



Committee: AUDIT COMMITTEE
Date: WEDNESDAY, 18 APRIL 2012
Venue: MORECAMBE TOWN HALL
Time: 6.00 P.M.

A G E N D A

1. **Apologies for Absence**
2. **Minutes**
Minutes of the meeting held on 15 February 2012 (previously circulated).
3. **Items of Urgent Business authorised by the Chairman**
4. **Declarations of Interest**
5. **External Audit Plan 2011/12 and Certification of Grant Claims and Returns 2010/11**
(Pages 1 - 33)
Report of Head of Financial Services
6. **Internal Audit Strategic and Annual Plans 2012/13** (Pages 34 - 48)
Report of Internal Audit Manager
7. **Regulation of Investigatory Powers Act (RIPA)** (Pages 49 - 75)
Report of Internal Audit Manager
8. **Internal Audit Monitoring** (Pages 76 - 80)
Report of Internal Audit Manager
9. **Results of Internal Audit Work** (Pages 81 - 83)
Report of Internal Audit Manager

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

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

(ii) Substitute Membership

Councillors Roger Dennison, Tim Hamilton-Cox, 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 (01524) 582170, or email memberservices@lancaster.gov.uk

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

Published on Tuesday, 10 April 2012

Audit Committee**External Audit Plan 2011/12 and
Certification of Grant Claims and Returns 2010/11****18th April 2012****Report of Head of Financial Services****PURPOSE OF REPORT**

To inform and seek the Committee's comments on the external auditor's plan for the audit of the 2011/12 accounts and to inform the Committee of the auditor's Certification of Grant Claims and Returns report 2010/11.

This report is public

RECOMMENDATIONS

- (1) **That Members consider and comment on the External Auditor's Audit Plan for 2011/12 as appropriate.**
- (2) **That the Certification of Grant Claims and Returns 2010/11 report is noted.**

1.0 Introduction

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

"To comment on the scope and depth of external audit work and to ensure it gives value for money." (Constitution part 3, section 7, § 8.4)

2.0 External Auditor's Audit Plan for 2011/12

2.1 A copy of the plan is attached for Members' consideration and comment.

3.0 Certification of Grant Claims and Returns 2010/11

3.1 As part of their 2010/11 accounts work, the Council's external auditors KPMG undertook the audit and certification of the following grant claims and returns:

- Housing and Council Tax benefit
- National non-domestic rates
- Housing subsidy base data
- Housing subsidy
- Pooling of housing capital receipts
- Disabled facilities grant

3.2 KPMG's report into the audit is attached for Members' consideration.

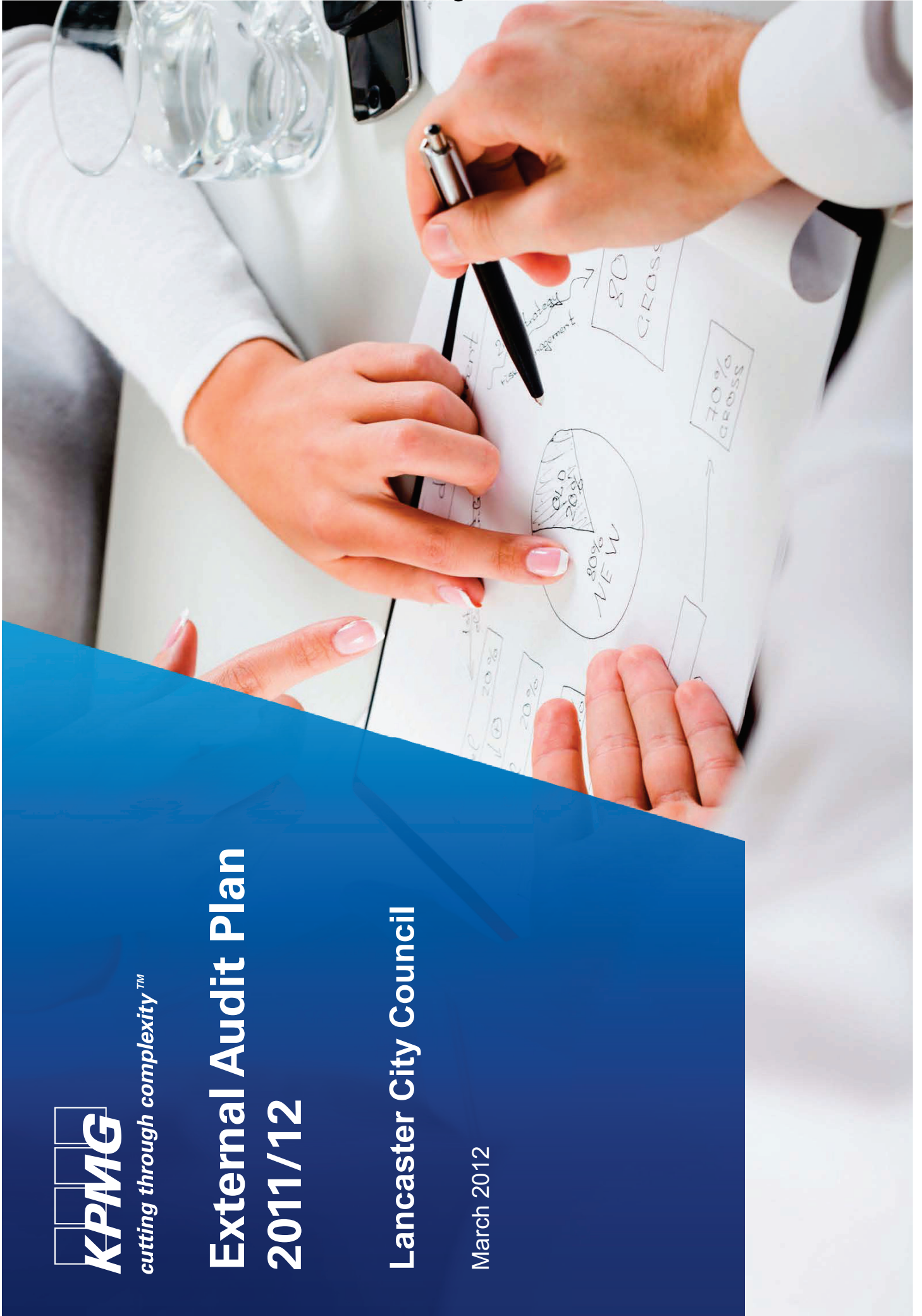
4.0 Details of Consultation

4.1 The proposed Audit Plan 2011/12 and the Certification of Grant Claims and Returns report have been considered by the Council's statutory officers and other members of Management Team.

5.0 Options and Options Analysis (including risk assessment)

5.1 The option available to Members is to comment as desired on the External Auditor's plan. The Certification of Grant Claims and Returns report is presented for noting.

CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing) None identified	
FINANCIAL IMPLICATIONS None directly arising from this report	
SECTION 151 OFFICER'S COMMENTS The Section 151 Officer has been consulted and has no further comments	
LEGAL IMPLICATIONS None directly arising from this report.	
MONITORING OFFICER'S COMMENTS The Monitoring Officer has been consulted and has no further comments	
BACKGROUND PAPERS	Contact Officer: Derek Whiteway Telephone: 01524 582028 E-mail: dwhiteway@lancaster.gov.uk Ref: aud/audcomm/120418/EAPlan



cutting through complexity™

External Audit Plan 2011/12

Lancaster City Council

March 2012

The contacts at KPMG in connection with this report are:

Steve Clark

Director

KPMG LLP

Tel: 0113 231 2910

stephen.clark@kpmg.co.uk

Richard Lee

Manager

KPMG LLP

Tel: 0161 246 4661

richard.lee@kpmg.co.uk

Robbie Chapman

Assistant Manager

KPMG LLP

Tel: 0161 246 4438

robert.chapman@kpmg.co.uk

Page

Report sections

- Introduction 2
- Headlines 3
- Our audit approach 4
- Key financial statements audit risks 9
- VFM audit approach 12
- Audit team, deliverables, timeline and fees 16

Appendices

1. Balance of internal controls and substantive testing 20
2. Independence and objectivity requirements 21
3. Quality assurance and technical capacity 22

This report is addressed to the Authority and has been prepared for the sole use of the Authority. 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 which is available on the Audit Commission's website at www.auditcommission.gov.uk.

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 leader to the Authority (telephone 0113 231 2910, e-mail steve.clark@kpmg.co.uk) who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees (telephone 0161 236 4000, e-mail 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 dissatisfied with your response you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

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

Statutory responsibilities

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 of Audit Practice* 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 Authority.

Scope of this report

This document describes how we will deliver our financial statements audit work for Lancaster City Council. It supplements our *Audit Fee Letter 2011/12* presented to you in September 2011.

We also set out our approach to value for money (VFM) work for 2011/12.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

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.

Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, focusing on the key risks identified this year for the financial statements audit.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 provides further detail on the financial statements audit risks.
- Section 5 explains our approach to VFM work.
- Section 6 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

Acknowledgements

We would like to take this opportunity to thank Officers and Members for their continuing help and co-operation throughout our audit.

We have identified a number of key risks that we will focus on during the audit of the 2011/12 financial statements.

These are described in more detail on pages 9 to 11.

The remainder of this document provides information on our:

- Approach to the audit of the financial statements;
- Approach to Use of Resources/VFM work; and
- Audit team, proposed deliverables, timescales and fees for our work.

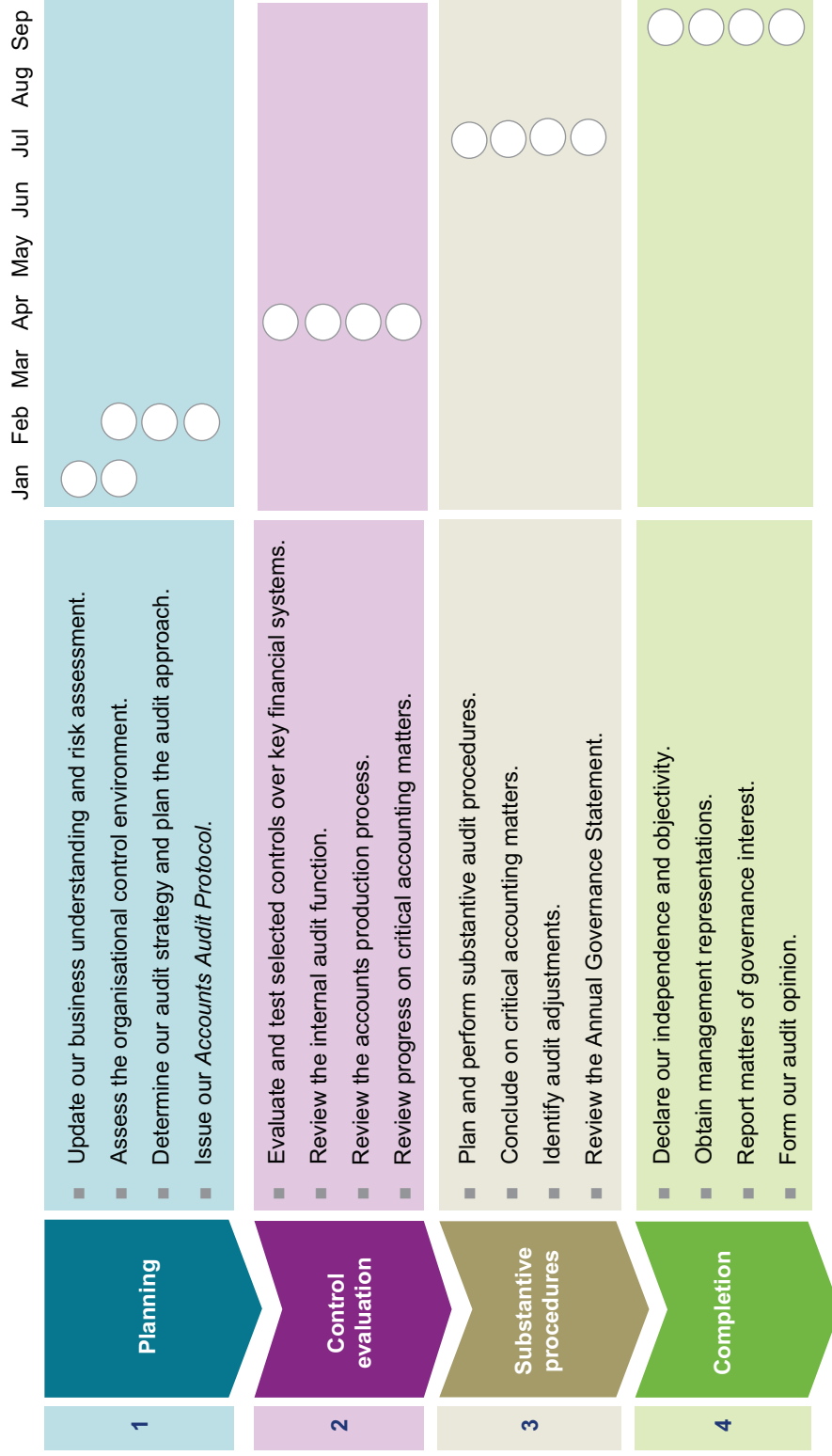
Area	Risk	Audit work
<p>Financial Statements and Annual Governance Statement</p>	<p>Key financial statement risks include:</p> <ul style="list-style-type: none"> • Achievement of savings plans; • Changes to the Code of Practice on Local Government Accounting; and • Future of Lancaster Market. <p>Details of these key audit risks are detailed on pages 9 to 11 of this report.</p>	<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 audit risks identified, addressed through our detailed audit work and discussions with senior finance officers. <p>The findings of this work support the audit opinion that we issue on your financial statements.</p>
<p>Use of Resources/Value for Money Work</p>	<p>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.</p> <p>The new, more focused approach will reduce the volume of audit work required to meet their statutory VFM responsibilities.</p>	<p>Our work will encompass:</p> <ul style="list-style-type: none"> • A risk assessment to identify the amount and focus of local VFM work. • Where applicable, undertaking local VFM work to address the risks identified in the risk assessment.

Section three Our audit approach

We undertake our work on your financial statements in four key stages during 2012:

- **Planning**
(January to February).
- **Control Evaluation**
(April).
- **Substantive Procedures**
(July to August).
- **Completion** (September).

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



Section three

Our audit approach - planning

During January and February we complete our planning work.

We assess the key risks affecting the Authority's financial statements based on our historical and sector knowledge.

We assess if there are any weaknesses in respect of central processes, including the Authority's IT systems, that would impact on our audit.

We determine our audit strategy and approach, and agree a protocol for the accounts audit, specifying what evidence we expect from the Authority to support the financial statements.

Our planning work takes place in January and February 2012. This involves the following aspects:

Planning

- Update our business understanding and risk assessment.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue our *Accounts Audit Protocol*.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit. Most of the organisational controls we assess were previously linked to the use of resources assessments. In particular, the areas risk management, internal control and ethics and conduct have implications for our financial statements audit.

The Authority relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

Audit strategy and approach

The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities.

We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of judgement and is set by the Engagement Lead.

Accounts audit protocol

At the end of our planning work we will issue our Accounts Audit Protocol. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide during our final audit visit (i.e the 'prepared by client' list).

Business understanding and risk assessment

We update our understanding of the Authority's operations and identify any areas that will require particular attention during our audit of the Authority's financial statements.

We identify the key risks affecting the Authority's financial statements. These are based on our knowledge of the Authority, our sector experience and our ongoing dialogue with Authority staff. The risks identified to date are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Authority's responsibility to adequately address these issues. We encourage the Authority to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

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.

Section three

Our audit approach – control evaluation

During April we complete our interim work.

We assess if controls over key financial systems were effective during 2011/12.

We work with your finance team to enhance the efficiency of the accounts audit.

We will issue our *Interim Management Letter* in April.

Our interim visit will be completed during the week commencing 16 April 2012. During this time we will complete work in the following areas:

Control Evaluation

- Evaluate and test controls over key financial systems.
- Review the internal audit function.
- Review the accounts production process.
- Review progress on critical accounting matters.

Controls over key financial systems

We update our understanding of the Authority's key financial processes where these are relevant to our final accounts audit. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Appendix 1 illustrates how we determine the most effective balance of internal controls and substantive audit testing.

Review of internal audit

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

Accounts production process

We raised a number of recommendations in our *Report to Those Charged with Governance (ISA 260) 2010/11*.

We will assess the Authority's progress in addressing our recommendations.

Critical accounting matters

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

Following our interim visit we will issue our *Interim Management Letter* which will set out the findings of our planning and interim work.

Our audit approach – substantive procedures

During July we will be on-site for our substantive work.

We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.

We also review the Annual Governance Statement for consistency with our understanding.

We will present our *Report to those charged with governance (ISA 260)* to Audit Committee in September.

Our final accounts visit on site has been provisionally scheduled to start on 16 July 2012. During this time, we will complete the following work:

Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify audit adjustments.
- Review the Annual Governance Statement.

Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the Authority's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

Critical accounting matters

We conclude our testing of the key risk areas as identified at the planning stage and any additional issues that may have emerged since.

Audit adjustments

During our on site work, we will meet with the Head of Financial Services to discuss the progress of the audit, any differences found and any other issues emerging.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Audit Committee. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and 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.

We report the findings of our final accounts work in our *Report to those charged with governance (ISA 260)*.

In addition to the financial statements, we also audit the Authority's Whole of Government Accounts pack. We may need to undertake additional work if we receive objections to the accounts from local electors.

We will communicate with you throughout the year, both formally and informally.

Our independence and objectivity responsibilities under the Code are summarised in Appendix 2.

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

Whole of government accounts (WGA)

We are required to review and issue an opinion on your WGA consolidation to confirm that this is consistent with your financial statements. The audit approach has been agreed with HM Treasury and the National Audit Office.

Electoral 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 the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission's fee scales.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our deliverables are included on page 17.

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 lead and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define '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 the date of this report 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.

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


We will provide an update on these risks areas in our *Report to Those Charged with Governance 2011/12 (ISA260)*.

Key audit risks	Impact on audit
<div style="text-align: center;"> <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ Reserves and balances ■ Provisions ■ Financial standing </div>	<p>Risk</p> <p>The Authority's 2011/12 budget included a range of cost saving targets identified in response to government funding cuts</p> <p>As at December 2011 the Authority was forecasting that it would deliver its 2011/12 budget, with an under spend of £37,000.</p> <p>The Authority has set a balanced budget for 2012/13 but currently estimates that an additional £408,000 of savings will be required for 2013/14 and £440,000 in 2014/15.</p> <p>For many Authorities it is likely to become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability.</p> <p>Our audit work</p> <p>In conjunction with our VFM work we will critically assess the controls the Authority has in place to ensure a sound financial standing, specifically that its Medium Term Financial Strategy has duly taken into consideration the potential funding reductions and that it is sufficiently robust to ensure that the Authority can continue to provide services effectively. We will also review how the Authority is planning and managing its savings plans.</p> <p>As part of our final accounts audit we will review the Authority's assessment of any potential liabilities arising from its savings plans against the Code. If applicable, we will review the Authority's provision, including the methodology, assumptions and calculations.</p> <p>Any restructuring liabilities at 31 March 2012 year end will need to be accounted for in the 2011/12 financial statements as appropriate.</p>

Key financial statements audit risks (continued)

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


We will provide an update on how the Authority is these risks areas in our *Report to those charged with governance 2011/12 (ISA260)*.

Key audit risks	Impact on audit
	<p>Risk</p> <p>The 2011/12 <i>Local Government Accounting Code of Practice ("the Code")</i> includes a number of accounting changes, including a new requirement to carry 'heritage assets' at valuation. Heritage assets include historical buildings, museum and gallery collections and works of art.</p> <p>The 2011/12 Code also clarifies requirements in a number of areas where ambiguity was identified in the 2010/11 Code. The Authority needs to review and appropriately address Code changes in its 2011/12 financial statements.</p> <p>Our audit work</p> <p>As part of our interim work we will review the Authority's approach to addressing the Code changes.</p> <p>As part of our final accounts audit we will review the appropriateness of the accounting entries and disclosures in the accounts.</p>

Section four Key financial statements audit risks (continued)

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

We will provide an update on how the Authority is these risks areas in our *Report to those charged with governance 2011/12 (ISA260)*.

Key audit risks	Impact on audit
 <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ Non Current Assets ■ Long term liabilities ■ Financial standing ■ VFM 	<p>Risk</p> <p>The Authority currently leases the Lancaster Market on a long term lease from Allied (Lancaster) Limited. During the year, Members have taken the decision to review the current lease arrangements with a view to negotiating a surrender of this lease.</p> <p>It is likely that any successful negotiation will result in a significant payment to break the current lease. The Council must ensure that it fully understands the implications of surrendering the lease from both a financial statements and financing perspective.</p> <p>Similarly, the Council must be able to demonstrate that any actions taken represent value for money.</p> <p>Our audit work</p> <p>Management have agreed to prepare a paper setting out the proposed course of action for surrendering the Market Lease.</p> <p>Insofar as any proposals impact on the 2011/12 statements, we will review the Council's proposals and critically appraise any underlying assumptions on which the plans are based.</p> <p>We will review the proposed accounting treatments to ensure that these are in line with the relevant accounting standards and the Code of Practice.</p> <p>In addition, in forming our Value for Money conclusion we will consider whether the Council's proposals represent an appropriate use of the Council's resources</p>

Our approach to VFM work follows guidance provided by the Audit Commission.

Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below.

Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing financial resilience .	The organisation has robust systems and processes to: <ul style="list-style-type: none"> ■ manage effectively financial risks and opportunities; and ■ secure a stable financial position that enables it to continue to operate for the foreseeable future. 	<ul style="list-style-type: none"> ■ Financial governance ■ Financial planning ■ Financial control
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness .	The organisation is prioritising its resources within tighter budgets, for example by: <ul style="list-style-type: none"> ■ achieving cost reductions; and ■ improving efficiency and productivity. 	<ul style="list-style-type: none"> ■ Prioritising resources ■ Improving efficiency and productivity

Section five VFM audit approach (continued)

We will follow a risk based approach to target audit effort on the areas of greatest audit risk.

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.



Each of these stages are summarised further below.

VFM audit stage	Audit approach
VFM audit risk assessment	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; information from the Audit Commission's VFM profile tool and financial ratios tool; evidence gained from previous audit work, including the response to that work; and the work of the Audit Commission, other inspectorates and review agencies.

Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

We will then form an assessment of residual audit risk to identify the areas where more detailed VFM audit work is required.

VFM audit stage	Audit approach
<p>Linkages with financial statements and other audit work</p>	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
<p>Assessment of residual audit risk</p>	<p>It is likely that further audit work will be necessary in some areas to ensure comprehensive coverage of the two VFM criteria.</p> <p>This work will involve a range of interviews with relevant officers, and review of documents such as policies, plans and minutes. We will also refer to any self assessment the Authority may prepare against the characteristics.</p> <p>To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion.</p> <p>At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted.</p>
<p>Identification of specific VFM audit work</p>	<p>If we identify residual audit risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> ■ considering the results of work by the Authority, the Audit Commission, other inspectorates and review agencies; and ■ carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Where relevant, we draw upon the range of audit tools and review guides developed by the Audit Commission.

We will report on the results of the VFM audit through our *Report to those charged with governance 2011/12 (ISA260)*.

VFM audit stage	Audit approach
<p>Delivery of local risk based work</p>	<p>Depending on the nature of the residual audit risk identified, we will be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as:</p> <ul style="list-style-type: none"> ■ local savings review guides based on selected previous Audit Commission national studies; and ■ update briefings for previous Audit Commission studies. <p>The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.</p>
<p>Concluding on VFM arrangements</p>	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
<p>Reporting</p>	<p>We will report on the results of the VFM audit through our <i>Report to those charged with governance 2011/12 (ISA 260)</i>. This report will summarise our progress in delivering the VFM audit, the results of the risk assessment and any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p>

Our audit is unchanged from prior year. Contact details are shown on page 1.

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



Steve Clark
Engagement Lead

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



Richard Lee
Manager

Richard will be the key point of contact for accounting issues and questions. Richard will raise key audit issues with management as they arise and report our findings to the Audit Committee. He will be the main contact for the Head of Financial Services.



Robbie Chapman
Assistant Manager

Robbie will be the day-to-day contact and will work closely with Richard to deliver a coordinated and efficient audit.

Section five Audit deliverables

At the end of each stage of our audit we issue certain deliverables, including reports and opinions.

These will be delivered to a high standard and on time.

We will discuss and agree each report with the Authority's officers prior to publication.

Deliverable	Purpose	Committee dates
Planning		
Financial Statements Audit Plan	<ul style="list-style-type: none"> Outline audit approach. Identify areas of audit focus and planned procedures. 	April 2012
Control evaluation		
Interim Management Letter	<ul style="list-style-type: none"> Provide details of control and process issues. Identify improvements required prior to the issue of the draft financial statements and the year-end audit. 	
Substantive procedures		
Report to Those Charged with Governance (ISA 260 Report)	<ul style="list-style-type: none"> Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Authority's value for money arrangements. 	September 2012
Completion		
Auditor's report	<ul style="list-style-type: none"> Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion). 	September 2012
Whole of Government Accounts (WGA) report	<ul style="list-style-type: none"> Providing an opinion on your Whole of Government Accounts return. 	September 2012
Annual Audit Letter	<ul style="list-style-type: none"> Summarises the outcomes and the key issues arising from our audit work for the year. 	November 2012

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

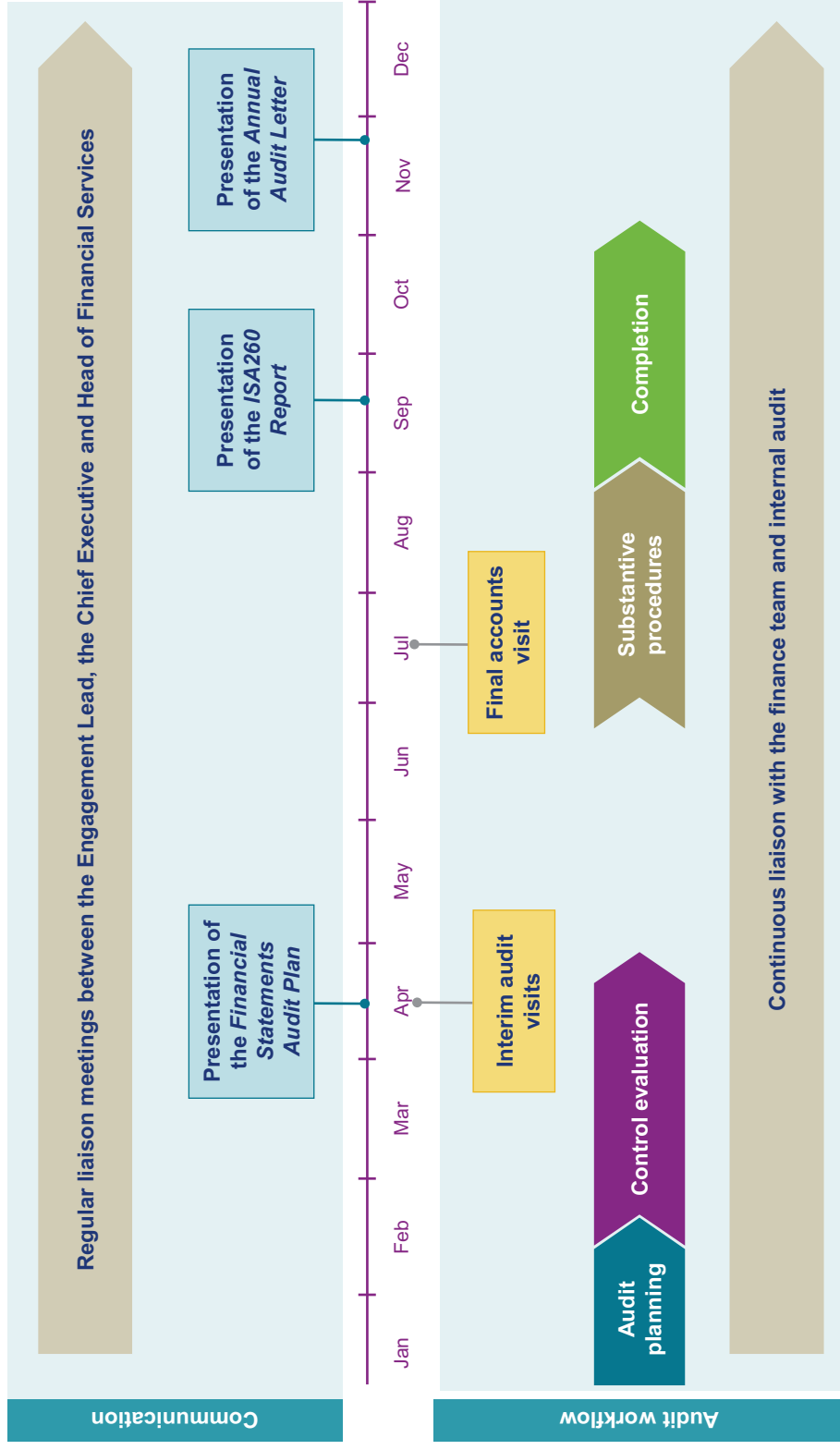
Key formal interactions with the Audit Committee are:

- April - *Financial Statements Audit Plan*;
- September - *Report to those charged with governance (ISA 260)*;
- November - *Annual Audit Letter*.

We work with the finance team and internal audit throughout the year.

Our main work on site will be our:

- Interim audit visits during April.
- Final accounts audit during July.



The audit fee for 2011/12 is £128,250. The fee is unchanged from the *Audit Fee Letter 2011/12* we issued in September 2011.

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

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

The fee for our 2010/11 grants work was reported via our summary report on the *Certification of Grants and Returns 2010/11* which was issued to officers in February 2012.

Audit fee

We presented our *Audit Fee Letter 2011/12* to you in April 2011. We have not considered it necessary to make any changes to the agreed fees.

	2011/12 (planned)	2010/11 (actual)
Core audit fee	£128,250	£135,000
Less: Audit Commission rebate	(£10,260)	(£8,351)
Total	£117,990	£126,649

The audit fee for 2011/12 is £128,250, which covers our work on the financial statements and forming our value for money conclusion. The Audit Commission continues to issue rebates to local authorities and the rebate for 2011/12 is £10,260.

Audit fee assumptions

The audit fee is indicative and based on you meeting our expectations. 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 2010/11;
- 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 in the UK 2011/12* within your 2011/12 financial statements;

- you will comply with the expectations set out in our Accounts Audit Protocol, including:
 - the financial statements are made available for audit in line with the agreed timescales;
 - 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 adheres to our joint working protocol; 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.

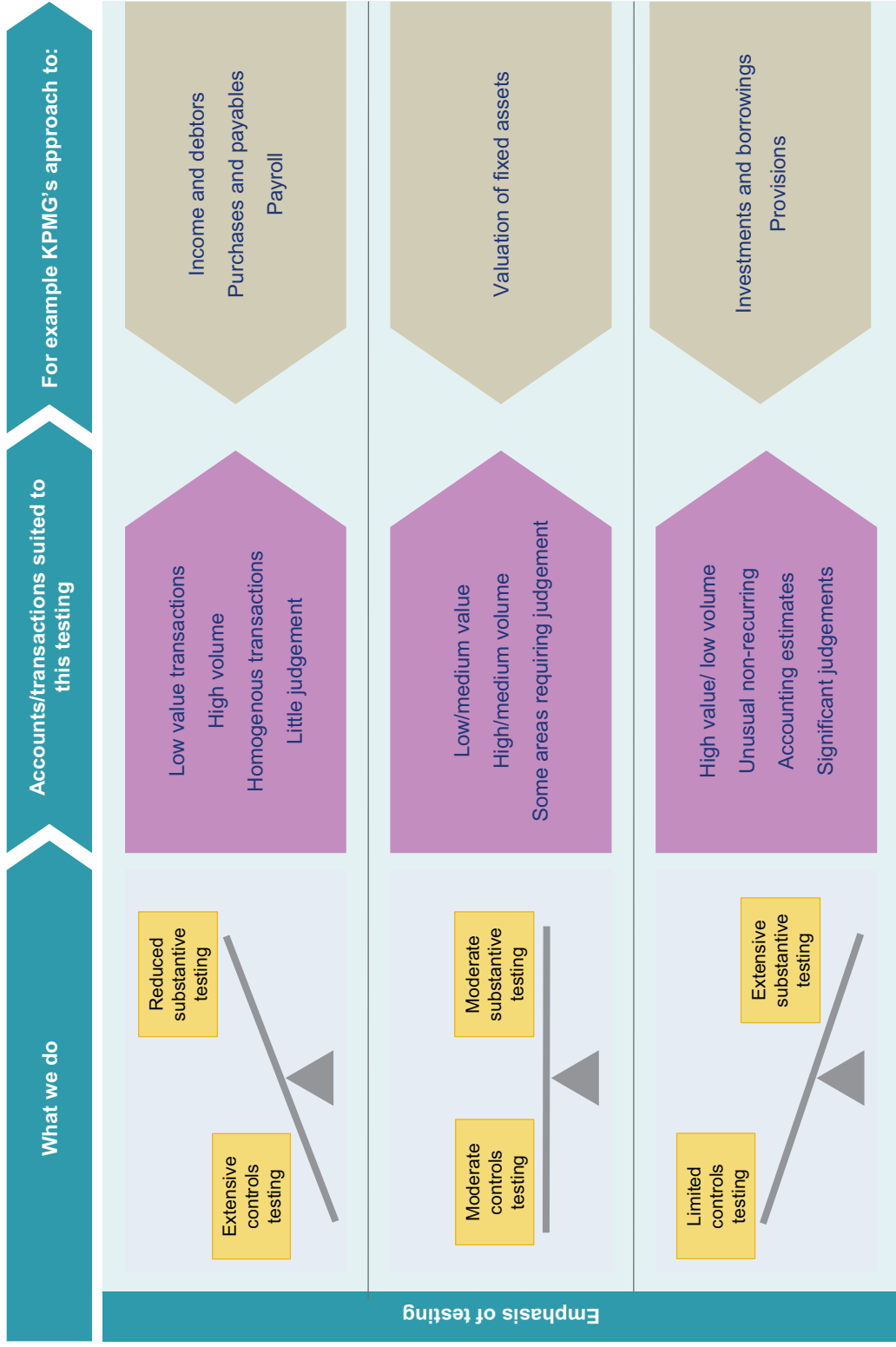
Changes to the audit plan

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.

Appendix 1: Balance of internal controls and substantive testing

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



Appendix 2: 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 Authority 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 Engagement Lead.
- 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 3: 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.

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.

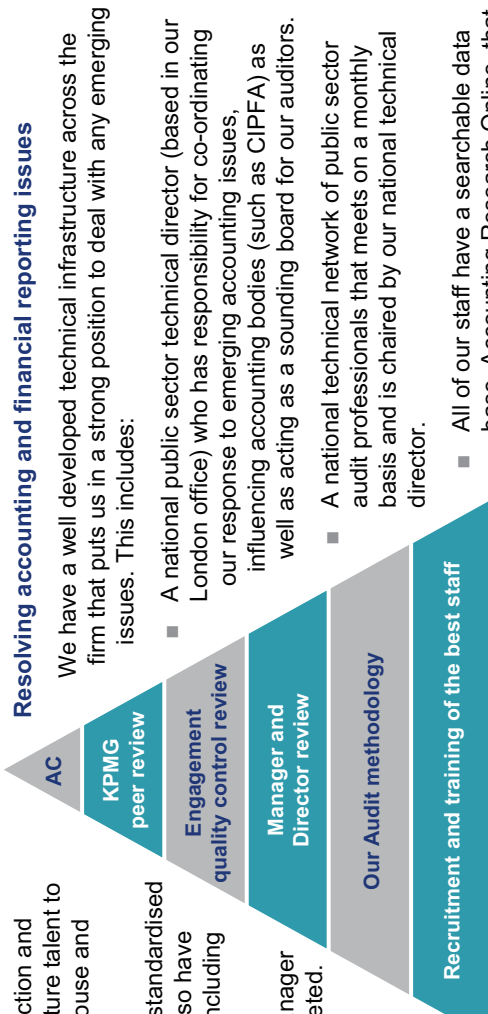
Our audit methodology determines that we use a standardised audit approach and pro forma work papers. We also have standards of audit evidence and working papers including requirements for working paper retention.

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.

Engagement Leads 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 the 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 2011 showed that we performed highly against all the Commission's criteria.



Resolving accounting and financial reporting issues

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) as well as acting as a sounding board for our auditors.
- A national technical network of public sector audit professionals that meets on a monthly 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.



cutting through complexity™

© 2012 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (KPMG International), a Swiss entity. All rights reserved.

The KPMG name, logo and 'cutting through complexity' are registered trademarks or trademarks of KPMG International Cooperative (KPMG International).



cutting through complexity™

Certification of grants and returns 2010/11

Lancaster City Council
February 2012

The contacts at KPMG
in connection with this
report are:

Steve Clark
Director

Tel: 0113 231 2910
steve.clark@kpmg.co.uk

Richard Lee
Manager

Tel: 0161 246 4661
richard.lee@kpmg.co.uk

	Page
■ Headlines	2
■ Summary of certification work outcomes	3
■ Fees	5
■ Follow up of prior year recommendations	6

This report is addressed to the Authority and has been prepared for the sole use of the Authority. 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 leader to the Authority (telephone 0113 231 2910, e-mail steve.clark@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees (telephone 0161 236 4000, e-mail 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 Unit, 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.

<p>Introduction and background</p>	<p>This report summarises the results of work on the certification of the Council’s 2010/11 grant claims and returns.</p> <ul style="list-style-type: none"> ■ For 2010/11 we certified: <ul style="list-style-type: none"> – One grant with a total value of £653,000; and – Five returns with a total value of £84.3m. 	
<p>Certification results</p>	<p>We issued unqualified certificates for five grants and returns but qualifications were necessary in one case.</p> <ul style="list-style-type: none"> ■ The qualification related to the Housing and Council Tax Benefits Subsidy claim (BEN01) where two instances of underpayment were identified with a total value of £190.06. The claim was not adjusted for these errors in line with the Audit Commission’s guidelines. ■ In 2009/10 we qualified one return. 	<p>Pages 3 – 4</p>
<p>Audit adjustments</p>	<p>Adjustments were necessary to two of the Council’s grants and returns as a result of our certification work this year.</p> <ul style="list-style-type: none"> ■ Adjustments with a total value of £3,353 were made to the Housing and Council Tax Benefits Subsidy claim. These related to overpayments that were identified through our test work. ■ Adjustments were made to the Housing Subsidy Base Data Return (HOU02) in order to correct the property numbers analysis and disclosure or premiums and discounts. ■ In 2009/10 adjustments were required to two grant claims and returns. 	<p>Pages 3 – 4</p>
<p>Fees</p>	<p>Our overall fee for the certification of grants is £37,285 which is in line with our original estimate.</p> <ul style="list-style-type: none"> ■ The number of grants and returns requiring certification in 2010/11 has reduced in comparison to the prior year. However additional work around the Housing and Council Tax Benefit Subsidy claim was required due to errors being identified. This resulted in our fee being higher than our original estimate for this claim. Officers are aware of the reasons for this additional work and have agreed to take any reasonable steps to reduce the impact in future years. This will however be within the context of the number and value of errors against the total claim, the time, resources and costs involved, and the expected welfare reforms. ■ Our fees for the certification of grants and returns have been agreed with the Council’s officers. 	<p>Page 5</p>
<p>The Council’s arrangements</p>	<p>The Council has good arrangements in place for preparing its grants and returns and supporting our certification work. Adjustments that have been made are generally as a result of errors in the underlying data as opposed to issues with the Council’s arrangements for preparing grant claims and returns.</p>	

Overall, we certified six grants and returns:

- Four were unqualified with no amendment;
- One was unqualified but required some amendment to the final figures; and
- One required a qualification to our audit certificate. This claim was also amended.

Detailed comments are provided overleaf.

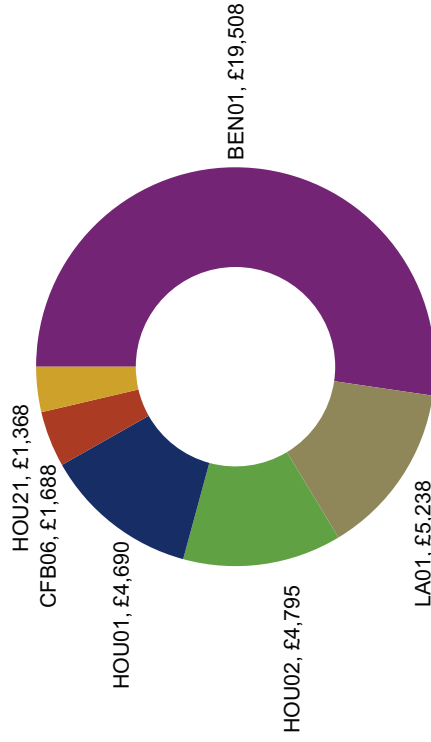
Detailed below is a summary of the key outcomes from our certification work on the Council's 2010/11 grants and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate.

A qualification means that issues were identified concerning the Council's compliance with a scheme's requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Council to satisfy itself that the full amounts of grant claimed are appropriate.

	Comments overleaf	Qualified certificate	Significant adjustment	Minor adjustment	Unqualified certificate
Housing and council tax benefit	1				
National non-domestic rates					
Housing subsidy base data	2				
Housing Subsidy					
Pooling of housing capital receipts					
Disabled facilities grant					
		1	0	1	5

Our overall fee for the certification of grants and returns was £37,285. This is in line with our original estimate.

Breakdown of certification fees 2010/11



Breakdown of fee by grant/return		
	2010/11 (£)	2009/10 (£)
Housing and Council Tax Benefit (BEN01)	19,507.50	13,170.00
National Non Domestic Rates (LA01)	5,237.50	5,565.00
Housing Subsidy Base Data (HOU02)	4,795.00	4,838.00
Housing Subsidy (HOU01)	4,690.00	4,927.00
Pooling of Housing Capital Receipts (CFB01)	1,687.00	1,739.00
Disabled Facilities Grant (HOU21)	1,367.50	1,395.00
NWDA claims (RG34)	-	12,825.00
Total fee	37,285.00	44,459.00

Our initial estimated fees for certifying 2010/11 grants and returns was £38,000. Our actual fee charged was £37,285.

Whilst our fee is broadly in line with our estimate, the number of claims and returns requiring certification is lower than in the prior year.

During the certification of the Housing and Council Tax Benefit Subsidy claim we identified a number of issues and errors in the initial claim. This resulted in significant additional test work being required and the claim being adjusted and qualified. Consequently our fees for this claim are higher than in 2009/10.

We have agreed our fees with officers and discussed all issues identified as part of our certification work.

We made one recommendation in our '2009/10 Certification of Grants and Returns' report. We have followed up the status of this recommendation below.

Priority rating for recommendations		
<p>1 Issues that are fundamental and material to your overall arrangements for managing grants and returns or compliance with scheme requirements. We believe that these issues might mean that you do not meet a grant scheme requirement or reduce (mitigate) a risk.</p>	<p>2 Issues that have an important effect on your arrangements for managing grants and returns or complying with scheme requirements, but do not need immediate action. You may still meet scheme requirements in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p>3 Issues that would, if corrected, improve your arrangements for managing grants and returns or compliance with scheme requirements in general, but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>
Prior year recommendation		
<p>1 Amendments to the Luneside East Grant The grant required revision following mistakes made during compilation of the grant claim. Stage 1 expenditure was initially incorrectly included in the first version submitted for audit, due to lack of clarity over what required audit by the grant paying body. The Council should ensure that clarity is sought from the grant paying body over its audit requirement prior to grant claims being compiled for audit. This is particularly important where grants do not fall under a specific grant audit regime.</p>	<p>2</p>	<p>Status: Claim not certified in 2010/11.</p>
		<p>Priority Status as at February 2012</p>



cutting through complexity™

© 2012 KPMG Audit Plc, a UK public limited company, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.

The KPMG name, logo and 'cutting through complexity' are registered trademarks or trademarks of KPMG International Cooperative (KPMG International).

AUDIT COMMITTEE

Internal Audit Strategic and Annual Plans 2012/13

18 April 2012

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 2012/13

This report is public

RECOMMENDATIONS

1. That the Internal Audit Strategic Plan for 2012/13 to 2014/15 is approved.
2. That the Internal Audit Annual Operational Plan for 2012/13 is 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 Plan 2012/13 to 2014/15

- 2.1 The draft Internal Audit Strategic Plan is attached at Appendix A.
- 2.2 A key strategic theme for internal audit in the past two financial years has been to support the council’s change programme by assisting where possible with the implementation of the new service structures. With ongoing structural and cultural change within the organisation, this focus remains and is included again in the proposed strategic plan.
- 2.3 As new structures, systems and working practices settle in and develop, the ongoing change programme continues to provide an opportunity to review the efficiency of

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

business processes and to revisit and develop standards of governance, internal control and conduct in the organisation.

Internal Audit Annual Plan 2012/13

- 2.4 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.
- 2.5 The annual plan for 2012/13 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 again been estimated as requiring 15 days. This gives a net allocation to audit activity of 670 days.
- 2.6 At the time of writing, work is ongoing to develop a detailed programme of audit assignments. Aligned with the finalisation of the Corporate Plan and the development of 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 2012/13.

4.0 Options and Options Analysis (including risk assessment)

- 4.1 The proposal is that the Committee approves both the draft Internal Audit Strategic Plan 2012/13 to 2014/15 and the Internal Audit Annual Plan for 2012/13. 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

Contact Officer: Derek Whiteway
Telephone: 01524 582028
E-mail: dwhiteway@lancaster.gov.uk
Ref: aud/cte/aud/120418/IAPans



Promoting City, Coast & Countryside

LANCASTER CITY COUNCIL INTERNAL AUDIT STRATEGIC PLAN

2012/13 TO 2014/15

SUBMITTED TO AUDIT COMMITTEE 18/04/2012

PREPARED BY THE INTERNAL AUDIT MANAGER

March 2012

Revision History

Date of this revision:

Revision Date	Summary of Changes	Version
March 2012	Initial Draft	0.01

Distribution

Name	Title
Management Team and Audit Committee	

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

* This purpose also relates to Preston City Council with regards to the audit by Lancaster's Internal Audit of the Revenues and Benefits Shared Service arrangements.

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					
	2011/12 Plan			2012/13 to 2014/15	
Work Area	Plan Days (Original)	Plan Days (Revised) (note 1)	Actual Days	2012/13 Plan Days	2014/15 Target Days
Assurance work, covering:					
o Core Financial systems	50	108	119	60	60
o Revenues & Benefits Shared Service	85	107	113	85	85
o Core Management arrangements	110	30	28	110	110
o Other systems, projects and management arrangements (based on quarterly review of risk and the assurance framework)	105	192	203	135	135
o Follow-up work	70	60	56	60	60
Sub-Total, Assurance Work	420	497	519	450	450
Ad-hoc advice	65	55	52	65	65
Support (general and project support)	30	40	38	30	30
Efficiency & VFM (Note 2)	30	-	-	-	-
Investigations contingency	30	9	9	30	30
Planning & Monitoring	55	61	69	55	55
Non-audit duties	15	15	20	15	15
General contingency	40	18	0	40	40
Totals	685	695	707	685	685

Notes:

1. Revised plan following Audit Committee on 15th February 2012.
2. In practice, efficiency and VfM considerations are built in to the majority of assurance audits. The budget is therefore being amalgamated within the assurance work section of the plan.

Customers and Stakeholders
<ul style="list-style-type: none"> ➤ The Audit Committee ➤ Chief Financial (s151) Officer and the Monitoring Officer ➤ 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) ➤ Preston City Council Audit Committee and the Revenues & Benefits Shared Service' Management Board

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 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

Identifying and accommodating significant local and national issues

- 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 2012/13	Target days provided 2013/14
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. A further review will be due as part of the 2011/12 external audit.

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 2012/13. In total, the service has been allocated £10,000 for training in 2012/13.

Future Development and Risk Analysis (To be focused on a three year horizon)	
Development Areas	
<ul style="list-style-type: none"> ➤ Continued development of the internal audit service to the Revenues & Benefits Shared Service with Preston City Council. ➤ Impact of further Shared Services or joint delivery arrangements throughout the organisation. ➤ Impact of legislative changes in financial systems, especially proposals for Welfare Reform, localisation of NDR and Council Tax relief. ➤ Need to continue to consider and address the potential impact of reduced financial resources on: <ul style="list-style-type: none"> ○ The robustness of financial systems; ○ The increased potential for fraud and corruption; ○ The requirements to achieve efficiencies and savings. ○ Changes in culture, systems and governance arrangements ➤ Development of capacity and skills to be able to actively support the council's efficiency programme. ➤ Increased focus on efficiency 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"> ➤ Consultation with service managers and the HR manager to clarify the objectives and scope of any investigations. ➤ Consider relevant use of the Service's 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. 	<ul style="list-style-type: none"> ➤ Continuing development of staff through the EDPA process. Review of the competency framework. ➤ Consider relevant use of the Service's existing consultancy budget.

Risks	Mitigation options
<ul style="list-style-type: none">➤ Potential for increasing pressure on internal audit following the government's review of local public audit.	<ul style="list-style-type: none">➤ Ongoing consultation with external and auditor to manage roles and deployment fo resources.➤ Active management of staff development issues.➤ Active involvement in developing new audit arrangements, including those of the Audit Committee.

Internal Audit Annual Plan 2012/13

(Submitted to Audit Committee, 18 April 2012)

1. ASSURANCE WORK

CORE FINANCIAL SYSTEMS		
Approach and objectives	Covers the following areas:	Planned Days
<p>Internal audit work in 2012/13 will draw on a comprehensive programme of audit testing developed during 2010/11 and 2011/12.</p> <p>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 remain robust and 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 	60
<p>Revenues and Benefits Shared Service</p> <p>During the initial year of the shared service's operation, a wide ranging programme of audit work was undertaken. The planned audit programme for 2012/13 and beyond will draw on the results and be more focused and risk-based.</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 2012/13 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 2012/13:	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"> ➤ Inventories ➤ Complaints system ➤ Festival Market Rents 	135

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.	60
SUB-TOTAL – ASSURANCE WORK		450

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>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 ➤ Information Management Group ➤ Counter-fraud and corruption arrangements 	30
SUB-TOTAL – CONSULTANCY WORK		95

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**Regulation of Investigatory Powers (RIPA)****18 April 2012****Report of Internal Audit Manager****PURPOSE OF REPORT**

To advise Members of the Council's current position regarding the use of surveillance and of the outcome of a recent inspection by the Office of the Surveillance Commissioner. Also to seek Members' endorsement of the current RIPA Policy and approve arrangements for future monitoring of activity.

This report is public

RECOMMENDATIONS

- (1) That the Council's current RIPA Policy is endorsed.
- (2) That details of any future use made of RIPA is included in the Internal Audit Manager's regular monitoring reports to the Audit Committee.

1.0 Introduction

- 1.1 Part II of the Regulation of Investigatory Powers Act 2000 (RIPA) governs public authorities' use of covert surveillance and of "covert human intelligence sources" (CHIS).
- 1.2 The legislation was introduced to ensure that individuals' rights are protected while also ensuring that law enforcement and security agencies have the powers they need to do their job effectively.
- 1.3 RIPA requires that when a Council undertakes "directed surveillance" or uses a CHIS, these activities must be authorised in advance and can only be authorised by an officer with delegated powers when the relevant criteria are satisfied.
- 1.4 The Council's current policy is attached as Appendix A.
- 1.5 The Home Office's most recent guidance¹ recommends that, to attain best practice:

"...elected members of a local authority should review the authority's use of the 2000 Act and set the policy at least once a year. They should also consider internal reports on use of the 2000 Act on at least a quarterly basis to ensure that it is being used consistently with the local authority's policy and that the policy remains fit for purpose."

¹ *Guide on Covert Surveillance and Property Interference (2010)*

2.0 Report

Council Policy and Positioning on Surveillance

- 2.1 The Council's policy, entitled "The Regulation of Investigatory Powers Act 2000 – A Working Policy" was originally established in 2000 in response to the legislation and has undergone minor updates since. The latest update was made recently following an inspection visit by Sir David Clarke on 1st February 2012.
- 2.2 The only purpose for which local authorities are able to rely on RIPA is where the authorisation is necessary *"for the purpose of preventing and detecting crime and disorder"*.
- 2.3 The Council's "statement of intent" as expressed in the policy is:
"The Council's policy and practice in respect of RIPA is to comply fully with the law and strike a fair and proportionate balance between the need to carry out covert surveillance in the public interest and the protection of an individual's fundamental right to privacy. The Council acknowledges that this policy is very much a living document and will be reviewed and updated in line with the best guidance and advice current at the time."

Control and Monitoring

- 2.4 Public bodies are required to formally establish responsibility for approving RIPA authorisations and the Council has set this at Service Head level and above, there being no downward delegation available.
- 2.5 The Head of Governance is the Council's designated "Senior Responsible Officer" in relation to RIPA and thereby responsible for the integrity of the Council's processes, compliance with legislation and engagement with the Commissioners and inspectors. The Head of Governance is assisted in this role by the Senior Solicitor.
- 2.6 The Internal Audit Manager performs the role of RIPA Co-ordinator, maintaining the required "central record" of authorisations, monitoring the review, renewal and cancellation of authorisations and performing a quality control role on the paperwork.

Recent Activity and Performance

- 2.7 The Council has never authorised the use of a CHIS. Use made of RIPA in recent years to authorise directed surveillance is summarised in the following table:

Purpose of Surveillance	Number of authorisations					
	2007	2008	2009	2010	2011	2012
Alleged Benefit fraud	3	-	1	-	-	-
Alleged noise nuisances – Digital Audio Tape (DAT) recording equipment used	11	4	2	-	-	-
Alleged property nuisance	-	1	-	-	-	-
Alleged vehicle damage – CCTV used.	-	-	1	-	-	-
Internal investigation – suspected email abuse	-	-	1	-	-	-
Operation to combat dog fouling	-	-	-	-	-	1
Total of Directed Surveillance Authorisations	14	5	5	0	0	1

- 2.8 The above table demonstrates that the Council has taken a measured approach to its use of RIPA. The most significant development in recent years has been to cease the practice of taking out a RIPA authorisation when investigating alleged noise nuisances. This move was made following advice from the OSC, that authorisation is unnecessary where subjects are informed of the allegation and the Council's intention to use recording equipment.
- 2.9 The authorisation relating to a specific targeted operation to combat dog fouling was taken out on 19th March 2012 to cover a one week period. A verbal update on the outcomes from this operation will be given at the meeting.
- 2.10 As well as being responsible for managing its own authorisations, the Council may also facilitate Police investigations through the targeted use of the CCTV installation. In such cases the CCTV Supervisor ensures that the Police have a valid authorisation in place before deploying the CCTV cameras in this way.

Results of Inspections (Office of the Surveillance Commissioner OSC)

- 2.11 The Council has been visited by an Assistant Surveillance Commissioner on four occasions since the legislation was introduced, in October 2002, March 2006, February 2009 and most recently on 1st February 2012. A copy of the latest inspection report is attached as Appendix B.
- 2.12 It is pleasing to note that, aside from two minor points raised by the Assistant Commissioner concerning paperwork and the policy (which were immediately attended to), the Council has received a very positive report on its arrangements.

3.0 Details of Consultation

- 3.1 None.

4.0 Options and Options Analysis (including risk assessment)

- 4.1 Option 1 – The Home Office's recommended best practice as set out in §1.5 can be met if Members endorse the Council's RIPA Policy, the supporting structures and procedures and the Council's current approach to engaging in surveillance activity. As regards ongoing monitoring, details of RIPA use can be routinely included in the Internal Audit Manager's quarterly monitoring reports to Audit Committee.
- 4.2 Option 2 – Members may wish to consider whether any alternative arrangements to those currently in place are appropriate.
- 4.3 Given the positive report received from the Assistant Commissioner and the continuing limited extent to which the Council engages in surveillance, Option 1 is felt to be appropriate at the current time and is the preferred option.

5.0 Conclusion

- 5.1 Members are asked to consider and endorse the Council's RIPA Policy and approve arrangements for the Committee to receive future reports on relevant activity.

CONCLUSION OF IMPACT ASSESSMENT

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

Not applicable

FINANCIAL IMPLICATIONS

None directly arising from this report

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

None arising from the report.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

Contact Officer: Derek Whiteway
Telephone: 01524 582028
E-mail: dwhiteway@lancaster.gov.uk
Ref: aud/comm/audit/180412RIPA



THE REGULATION OF INVESTIGATORY POWERS ACT 2000 –

A WORKING POLICY

The Purpose of this Policy

1. The purpose of this policy is to:
 - ❑ explain the provisions of the Regulation of Investigatory Powers Act 2000 (RIPA);
 - ❑ provide guidance and give advice to those Services undertaking covert surveillance; and
 - ❑ ensure full compliance with RIPA and a Council-wide consistent approach to its interpretation and application.

Introduction to RIPA

2. RIPA came into force on 25th September 2000 to regulate covert investigations by a number of bodies, including local authorities. It was introduced to ensure that individuals' rights are protected while also ensuring that law enforcement and security agencies have the powers they need to do their job effectively.

Lancaster City Council is therefore included within the 2000 Act framework with regard to the authorisation of both Directed Surveillance and the use of Covert Human Intelligence Sources (CHIS)

3. In summary the 2000 Act requires that when a Council undertakes "directed surveillance" or uses a "covert human intelligence source" these activities must only be authorised by an officer with delegated powers when the relevant criteria are satisfied.
4. Authorisation for both types of surveillance may be granted by an authorising officer where it is believed that the authorisation is necessary and the authorised surveillance is proportionate to that which is sought to be achieved:

An authorisation may be granted only where the Authorising Officer believes that the authorisation is necessary in the circumstances of the particular case::

"For the purpose of preventing and detecting crime and disorder"

5. The background to RIPA is the Human Rights Act 1998, which imposes a legal duty on public authorities to act compatibly with the European Convention on Human Rights (ECHR). Article 8(1) of the ECHR gives a right to respect for private and family life, the home and correspondence. However, this is qualified by Article 8(2) which provides that there shall be no interference by a public authority with the exercise of this right except such as in accordance with the law and is necessary in a democratic society in the interests of national security, public safety or the economic well-being of the country, for the prevention of disorder or crime, for the protection of health or morals, or for the protection of the rights and freedoms of others. RIPA was enacted so as to incorporate the provisions of Article 8(2) in English law, and to establish a means by which a public authority may interfere with privacy rights in accordance with the law. The objective is to give protection to the Council and any officer involved in an investigation. The scheme of RIPA is to state that an authorisation for covert surveillance shall be lawful for all purposes, but that such an authorisation may only be granted if the authorising officer believes that what is proposed is necessary and proportionate (see paragraphs 35 and 36 below).
6. If the authorisation procedures introduced by RIPA are followed, they afford protection to the Council and to investigating officers in respect of challenges to the admissibility of evidence, claims under the Human Rights Act 1998, and complaints to the Local Government Ombudsman or the Investigatory Powers Tribunal.
7. The Act is supported by statutory Codes of Practice, the most recent versions of which were published in 2010 and are available on the Council's intranet. These are the 'Covert Surveillance and Property Interference' Code of Practice and the 'Covert Human Intelligence Sources' (CHIS) Code of Practice. RIPA requires the Council to have regard to the provisions of the Codes which are admissible as evidence in criminal and civil proceedings and must be taken into account by any court or tribunal.

Office of Surveillance Commissioners

8. In May 2001 an Inspectorate was formed within the Office of Surveillance Commissioners (OSC) to assist the 'Chief Surveillance Commissioner' keep under review the exercise and performance of the powers and duties conferred or imposed by RIPA. The most recent Procedures and Guidance document was issued by the Chief Surveillance Commissioner in December 2011, and is available on the Council's intranet.
9. RIPA requires public authorities to disclose or provide to the Chief Surveillance Commissioner all such documents and information as he may require for the purpose of enabling him to carry out his functions.

Statement of intent

10. The Council's policy and practice in respect of RIPA is to comply fully with the law and strike a fair and proportionate balance between the need to carry out covert surveillance in the public interest and the protection of an individual's fundamental right to privacy. The Council acknowledges that this policy is very much a living document and will be reviewed and updated in line with the best guidance and advice current at the time.

PART 1: AN EXPLANATION OF THE KEY PROVISIONS OF RIPA

What is meant by ‘surveillance’?

11. ‘Surveillance’ includes:
- a) monitoring, observing or listening to persons, their movements, their conversations or their other activities or communication;
 - b) recording anything monitored, observed or listened to in the course of surveillance; and
 - c) surveillance by or with the assistance of a surveillance device.

When is surveillance ‘covert’?

12. According to RIPA, surveillance is covert if, and only if, it is carried out in a manner that is calculated to ensure that persons who are subject to the surveillance are unaware that it is or may be taking place. If activities are open and not hidden from the subjects of an investigation, the 2000 Act framework does not apply.

What is ‘directed surveillance’ or when is surveillance ‘directed’?

13. Surveillance is directed if it is ‘covert’ but *not* ‘intrusive’ (see below) and is undertaken:
- a) for the purposes of a specific investigation or a specific operation;
 - b) in such a manner as is likely to result in the obtaining of private information about a person (whether or not that person is specifically identified for the purposes of the investigation or operation); and
 - c) otherwise than by way of an immediate response to events or circumstances the nature of which is such that it would not be reasonably practicable for an authorisation to be sought for the carrying out of the surveillance.
14. Essentially, therefore, directed surveillance is any:
- (1) pre-planned surveillance activity;
 - (2) undertaken covertly;
 - (3) for the purposes of a specific investigation;
 - (4) in such a way that is *likely* to result in obtaining private information about a person.

15. Is it for the purposes of a specific investigation or operation?

For example, are CCTV cameras which are readily visible to anyone walking around a Council car park covered?

The answer is not if their usage is to monitor the general activities of what is happening in the car park. If that usage changes at any time the 2000 Act may apply.

For example, if the CCTV cameras are targeting a particular known individual, and are being used in monitoring his activities, that has turned into a specific operation which will require authorisation.

16. **Is it in such a manner that is likely to result in the obtaining of private information about a person?**

'Private information' in relation to a person, includes any information relating to his private or family life. Private information should be taken generally to include any aspect of a person's private or personal relationship with others, including family and professional or business relationships. Whilst a person may have a reduced expectation of privacy when in a public place, covert surveillance of that person's activities in public may still result in the obtaining of private information. This is likely to be the case where that person has a reasonable expectation of privacy even though acting in public and where a record is being made by a public authority of that person's activities for future consideration.

If it is likely that observations will not result in the obtaining of private information about a person, then it is outside the 2000 Act framework. However the use of "test purchasers" may involve the use of covert human intelligence sources (see paras 98-99)

17. **'Immediate response....'**. According to the Covert Surveillance Code of Practice, "covert surveillance that is likely to reveal private information about a person but is carried out by way of an immediate response to events such that it is not reasonably practicable to obtain an authorisation under the 2000 Act would not require a directed surveillance authorisation." For example, a police officer would not require an authorisation to conceal himself and observe a suspicious person that he came across in the course of a patrol.

However, if as a result of an immediate response, a specific investigation subsequently takes place, that brings it within the 2000 Act framework.

18. **What is meant by 'intrusive surveillance' or when is surveillance 'intrusive'?**

Surveillance becomes intrusive if the covert surveillance :

- a) is carried out in relation to anything taking place on any **'residential premises'** or in any **'private vehicle'**; or a **"place for legal consultation"**; and
- b) involves the presence of an individual on the premises or in the vehicle or is carried out by means of a surveillance device; or
- c) is carried out by means of a surveillance device in relation to anything taking place on any residential premises or in any private vehicle but is carried out without that device being present on the premises or in the vehicle, and the device is such that it **consistently provides information of the same quality and detail** as might be expected to be obtained from a device actually present on the premises or in the vehicle.

The definition of surveillance as intrusive relates to the location of the surveillance, and not to other consideration of the nature of the information that is expected to be obtained. Officers of the Council are unlikely to have access to any “place of legal consultation”, but should seek advice from legal Services on the detailed definition.

19. **‘Residential premises’** is defined to include any premises as is for the time being occupied or used by any person, however temporarily, for residential purposes or otherwise as living accommodation. For example, the definition includes hotel rooms. It, however, does not include so much of any premises as constitutes any common area to which a person is allowed access in connection with his use or occupation of any accommodation. For example, a hotel lounge.
20. **‘Private vehicle’** means any vehicle which is used primarily for private purposes, for example, for family, leisure or domestic purposes. It therefore does not include taxis i.e. private hire or hackney carriage vehicles.

Why is it important to distinguish between directed and intrusive surveillance?

21. It is imperative that officers understand the limits of directed surveillance or, put another way, recognise when directed surveillance becomes intrusive surveillance because **RIPA does not permit local authorities to undertake intrusive surveillance in any circumstances.**

What is a ‘covert human intelligence source’ (CHIS)?

22. According to RIPA a person is a CHIS if:
 - a) he **establishes or maintains a personal or other relationship** with a person for the **covert purpose** of facilitating the doing of anything falling within paragraph b) or c).
 - b) he covertly uses such a relationship to **obtain information** or provide access to any information to another person; or
 - c) he covertly discloses information obtained by the use of such a relationship or as a consequence of the existence of such a relationship.
23. A CHIS is effectively an inside informant or undercover officer, someone who develops or maintains their relationship with the surveillance target, having the covert purpose of obtaining or accessing information for the investigator.
24. A **purpose is covert**, in relation to the establishment or maintenance of a personal or other relationship, if and only if the relationship is conducted in a manner that is calculated to ensure that one of the parties to the relationship is unaware of the purpose.
25. It is not clear whether **‘information’** is restricted to private information in line with directed surveillance. The inference is there, but it is not clear. If in doubt, the Council’s policy is to obtain an authorisation.
26. RIPA also makes reference to the use of a CHIS which refers to inducing, asking or assisting a person to engage in the conduct of a CHIS, or to obtain information by means of the conduct of such a CHIS.

PART 2: GENERAL AUTHORISATION REQUIREMENTS

The authorisation requirements

27. RIPA requires that prior authorisation is obtained by all local authorities using directed surveillance and CHIS techniques.
28. Except in urgent cases (see later), the authorising officer must give authorisations in writing and a separate authorisation is required for each investigation.
29. Whilst according to RIPA, a single authorisation may combine two or more different authorisations (for example, directed surveillance and CHIS), the provisions applicable in the case of each of the authorisations must be considered separately. Because combining authorisations may cause confusion, officers must use separate forms for different authorisations.
30. The purpose of the authorisation is to comply with the Human Rights Act 1998 by providing lawful authority to carry out surveillance. This is why an authorisation must be obtained where the surveillance is likely to interfere with a person's Article 8 rights to privacy by obtaining private information about that person, whether or not that person is the subject of the investigation or operation. If the surveillance is then actually carried out in accordance with the authorisation, it will not be open to challenge.

Who can authorise the use of covert surveillance?

31. To give effect to RIPA, (1) **Service Heads** have been designated to authorise the use of directed surveillance and CHIS techniques in respect of external investigations and (2) **the Monitoring Officer** is authorised to sanction the use of such covert surveillance in respect of internal officer/Member investigations.
32. It should also be noted that in accordance with the relevant Regulations, the designation of Service Heads to sanction the use of RIPA regulated covert surveillance extends upwards to the Deputy Chief Executive and the Chief Executive. This is in accordance also with the Council's own Constitution.
33. Ideally, authorising officers should not be responsible for authorising their own activities i.e. those operations/investigations in which they are directly involved. However, the Codes of Practice recognise that this may sometimes be unavoidable, especially in the case of small organisations, or where it is necessary to act urgently.

Justification for covert surveillance

34. In order to use covert surveillance (both directed surveillance and a CHIS) lawfully the person granting the authorisation (i.e. the authorising officer) will have to demonstrate that the surveillance is both '**necessary**' and '**proportionate**' to meet the objective of the prevention or detection of crime or of prevention of disorder

The necessity test

35. RIPA first requires that the authorising officer must be satisfied that the authorisation is necessary, in the circumstances of the particular case, for the prevention and detection of crime, or prevention of disorder. This is the only statutory ground on which local authorities are now able to carry out directed surveillance and use a CHIS. However, anti-social behaviour may reasonably be assumed to be included in the meaning of “disorder”. Covert surveillance cannot be “necessary” unless, in that particular case, there is no reasonably available overt method of discovering the desired information.

The proportionality test

36. Then, if the activities are necessary, the authorising officer must be satisfied that they are proportionate to what is sought to be achieved by carrying them out. This involves balancing the intrusiveness of the activity on the target and others who might be affected by it against the need for the activity in operational terms. The activity will not be proportionate if it is **excessive** in the circumstances of the case or if the information which is sought could reasonably be obtained by other less intrusive means. All such activity should be carefully managed to meet the objective in question and must not be arbitrary or unfair.

CHIS – additional requirements

37. In addition, there are further criteria in relation to CHIS authorisations. Namely, that specific arrangements exist to ensure that, amongst other things, the source is independently managed and supervised, that records are kept of the use made of the source, that the source’s identity is protected from those who do not need to know it, and that arrangements also exist to satisfy such other requirements as may be imposed by an Order made by the Secretary of State.
38. RIPA provides that an authorising officer must not grant an authorisation for the use or conduct of a source unless he believes that arrangements exist that satisfy these requirements. In this regard, the particular attention of authorising officers is drawn to paragraph 6.14 of the CHIS Code of Practice concerning the security and welfare of a CHIS and the need to carry out a **risk assessment**.
39. ***The Regulation of Investigatory Powers (Source Records) Regulations 2000 (SI No. 2725)*** details the particulars that must be included in the records relating to each CHIS. The authorising officer should comment on all these aspects in his “comments” box, as he may have to justify the fact that he has taken account of these requirements and made an appropriate provision to comply.

Collateral Intrusion

40. Before authorising surveillance the authorising officer should also take into account the risk of intrusion into the privacy of persons other than those who are directly the subjects of the investigation or operation (particularly when considering the proportionality of the surveillance). This is referred to as collateral inclusion, and the following should be considered::
- I. measures should be taken, wherever practicable, to avoid or minimise unnecessary intrusion into the privacy of those not directly connected with the investigation or operation;

- II. an application for an authorisation should include an assessment of the risk of any collateral intrusion and the authorising officer should take this into account, when considering the proportionality of the surveillance;
- III. those carrying out the surveillance should inform the authorising officer if the investigation or operation unexpectedly interferes with the privacy of individuals who are not covered by the authorisation; and
- IV. when the original authorisation may not be sufficient, consideration should be given to whether the authorisation needs to be amended and reauthorised or a new authorisation is required.

Local community 'sensitivities'

- 41. Any person applying for or granting an authorisation will also need to be aware of what the Codes of Practice refer to as "*any particular sensitivities in the local community*" where the surveillance is taking place or of similar activities being undertaken by other public authorities which could impact on the deployment of surveillance.

PART 3: DIRECTED SURVEILLANCE AUTHORISATION REQUIREMENTS

Applications for directed surveillance authorisation

- 42. Except in urgent cases (see below), applications for authorisation to carry out directed surveillance must be made in **writing** using the **standard Application Form** available on the Council's intranet.

Duration of directed surveillance authorisations

- 43. A written authorisation granted by an authorising officer will cease to have effect (unless renewed) at the end of a period of **three months** beginning with the day on which it took effect.

Reviews of directed surveillance authorisations

- 44. Regular reviews of authorisations should be undertaken to assess the need for the surveillance to continue. Particular attention is drawn to the need to review authorisations frequently where the surveillance provides access to '**confidential information**' (see below) or involves collateral intrusion.
- 45. Authorisations must be reviewed by the authorising officer therefore **at least monthly** using the **standard Review Form** available on the Council's intranet to ensure that they remain in force only for so long as it is necessary.

Renewals of directed surveillance authorisations

- 46. If at any time before an authorisation would cease to have effect, the authorising officer considers it necessary for the authorisation to continue for the purpose for which it was given, he may renew it in writing **for a further period of three months** using the **standard Renewal Form** available on the Council's intranet. The same conditions attach to a renewal of surveillance as to the original authorisation.
- 47. A renewal takes effect at the time at which, or day on which the authorisation would have ceased to have effect but for the renewal. An application for renewal should not be made until **10 working days** before the authorisation period is drawing to an end.

48. Any person who would be entitled to grant a new authorisation can renew an authorisation. Authorisations may be renewed more than once, provided they continue to meet the criteria for authorisation.

Cancellation of directed surveillance authorisations

49. The authorising officer who granted or last renewed the authorisation **must** cancel it using the **standard Cancellation Form** available on the Council's intranet if he is satisfied that the directed surveillance no longer meets the criteria upon which it was authorised. Authorisations should not be allowed to simply expire.
50. Where the authorising officer is no longer available, this duty will fall on the person who has taken over the role of authorising officer or the person who is acting as authorising officer (*see the Regulation of Investigatory Powers (Cancellation of Authorisations) Order 2000; SI No: 2794*).
51. If the authorising officer is on sick or annual leave or is otherwise unable to cancel the authorisation for good reason, the Deputy Chief Executive may cancel the authorisation or in her absence any other officer designated to grant authorisations may cancel the authorisation.

Ceasing of surveillance activity

52. As soon as the decision is taken that directed surveillance should be discontinued, the instruction must be given to those involved to stop all surveillance of the subject(s). The date and time when such an instruction was given should be recorded in the notification of cancellation where relevant (see standard cancellation form).

Urgent cases - oral authorisations

54. The authorising officer must give authorisations in writing, except that in urgent cases grants or renewals may be given **orally** by the authorising officer. In such cases, a statement that the authorising officer has expressly authorised the action should be **recorded in writing** by the applicant as soon as is reasonably practicable.
55. Also as soon as reasonably practicable, the applicant is required to regularise the situation by sending a completed Application Form to the authorising officer who gave the oral authorisation for him to add his comments (including the reasons why the authorising officer considered the case so urgent that an oral instead of a written authorisation was given) and sign-off the authorisation section.
56. If the surveillance is to cease at this stage, the applicant is required to send both a completed Application Form and a Cancellation Form to the authorising officer. The authorising officer is then required to sign-off the authorisation to evidence the oral grant of the authorisation but also complete the Cancellation Form.
57. Urgent oral authorisations cease to have effect after **seventy-two hours**, beginning with the time when the grant of the authorisation takes effect. A renewal form will be required if the surveillance is to continue.

58. Renewals may also be granted orally in urgent cases and last for a period of **seventy-two hours** beginning with the time when the renewal takes effect.
59. According to the Covert Surveillance Code of Practice, a case is not normally to be regarded as urgent unless the time that would elapse before the authorising officer was available to grant the authorisation would, in the judgement of the person giving the authorisation, be likely to **endanger life or jeopardise the investigation or operation** for which the authorisation was being given. An authorisation is not to be regarded as urgent where the need for an authorisation has been neglected or the urgency is of the authorising officer's own making.

Confidential information

60. RIPA does not provide any special protection for '**confidential information**'. The Codes of Practice, however, do provide additional safeguards for such information. Confidential information consists of matters subject to **legal privilege; confidential personal information** (information relating to the physical or mental health or spiritual counselling of a person who can be identified from it) or **confidential constituent information** (relating to communications between a Member of Parliament and a constituent in respect of constituency matters) or **confidential journalistic material** (material acquired or created for the purposes of journalism and held subject to an undertaking to hold it in confidence). Further details about these categories of confidential information are set out in the Codes themselves, and advice can be obtained from Legal Services.
61. Special care should be taken if there is a likelihood of acquiring any confidential information. Such authorisations should only be granted in exceptional and compelling circumstances with full regard to the proportionality issues such surveillance raises.
62. In accordance with the provisions of the Code, in cases where through the use of the surveillance it is likely that knowledge of confidential information, the use of surveillance must be authorised by the **Chief Executive**. In the Chief Executive's absence only the Deputy Chief Executive may authorise such surveillance.
63. If, exceptionally, any Council investigation is likely to result in the acquisition of confidential material, officers are required to **obtain the prior approval of Legal Services** before applying for an authorisation.
64. If confidential material is acquired during the course of an investigation, the following general principles apply:
- confidential material should not be retained or copied unless it is necessary for a lawful purpose;
 - confidential material should be disseminated only where an officer (having sought advice from the Legal Services Manager) is satisfied that it is necessary for a lawful purpose;
 - the retention or dissemination of such information should be accompanied by a clear warning of its confidential nature. It should be safeguarded by taking reasonable steps to ensure that there is no possibility of it becoming available, or its content being known, to any person whose possession of it might prejudice any criminal or civil proceedings related to the information; and

- confidential material should be destroyed as soon as it is no longer necessary to retain it for a specified purpose.

PART 4: CHIS AUTHORISATION REQUIREMENTS

65. Generally speaking, the authorisation requirements for directed surveillance also apply to a CHIS authorisation. There are, however, some variations.

Duration of CHIS authorisations

66. A written CHIS authorisation granted by an authorising officer will cease to have effect (unless renewed) at the end of a period of **twelve months** beginning with the day on which it took effect.

Renewal of CHIS authorisations

67. An authorising officer may renew a CHIS authorisation in writing **for a further period of twelve months**.
68. The same conditions attach to a renewal of surveillance as to the original authorisation. However, before renewing an authorisation for the use or conduct of a CHIS, officers are required to carry out a review of the use made of that source, the tasks given to that source and the information so obtained.

CHIS forms

69. Standard **CHIS Application; Review; Renewal, and Cancellation Forms** are available on the Council's intranet. Officers are required to use these forms in the appropriate circumstances.

Vulnerable individuals

70. In accordance with the CHIS Code Practice, a '**vulnerable person**' should only be authorised to act as a CHIS in the most exceptional circumstances and must be authorised by the **Chief Executive**. Legal advice should be always be sought, and in the Chief Executive's absence only the Deputy Chief Executive may authorise a vulnerable person to act as a CHIS. A 'vulnerable individual' is a person who is or may be in need of community care services by reason of mental or other disability, age or illness and who is or may be unable to take care of himself, or unable to protect himself against significant harm or exploitation.

Juvenile sources

71. Special safeguards also apply to the use or conduct of juvenile sources; that is sources under the age of 18 years. Legal advice should be always be sought. On no occasion should the use or conduct of a CHIS under 16 years of age be authorised to give information against his parents or any person who has parental responsibility for him. In other cases, authorisations should not be granted unless the special provisions contained within ***The Regulation of Investigatory Powers (Juveniles) Order 2000 (SI No. 2793)*** are satisfied. Authorisations for juvenile sources must be authorised by the **Chief Executive** and only in his absence can the Deputy Chief Executive or Service Heads grant authorisations. The duration of such an authorisation is **one month only** instead of the usual twelve months.

PART 5: OTHER AUTHORISATION REQUIREMENTS**Central Record of all authorisations**

72. The Codes of Practice provide that a centrally retrievable record of all authorisations should be held by each public authority and regularly updated whenever an authorisation is granted, reviewed, renewed or cancelled. The record should be made available to the relevant Commissioner or an Inspector from the Office of Surveillance Commissioners (OSC), upon request. These records will be retained for a period of at least three years from the ending of the authorisation and will comprise of the information prescribed in the Codes.
73. The Council will also maintain a record of specified documentation relating to authorisations as further required by the Codes.
74. To give effect to these requirements Internal Audit have set up, and will maintain, a central recording and monitoring system. **Authorising officers are required to e-mail all completed RIPA forms to Internal Audit within two working days** of the grant; review; renewal; or cancellation of the authorisation so that the Council's central recording and monitoring systems can be kept up to date. **Authorising officers are also required to send a copy of all RIPA forms to the Head of Governance, as Monitoring Officer** so that a central register of RIPA forms can be maintained.
75. Authorising officers should however ensure that original RIPA forms are kept on the investigation case file and stored securely.
76. To assist Services, Internal Audit has set up an e-mail alert facility for authorisations. That is, Internal Audit will e-mail authorising officers 14 days before an authorisation is due to expire reminding them to either renew the authorisation if it is necessary for the surveillance to continue or to cancel the authorisation by completing the appropriate form.
77. In addition, the **Monitoring Officer** will receive **periodic status reports** from Internal Audit to enable her to be satisfied that RIPA authorisation requirements are being complied with.

Retention and destruction of the product of surveillance

78. Where the product of surveillance could be relevant to pending or future criminal or civil proceedings, it should be retained in accordance with established disclosure requirements for a suitable period, commensurate to any subsequent review.
79. The Codes of Practice draw particular attention to the requirements of the code of practice issued under the **Criminal Procedure and Investigations Act 1996**. This requires that material which is obtained in the course of a criminal investigation and which may be relevant to the investigation must be recorded and retained.
80. Where material is obtained by surveillance, which is **wholly unrelated** to a criminal or other investigation or to any person who is the subject of the investigation, and there is no reason to believe it will be relevant to future civil or criminal proceedings, it should be **destroyed immediately**. Consideration of whether or not unrelated material should be destroyed is the responsibility of the authorising officer.

81. There is nothing in RIPA which prevents material obtained from properly authorised surveillance from being used in other investigations. Each Service must ensure that arrangements are in place for the handling, storage and destruction of material obtained through the use of covert surveillance. Authorising officers must ensure compliance with the appropriate data protection requirements relating to the handling and storage of material.

Acting on behalf of another

82. In cases where one agency is acting on behalf of another, it is usually for the tasking agency to obtain or provide the authorisation. For example, where surveillance is carried out by the Police with the use of the Council's CCTV systems, an authorisation must be obtained by the Police. For audit purposes, written confirmation of having obtained a directed surveillance authorisation must be kept by the **Head of Property Services** in a central file.

PART 6: PRACTICAL APPLICATION OF RIPA

Who is affected by RIPA?

83. As the Council has already recognised in respect of the application of the **Human Rights Act 1998**, RIPA will impact on the enforcement activities of all the Council's regulatory Services. These activities include:

- benefit fraud;
- noise nuisance;
- licensing (in particular, taxi and premises licensing);
- measures taken to combat anti-social behaviour;
- the full range of environmental health enforcement activity (for example, food safety and health and safety at work);
- enforcement of the Council's Houses in Multiple Occupation Registration Scheme and other private sector housing enforcement functions; and
- the use of CCTV in general.

A public authority may only engage RIPA when in performance of its "core functions" in contrast to the "ordinary functions" which are undertaken by all authorities (eg employment and contractual matters). Accordingly, the disciplining of an employee is not a core function, although related criminal investigations may be.

'general observation vs. 'systematic surveillance'

84. According to the Covert Surveillance Code of Practice "General observation duties of many law enforcement officers and other public authorities do not require authorisation under the 2000 Act". For example, police officers will be on patrol to prevent and detect crime, maintain public safety and prevent disorder or trading standards or HM Customs and Excise officers might covertly observe and then visit a shop as part of their enforcement function to verify the supply or level of supply of goods or services that may be liable to a restriction or tax. Such observation may involve the use of equipment to merely reinforce normal sensory perception, such as binoculars, or the use of cameras, where this does not involve systematic surveillance of an individual.

85. The clear view expressed therefore is that usually low-level activity such as general observation will **not** be regulated under the provisions of RIPA provided it does not involve the systematic surveillance of an individual. That said, the determination of what constitutes 'general observation' on the one hand and 'systematic surveillance' on the other is a question of fact, the determination of which is not always straightforward and depends on the particular circumstances of an individual case.
86. In practice, the issue will turn on whether the covert surveillance is *likely* to result in obtaining any information in relation to a person's private or family life, whether or not that person is the target of the investigation or operation. If in doubt you are strongly recommended to obtain an authorisation.

'covert' vs. 'overt' surveillance

87. In accordance with the Council's usual practice, wherever possible and appropriate Services should give advance warning of their intention to carry out surveillance. This is because the provisions of RIPA regulate the use of covert surveillance only. In some cases a written warning may itself serve to prevent the wrongdoing complained of.
88. However, in order to properly put a person on notice that he is or may be the subject of surveillance, the notification letter must be couched in sufficiently precise terms so that he knows what **form** the surveillance will take (i.e. record of noise; photographs etc.). In fact, in line with directed surveillance requirements, notification letters should state **how long** the surveillance is likely to last (which should not be longer than three months); the necessity for the surveillance should be **reviewed at least monthly**; if it is necessary to continue the surveillance beyond the initial specified period a **renewal letter** should be sent to the 'noisy' neighbour, for example, and he should be informed when the surveillance has ceased.
89. It is also important to instruct the investigating officer not to exceed the limits of the 'surveillance' he has been asked to carry out.
90. Whilst it is accepted that the definition of 'covert' set out in RIPA could be interpreted very broadly, it is suggested that whether the surveillance activity is covert or not depends on the investigator's intention and conduct. If there is some element of **secrecy** or **concealment** the activity is likely to be covert.
91. Wherever possible or appropriate, officers should be **open; obvious and overt**.

CCTV

92. Overt CCTV systems used for general purposes are **not** usually regulated by RIPA (but CCTV in general is regulated by the **Data Protection Act 1998** and the **CCTV Code of Practice** issued by the Office of the Information Commissioner). If, however, CCTV systems are used to **track individuals** or **specific locations** and the surveillance is pre-planned (i.e. not an immediate response to events or circumstances which by their very nature, could not have been foreseen) a **directed surveillance** authorisation must be obtained.

Recognising a CHIS

93. The provisions of RIPA are not intended to apply in circumstances where members of the public volunteer information to the police or other authorities, as part of their normal civic duties, or to contact numbers set up to receive

information (such as Crimestoppers, Customs Confidential, the Anti Terrorist Hotline, or the Security Service Public Telephone Number). Members of the public acting in this way would not generally be regarded as sources.

94. However, when an informant gives repeat information about a suspect or about a family, and it becomes apparent that the informant may be obtaining the information in the course of a family or neighbourhood relationship, this probably means that the informant is a CHIS, to whom a duty of care is owed if the information is then used, even though he or she has not been tasked by the authority to obtain information on its behalf.

95. The use of professional witnesses to obtain information and evidence is clearly covered.

“.....establishing or maintaining a personal or other relationship.....”

96. Whilst the meaning of “...establishing or maintaining a personal or other relationship...” is not clear and is open to interpretation, it is suggested that there has to be some measure of **intimacy** beyond the ordinary conversation. Only if an officer, for example, establishes some measure of **trust and confidence** with the person who is the subject of the surveillance will he be establishing or maintaining a personal or other relationship.

97. Usually a simple enquiry or a request for general information (i.e. a request for information which would be supplied to any member of the public who enquired) *not* obtained under false pretences is not likely to be regulated by RIPA.

Simple test purchase transactions

98. Whether or not test purchase transactions are regulated by RIPA depends on the circumstances and in particular the conduct of the person carrying out the surveillance. Usually simple covert test purchase transactions carried out under existing statutory powers where the officer involved does not establish a personal or other relationship will not require a CHIS authorisation.

99. Officers should, however, be wary of the law on ‘**entrapment**’. Whereas officers can in appropriate circumstances, present a seller or supplier, for example, an opportunity which he could act upon, officers cannot ‘incite’ the commission of an offence i.e. encourage, persuade or pressurise someone to commit an offence.

Use of DAT recorders

100. If it is appropriate to do so, Environmental Health officers, and to a much lesser extent Council Housing officers, use a recorder to monitor noise levels (usually at residential premises) following noise nuisance complaints. Whilst the recorder is installed by officers, the complainant decides when to switch the recorder on and off.

101. The covert recording of suspected noise nuisance where the intention is only to record excessive noise levels from adjoining premises, and the recording device is calibrated to record only excessive noise levels, may not require an authorisation, as the perpetrator would normally be regarded as having forfeited any claim to privacy

102. That said, a Digital Audio Tape (DAT) recorder is a sophisticated piece of monitoring equipment and if used covertly may constitute directed

surveillance. In general, a letter is sent to the person who is to be the subject of the surveillance, and this should mean that subsequent surveillance is overt, and an authorisation will not as a matter of course be required. However, if there is any doubt as to whether surveillance is covert, eg if any longer than a few weeks has passed since the alleged perpetrator was informed that monitoring might be carried out, and if it is likely that private information will be obtained, then an authorisation should be sought.

RIPA forms

103. It is imperative that RIPA forms are completely in full whenever RIPA regulated surveillance activity is planned. The information given must be specific and detailed; must relate to the particular facts of an individual case (i.e. avoid standard wording if at all possible) and must demonstrate that a proper risk assessment has been carried out. Both those who apply for an authorisation and the Authorising Officer should refer to this policy and to the relevant Code of Practice in completing the relevant form,

Role of Service Heads/Authoring Officers

104. Service Heads in particular must recognise that RIPA imposes new and important obligations on those Services affected by RIPA.
105. Authorising officers are required to ask themselves: have I got sufficient information to make an informed decision as to whether or not to authorise surveillance activity on the particular facts of this case?
106. Authorising officers must be satisfied that there are adequate checks in place to ensure that the surveillance carried out is in line with what has been authorised. Such monitoring should be properly documented as well as the decision making process in general.
107. Officers are strongly recommended to read this policy in conjunction with the Covert Surveillance and CHIS Codes of Practice which provide supplementary guidance.
108. If the surveillance is not properly authorised, the protection offered by RIPA will be lost.

How to access RIPA documents?

109. RIPA itself; explanatory notes to RIPA, the Covert Surveillance and CHIS Codes of Practice; RIPA statutory instruments and other RIPA documents are available on the Home Office web-site:
www.homeoffice.gov.uk/counter-terrorism/regulation-investigatory-powers/.
110. Relevant RIPA documents as well as this policy and the Council's standard forms have also been posted on the Council's intranet.

Appendix B

Chief Surveillance Commissioner,
Office of Surveillance Commissioners,
PO Box 29105,
London,
SW1V 1ZU.

8th February 2012.

LANCASTER CITY COUNCIL

INSPECTION REPORT

Inspection date 1st February 2012

Inspector Sir David Clarke
Assistant Surveillance Commissioner

LANCASTER CITY COUNCIL

1. The Council (LCC) serves a population of some 143,500 in a mixed urban and rural area in North Lancashire, including the City of Lancaster and the former Borough of Morecambe.
2. The most recent OSC inspection of LBH was conducted by Clare Ringshaw-Dowle, Surveillance Inspector, on 18th February 2009.
3. Since that inspection some corporate restructuring has taken place. The thirteen Service Areas described by the Inspector have been reduced to seven, with a likely further reduction to six in the near future. The Chief Executive is now supported by a Deputy and by seven Service Heads, who are members of the Corporate Management Team. In effect the intervening tier of three Corporate Directors has been removed, one of them becoming Deputy Chief Executive.
4. Discussions are taking place with Lancashire County Council for shared Property Services. If such an arrangement is implemented, LCC will no longer have a Head of Property Services.
5. The Chief Executive is still Mark Cullinan, whose address is Town Hall, Dalton Square, Lancaster LA1 1PJ.
6. The Council is now a very infrequent user of RIPA, having granted only three authorisations since the last inspection.
7. None of these applications had used the urgency provisions, none was concerned with the likely acquisition of confidential information, and none concerned Covert Human Intelligence Sources (CHIS).

Inspection.

8. I carried out the inspection on 1 February 2012 at the Town Hall. I met the following council officers:

- Mrs Sarah Taylor, Head of Governance and Monitoring Officer;
- Mark Davies, Head of Environmental Services;
- Graham Cox, Head of Property Services;
- Derek Whiteway, Internal Audit Manager.

All four were among those who participated in the last inspection three years ago.

9. The inspection started with a discussion, with Mrs Taylor, of the revised Codes of Practice and OSC Guidance, LCC's RIPA management, policy and procedures, the designated authorising officers (AOs), training, and the actions taken on the recommendations in the last OSC report. Mr Whiteway joined us to explain the form in which he keeps the central record, which was commended by the Inspector in 2009¹. I then inspected the RIPA authorisations themselves, before meeting Mr Davies and Mr Cox who, as Heads of Service, are designated Authorising Officers (AOs). Finally I met Mrs Taylor again for a final discussion before departing the Town Hall.

10. I am grateful to all concerned, particularly Mrs Taylor who had made the arrangements, for their helpful cooperation which greatly eased my task.

RIPA Structure

11. LCC's Policy document, entitled "RIPA – A WORKING POLICY" was described in the 2009 report as one of the best which the Inspector had seen. The minor alterations which she suggested were promptly made. It is kept updated, and I was impressed to find that it already refers to the December 2011 revised version of the OSC Procedures and Guidance. I agree that it is a model of clarity, though I have two reservations about it.²

12. The Working Policy has since been supplemented by five clear and comprehensive "Mini Guides" prepared by Mr Whiteway, both as training tools and as step-by-step guides for applicants and AOs to use whenever the use of covert tactics is considered. These are respectively "The Basics", "Guidance for Applicants", "Guidance for Authorising Officers", "Covert Human Intelligence Sources" and "Practices, Tools and Techniques". They contain helpful links to sources of further information, including the Working Policy, the Home Office Codes of Practice and OSC's Procedures and Guidance, with paragraph references. These are particularly clear and useful documents, providing somewhat more information than can conveniently be included in the flowcharts used by some public authorities.

¹ Paragraph 4.3 of the 2009 report.

² Paragraphs 13-18 below

13. The Working Policy annexes the current RIPA authorisation, review, renewal and cancellation forms. I was, however, surprised to find, both in the Working Policy and the Mini Guides, references to a standard "Change of Circumstances" form, to be completed when unexpected collateral intrusion occurs, or when the original authorisation is found to be insufficient, in which latter event consideration should be given to whether the authorisation needs to be amended or a new authorisation is required. Such a form is annexed with the other forms. It includes a box for specifying persons who have been added to the scope of the RIPA authorisation (*my emphasis*).
14. I pointed out that no such form is prescribed amongst the Home Office RIPA forms, and that its use may cause unwanted problems. The policy document contains no guidance as to what change of circumstances would require a new authorisation, and the concept of amending an existing authorisation, other than by formally documented review, is problematical.
15. I drew attention to the recent changes to OSC's Procedures and Guidance, the recent revision of which gives (in paragraphs 125-134) clearer guidance on widening the scope of authorisations. But even the earlier 2010 edition gave advice (in paragraphs 125-126) as to the limited circumstances in which additional subjects could properly be included on review or renewal of existing authorisations.
16. Mrs Taylor was unable to tell me the origin or history of the Change of Circumstances form. In my view it, and the references to it in the Working Policy and Mini Guides, should be dispensed with.

See recommendation

17. My other, more minor, reservation, concerns the passage on recognising a CHIS. Paragraph 93 of the Working Policy correctly states that members of the public who volunteer information to the authorities as part of their civic duties would not generally be regarded as sources (*my emphasis*). But paragraph 94 then reads "It appears clear therefore that if a member of the public volunteers information he is not a CHIS".
18. I advised that this is too broadly stated. When an informant gives repeat information about a suspect or about a family, and it becomes apparent that the informant may be obtaining that information in the course of a family or neighbourhood relationship, alarm bells should begin to ring. It probably means that the informant is in reality a CHIS, to whom a duty of care is owed if the information is then used, even though he or she has not been tasked by the authority to obtain information on its behalf. This needs to be made clear in the Policy document.

See recommendation

19. Mrs Taylor is LCC's Senior Responsible Officer (SRO), exercising the responsibilities described in paragraphs 3.28 and 3.29 of the Covert Surveillance Code of Practice. She is assisted by Angela Parkinson, a senior solicitor in her department, and by Mr Whiteway who maintains the central record and acts de

facto as RIPA coordinator, albeit not formally so designated. The Central Record remains as described in paragraph 4.3 of the 2009 report.

20. LCC has taken note of paragraph 3.30 of the Code of Practice, and is implementing a practice of periodic reports to elected members as recommended in that paragraph.
21. It remains the case that all Heads of Service are designated AOs, but their number has been reduced to seven, in addition to the Chief Executive and his Deputy. All are appropriately qualified as required by SI 2010/521.
22. LCC's usage of RIPA has been much reduced since the 2009 inspection. In the three years before that visit, there were 27 directed surveillance authorisations; in the three years since her visit there have been three, all in 2009. No RIPA authorisations have been sought or granted since August 2009.
23. The principal reason for this is that, since and as a result of the Inspector's advice and her report (which you endorsed), LCC no longer authorise in noise nuisance investigations where written warning has been given that surveillance will be undertaken with a DAT recorder, nor in other cases in which the surveillance is truly overt. The advice given was that each case should be considered on its merits, and that if in a particular case authorisation is sought, the necessity for it can be simply explained in the application form.³ This advice was warmly welcomed and much appreciated by LCC

Training

24. A day's training session took place in January 2012, attended by all LCC's investigators who may need to have recourse to RIPA usage. It was attended also by the Chief Executive. The training was again delivered by Mrs Parkinson and Mr Whiteway, and I was impressed by the training materials which I was shown, though the references to "change of circumstances" will need to be removed before they are used again. I am satisfied that with the benefit of this training there is no real risk of unauthorised covert surveillance taking place.
25. This session was, however, not however attended by the Heads of Service who are now the designated AOs, as recommended in 2009. It was decided, in the light of the greatly reduced usage of RIPA since the 2009 inspection, that the better course was to prepare the Mini Guides, which the Heads of Service whom I saw (Mr Davies and Mr Cox) regarded as good on-line training materials, to be consulted in the event that they are called upon to authorise. In practice they would not perform this duty without discussion with Mrs Taylor and/or Mrs Parkinson, and with Mr Whiteway. Because there have been no recent authorisations, I have been unable to assess whether this is sufficient in practice, but the quality of the Working Policy and Mini Guides is such that it should be.
26. Though the first recommendation of the 2009 report has not been implemented to the letter, I am happy to regard it as *discharged*.

³ Paragraphs 4.7 - 4.9

Examination of Records.

27. The three RIPA authorisations were made very soon after the 2009 inspection and report, and before the main themes of that report had been absorbed. Before I examined them, Mrs Taylor acknowledged that I would find deficiencies within some of them. The AOs who granted them are no longer in LCC's employment.
28. The earliest (URN 66) was made in March 2009 in an investigation into breaches of corporate procedures, and possibly corrupt practice, by LCC employees concerned with awarding contracts and paying subcontractors. The authorised "surveillance" was to examine emails sent and received by and two these employees during the last twelve months; it did not involve any continuing monitoring of emails.
29. I advised that this was investigation rather than surveillance and did not need RIPA authorisation. Furthermore, all employees had signed up to conditions under which they had no expectation of privacy in relation to emails sent and received on LCC's IT system.
30. The next (URN 67) was made in June 2009 in a noise nuisance investigation in which a DAT recorder was installed in a neighbour's flat. If this was done after written warning, it required no authorisation.
31. The paperwork did not state that such warning had been given, but implied that it had not. On formal review a month later, though no review date had been specifically set, it was stated that "*Other tenants within the block are fearful that the alleged perpetrator may harm them and therefore at this stage, in order to protect other tenants, the surveillance is covert*".
32. If covert noise monitoring was authorised for this reason, that should have been made clear in the initial application, and its necessity and proportionality specifically addressed by the AO when authorising. In fact the AO signed the form without articulating any reasons of his own. This echoes the findings of the Inspector in 2009.⁴ I was told that this AO had recently returned from sick leave and I was assured that this would not happen today
33. The third authorisation (URN 68) was made in August 2009 in a benefits fraud investigation conducted jointly with the Department of Work and Pensions. This was well articulated, with necessity, collateral intrusion and proportionality properly addressed. However, like the Inspector in 2009⁵, I found references to the DWP Decision Maker needing up-to-date evidence from covert surveillance. The AO, to his credit, closely questioned the applicant as to whether it was needed, in the light of the substantial amount of evidence already gathered by other means. In the light of the answers given, I consider that the authorisation was in fact justified.

⁴ Paragraph 4.10 of the 2009 report.

⁵ Paragraph 4.15

CCTV

34. I did not visit the CCTV Control room on this occasion, the Supervisor being away from work on that day. I have since been provided further information about the practice in place to ensure that no unauthorised covert use of the CCTV system takes place.
35. The bespoke form described in paragraph 6.3-4 of the 2009 report remains in use. It names the operation but does not contain a statement of precisely what surveillance activity has been authorised. Thus the third recommendation of that report has not been implemented to the letter.
36. I was, however, assured by Mr Cox that the CCTV supervisor, a former officer of HM Customs & Excise, is strict in refusing to allow any covert use of the CCTV system without proper RIPA authorisation, for which purpose he ensures that he is made aware of the terms of any authorisation. I asked for specific examples, and have since been provided with details of three such refusals, as follows:
- The Police had a warrant for the arrest of a male at a particular address. On arrival the male was not found to be in the property. CCTV was then asked to monitor the property until further notice and advise PCSOs waiting round the corner, when the male in question arrived. This was refused.
 - A RIPA authorisation was in place for premises with a designated camera, and another camera was designated to observe a particular male should he be seen to leave the premises. Information was received that the male in question had possibly been seen at a property other than that covered by the RIPA authorisation. CCTV was asked to view the new location not covered by the RIPA authorisation, and this was refused.
 - The DWP asked operators to continue monitoring one of their targets and stated that there was a RIPA authorisation "in the pipeline". This was refused.
37. In these circumstances I consider that there is no continuing risk of unauthorised surveillance taking place, and that the recommendation can be regarded as *discharged*.

Conclusion

38. LCC continues to have a sound RIPA structure, with good policies and procedures and good training of investigators.
39. Because there has been no RIPA usage in the last 2½ years, I can form no view on whether this good structure and training translates into high standards of authorisations being achieved in practice. But from the work which has been done in updating the Working Policy and (particularly) in preparing the excellent Mini Guides, there is now every reason to expect that future authorisations will be granted and managed properly. The less often an AO is faced with an application, the more likely he is to consult the Policy and Mini Guides and to discuss the

matter with Mrs Taylor and Mr Whiteway, so that a measure of quality control will be incorporated in the process.

40. The dramatic reduction in RIPA usage has arisen largely, though perhaps not wholly, from the fact that many of the earlier authorisations were not necessary, as the Inspector pointed out in 2009. I trust that LCC did not take her report as a general discouragement from using RIPA at all; it is no part of the OSC's function to discourage public authorities from using its statutory powers in the public interest, when it is necessary and proportionate to do so.

41. I make the following

Recommendations

- I. *That the "change of circumstances" form, and all references to it in the Policy, Mini Guides and training materials, be dispensed with;*
- II. *That the Working Policy be amended in accordance with paragraph 18 above.*

David Clarke
Assistant Surveillance Commissioner

AUDIT COMMITTEE

Internal Audit Monitoring

18 April 2012

Report of Internal Audit Manager

PURPOSE OF REPORT

To advise Members of the outturn position regarding the 2011/12 Internal Audit Plan.

This report is public

RECOMMENDATIONS

(1) That the outturn position for 2011/12 is noted.

1.0 Introduction

1.1 The 2011/12 Internal Audit Plan was approved by the Audit Committee at its meeting on 29th June 2011. Adjustments to the plan were approved by the Committee at its meetings on 21st September 2011 and 15th February 2012. This report provides the outturn position as at 31st March 2012.

2.0 Report

Outturn Position as at 31st March 2012

2.1 A detailed outturn report as at 31st March 2012 is attached as Appendix A. In summary, the position as that date is as shown in the following table.

Area of work	Resources (days)			
	Outturn to 31/03/12	Approved Plan (15/02/12)	Original Plan	Variance
Assurance Audit				
Core Financial Systems	119	108	50	69
Revenues & Benefits Shared Services	113	107	85	28
Core Management Arrangements	28	30	110	-82
Risk Based Assurance Audits	203	192	105	98
Follow-Up Reviews	56	60	70	-14
Sub-Total, Assurance	519	497	420	99
Consultancy				
Support Work	38	40	30	8
Efficiency & VfM	0	0	30	-30
Ad-Hoc Advice	52	55	65	-13
Sub-Total, Consultancy	90	95	125	-35
Other Work				
Other Duties (Non-Audit)	20	15	15	5
Audit Management	69	61	55	14
Sub-Total, Other Work	89	76	70	19
Contingencies				
Investigations	9	9	30	-21
General Contingency	0	18	40	-40
Sub-Total, Contingencies	9	27	70	-61
Total	707	695	685	22

- 2.2 The summary shows that overall, a total of 707 days have been delivered compared with the approved plan of 695 days and the original plan of 685 days. This has largely been possible through a continuing good sickness record within the section and ongoing attention to procedures to ensure that “non-chargeable” time is minimised.
- 2.3 Within the main programme of assurance work, the audits of core financial systems and the Revenues and Benefits Shared Service exceeded the original plan by a total of 97 days. This reflects additional work required in developing and refining a new approach to these audits, covering all significant systems in this year and in establishing arrangements with Preston City Council to enable audit work to proceed.
- 2.4 There was also a significant re-focusing of resources (98 days) in to the Risk Based Assurance audit section of the plan, this arising mainly from the audits of the RMS Partnering Contact and the specific piece of work concerning the Hala Flats Pebbledashing job and also from the audit into Consultancy Commissioning and Procurement. These demands were managed in part through a reduction in resources (82 days) devoted to the Core Management Arrangements of the assurance work section of the plan.
- 2.5 Overall, 99 days more than originally planned were spent on assurance audit work. This shift in resources was mostly managed during the year through reduced time spent on: Efficiency & VfM (30 days); Investigations Contingency (21 days) and by use of the General Contingency (40 days).

3.0 Details of Consultation

- 3.1 Management Team has been consulted during the year in developing the plan.

4.0 Options and Options Analysis (including risk assessment)

4.1 Not applicable – the report is for noting.

5.0 Conclusion

5.1 The outturn position for the 2011/12 Internal Audit plan shows an increase in the number of audit days delivered and a significant increase in the level of assurance work. This has been made possible through reductions elsewhere in the plan, including a comparatively low demand for investigative work.

5.2 A full report on the delivery of the audit plan and the outcomes from audit work will be included in the Internal Audit Manager’s “Annual Report and Assurance Statement” to the June meeting of the Audit Committee.

CONCLUSION OF IMPACT ASSESSMENT

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

Not applicable

FINANCIAL IMPLICATIONS

None directly arising from this report.

SECTION 151 OFFICER’S COMMENTS

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

LEGAL IMPLICATIONS

None directly arising from this report.

MONITORING OFFICER’S COMMENTS

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

BACKGROUND PAPERS

Internal Audit Plan 2011/12

Contact Officer: Derek Whiteway

Telephone: 01524 582028

E-mail: dwhiteway@lancaster.gov.uk

Ref: aud/comm/audit/180412IAMon

Internal Audit Annual Plan 2011/12 - Outturn at 31 March 2012

Work Allocations		Outturn to 31/03/12	Approved Plan (15/02/12)	Original Plan	Variance (Outturn -v- Original)	Status at 31/03/12
Job No	Title					
1. ASSURANCE WORK						
LCC Core Financial Systems						
10/0806	Treasury Management	8				✓
10/0809	Officer Expenses	2				✓
10/0810	Payroll	13				✓
10/0812	Car Parking	6				✓
10/0813	Sundry Debtors	1				✓
10/0814	Value Added Tax	1				✓
10/0815	Income Tax and National Insurance	6				✓
10/0816	Income Management	12				✓
10/0817	Main Accounting	6				✓
10/0819	Purchasing Cards	11				✓
11/0829	Housing Rents	33				⚠
11/0833	Asset Management	16				⚠
11/0842	Creditors	4				⚠
Sub-total - Core Financial Systems		119	108	50	69	
Revenues Shared Service - Financial Systems						
11/0822	NNDR (LCC)	20				✓
11/0823	Council Tax (LCC)	12				✓
11/0824	Housing Benefit and Council Tax Benefit (LCC)	24				✓
11/0834	NNDR (Preston CC)	21				✓
11/0835	Council Tax (Preston CC)	19				⚠
11/0839	Housing Benefit and Council Tax Benefit (Preston CC)	17				⚠
Sub-total - Revenues Shared Services		113	107	85	28	
Core Management Arrangements						
10/0787	National Fraud Initiative 2010/11	10				∞
11/0827	National Fraud Initiative 2011/12	8				∞
11/0828	Business Continuity	9				✓
11/0797	Budgetary Control	1				⚠
Sub-total - Core Management Arrangements		28	30	110	-82	
Risk Based Assurance Work Programme						
11/0821	RMS Partnering Contract	57				✓
11/0826	Consultancy Commissioning and Procurement	74				⚠
11/0831	Williamson Park Financial Systems	19				⚠
11/0837	Complaints Policy & Procedures	21				⚠
11/0841	RMS Planned Mtce - Hala Flats Rendering Project	29				✓
11/0844	Festival Market Income Management Arrangements	3				⚠
Sub-total - Risk Based Assurance Work		203	192	105	98	
Follow-Up Reviews		56	60	70	-14	∞
SUB-TOTAL - ASSURANCE WORK		519	497	420	99	

Internal Audit Annual Plan 2011/12 - Outturn at 31 March 2012

Work Allocations		Outturn to 31/03/12	Approved Plan (15/02/12)	Original Plan	Variance (Outturn -v- Original)	Status at 31/03/12
Job No	Title					
2. CONSULTANCY WORK						
Support Work (projects and other)						
10/0793	Counter Crime Policy & Strategy	15				✓
10/0509	RIPA Monitoring and Central Register	8				∞
10/0803	Annual Governance Review & Statement 2010/11	4				✓
11/0820	Review of Financial Regulations & CPRs	5				⚠
10/0807	Information Management Group	2				∞
11/0838	HR & Payroll System Replacement	4				⚠
Sub-total - Support Work		38	40	30	8	
Efficiency & VfM						
	Mobile Phones, etc	0				✗
Sub-total - Efficiency & VfM		0	0	30	-30	
Ad-Hoc Advice		52	55	65	-13	∞
SUB-TOTAL - CONSULTANCY WORK		90	95	125	-35	
3. OTHER						
11/0392	Deputy s151 Officer Duties	20				∞
SUB-TOTAL - OTHER		20	15	15	5	
4. AUDIT MANAGEMENT						
11/0172	Committee Work	30				∞
11/0189	Audit Planning & Monitoring	39				∞
SUB-TOTAL - AUDIT MANAGEMENT		69	61	55	14	
5. CONTINGENCIES						
Investigations		9	9	30	-21	
General Contingency		0	18	40	-40	
SUB-TOTAL - CONTINGENCIES		9	27	70	-61	
TOTALS		707	695	685	22	

Key: ✓ Completed ⚠ In Progress ? Not Yet Started ∞ Continuous or Multi-Year Activity
 CFwd Carried Forward to 2012/13 Plan ✗ Abandoned

AUDIT COMMITTEE

Results of Internal Audit Work
18 April 2012
Report of Internal Audit Manager

PURPOSE OF REPORT

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

This report is public

RECOMMENDATIONS

- (1) That the report is noted.
- (2) That, regarding audits ref 07/0708 - Income Management (Housing Rents Direct Debit Payments), and 07/0709 – Payroll, the Internal Audit Manager continues to track and report on progress to the committee.

Introduction

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

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

2.0 Results of Internal Audit Work to 31st March 2012

- 2.1 This report covers audit work and reports issued since the Results of Audit Work were last reported to Committee on 15th February 2012. Summary reports are issued to Members for consideration and are also posted on the Council's Intranet.
- 2.2 If there are any specific questions about a report, or more detailed information is required, it would be helpful if Members could contact the Internal Audit Manager on telephone number 582028 or email dwhiteway@lancaster.gov.uk prior to the meeting.
- 2.3 The list below gives the assurance opinion issued for areas audited since the last meeting.

Audit Title		Report Date	Assurance Level	
New Audit Reports – none issued since the last meeting				
Follow up Reviews				
10/0809	Expenses	11/09/11	Substantial	✓
10/0789	Development Management Capacity	02/11/11	Substantial	✓
10/0806	Treasury Management	27/01/12	Maximum	✓✓

3.0 Matters Arising from Audit Reviews

3.1 There are no significant issues to bring to the Committee's attention.

4.0 Update on Previous Assurance Opinions

4.1 Appendix A provides the updated position and recommendations for further action for all previously reported audits where the level of assurance has not yet reached "substantial".

5.0 Details of Consultation

5.1 Not applicable

6.0 Options and Options Analysis (including risk assessment)

6.1 Not applicable

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

None identified

FINANCIAL IMPLICATIONS

None directly arising from this report

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS





None directly arising from this report.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments

BACKGROUND PAPERS

Contact Officer: Derek Whiteway
Telephone: 01524 582028
E-mail: dwhiteway@lancaster.gov.uk
Ref: aud/audcomm/120418/ROI/AW

Internal Audit Report		Latest Update		No of updates reported to Audit Committee	Internal Audit's opinion and recommendation
Job No & Title	Assurance Level and Date	Current Assurance Level	Comments (provided by)		
07/0708 - Income Management (Housing Rents Direct Debit Payments)	 Limited 30/04/08	 Limited	<p>At its meeting on 30 June 2010, the committee resolved: <i>“That the Audit Committee request Internal Audit to track progress with systems implementations relating to the ‘Income Management (Housing Rents Direct Debit Payment)’ audit and that this be reported to the next meeting of the committee.</i></p> <p>Software suppliers Anite are contracted to implement new release version 48 in early May. This means that the planned implementation of 1st April 2012 has been missed. The earliest potential implementation date for the Direct Debit module is now July 2012.</p> <p>A verbal update of any further information will be given at the meeting.</p>	11	Recommendation: that the Internal Audit Manager continues to track and report on progress to the committee.
07/0709 - Payroll	 Limited 04/12/08	 Limited	<p>At its meeting on 30 June 2010, the committee resolved: <i>“That the Audit Committee request Internal Audit to track progress with the Payroll/HR system project and that this be reported to a future meeting of the committee.”</i></p> <p>Final evaluation is progressing of the three tenders selected for consideration.</p> <p>A verbal update on progress will be given at the meeting.</p>	7	<p>Internal Audit continues to be involved in the project and in the evaluation of the tendered solutions.</p> <p>Recommendation: that the Internal Audit Manager continues to track and report on progress to the committee.</p>