contract awards comply. The availability and standards of documentation evidencing compliance with the Constitution and demonstrating effective contract management varies and key documents, including copy contracts, could not be found in some cases tested. Contract management appears to be effectively resourced within services but there is scope for standardisation and knowledge sharing to raise standards and potentially lead to efficiencies.


10/0806 Treasury Management

06-Jun-11 Maximum  This review has established that the treasury management framework developed by the Authority is in line with the requirements of the Code of Practice, and that high levels of reliance can be placed on the authority's arrangements to ensure that treasury management activity is compliant with its approved policy.

10/0809 Transactional Applications - Expenses Audit

31-May-11 Substantial  The Authority has a robust system in place to ensure that expense claims and employee benefits are valid, reasonable and are fully compliant with current HMRC regulations. However, there are concerns relating to the scope for interpretation within the employee expenses and benefits guidance, which needs to be addressed in order to ensure that a consistent approach is applied across the authority and value for money is obtained.

10/0811 Transactional Applications - Creditors Audit

05-Apr-11 Substantial  The Authority has good systems and processes in place to ensure that creditor transactions are appropriate, correct and effectively managed.

10/0817 Transactional Applications - Main Accounting

31-May-11 Substantial



A substantial level of assurance has been given reflecting the position that the only outstanding matter relates to technical issues with the Council Tax and NNDR feeders.

AUDIT COMMITTEE**Internal Audit Strategic & Annual Plans 2011/12****29 June 2011****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 2011/12

This report is public

RECOMMENDATIONS

1. **That the Internal Audit Strategic and Business Plan for 2011/12 to 2013/14 be approved.**
2. **That the Internal Audit Annual Operational Plan for 2011/12 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 2011/12 to 2013/14**

- 2.1 The Internal Audit Business and Strategic Plan (attached at Appendix A) has been developed using the Council's standard 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 internal audit in 2010/11 was to support the council's change programme by assisting where possible with the implementation of the new service structures. As the new structures settle in and develop further, the ongoing change programme continues to provide 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 2011/12

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 2011/12 is based on estimated available resources of 685 days, this being delivered by the in-house team of 3.81 FTE staff. 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 670 days.

2.5 At the time of writing, a detailed programme of audit assignments has not been finalised. A key element of work in the coming months will be to establish a robust internal audit service to the impending Revenues & Benefits Shared Services arrangement with Preston City Council.

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 will consult with Service Heads, the statutory officers and Management Team generally to inform and develop the detailed programme. It is anticipated that the scope and objectives of audit work during the year will once again 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 2011/12.

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 2011/12 to 2013/14 and the Internal Audit Annual Plan for 2011/12. No alternative options are identified.

5.0 Conclusion

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

CONCLUSION OF IMPACT ASSESSMENT

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

This report has no direct impact on these areas.

FINANCIAL IMPLICATIONS

None arising from this report.

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

None arising from this report

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

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

2011/12 TO 2013/14

SUBMITTED TO AUDIT COMMITTEE 29/06/11

PREPARED BY THE INTERNAL AUDIT MANAGER

June 2011

Revision History

Date of this revision:

Revision Date	Summary of Changes	Version
June 2011	Initial Draft	0.01

Distribution

Name	Title
All employees and elected members via the Intranet	

Approvals

Name	Date Approved	Link to Approval Minutes	Version

Introduction

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

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

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

Service Purpose

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

Strategic Aims & Objectives

- To 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					
	2010/11 Plan			2011/12 to 2013/14	
Work Area	Plan Days (Original)	Plan Days (Revised) (see note)	Actual Days	2011/12 Plan Days	2013/14 Target Days
Assurance work, covering:					
o Core Financial systems	90	90	123	50	50
o Revenues & Benefits Shared Service				85	85
o Core Management arrangements	150	85	98	110	110
o Other systems, projects and management arrangements (based on quarterly review of risk and the assurance framework)	135	200	165	105	105
o Follow-up work	70	70	71	70	70
Sub-Total, Assurance Work	445	445	457	420	420
Ad-hoc advice	65	65	66	65	65
Support (general and project support)	100	58	60	30	30
Efficiency & VFM	50	12	2	30	30
Investigations contingency	60	30	27	30	30
Planning & Monitoring	70	65	55	55	55
Non-audit duties	15	15	16	15	15
General contingency	40	0	0	40	40
Totals	845	690	683	685	685

Note: The 2010/11 audit plan was revised in January 2010 to reflect staffing changes made in the section, resulting in the removal of one Senior Auditor post (1 FTE) from the establishment.

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

This is reflected in the allocation of planned days for 2011/12, a notable addition to the plan being audit work related to the Revenues and Benefits Shared Services arrangements being implemented with Preston City Council.

Customers and Stakeholders

- The Audit Committee
- Chief Financial (s151) Officer and the Monitoring Officer
- Chief Executive, Deputy Chief Executive, Service Heads and Service Managers
- Council
- The Executive Function (Cabinet)
- The Overview & Scrutiny Function
- 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 Management Team, 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 led by the Deputy Chief Executive and including the Section 151 Officer and the Monitoring Officer, 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 Service Heads, the statutory officers and Management Team generally.

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 (3.81 fte), consisting of:	Grade	Planned days provided 2011/12	Target days provided 2012/13
Internal Audit Manager	G8	170	170
Principal Auditor	G5	182	182
Senior Auditor	G4	185	185
Assistant Auditor (0.81 fte)	G3	148	148
Bought in resources (note 1)		0	0
Total resources		685	685

Notes

1. There are no standing arrangements or plans to buy in additional internal audit resources; this position is 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 is supplemented by an internal self-assessment against the Code of Practice.

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 2011/12. In total, the service has been allocated £9,700 for training in 2011/12.

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

Development Areas

- Implementation of a robust internal audit service to the Revenues & Benefits Shared Service with Preston City Council.
- Need to continue 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.
- Increased focus on efficiency, VfM and business improvement.
- Review of internal audit's service delivery in relation to Government proposals to revise local public audit. Also to support any changes in requirements regarding the operation of the Audit Committee.

Risks	Mitigation options
<ul style="list-style-type: none"> ➤ Requirement to cover responsive work (investigations, etc) affects ability to deliver planned work. 	<ul style="list-style-type: none"> ➤ 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.
<ul style="list-style-type: none"> ➤ Internal Audit Manager's role as Deputy s151 Officer and involvement in operational matters could cause a conflict of interest. 	<ul style="list-style-type: none"> ➤ Where there is call for internal audit review and opinion on any area in which the Internal Audit Manager has fulfilled an operational role, this will be managed and reported on by the Principal Auditor.
<ul style="list-style-type: none"> ➤ Lack of skills to undertake specific pieces of work and support new corporate initiatives. ➤ Increasing pressure on internal audit following the government's review of local public audit. 	<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. ➤ Active involvement in developing new audit arrangements, including those of the Audit Committee.

Internal Audit Annual Plan 2011/12

1. ASSURANCE WORK		
CORE FINANCIAL SYSTEMS		
Approach and objectives	Covers the following areas:	Planned Days
<p>Internal audit work in 2011/12 will draw on a comprehensive programme of audit testing developed during 2010/11. The focus will be on those systems (selected from the areas listed alongside) which currently demonstrate higher levels of risk.</p> <p>The objective is to provide assurance that in practice, key system controls are operating securely and efficiently.</p>	<ul style="list-style-type: none"> ➤ Main Accounting ➤ Asset Management ➤ Payroll ➤ Ordering & Payments ➤ Sundry Debtors ➤ Income Management ➤ Treasury Management ➤ Housing Rents 	50
<p>Revenues and Benefits Shared Service</p> <p>A key task for the year is establishing a robust programme of internal audit for the Revenues and Benefits Shared Service with Preston City Council.</p>	<ul style="list-style-type: none"> ➤ Council Tax ➤ Housing Benefit & Council Tax Benefit ➤ National Non-Domestic Rates 	85
CORE MANAGEMENT ARRANGEMENTS		
Approach and objectives	Covers the following areas:	Planned Days
<p>Assurance work in 2011/12 will focus on key corporate systems (selected from the areas listed alongside) with the objectives of:</p> <ul style="list-style-type: none"> ➤ providing assurance that newly introduced arrangements are fit for purpose; ➤ existing arrangements remain robust and reliable; and ➤ helping identify and implement efficiencies and improvement. 	<ul style="list-style-type: none"> ➤ Financial Management ➤ Performance Management ➤ Human Resource Management ➤ Risk Management ➤ Information Management ➤ Corporate Governance ➤ Partnership / Shared Services Arrangements ➤ Procurement & Contract Management ➤ Project and Programme Management ➤ National Fraud Initiative 	110
RISK BASED ASSURANCE WORK PROGRAMME		
Approach and objectives	The following areas are currently in progress or registered as potential audits in 2011/12:	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; ➤ risks are being effectively managed; ➤ value for money is being achieved. 	<ul style="list-style-type: none"> ➤ RMS Partnering Contract ➤ Consultancy Services ➤ Shared Services arrangements 	105

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		420

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 objective is to support the Council in identifying and exploiting opportunities to increase value for money by reviewing strategies, systems and spend when appropriate.</p>		30
<p>Support Work (projects and other support)</p> <p>To provide support and advice to management in the development and implementation of new policies, systems and projects.</p>	<p>Current support areas include:</p> <ul style="list-style-type: none"> ✚ Review of Financial Regulations and Contract Procedure Rules ✚ Risk Management Steering Group ✚ Counter-fraud and corruption arrangements 	30
SUB-TOTAL – CONSULTANCY WORK		125

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>	55
5. CONTINGENCIES		
Work Area and Objectives	This Covers	Planned Days
<p>Investigations</p> <p>Requests to undertake investigative work are irregular and unpredictable</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>	30
<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		685

AUDIT COMMITTEE**Audit Committee Work and Training Programme****29 June 2011****Report of Internal Audit Manager****PURPOSE OF REPORT**

To seek the Committee's views on and adoption of a work and training programme for the 2011/12 municipal year

This report is public

RECOMMENDATIONS

1. That the Committee considers and adopts the draft work programme for the 2011/12 municipal year attached as Appendix A, with any necessary amendments.
2. That the Committee considers the list of potential training topics attached as Appendix B and determines a programme for the year.

1.0 Introduction

- 1.1 The Audit Committee's terms of reference set out the general and specific roles and responsibilities of the Committee. A number of these involve the Committee in considering regular and/or periodic reports which require members to have an understanding of the Council's financial management and corporate governance arrangements. The Audit Committee acts on behalf of Full Council and has, in some instances, responsibility for statutory requirements, for example in approving the annual statement of accounts and the governance statement.

2.0 Proposal Details**Work Programme 2011/12**

- 2.1 A draft work programme is attached as Appendix A. This sets out the expected scheduling of reports to the Committee during the current municipal year. There are some changes to the scheduling resulting from the Accounts and Audit Regulations 2011, which now require the Statement of Accounts to be approved by 30th September rather than 30th June each year. Those reports submitted to meet statutory deadlines are highlighted in the draft schedule.
- 2.2 Members are asked to consider this programme and whether there are any further matters at this stage, relating to the Committee's areas of responsibility, which they would wish to be reported.

Training Programme 2011/12

- 2.3 A list of potential training topics is attached as Appendix B. A suggested priority and possible timescale for delivery has been given to each topic, taking account of the requirements of the draft work programme and the perceived needs of members, particularly those new to the Committee in this municipal year.
- 2.4 Members are asked to consider this programme and form a view on whether the priorities have been set correctly and how and when they would wish to receive any training. The main options identified are:
 - A) as a discrete training session prior to agenda publication;
 - B) as a discrete training session immediately prior to a meeting of the Committee;
 - C) as an initial agenda item during a Committee meeting.

Suggestions as to the most appropriate mode of delivery are included in the appendix.

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 considers, comments upon and adopts a work programme for 2011/12 and an associated training programme. Both of the draft documents are submitted with a view to assisting members in their role and promoting the efficient and effective operation of the Committee during the year.

5.0 Conclusion

- 5.1 Adopting a work programme and associated training programme will assist in the efficient and effective operation of the Committee.

<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>
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<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>

BACKGROUND PAPERS

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Appendix A

Audit Committee – Draft Timetable and Work Schedule 2011/12

	June 2011	September 2011	January 2012	April 2012	Ad-Hoc
Financial		<ul style="list-style-type: none"> Statement of Accounts – for debate and approval 			<ul style="list-style-type: none"> Policy review and approval, e.g. Fin Regs CPR Fraud & Corruption
Governance		<ul style="list-style-type: none"> Governance Review and Annual Governance Statement – for approval 	<ul style="list-style-type: none"> Ombudsman's Annual Review 		
Internal Audit	<ul style="list-style-type: none"> IA Annual Report for 2010/11 Strategic and Annual Plans 2011/12 IA Plan Monitoring Results of IA Work (Note 1) 	<ul style="list-style-type: none"> IA Plan Monitoring Results of IA Work 	<ul style="list-style-type: none"> IA Plan Monitoring Results of IA Work 	<ul style="list-style-type: none"> Strategic and Annual Plans 2012/13 IA Plan Monitoring Results of IA Work 	
External Audit	<ul style="list-style-type: none"> EA Audit Plan (for consideration) External Audit Fee Letter 	<ul style="list-style-type: none"> EA Governance Report and HoFS Letter of Representation 	<ul style="list-style-type: none"> Annual Audit Letter 		
Other				Chairman's Annual Report – submitted to Council	<ul style="list-style-type: none"> Constitutional Amendments Consultations

Note 1: Reports on Internal Audit Plan Monitoring and Results of Audit work are being withheld from this meeting's agenda to allow induction training to be delivered.

Appendix A

Audit Committee – Draft Timetable and Work Schedule 2011/12

	June 2011	September 2011	January 2012	April 2012	Ad-Hoc
Financial		<ul style="list-style-type: none"> Statement of Accounts – for debate and approval 			<ul style="list-style-type: none"> Policy review and approval, e.g. Financial Regs Contract Procedure Rules Anti-Fraud & Corruption
Governance		<ul style="list-style-type: none"> Governance Review and Annual Governance Statement – for approval 	<ul style="list-style-type: none"> Ombudsman's Annual Review 		
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Other				<ul style="list-style-type: none"> Chairman's Annual Report – submitted to Council 	<ul style="list-style-type: none"> Constitutional Amendments Consultations

Note 1: Reports on Internal Audit Plan Monitoring and Results of Audit work are being withheld from this meeting's agenda to allow induction training to be delivered.

Audit Committee Training

Potential Topics

Topic	Priority	Suggested Timescale	Suggested Delivery Method (see note)
1. The Terms of Reference of the Committee and role of members.	H	Overview in Induction Training June 2011	B (Prior to June 2011 Meeting)
2. The regulatory framework within which the authority works, including the audit and inspection programmes that the authority faces.	H		
3. The roles of the auditors, both internal and external , and what the committee can expect from them.	H		
4. The authority's structure of corporate governance and the Audit Committee's place within that structure.	H		
5. The processes behind the presentation of the Annual Governance Statement and how assurances can be obtained as to the effectiveness of the internal control regime.	H	Before September Audit Committee	A
6. The Annual Accounts , their structure and content (key concepts, such as provisions, reserves, bad debts, cash flow and the structure of the balance sheet), in order to be able to question their content and understand the responses to those questions.	H	Before September Audit Committee	A
7. Training in the basic concepts of risk management , including how the risks are identified, measured and mitigated. How risk management relates to performance management and decision making processes.	M	During 2011/12	C
8. The delegated responsibility of Audit Committee to act on behalf of full Council and being charged with governance, its role to support managers in achieving their anti-fraud objectives and making sure that effective actions to counter fraud and corruption take place.	M	During 2011/12	C
9. The structure of local government funding and grants and sources of other income, especially from third parties, e.g. European funding.	L		C
10. The authority's Value for Money (VFM) strategy and how it ensures delivery.	L		C
11. The authority's key partners, including major suppliers on whom the authority is reliant, any specific risks attached to those relationships and how those risks are managed, and how the role of insurance and other risk financing is used within the risk management process.	L		C

Note: Training Delivery Options:

- A) as a discrete training session prior to agenda publication;
- B) as a discrete training session immediately prior to a meeting of the Committee;
- C) as an initial agenda item during a Committee meeting.