



**Committee:** AUDIT COMMITTEE  
**Date:** WEDNESDAY, 24 APRIL 2013  
**Venue:** MORECAMBE TOWN HALL  
**Time:** 6.00 P.M.

## A G E N D A

1. **Apologies for Absence**

2. **Minutes**

Minutes of meeting held on 23 January 2013 (previously circulated).

3. **Items of Urgent Business Authorised by the Chairman**

4. **Declarations of Interest**

To receive declarations by Members of interests in respect of items on this agenda.

Members are reminded that, in accordance with the Localism Act 2011, they are required to declare any disclosable pecuniary interests, which have not already been declared in the Council's Register of Interests. (It is a criminal offence not to declare a disclosable pecuniary interest either in the Register or at the meeting.)

Whilst not a legal requirement, in accordance with Council Procedure Rule 10 and in the interests of clarity and transparency, Members should declare any disclosable pecuniary interests which they have already declared in the Register at this point in the meeting.

In accordance with Part B, Section 2, of the Code of Conduct, Members are required to declare the existence and nature of any other interests as defined in paragraphs 8(1) or 9(2) of the Code of Conduct.

5. **External Audit - Certification of Grants and Returns 2011/12** (Pages 1 - 7)

Report of External Auditors

6. **Internal Audit Strategic and Annual Plans** (Pages 8 - 22)

Report of Internal Audit Manager

7. **Internal Audit Monitoring Report** (Pages 23 - 28)

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](mailto:jglenton@lancaster.gov.uk).

### **(iv) Changes to Membership, substitutions or apologies**

Please contact Members' Secretary, telephone (01524) 582170, or email [memberservices@lancaster.gov.uk](mailto:memberservices@lancaster.gov.uk).

MARK CULLINAN,  
CHIEF EXECUTIVE,  
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# Certification of grants and returns 2011/12

Lancaster City Council

15 February 2013



**The contacts at KPMG  
in connection with this  
report are:**

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■ <b>Headlines</b>	<b>2</b>
■ <b>Summary of certification work outcomes</b>	<b>3</b>
■ <b>Fees</b>	<b>5</b>

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 Stephen Clark, who is the engagement leader to the Authority (telephone 0113 231 2910, e-mail stephen.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><b>Introduction and background</b></p>	<p><b>This report summarises the results of work on the certification of the Council’s 2011/12 grant claims and returns.</b></p> <ul style="list-style-type: none"> <li>■ For 2011/12 we certified:             <ul style="list-style-type: none"> <li>– Four returns with a total value of £93.8million.</li> </ul> </li> </ul>	
<p><b>Certification results</b></p>	<p><b>We issued unqualified certificates for all four returns.</b></p> <ul style="list-style-type: none"> <li>■ In 2010/11 we qualified one return.</li> </ul>	<p><b>Pages 3 – 4</b></p>
<p><b>Audit adjustments</b></p>	<p><b>Adjustments were necessary to one of the Council’s returns as a result of our certification work this year.</b></p> <ul style="list-style-type: none"> <li>■ Adjustments with a total value of £14,951 were made to the Housing and Council Tax Benefits Subsidy claim.</li> <li>■ In 2010/11 adjustments were required to two grant returns.</li> </ul>	<p><b>Pages 3 – 4</b></p>
<p><b>The Council’s arrangements</b></p>	<p><b>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.</b></p>	<p><b>Page 5</b></p>
<p><b>Fees</b></p>	<p><b>Our overall fee for the certification of grants and returns in 2011/12 is £29,880.</b></p> <ul style="list-style-type: none"> <li>■ The fee represents a reduction of £7,405 compared to 2010/11 which is as a result of a reduction in the number of grants and returns requiring certification in 2011/12. In addition, fewer errors were identified and no claims required qualification in 2011/12.</li> </ul>	<p><b>Page 6</b></p>

Overall, we certified 4 returns:

- 3 were unqualified with no amendment; and
- 1 was unqualified but required some amendment to the final figures.

Detailed comments are provided overleaf.

Detailed below is a summary of the key outcomes from our certification work on the Council's 2011/12 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.

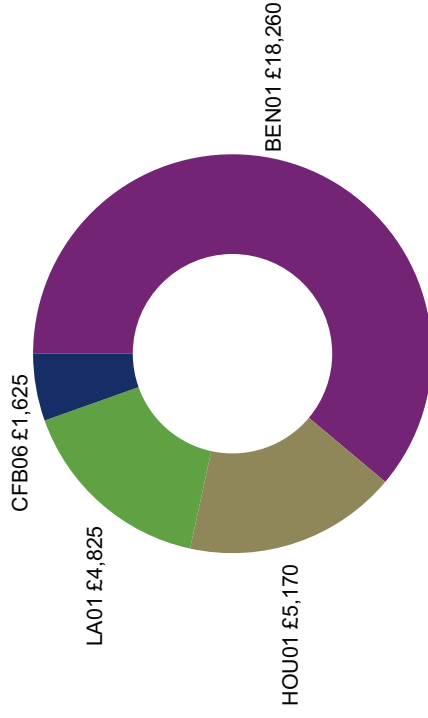
Comments overleaf	Qualified certificate	Significant adjustment	Minor adjustment	Unqualified certificate
1			●	●
				●
				●
				●

This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page.

Ref	Summary observations	Amendment
1	<p><b>Housing and Council Tax Benefit</b></p> <ul style="list-style-type: none"> <li>■ Adjustments with a total value of £14,951 were made to the Housing and Council Tax Benefits Subsidy claim. Three separate errors were identified as follows:</li> <li>■ An adjustment for £14,978 was required as an incorrect amount relating to war pensions was transferred in completing the claim resulting in the HRA rent rebate being omitted;</li> <li>■ An adjustment for £34 was made to remove an un-cashed cheque from the prior year; and</li> <li>■ A further adjustment for £7 was made to rent rebates, this was an isolated case in relation to miscalculation of benefit.</li> </ul>	£14,951

Our overall fee for the certification of grants in 2011/12 is £29,880.

Breakdown of certification fees 2011/12



Breakdown of fee by grant/return		
	2011/12 (£)	2010/11 (£)
Housing and Council Tax Benefit (BEN01)	18,260	19,507
Housing Subsidy (HOU01)	5,170	4,690
National Non Domestic Rates (LA01)	4,825	5,238
Pooling of Housing Capital Receipts	1,625	1,687
Housing Subsidy Base Data (HOU02)	-	4,795
Disabled Facilities Grant (HOU21)	-	1,368
<b>Total fee</b>	<b>29,880</b>	<b>37,285</b>

Our initial estimated fees for certifying 2011/12 grants and returns was £40,000. The actual fee charged was lower than that estimate. The main reasons for the reductions to our fees were:

- Fewer schemes required certification in 2011/12 than what we had initially anticipated; and
- We identified fewer errors and complexities during our testing.





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**AUDIT COMMITTEE**

**Internal Audit Strategic and Annual Plans  
24 April 2013**

**Report of Internal Audit Manager**

<b>PURPOSE OF REPORT</b>
To seek the Committee’s approval for a proposed three-year Internal Audit Strategic Plan and Annual Operational Plan for 2013/14
<b>This report is public</b>

**RECOMMENDATIONS**

1. That the Internal Audit Strategic Plan for 2013/14 to 2015/16 is approved.
2. That the Internal Audit Annual Operational Plan for 2013/14 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 Audit<sup>1</sup> 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 2013/14 to 2015/16**

- 2.1 The draft Internal Audit Strategic Plan is attached at Appendix A.
- 2.2 A key strategic theme for internal audit in recent 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 the organisation responds to the continuing financial pressures it is experiencing and new structures, systems and working practices are developed, there is an ongoing need to ensure that standards of governance, internal control and conduct in

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

the organisation are maintained. Fulfilling this assurance role is seen as the key factor influencing the three-year strategy.

- 2.4 Alongside the assurance role, it is increasingly important that internal audit is able to actively support and contribute to the change programme. Exploring ways in which this can be achieved is another key element in the strategy.

### **Internal Audit Annual Plan 2013/14**

- 2.5 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.

- 2.6 The annual plan for 2013/14 is based on estimated available resources of 690 days, this being delivered by the in-house team of 3.81 FTE staff. The Internal Audit Manager’s role as Deputy Section 151 Officer has again been estimated as requiring 15 days. This gives a net allocation to audit activity of 675 days.

- 2.7 At the time of writing, work is ongoing to develop a detailed programme of audit assignments. The Internal Audit Manager continues to consult with Service Heads, the statutory officers and Management Team generally to inform and develop the detailed programme. As indicated in the strategic plan, 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 flexibly to ensure that audit effort is targeted as effectively as possible.

- 2.8 The draft plan includes for the first time a contingency allocation (10 days) to cover audit work on behalf of other bodies. This follows on from the section having undertaken two minor pieces of work in early 2013 for another local authority. It is possible that this may provide an opportunity for discussions about the potential for further collaboration and any developments on this front will be reported to Audit Committee.

- 2.9 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, the statutory officers and senior managers are being consulted in detail in the preparation of Internal Audit’s detailed work programme for 2013/14.

### **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 2013/14 to 2015/16 and the Internal Audit Annual Plan for 2013/14. No alternative options are identified.

**5.0 Conclusion**

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

**CONCLUSION OF IMPACT ASSESSMENT**

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

This report has no direct impact on these areas.

**FINANCIAL IMPLICATIONS**

None arising from this report.

**SECTION 151 OFFICER'S COMMENTS**

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

**LEGAL IMPLICATIONS**

None arising from this report

**MONITORING OFFICER'S COMMENTS**

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

**BACKGROUND PAPERS**

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**Ref:** aud/ctte/aud/130424/IAPPlans



# **LANCASTER CITY COUNCIL INTERNAL AUDIT STRATEGIC PLAN**

## **2013/14 TO 2015/16**

**SUBMITTED TO AUDIT COMMITTEE 24/04/2013**

**PREPARED BY THE INTERNAL AUDIT MANAGER**

March 2013

**Revision History**

Date of this revision:

<b>Revision Date</b>	<b>Summary of Changes</b>	<b>Version</b>
March 2013	Initial Draft	0.01

**Distribution**

<b>Name</b>	<b>Title</b>
Management Team and Audit Committee	

**Approvals**

<b>Name</b>	<b>Date Approved</b>	<b>Link to Approval Minutes</b>	<b>Version</b>

## Introduction

This Strategy fulfils the requirement in Standard 7 of the 2006 CIPFA Code of Practice<sup>1</sup> 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 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 development 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 programme and provide assurance on the effectiveness of both new and existing arrangements
- To support the Council in identifying efficiencies and achieving value for money in service delivery.
- To promote and help develop standards of risk management throughout the Council's operations.
- 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.

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<sup>1</sup> Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006

## Situational and Risk Analysis

Services provided					
Work Area	2012/13 Plan			2013/14 to 2015/16	
	Plan Days (Original)	Plan Days (Revised) (note 1)	Actual Days	2013/14 Plan Days	2015/16 Target Days
Assurance work, covering:					
o Core Financial systems	60	111	129	100	100
o Revenues & Benefits Shared Service	85	64	65	60	60
o Core Management arrangements	110	40	36	80	80
o Other systems, projects and management arrangements (based on quarterly review of risk and the assurance framework)	135	150	134	140	140
o Follow-up work	60	55	52	60	60
<b>Sub-Total, Assurance Work</b>	<b>450</b>	<b>420</b>	<b>416</b>	<b>440</b>	<b>440</b>
Ad-hoc advice	65	65	74	65	65
Support (general and project support)	30	79	71	40	40
Non-audit duties	15	21	21	15	15
Work for Other Bodies	0	0	11	10	10
Planning & Monitoring	55	49	57	50	50
Investigations contingency	30	30	12	30	30
General contingency	40	21	0	40	40
<b>Totals</b>	<b>685</b>	<b>685</b>	<b>662</b>	<b>690</b>	<b>690</b>

### Notes:

1. Revised plan following Audit Committee on 23<sup>rd</sup> January 2013.

Customers and Stakeholders
<ul style="list-style-type: none"> <li>➤ The Audit Committee</li> <li>➤ Chief Financial (s151) Officer and the Monitoring Officer</li> <li>➤ Chief Executive, Service Heads and Service Managers</li> <li>➤ Council</li> <li>➤ The Executive Function (Cabinet)</li> <li>➤ The Overview &amp; Scrutiny Function</li> <li>➤ The External Auditor (KPMG)</li> <li>➤ Other Review Agencies (e.g. Benefit Fraud Inspectorate, Audit Commission, Information Commissioner's Office)</li> <li>➤ Preston City Council Audit Committee and the Revenues &amp; Benefits Shared Service' Management Board</li> <li>➤ Management and Audit Committee of other external bodies</li> </ul>



### 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 plays a key role in the coordination of the annual governance review, which results in the drafting of the annual Governance Statement.

### Identifying and accommodating significant local and national issues

Emerging local and national issues that might warrant Internal Audit attention will primarily be identified through Internal Audit's contributing to the development, updating and monitoring of the Assurance Framework, reviewing the Corporate Plan and individual Service Business Plans and through consultation with Service Heads, the statutory officers and Management Team generally.

This approach will seek to ensure that significant risks are adequately identified, assessed and evaluated in terms of the level of assurance deemed necessary and already available, and will involve:

- Tracking corporate policy/priority developments and the decisions taken by the authority's decision-making bodies (Council, Cabinet and the various statutory and regulatory committees)
- Regular consultation with Service managers and the Corporate Management Team
- Regular liaison with other review bodies, especially the Council's external auditor
- Liaison with/considering the approach and work programmes of other internal review bodies, for example Overview & Scrutiny

### Identifying and accommodating significant local and national issues

- Consideration of key corporate 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 2013/14	Target days provided 2014/15
Internal Audit Manager	G8	172	172
Principal Auditor	G5	184	184
Senior Auditor	G4	187	187
Assistant Auditor (0.81 fte)	G3	147	147
Bought in resources (note 1)		0	0
<b>Total resources</b>		<b>690</b>	<b>690</b>

#### 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.

The service employs post completion review meetings with managers to assess performance and the outputs/outcome from audit assignments.

An annual self-assessment of compliance with the Code of Practice and of levels of effectiveness is undertaken and reported to Audit Committee as part of the annual governance review exercise.

The service participates in periodic benchmarking exercises undertaken by the local Lancashire District Councils’ Audit Group.

### 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 2013/14. In total, the service has been allocated £8,300 for training in 2013/14.*

Future Development and Risk Analysis (focused on a three year horizon)	
Development Areas	
<ul style="list-style-type: none"> <li>➤ Focusing of assurance needs on services/systems/procedures most affected by the Council's change programme, considering in particular:               <ul style="list-style-type: none"> <li>○ The robustness of financial systems;</li> <li>○ The increased potential for fraud and corruption;</li> <li>○ The requirements to achieve efficiencies and savings.</li> <li>○ Changes in culture, systems and governance arrangements</li> </ul> </li> <li>➤ Impact of further Shared Services or joint delivery arrangements throughout the organisation.</li> <li>➤ Impact of legislative changes in financial systems, especially proposals for Welfare Reform, localisation of NDR and Council Tax relief.</li> <li>➤ Development of capacity and skills to be able to actively support the council's efficiency programme.</li> <li>➤ Increased focus on efficiency and business improvement.</li> <li>➤ Consideration of a response to new Public Sector Internal Audit Standards (PSIAS) from April 2013 onwards.</li> <li>➤ 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.</li> </ul>	

Risks / Opportunities	Mitigation options
<ul style="list-style-type: none"> <li>➤ <b>Risks</b> associated with financial constraints impacting the Council, and the reorganisation required in response may affect standards of internal control and/or governance</li> </ul>	<ul style="list-style-type: none"> <li>➤ Include sufficient time in audit plans to provide assurance on key areas affected. Also seek to identify and take appropriate account of other sources of assurance.</li> </ul>
<ul style="list-style-type: none"> <li>➤ <b>Risk</b> that a requirement to cover responsive work (investigations, etc) could affect the ability to deliver planned work.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Consultation with service managers and the HR manager to clarify the objectives and scope of any investigations.</li> <li>➤ Consider relevant use of the Service's existing consultancy budget.</li> </ul>
<ul style="list-style-type: none"> <li>➤ <b>Risk</b> that the Internal Audit Manager's role as Deputy s151 Officer and involvement in operational matters could cause a conflict of interest.</li> </ul>	<ul style="list-style-type: none"> <li>➤ 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.</li> </ul>

Risks / Opportunities	Mitigation options
<ul style="list-style-type: none"> <li>➤ <b>Risk</b> that a lack of specific skills could affect the ability to undertake certain pieces of work and support new corporate initiatives</li> <li>But...</li> <li>➤ <b>Opportunity</b> to use existing staff skills to support other organisations.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Continuing development of staff through the EDPA process. Review of the competency framework.</li> <li>➤ Consider relevant use of the Service's existing consultancy budget.</li> <li>➤ Explore potential for improving audit service resilience through sharing resources with other bodies</li> </ul>
<ul style="list-style-type: none"> <li>➤ <b>Risk</b> that the government's ongoing review of local public audit could increase pressures on internal audit resources</li> <li>But...</li> <li>➤ <b>Opportunity</b> for internal audit to be innovative and take a leading role in developing/promoting robust internal control and governance arrangements</li> </ul>	<ul style="list-style-type: none"> <li>➤ Ongoing consultation with external auditor to manage roles and deployment of audit resources.</li> <li>➤ Active management of staff development issues.</li> <li>➤ Active involvement in developing new audit arrangements, including those of the Audit Committee.</li> </ul>
<ul style="list-style-type: none"> <li>➤ <b>Opportunity</b> to develop capacity and skills to be able to actively support the council's efficiency programme</li> </ul>	<ul style="list-style-type: none"> <li>➤ Consultation with senior management on the potential role for internal audit in the efficiency programme</li> </ul>

## Internal Audit Annual Plan 2013/14

(Submitted to Audit Committee, 24 April 2013)

### 1. ASSURANCE WORK

CORE FINANCIAL SYSTEMS		
Approach and objectives	Covers the following areas:	Planned Days
<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> <p>There will be a focus throughout this work on providing assurance on the robustness of measures to combat fraud and corruption</p>	<ul style="list-style-type: none"> <li>➤ Main Accounting</li> <li>➤ Asset Management</li> <li>➤ Payroll</li> <li>➤ Ordering &amp; Payments</li> <li>➤ Sundry Debtors</li> <li>➤ Income Management</li> <li>➤ Treasury Management</li> <li>➤ Housing Rents</li> <li>➤ Anti-Fraud &amp; Corruption Arrangements</li> </ul>	100
<p><b>Revenues and Benefits Shared Service</b></p> <p>Having completed two years of internal audit for the shared service, future plans can now be more focused and risk-based.</p>	<ul style="list-style-type: none"> <li>➤ Council Tax</li> <li>➤ Housing Benefit &amp; Council Tax Benefit</li> <li>➤ National Non-Domestic Rates</li> </ul>	60
CORE MANAGEMENT ARRANGEMENTS		
Approach and objectives	Covers the following areas:	Planned Days
<p>Assurance work in 2013/14 will continue to focus on key corporate systems (selected from the areas listed alongside) with the objectives of:</p> <ul style="list-style-type: none"> <li>➤ providing assurance that newly introduced arrangements are fit for purpose;</li> <li>➤ existing arrangements remain robust and reliable; and</li> <li>➤ helping identify and implement efficiencies and improvement.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Financial Management</li> <li>➤ Performance Management</li> <li>➤ Human Resource Management</li> <li>➤ Risk Management</li> <li>➤ Information Management</li> <li>➤ Corporate Governance</li> <li>➤ Partnership / Shared Services Arrangements</li> <li>➤ Procurement &amp; Contract Management</li> <li>➤ Project and Programme Management</li> <li>➤ National Fraud Initiative</li> </ul>	80

<b>RISK BASED ASSURANCE WORK PROGRAMME</b>		
<b>Approach and objectives</b>	<b>The following areas are currently in progress or registered as potential audits in 2013/14:</b>	<b>Planned Days</b>
<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 objectives in this work are to provide assurance that:</p> <ul style="list-style-type: none"> <li>➤ sound arrangements are in place to identify and assess risks;</li> <li>➤ risks are being effectively managed;</li> <li>➤ value for money is being achieved.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Salt Ayre Sports Centre</li> <li>➤ Visitor Information Centres</li> <li>➤ Affordable Warmth</li> <li>➤ Leases</li> <li>➤ Corporate Property Service Contracts</li> <li>➤ Festivals &amp; Events</li> </ul>	140
<b>FOLLOW-UP REVIEWS</b>		
<b>Approach and objectives</b>	<b>Covers the following areas:</b>	<b>Planned Days</b>
<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
<b>SUB-TOTAL – ASSURANCE WORK</b>		<b>440</b>
<b>2. CONSULTANCY WORK</b>		
<b>Work Area and Objectives</b>	<b>This Covers</b>	<b>Planned Days</b>
<p><b>Ad-Hoc Advice</b></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"> <li>➤ Advice provided on request from employees and elected members;</li> <li>➤ Liaison with the external auditor and other agencies;</li> <li>➤ Publication of fraud alerts and other guidance notices;</li> <li>➤ Provision of training.</li> </ul>	65
<p><b>Support Work (projects and other support)</b></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"> <li>➤ Review of Financial Regulations</li> <li>➤ Information Management Group</li> <li>➤ Information Security and Public Services Network (PSN) project</li> </ul>	40
<b>SUB-TOTAL – CONSULTANCY WORK</b>		<b>105</b>

<b>3. OTHER</b>		
<b>Work Area and Objectives</b>	<b>This Covers</b>	<b>Planned Days</b>
<p><b>Non Audit Duties</b></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 Financial Services Manager.</p> <p><b>Work for Other Bodies</b></p> <p>During the fourth quarter of 2012/13, some minor audits were undertaken for other bodies. This has been dependent on the ability to release audit resources for this work; it is not clear at this stage whether/how the arrangement might develop.</p>	<p>✦ Deputy Section 151 duties (undertaken by the Internal Audit Manager)</p> <p>✦ Contingency to enable audit work to be undertaken on behalf of other bodies</p>	<p>15</p> <p>10</p>
<b>4. AUDIT MANAGEMENT</b>		
<b>Work Area and Objectives</b>	<b>This Covers</b>	<b>Planned Days</b>
<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>	<p>50</p>
<b>5. CONTINGENCIES</b>		
<b>Work Area and Objectives</b>	<b>This Covers</b>	<b>Planned Days</b>
<p><b>Investigations</b></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>	<p>30</p>
<p><b>General Contingency</b></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>	<p>40</p>
<b>TOTAL – ALL ACTIVITIES</b>		<b>690</b>



**AUDIT COMMITTEE****Internal Audit Monitoring Report  
24 April 2013****Report of Internal Audit Manager****PURPOSE OF REPORT**

To advise Members of the final monitoring position regarding the 2012/13 Internal Audit Plan, and advise Members of the results of recent audits.

**This report is public**

**RECOMMENDATIONS**

- (1) That the final monitoring as at 31 March 2013 position is noted.
- (2) That the results of recent audits (sections 2 to 3 of the report) are noted.

**1.0 Audit Plan Monitoring to 31 March 2013**

- 1.1 The 2012/13 Internal Audit Plan was approved by the Audit Committee at its meeting on 18 April 2012 and updated at its meetings on 19 September 2012 and 23 January 2013. This report provides the final out-turn monitoring position as at 31 March 2013 and a detailed monitoring report as at that date is attached as Appendix A. In summary, the final position at 31 March was as shown in the following table.

## 1.2 Summary of monitoring position at 31 March 2013 (final out-turn)

Area of work	Resources (days)			
	Original Plan	Revised Plan (23/01/13)	Actuals	Variance
<b>Assurance Audit</b>				
Core Financial Systems	60	111	129	(18)
Revenues & Benefits Shared Services	85	64	65	(1)
Core Management Arrangements	110	40	36	4
Risk Based Assurance Audits	135	150	134	16
Follow-Up Reviews	60	55	52	3
<b>Sub-Total, Assurance Work</b>	<b>450</b>	<b>420</b>	<b>416</b>	<b>4</b>
Advice & Support Work	95	144	145	(1)
Investigations	30	30	12	18
Audit Management	55	49	57	(8)
Other Duties (Non-Audit)	15	21	21	0
Work for Other Bodies (LDNPA)	0	0	11	(11)
General Contingency	40	21	0	21
<b>Total Chargeable Days</b>	<b>685</b>	<b>685</b>	<b>662</b>	<b>23</b>

- 1.3 As reported through the year, within the main programme of Assurance Work, additional time has been taken on audits of core financial systems, this being mainly in the areas of Purchasing Ordering and Creditor Payment Processes in Environmental Services and in Income Management. As can be seen from the report at Appendix A, a wide programme of assurance audits has been carried out and the majority of audits have been completed.
- 1.4 Elsewhere in the plan, the most significant change has been in the time allocated to "Support Work". The budget for this work was increased at previous meetings of the Committee from 30 to 79 days. The out-turn for the year was 71 days. This reflects the work (now complete) associated with the Complaints Officer Working Group and the development of a new Customer Complaints policy. Other significant areas have been the review of Contract Procedure Rules (completed) and Financial Regulations (ongoing) and ongoing work associated with Information Security and the Public Services Network.
- 1.5 In the last quarter, the Internal Audit team has undertaken two short pieces of audit work for the Lake District National Park Authority (based at Kendal).
- 1.6 Overall, the number of chargeable days delivered in the year was down by 23 days on the plan. There are a number of factors contributing to this outcome, including an increase in internal training activities and duties associated with structural/managerial changes within the Council. A full report on the audit plan outturn and performance for the 2012/13 year will be included in the Internal Audit Manager's annual report which will be presented to the Committee's meeting in June 2013.

**2.0 Results of Internal Audit Work to 31 March 2013**

- 2.1 This report covers audit work and reports issued since the Results of Audit Work were last reported to Committee on 23 January 2013. Summary reports are issued to Members for consideration and are also posted on the Council's Intranet.
- 2.2 The list below gives the assurance opinion issued for areas audited since the last meeting.

Audit Title		Report Date	Assurance Level	
<b>New Audit Reports</b>				
12/0859	Income Management	08/01/13	Substantial	✓
12/0864	National Non-Domestic Rates 2012/13	04/03/13	Substantial	✓
12/0866	Council Tax 2012/13	19/03/13	Maximum	✓✓
12/0838	Payroll Systems Replacement – ResourceLink Aurora	26/03/13	Substantial	✓
12/0857	Purchase Ordering and Creditor Payment Processes within Environmental Services	26/03/13	Limited	⚠
<b>Follow up Reviews</b>				
12/0850	Corporate Whistleblowing Arrangements	28/01/13	Substantial	✓
11/0833	Asset Management (Inventories)	13/03/13	Limited	⚠

### 3.0 Matters Arising from Audit Reviews

3.1 The key conclusions and action points in relation to those reports where a “Limited” assurance opinion has been given are:

#### 3.2 12/0857 Purchase Ordering and Creditor Payment Processes within Environmental Services (Limited Assurance)

- There is a good segregation of duties in place in relation to the ordering, receiving and paying for goods and services.
- With the exception of invoices relating to insurance claims, payments are made in accordance with the Prompt Payment Code.
- Several payment processes are inefficient, the number of officers being involved in paying invoices being more than needed for compliance purposes.
- The use of three systems to manage rechargeable repairs is inefficient, open to error and causes delays in invoicing tenants which has a detrimental impact upon the prospects of collecting debt.

#### 3.3 11/0833 Asset Management (Inventories) - (Limited Assurance)

- Guidance is currently being developed for Services regarding the maintenance and management of inventories.
- The current financial limit in relation to items to be included in inventories is to be reviewed with a view to a more appropriate limit being introduced.
- A central record of furniture is currently being developed to be maintained by Resources (Property Group).
- Inventories recording civic regalia/heritage items are to be brought up to date.

### 4.0 Details of Consultation

4.1 Management Team continues to be consulted in developing the plan.

### 5.0 Options and Options Analysis (including risk assessment)

5.1 The report is for information only and there are no decision proposals to consider.

**6.0 Conclusion**

- 6.1 Whilst the number of audit days delivered during the year is down on the plan, a wide range of assurance audits have been delivered and completed during the year. Further detail and analysis of the outturn and outcomes of audit work will be reported to the June meeting of the Committee in the Internal Audit Manager's Annual Report.

<b>CONCLUSION OF IMPACT ASSESSMENT</b> (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)  Not applicable	
<b>FINANCIAL IMPLICATIONS</b>  None directly arising from this report	
<b>SECTION 151 OFFICER'S COMMENTS</b>  The Section 151 Officer has been consulted and has no further comments	
<b>LEGAL IMPLICATIONS</b>  None directly arising from this report	
<b>MONITORING OFFICER'S COMMENTS</b>  The Monitoring Officer has been consulted and has no further comments	
<b>BACKGROUND PAPERS</b>  Internal Audit Plan 2012/13	<b>Contact Officer:</b> Derek Whiteway <b>Telephone:</b> 01524 582028 <b>E-mail:</b> <a href="mailto:dwhiteway@lancaster.gov.uk">dwhiteway@lancaster.gov.uk</a> <b>Ref:</b> aud/comm/audit/130424IAMon

## Internal Audit Annual Plan 2012/13 - Final Outturn at 31 March 2013

## Appendix A

Work Allocations		Actuals to 31/03/13	Approved Plan (23/01/13)	Variance	Status at 31/03/13
Job No	Title				
<b>1. ASSURANCE WORK</b>					
<b>LCC Core Financial Systems</b>					
11/0829	Transactional Applications - Housing Rents	4			✓
11/0833	Asset Management	3			✓
11/0842	Purchase Ordering and Creditor Payments 2011/12	17			✓
12/0838	Payroll/HR Systems Replacement	15			✓
12/0857	Purchase Ordering and Creditor Payment Process within Environmental Services	30			✓
12/0859	Income Management	31			✓
12/0861	Debt Management - Council Housing	29			✓
<b>Sub-total - Core Financial Systems</b>		<b>129</b>	<b>111</b>	<b>-18</b>	
<b>Revenues Shared Service - Financial Systems</b>					
11/0835	Council Tax 2011/12 (Preston)	4			✓
11/0839	Housing and Council Tax Benefit 2011/12 (Preston)	2			✓
12/0862	Housing & Council Tax Benefits 2012/13 (Lancaster)	2			⚠
12/0863	Housing & Council Tax Benefits 2012/13 (Preston)	6			⚠
12/0864	NDR 2012/13 (Lancaster)	12			✓
12/0865	NDR 2012/13 (Preston)	8			✓
12/0866	Council Tax 2012/13 (Lancaster)	15			✓
12/0867	Council Tax 2012/13 (Preston)	16			✓
<b>Sub-total - Revenues Shared Services</b>		<b>65</b>	<b>64</b>	<b>-1</b>	
<b>Core Management Arrangements</b>					
12/0846	National Fraud Initiative 2012/13	15			⚠
12/0868	Risk Management	14			⚠
12/0871	HR Systems Replacement - ResourceLink Aurora	4			⚠
12/0879	Annual Governance Review 2012/13	3			⚠
<b>Sub-total - Core Management Arrangements</b>		<b>36</b>	<b>40</b>	<b>4</b>	
<b>Risk Based Assurance Work Programme</b>					
11/0837	Complaints	6			✓
11/0844	Festival Market - Income Management Arrangements	2			✓
12/0847	AONB	22			✓
12/0850	Corporate Whistleblowing Arrangements	25			✓
12/0851	Disabled Facilities Grant (DFG)	8			✓
12/0855	Septic Tanks	24			✓
12/0856	Information Security and the Use of Emails	20			✓
12/0860	Markets	10			✓
12/0874	Fees & Charges - Salt Ayre Sports Centre	3			⚠
12/0875	Fees & Charges - Visitor Information Centres	3			⚠
12/0877	Corporate Property Service Contracts	4			⚠
12/0878	Affordable Warmth	7			⚠
<b>Sub-total - Risk Based Assurance Work</b>		<b>134</b>	<b>150</b>	<b>16</b>	
<b>Follow-Up Reviews</b>		<b>52</b>	<b>55</b>	<b>3</b>	∞
<b>SUB-TOTAL - ASSURANCE WORK</b>		<b>416</b>	<b>420</b>	<b>4</b>	

## Internal Audit Annual Plan 2012/13 - Final Outturn at 31 March 2013

## Appendix A

Work Allocations		Actuals to 31/03/13	Approved Plan (23/01/13)	Variance	Status at 31/03/13
Job No	Title				
<b>2. CONSULTANCY WORK</b>					
<b>Support Work (projects and other)</b>					
12/0509	RIPA Monitoring and Central Register	2			∞
12/0807	Information Management Group	4			∞
12/0820	Contract Procedure Rules Review	8			✓
12/0845	LDCVS	3			✓
12/0848	Governance Annual Review & Statement 2011/12	7			✓
12/0849	Complaints Officer Working Group	26			✓
12/0869	SCIC Support Work	8			⚠
12/0870	Information Security and PSN Code of Connection	10			⚠
12/0876	Financial Regulations Review	3			⚠
<b>Sub-total - Support Work</b>		<b>71</b>	<b>79</b>	<b>8</b>	
<b>Ad-Hoc Advice</b>		<b>74</b>	<b>65</b>	<b>-9</b>	∞
<b>SUB-TOTAL - CONSULTANCY WORK</b>		<b>145</b>	<b>144</b>	<b>-1</b>	
<b>3. OTHER</b>					
12/0392	Deputy s151 Officer Duties	21			∞
	Audit Work for Other Bodies - LDNPA	11			⚠
<b>SUB-TOTAL - OTHER</b>		<b>32</b>	<b>21</b>	<b>-11</b>	
<b>4. AUDIT MANAGEMENT</b>					
12/0172	Committee Work	15			∞
12/0189	Audit Planning & Monitoring	42			∞
<b>SUB-TOTAL - AUDIT MANAGEMENT</b>		<b>57</b>	<b>49</b>	<b>-8</b>	
<b>5. CONTINGENCIES</b>					
<b>Investigations</b>		<b>12</b>	<b>30</b>	<b>18</b>	
<b>General Contingency</b>		<b>0</b>	<b>21</b>	<b>21</b>	
<b>SUB-TOTAL - CONTINGENCIES</b>		<b>12</b>	<b>51</b>	<b>39</b>	
<b>TOTALS</b>		<b>662</b>	<b>685</b>	<b>23</b>	

Key: ✓ Completed    ⚠ In Progress    ⚠ Not Yet Started    ∞ Continuous or Multi-Year Activity  
 CFwd Carried Forward to 2013/14 Plan    ✗ Abandoned