



Committee: AUDIT COMMITTEE
Date: WEDNESDAY, 26 JUNE 2013
Venue: MORECAMBE TOWN HALL
Time: 6.00 P.M.

A G E N D A

1. **Apologies for Absence**
2. **Appointment of Vice-Chairman**
3. **Minutes**

Minutes of meeting held on 24 April 2013 (previously circulated).

4. **Items of Urgent Business authorised by the Chairman**
5. **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.

6. **External Audit Plan 2012/13** (Pages 1 - 25)

Report of KPMG LLP

7. **External Audit Fee Letter 2013/14** (Pages 26 - 29)

Letter from KPMG LLP

8. **Internal Audit Annual Report and Assurance Statement 2012/13** (Pages 30 - 38)

Report of Internal Audit Manager

9. **Internal Audit Monitoring Report** (Pages 39 - 44)

Report of Internal Audit Manager

10. **Internal Audit Charter and New Public Services Internal Audit Standards** (Pages 45 - 54)

Report of Internal Audit Manager

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

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

(ii) Substitute Membership

Councillors Paul Aitchison, Roger Dennison, Tim Hamilton-Cox, Geoff Marsland, Sylvia Rogerson and Susan Sykes

(iii) Queries regarding this Agenda

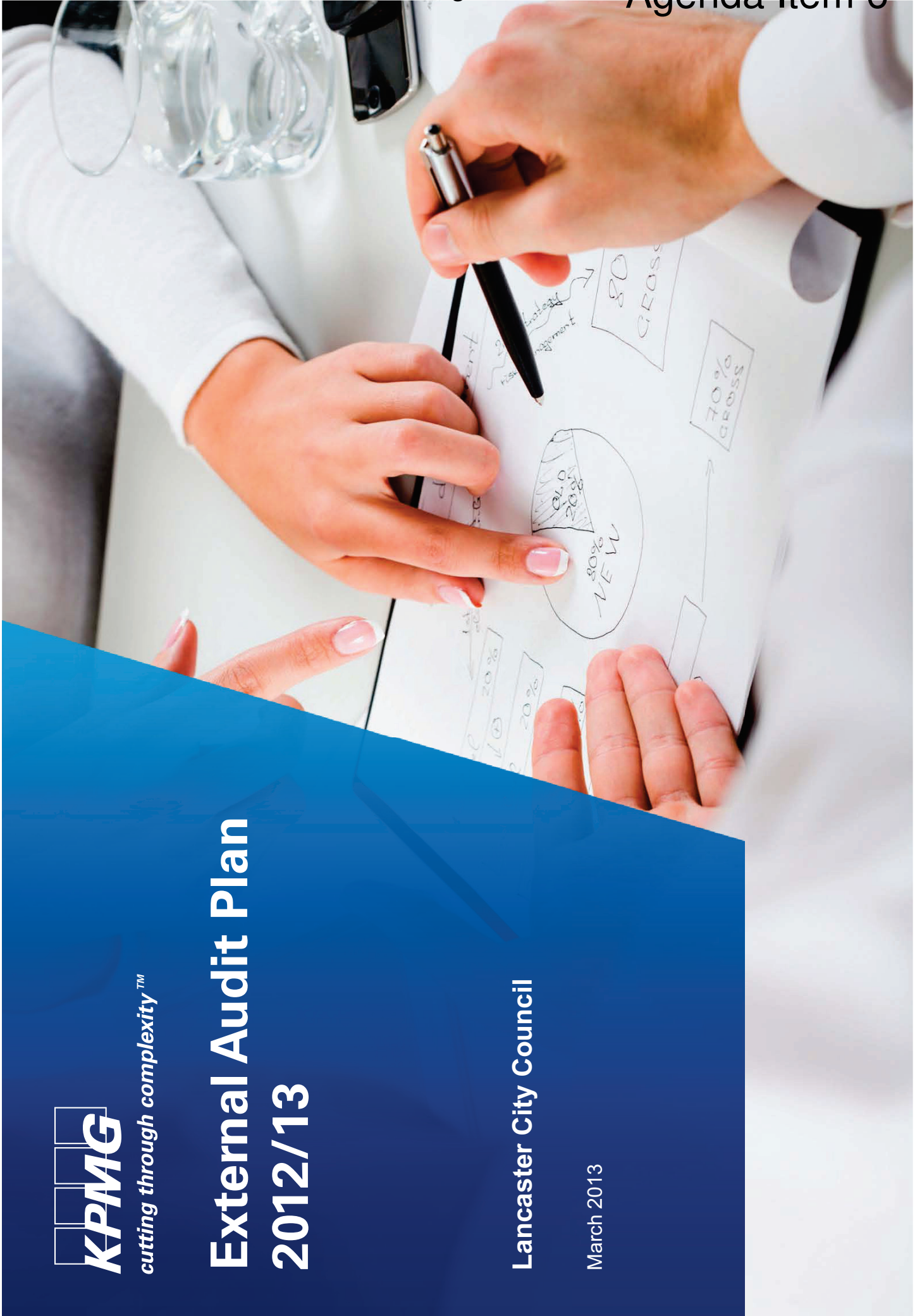
Please contact Jane Glenton, Democratic Services - telephone (01524) 582068, or email jglenton@lancaster.gov.uk.

(iv) Changes to Membership, substitutions or apologies

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

MARK CULLINAN,
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External Audit Plan 2012/13

Lancaster City Council

March 2013

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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, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to 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 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, telephone (minicom) 020 7630 0421.

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

Scope of this report

This document describes how we will deliver our financial statements audit work for Lancaster City Council ('the Authority'). It sets out our approach to value for money (VFM) work for 2012/13.

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.

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.

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 work.

We have identified a number of key risks that we will focus on during the audit of the 2012/13 financial statements.

These are described in more detail on pages 10 to 11.

The remainder of this document provides information on our:

- approach to the audit of the financial statements;
- approach to VFM work; and
- audit team, proposed deliverables, timescales and fees for our work.

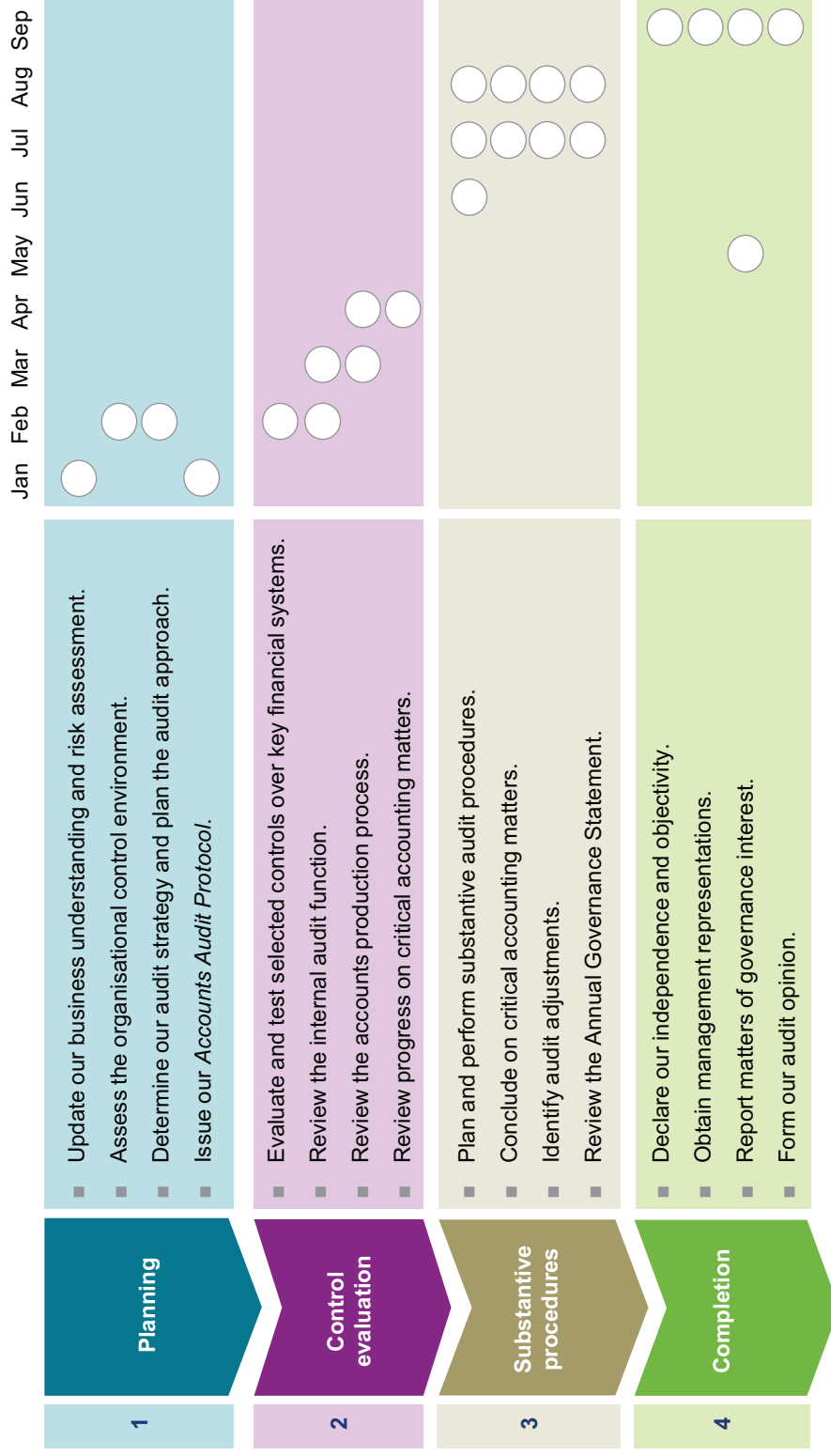
Area	Risk	Audit work
Savings plans	<p>The Authority estimates it will have surplus resources of £367,000 in 2013/14 (assuming a 2% Council Tax increase), but will need to find savings of £1.1m in 2014/15 and £2.3m in 2015/16 which will need to be addressed during 2013/14.</p> <p>The Authority will need to establish and manage its savings plans to secure longer term financial and operational sustainability and ensure that any related liabilities are accounted for in its 2012/13 financial statements as appropriate.</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 and review how the Authority is planning and managing its savings plans.</p> <p>We will also review the Authority's assessment of potential liabilities and any provisions in its 2012/13 financial statements.</p>
Future of Lancaster Market and Luneside	<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 surrender the lease.</p> <p>Terms of the surrender are being sought through additional negotiations but it is likely that the surrender will result in a significant payment to break the lease. It is currently anticipated that the surrender of the lease will conclude after the year end but before the accounts for 2012/13 are finalised.</p> <p>In addition, the Council is awaiting the outcome of a land tribunal relating to compulsory purchase order compensation at Luneside East.</p> <p>Once the case has been finalised, the Council may be required to update the 2012/13 accounts to reflect the outcomes of the decision.</p>	<p>We will verify that the actions taken by the Council are in line with the market paper produced in 2011/12 taking into account the legal advice the Council has received.</p> <p>We will review accounting treatments to ensure that these are in line with the relevant accounting standards and the Code of Practice.</p> <p>We will also consider whether the outcomes of any decisions which occur after the year end have an impact on the 2012/13 financial statements.</p>

Section three Our audit approach

We undertake our work on your financial statements in four key stages during 2013:

- **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:



During January and February 2013 we complete our planning work.

We assess the key risks affecting the Authority's financial statements and discuss these with officers.

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 2013. 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*.

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.

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. In particular risk management, internal control and ethics and conduct have implications for our financial statements audit. The scope of their work of your internal auditors also informs our risk assessment.

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 interim and final accounts visits.

Section three Our audit approach – control evaluation

During April 2013 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2012/13. We work with your Internal Audit team to avoid duplication.

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

We will present our *Interim Management Letter* in April 2013

Our interim visit on site will be completed during April. During this time we will complete work in the following areas:

Control Evaluation

- Evaluate and test controls over key financial systems identified as part of our risk assessment.
- Review the work undertaken by the internal audit function on controls relevant to our risk assessment.
- Review the accounts production process.
- Review progress on critical accounting matters.

Review of internal audit

Where we intend to rely on internal audit's work in respect of the key financial systems identified as part of our risk assessment, auditing standards require us to review aspects of their work. This includes re-performing a sample of tests completed by internal audit. We will provide detailed feedback to the Head of Internal Audit at the end of our interim visit.

Accounts production process

We raised a number of recommendations in our *Report to Those Charged with Governance (ISA 260 Report) 2011/12*. None of which were high risk.

We will assess the Authority's progress in addressing our recommendations and in preparing for the closedown and accounts preparation.

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.

Controls over key financial systems

We update our understanding of the Authority's key financial processes where our risk assessment has identified that these are relevant to our final accounts audit and where we have determined that this is the most efficient audit approach to take. 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.

Where our audit approach is to undertake controls work on financial systems, we seek to rely on any relevant work they have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place reliance on their work. We have a joint working protocol and have met with the Head of Internal Audit to discuss the principles and timetables for the managed audit process for 2012/13.

Our audit approach – substantive procedures

During July 2013 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 *ISA 260 Report* to the Audit Committee in September 2013.

Our final accounts visit on site has been provisionally scheduled for the period 15 July to 30 July. During this time, we will complete the following work:

Substantive Procedures

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

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 *ISA 260 Report*, which we will issue to Audit Committee in September 2013.

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.

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.

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.

Use of off-shore audit resources

During our audit work we may make use of our KPMG Global Services (KGS Audit) team in India to undertake certain basic audit tasks and functions. Use of this 'off-shore' team is one of many initiatives we employ to deliver a cost-effective audit service for our clients. Although based in India, the KGS Audit team works closely with our local audit teams to undertake certain audit procedures remotely. We have provided our UK teams with guidance on the types of audit procedures and other tasks that it is suitable and permissible to use KGS Audit for - we do not use KGS Audit for any audit procedures that involve access to personal, confidential or sensitive information. Audit tasks are then allocated by our UK-based engagement teams to dedicated teams in India, allowing local staff to control what work KGS Audit undertakes and what information is accessed. They operate to our same quality standards and all work undertaken by KGS Audit is reviewed by the UK team.

The KGS Audit team operates in a paperless environment and we apply robust processes to control how data is accessed and used:

- all work is conducted electronically;
- all data files are maintained on servers in the UK with restricted access and only viewed on screen in India. These servers are governed by established KPMG IT controls;
- policy and technology restrictions are in place to protect data, for example locked down USB ports, no external emailing, no printing;
- KGS Audit staff are based in an office with restricted access and security; and
- the team members adhere to global KPMG ethics and independence standards, along with requirements governing the non-disclosure of client information.

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.

Independence and objectivity confirmation

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

The 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 Engagement Lead 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 how the Authority is managing these risks in our *Interim Audit Report*.

Key audit risks	Impact on audit
	<p>Risk</p> <p>As at January 2013, the Authority had achieved the savings required to meet its 2012/13 budget and is projecting an underspend of £997,000 which will be transferred into balances. This is after making approved savings of £182,000, implementing growth of £406,000, and after allowing for contributions from reserves of £418,000.</p> <p>The Authority estimates it will have surplus resources of £222,000 in 2013/14 (assuming a 2% Council Tax increase), but will need to find savings of £1.2m in 2014/15 and £2.6m in 2015/16 which will need to be addressed during 2013/14. Against a backdrop of continued demand pressures in it will become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability.</p> <p>If there are any related liabilities at year end, these will need to be accounted for in the 2012/13 financial statements as appropriate.</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 Plan 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 provisions, including the methodology, assumptions and calculations.</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 managing these risks in our *Interim Audit Report*.

Key audit risks	Impact on audit
<div style="text-align: center;"> <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ Non Current Assets ■ Long term liabilities ■ Financial standing ■ VfM </div>	<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 surrender the lease on the Lancaster Indoor Market from Allied (Lancaster) Limited.</p> <p>Terms of the surrender are being sought through additional negotiations but it is likely that the surrender will result in a significant payment to break the 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>It is currently anticipated that the surrender of the lease is most likely to occur after the year end but before the 2012/13 financial statements are finalised.</p> <p>In addition, the Council disclosed a contingent asset and liability within the 2011/12 financial statements in relation to the Luneside East project.</p> <p>A case will be heard by a land tribunal relating to compensation as a result of the Council using compulsory purchase order powers to purchase land. Officers believe the tribunal will reach a conclusion following the year end.</p> <p>Once the case has been finalised, the Council may be required to update the 2012/13 accounts to reflect the outcomes of the decision.</p> <p>Our audit work</p> <p>In 2011/12 we agreed a paper with management setting out the proposed course of action for surrendering the Market Lease. Throughout 2012/13 we will continue to verify the actions taken by the Council to ensure they are in line with the agreed paper.</p> <p>For both issues, we will reviews the outcome of any actions that occur before the accounts are finalised to assess whether any changes are required to be reflected in the 2012/13 accounts. In order to make this assessment we will consider 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 if there are any 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 possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria.</p> <p>Such work may involve interviews with relevant officers and /or the review of documents such as policies, plans and minutes. We may 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. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee.</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 may 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 *Interim Audit Report* and our *Report to those charged with governance*.

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 may 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>Interim Audit Report</i> and our <i>Report to those charged with governance</i>. These reports 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>

Your audit team has been drawn from our specialist public sector assurance department. Our audit team were all part of the Lancaster City Council audit last year. Contact details are shown on page 1.

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



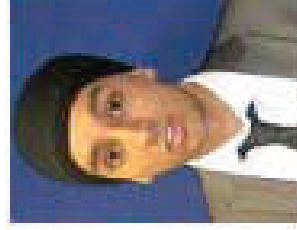
Steve Clark
Director

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



Richard Lee
Manager

“I am responsible for the management, review and delivery of the whole audit and providing quality assurance for any technical accounting areas. I will work closely with Steve to ensure we add value. I will liaise with the Head of Financial Services and the Head of Internal Audit.”



Sukhsimran Singh
Assistant Manager

“I will be responsible for the on-site delivery of our work. I will liaise with the Senior Accountants and the Finance Team. I will also supervise the work of our audit assistants.”

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

Our key deliverables 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		
External Audit Plan	<ul style="list-style-type: none"> Outline audit approach. Identify areas of audit focus and planned procedures. 	February 2013
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 2013
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 2013
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 2013

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

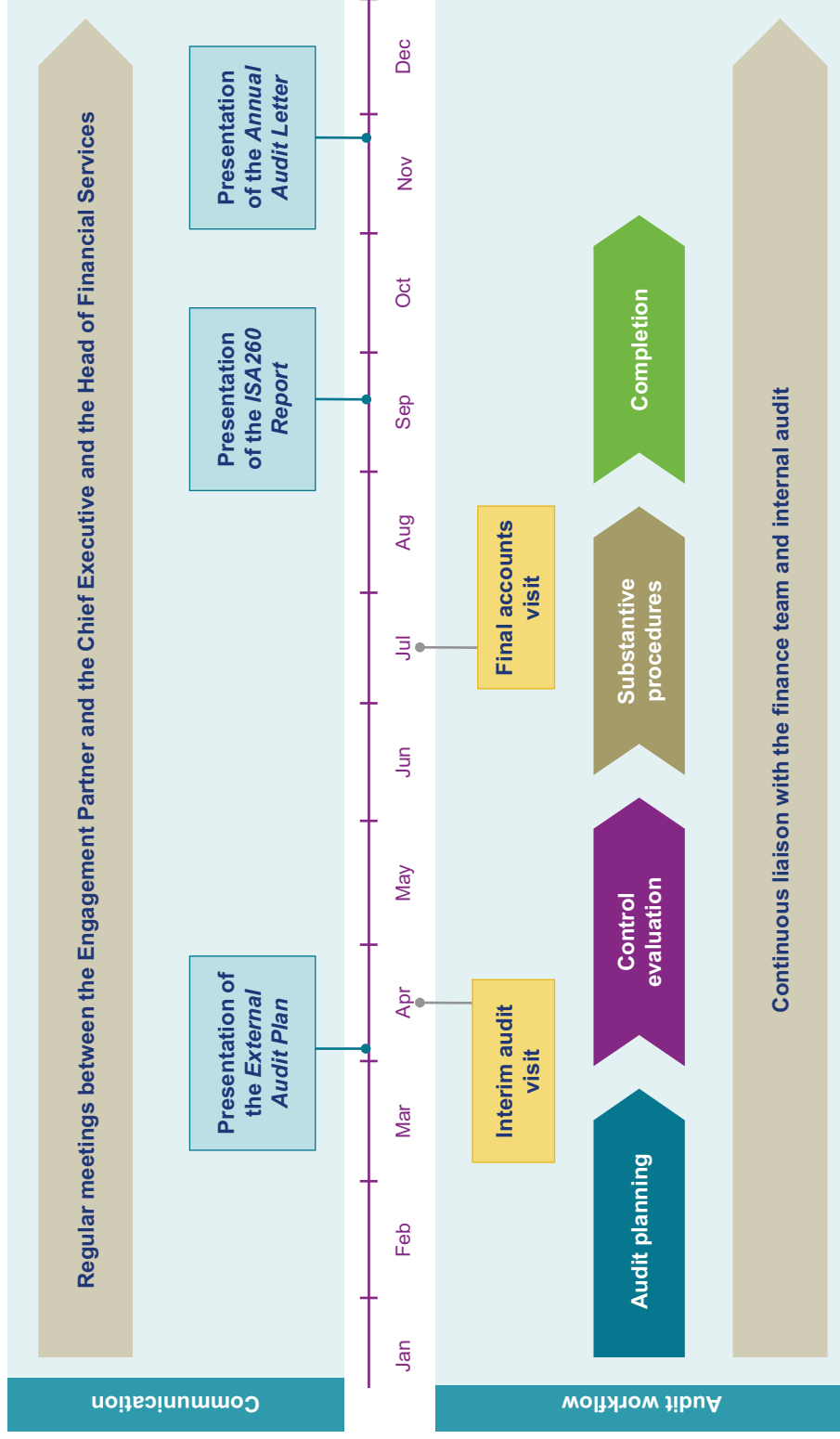
Key formal interactions with the Audit Committee are:

- February – Financial Statements Audit Plan;
- September – ISA 260 Report;
- 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 visit during April.
- Final accounts audit during July.



Key: ● Audit Committee meetings.

The main fee for 2012/13 audit of the Authority is £76,950 (plus VAT).

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.

Audit fee

Our *Audit Fee Letter 2012/13* sets out our fees for the 2012/13 audit.

Element of the audit	2012/13 (planned)	2011/12 (actual)
Gross audit fee	£76,950	£128,250

Our audit fee includes our work on the VFM conclusion and our audit of the Council's financial statements. The fee for 2012/13 is £76,950. This is a reduction of 40 percent compared to the 2011/12 fee.

Audit fee assumptions

The fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. 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 2011/12;
- 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 2012/13* within your 2012/13 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 completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors.

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

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the Authority achieves an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

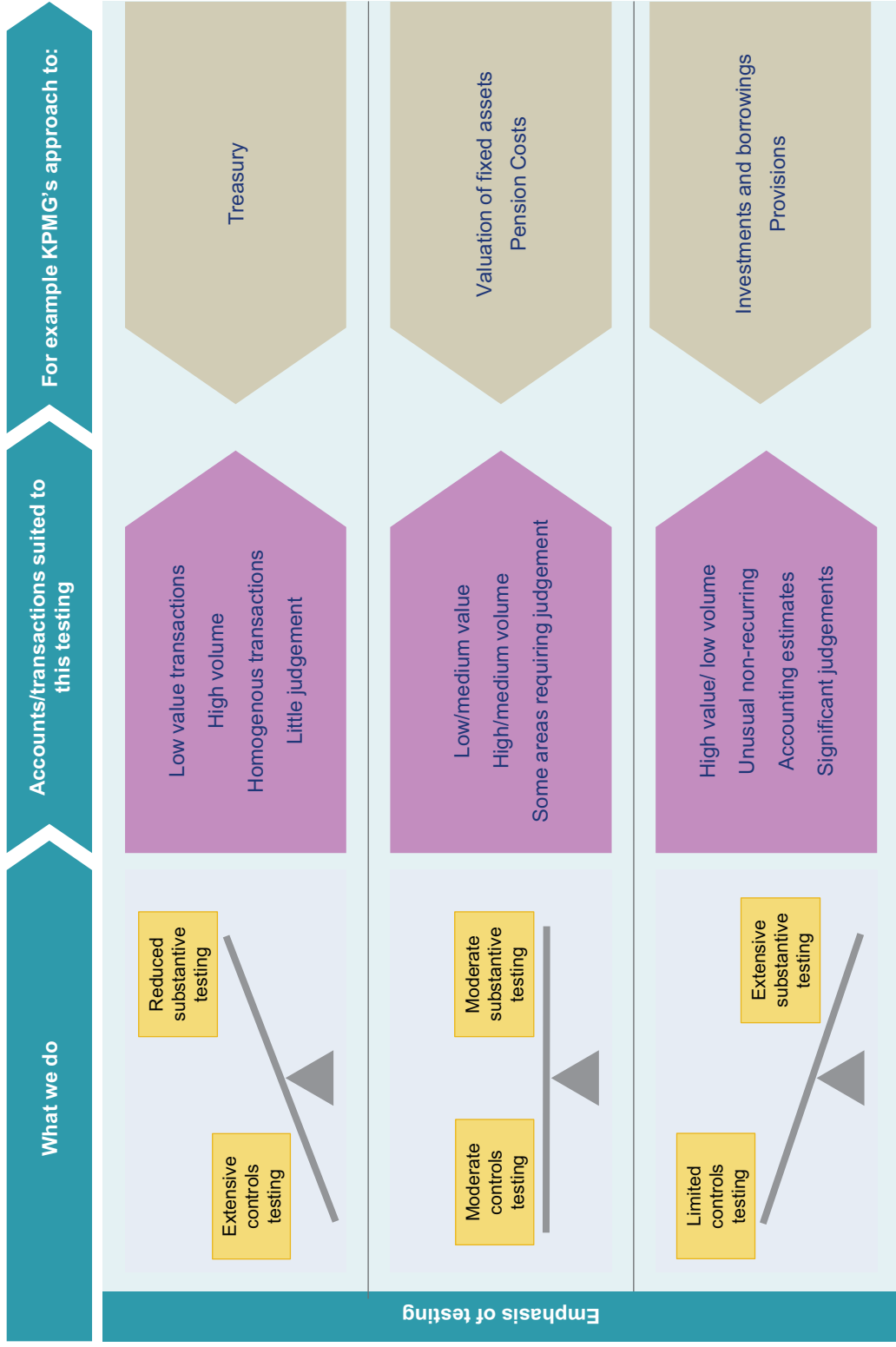
Changes to the audit plan

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 Partner.
- Audit staff are expected not to accept appointments as lay school inspectors.
- Firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned.

- Auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on each audit at least once every five years (subject to agreed transitional arrangements). Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- The Commission must be notified of any change of second in command within one month of making the change. Where a new Engagement Lead or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

Appendix 3: KPMG Audit Quality Framework

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.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG. We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drivers of quality through a focused and consistent voice. Steve Clark as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudit application has significantly enhanced existing audit functionality. eAudit enables KPMG to deliver a highly

technically enabled audit. 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.

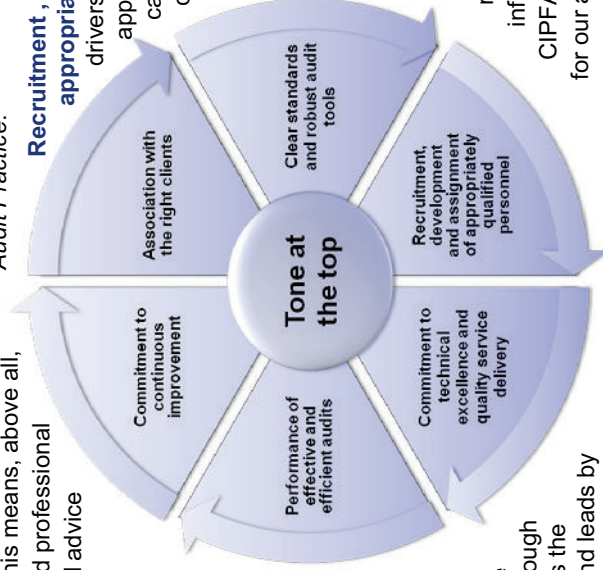
Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

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 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 is established 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.



Appendix 3: KPMG Audit Quality Framework

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.

Commitment to technical excellence and quality service delivery: Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes. I

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

We are able to evidence the quality of our audits through the results of National Audit Office and Audit Commission reviews. The results of the Audit Commission's annual quality review process is made publicly available each year (http://www.audit-commission.gov.uk/audit-regime/Pages/qualityreviewprocess_copy.aspx). The latest report dated October 2012 showed that we performed highly against all the Commission's criteria.



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Our ref **RL/016**
Contact **Richard Lee**
0161 246 4661

25 April 2013

Dear Nadine

Annual audit fee 2013/14

I am writing to confirm the audit work and fee that we propose for the 2013/14 financial year at Lancaster City Council. Our proposals are based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission.

As we have not yet completed our audit for 2012/13 the audit planning process for 2013/14, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary. We will naturally keep you informed.

The proposed indicative fee for the core audit for 2013/14 is £76,950. The fee is unchanged from the planned fee for 2012/13 and is in line with the scale fee recommended by the Audit Commission.

The proposed indicative certification fee for 2013/14 is £11,900. This compares to the planned fee for 2012/13 of £15,900. The Audit Commission has calculated the composite indicative fee for the certification of grant claims and returns. This based on the Council requiring specific grants claims and returns to be certified. I will write to you later this year with more details on our certification work. All fees are subject to VAT.

The indicative fees are based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. Our assumptions are set out in more detail in Appendix 1 to this letter.

In setting the fee at this level, I have assumed that the general level of risk in relation to the audit of the financial statements and certification work is not significantly different from that identified for the 2012/13 audit. A more detailed audit plan will be issued later this year. This



will detail the risks identified, planned audit procedures and (if required) any changes in fee. If I need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with you and then prepare a report for the Audit Committee, outlining the reasons why the fee needs to change.

I expect to issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 2.

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

The key members of our audit team for the 2013/14 audit are:

Name	Role	Contact details
Stephen Clark	Director	Stephen.clark@kpmg.co.uk 0113 231 3148
Richard Lee	Manager	Richard.lee@kpmg.co.uk 0161 246 4661
Sim Singh	Assistant Manager	Sukhsimran.singh@kpmg.co.uk 0161 246 4668

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

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

Yours sincerely

Stephen Clark
 Director



Appendix 1 – Audit fee assumptions

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2012/13;
- you will inform us of significant developments impacting on our audit;
- internal audit meets the appropriate professional standards;
- you will identify and implement any changes required under the CIPFA IFRS-based Code of Practice on local Authority Accounting within your 2013/14 financial statements;
- your financial statements will be made available for audit in line with the timetable we agree with you;
- good quality working papers and records will be provided to support the financial statements in line with our *prepared by client* request and by the date we agree with you;
- requested information will be provided within agreed timescales;
- prompt responses will be provided to draft reports;
- complete and accurate claims and returns are provided for certification, with supporting working papers, within agreed timeframes; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998

Improvements to the above factors may allow reductions to the audit fee in future years. Where these assumptions are not met, we will be required to undertake additional work and charge an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the detailed audit plan.

Any changes to our audit plan and fee will be agreed with you. Changes may be required if:

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



Appendix 2: Planned outputs

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

Planned output	Indicative date
External audit plan	February 2014
Report to those charged with governance (ISA260 report)	September 2014
Auditor's report giving the opinion on the financial statements, value for money conclusion and audit certificate	September 2014
Opinion on Whole of Government Accounts return	September 2014
Annual audit letter	November 2014
Certification of grant claims and returns	February 2015

AUDIT COMMITTEE**Internal Audit Annual Report and
Assurance Statement 2012/13
26 June 2013****Report of Internal Audit Manager****PURPOSE OF REPORT**

To inform the Committee of the extent and outcome of Internal Audit work during the 2012/13 financial year and to present an annual Statement of Assurance regarding the Council's Internal Control Framework.

This report is public

RECOMMENDATIONS

1. That the report be noted.
2. That the Controls Assurance Statement (paragraphs 2.12 to 2.22) be accepted and considered by the Committee in relation to the annual governance review and Annual Governance Statement which will be presented to the September meeting of the Committee.

1.0 Introduction

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

2.0 Report

- 2.1 Internal Audit is established as a section of Resources, reporting administratively to the Head of Resources and functionally to the council's senior management and Audit Committee. Professionally, it has operated to standards set out in the CIPFA Code of Practice for Internal Audit and has operated and reported in accordance with an approved Audit Charter.
- 2.2 Proposals relating to new Public Sector Internal Audit Standards effective from 01/04/13, and a revised Internal Audit Charter are included elsewhere on this agenda.

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

Annual Audit Plan 2012/13

- 2.3 Internal Audit plans and assignments are developed on a risk-based approach, seeking to identify and devote resources to the areas of greatest significance to the Council. The 2012/13 Internal Audit Plan was approved by the Audit Committee at its meeting on 18th April 2012. Adjustments to the plan were approved by the Committee at its meetings on 19th September 2012 and 23rd January 2013. The annual outturn position was reported to the Committee on 24th April 2013, the summarised of which is replicated in the following table.

Area of work	Resources (days)			
	Original Plan	Revised Plan (23/01/13)	Actuals	Variance
Assurance Audit				
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
Sub-Total, Assurance Work	450	420	416	4
Advice & Support Work	95	144	145	(1)
Investigations	30	15	12	3
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	19	0	19
Total Chargeable Days	685	668	662	6
Non-Chargeable Activities (note1)	95	119	122	-3
Total Available Days	780	787	784	3

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

Explanation of Major Variances

- 2.4 The summary shows that, whilst the number of available days rose during the year, the number of chargeable days delivered were down by 6 days on the revised plan and by 23 days on the original 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.
- 2.5 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.
- 2.6 Overall, 34 days fewer than originally planned were delivered on the core programme of assurance audit work.





- 2.7 Elsewhere in the plan, the most significant change has been in the time allocated to “Support Work”. The budget for this work was increased during the year from 30 to 79 days and the final out-turn was 71 days. This reflects the work 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.
- 2.8 In the last quarter of the year, the Internal Audit team undertook two short pieces of audit work for the Lake District National Park Authority, accounting for 11 days.

Review of the Effectiveness of Internal Audit

- 2.9 The Accounts & Audit Regulations 2011 require the Council to conduct an annual review of the effectiveness of internal audit and for a committee of the Council to consider the findings. This process is part of the wider annual review of the effectiveness of the system of internal control and governance. A report on this review will be included within the report on the annual review of governance to be considered at the next meeting of the Committee.

Results of Assurance Work





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

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

- 2.11 The Table in Appendix A sets out the assurance opinions issued from audits and follow-up reviews completed since 31st March 2012, and any subsequent changes in assurance level.

Controls Assurance Statement

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

Assurance Level (most recent review)	Number of Audit Opinions				
	2012/13				2011/12
	Financial Audits	Governance Audits	Other Audits	Total	
Maximum 	1	0	0	1	7
Substantial 	7	3	7	17	13
Limited 	3	1	2	6	4
Minimal 	0	1	0	1	0
Totals	11	5	9	25	24

- 2.14 Through established procedures, the Audit Committee will continue to receive updates on progress with those audits which have not reached at least the “substantial” assurance level. At present this consists of the one audit with “minimal” assurance and the seven audits whose assurance ratings stand as “limited”. These procedures for reporting and following up audits and reporting progress to Audit Committee continue to operate effectively.

Financial Systems Audits

- 2.15 This relates to eleven financial system audits. Assurance levels on the Council’s key corporate financial systems remain consistently high. A “maximum” assurance opinion was issued in relation to the council’s Council Tax administration. Three audits resulted in a “limited” assurance opinion, these being in relation to:
- Asset management (maintenance of inventories);
 - Purchase ordering and creditor payment processes – Environmental Services;
 - Debt Management – Council Housing
- 2.16 Action is being taken to improve the standard of inventories maintained throughout the council and this is an area of relatively low risk. In the latter two cases, action plans have been developed to review operations and address inefficiencies in the systems involved.
- 2.17 Given the work undertaken, it is the Internal Audit Manager’s opinion that effective internal controls exist to ensure the accuracy and integrity of the key financial systems and that no significant ongoing control weaknesses have been identified.

Governance Arrangements

- 2.18 A “substantial” assurance opinion was issued on three of the five governance audits undertaken. An audit covering the council’s complaints policy and procedures originally resulted in a “minimal” opinion which was subsequently raised to “limited” at follow-up. Greater assurance will be delivered as the new policy and procedures are implemented; the Committee will receive further updates on this issue.
- 2.19 One audit during the year, into “Information Security and the use of Emails” resulted in “minimal” assurance. This audit has resulted in an ongoing programme to raise standards throughout the council and an undertaking has been made to keep the Audit Committee informed of progress.
- 2.20 In the Internal Audit Manager’s view, the extent of the issues surrounding information security and the plans in place to address those issues are of sufficient significance to warrant specific mention in the annual governance statement.

Other Audits

2.21 This section covers nine audits, three of which resulted in a “limited” assurance opinion, these being in relation to:

- IT Standards and change control;
- Septic tanks; and
- Affordable warmth

2.22 In the Internal Audit Manager’s opinion, no control weaknesses have been identified which are so significant as to warrant disclosure in the Council’s Annual Governance Statement. Where control weaknesses have been identified, remedial action has been agreed and arrangements are in place to monitor the implementation of those actions and the level of assurance provided.

3.0 Details of Consultation

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

4.0 Options and Options Analysis (including risk assessment)

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


5.0 Conclusion

5.1 The work of Internal Audit seeks to provide assurance to the Council as to the appropriateness and effectiveness of its internal control and corporate governance arrangements. During the 2012/13 financial year, Internal Audit’s work has provided assurance in a variety of areas as well as incorporating input and contribution to the development of a number of key systems and processes.


<p>CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</p> <p>This report has no direct impact on these areas.</p>	
<p>FINANCIAL IMPLICATIONS</p> <p>None arising from this report.</p>	
<p>SECTION 151 OFFICER’S COMMENTS</p> <p>The Section 151 Officer has been consulted and has no further comments.</p>	
<p>LEGAL IMPLICATIONS</p> <p>None arising from this report</p>	
<p>MONITORING OFFICER’S COMMENTS</p> <p>The Monitoring Officer has been consulted and has no further comments.</p>	
<p>BACKGROUND PAPERS</p> <p>Internal Audit Plan 2012/13</p>	<p>Contact Officer: Derek Whiteway Telephone: 01524 582028 E-mail: dwhiteway@lancaster.gov.uk Ref: aud/ctte/aud/130626/IAAnnRep</p>

Financial Audits


10/0810 Transactional Applications - Payroll Audit


15-Jun-12 Substantial  Arrangements are in place to ensure that payroll transactions are appropriate, correct and effectively managed and these will be further strengthened upon implementation of the new Payroll system (ResourceLink Aurora) which is expected to be within the next six months.

10/0819 Transactional Applications - Purchasing Cards


15-Jun-12 Substantial  The assurance opinion has been raised to reflect that procedures and processes surrounding purchasing card transactions have been strengthened, with the majority of actions resulting from the original review having been fully implemented. Arrangements will be further strengthened once the system which has recently been developed to scan documentation supporting purchasing card transactions is rolled out across the authority and periodic checking is introduced.


11/0829 Transactional Applications - Housing Rents

16-Nov-12 Substantial  Testing confirmed that improvements have been made to arrangements for ensuring that documentary evidence is retained in support of transactions carried out, therefore providing a clear audit trail. Whilst testing showed that occasional delays have occurred in setting up rent accounts, confirmation has been received that staff management arrangements are now in place to prevent this situation reoccurring.


03-May-12 Substantial  The Authority has good systems and processes in place to ensure that housing rent transactions are appropriate, correct and effectively managed, and the incidence of error is low.


11/0833 Asset Management

08-May-13 Limited  Actions agreed following the original review are in the process of being implemented. In particular, guidance for Services regarding the maintenance of inventories is currently being developed, this being due for issue in April/May 2013. Therefore, at present the level of assurance which can be provided remains at Limited.


16-May-12 Limited  Currently the majority of office inventories are out of date, and checks to verify the existence of assets have not been performed for some time. The standard, format and value of items included in inventories also varies between Services. Therefore, a limited level of assurance has been provided at present as improvements are required in relation to the arrangements for maintaining and managing inventories. Implementation of the action plan should result in an improved level of assurance.

11/0842 Purchase Ordering and Creditor Payments 2011-12


24-Sep-12 Substantial  A review of progress made has confirmed that action has been taken to address the issues raised and improvements have been made. Improvements required to ensure that official orders are raised wherever possible are to be addressed through the Procure to Pay project, scheduled for introduction in August 2013. Therefore, a substantial level of assurance remains.


28-May-12 Substantial  The Authority has good arrangements in place to ensure that creditor transactions are appropriate, correct and effectively managed with only minor issues being identified. Arrangements identified for improvement in relation to purchase orders will be addressed through implementation of the agreed action plan.

12/0857 Purchase Ordering and Creditor Payment Processes within Environmental Services

13-Mar-13 Limited  Generally ordering arrangements are good, processes include an appropriate segregation of duties and payments are made in accordance with the Prompt Payment Code. However arrangements for the receipt of goods need to be improved to ensure compliance with Financial Regulations and Procedures. There is also scope for improving the efficiency of systems and consideration needs to be given to the appropriateness of current arrangements, especially those relating to Council Housing rechargeable repairs.


12/0859 Income Management

22-Apr-13 Substantial  Implementation of all actions agreed following the review in January have further strengthened control in relation to income management. Staff have been reminded of correct procedure in relation to a number of issues, including improvements necessary to comply with Payment Card Industry Data Security Standards. The Income Management Policy and supporting guidance have been updated accordingly and published on the Intranet.


08-Jan-13 Substantial  A review of income management arrangements has established that effective systems and procedures are in place to ensure that transactions are appropriate, robust and secure minimising the risk of loss through non-compliance, error or fraud. Implementation of the actions agreed should further strengthen control.

Financial Audits


12/0861 Debt Management - Council Housing

29-May-13	Limited		Council Housing debts are currently managed via two systems, the corporate financial system (Civica) and the Council Housing management system (Anite). It remains to be determined how the systems and procedures are to be used for managing Council Housing debt in the future. However, once this has been determined, Council Housing need to review arrangements with a view to improving invoicing and debt management procedures particularly in respect of rechargeable repairs and leaseholder charges. Regardless of which systems are used for managing debt in the future, the Service needs to introduce the same level of debt monitoring and review for the debt in Civica as is currently in place for the debt within Anite, and ensure that corporate financial monitoring requirements are met.
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12/0862 Housing and Council Tax Benefits 2012/13 (Council Tax Support) - Lancaster

05-Jun-13	Substantial		A 'Substantial' level of assurance has been given on the basis that good arrangements were put in place to adopt and implement a Localised Council Tax Support Scheme within the prescribed timescales. Proposals for the new scheme were appropriately informed and details of the new scheme were communicated to residents. As the scheme adopted was to retain existing levels of council tax support for 2013/14 the financial implications of this decision are to be closely monitored and due consideration is to be given to the key risks facing the authority, whilst options for the 2014/15 scheme are being considered and consulted on.
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12/0864 NDR 2012/13 - Lancaster

06-Feb-13	Substantial		Systems and procedures for the collection of National Non-Domestic Rates (NNDR) are well managed and appropriate arrangements are being put in place to collect and manage the levy in respect of the Lancaster Business Improvement District (BID). Arrangements for completing NNDR returns are to be improved to ensure accuracy.
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12/0866 Council Tax 2012/13 - Lancaster


19-Mar-13	Maximum		Evaluation of systems and procedures found that appropriate arrangements are in place to ensure segregation of duties, with good levels of supervision and internal check taking place. Arrangements for awarding exemptions and discounts are robust, and effective procedures are in place to maximise income through appropriate arrangements to pay.
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Governance Audits


10/0762 Regeneration and Policy Probity

27-Jun-12	Substantial		The opinion remains 'substantial' as the risk of external challenge through roles and responsibilities being inappropriately assigned is no longer a concern, the recent senior management restructure maintaining a clear separation between the planning and property functions.
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11/0828 Business Continuity



20-Aug-12	Substantial		A review of progress made has confirmed that the issues identified by the Newland II exercise have been addressed and that Environmental Services Business Continuity Plan has been updated to reflect the lessons learned. Work continues to ensure that lessons learned are shared and applied corporately, and that ICT requirements in relation to business continuity are considered. Therefore, a substantial level of assurance remains.
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11/0837 Complaints


27-Nov-12	Limited		Significant progress has been made by the Complaints Officer Working Group in developing efficient and effective arrangements for managing complaints. Implementation of the new Customer Comments, Compliments and Complaints Policy and procedures should ensure a consistent approach is taken when dealing with complaints, and serve to identify potential service areas in need of review or improvement. Arrangements are continuing to develop and systems to aid the effective management of complaints are to be introduced. Once fully implemented, a substantial level of assurance should be achieved. Given the position it is proposed to provide updates on progress to subsequent meetings of Audit Committee.
29-May-12	Minimal		This review has found the complaints policy is accessible to the public but the definition of complaint is not universally understood throughout the council, Service approaches to complaints management vary and complaints data is not being captured completely and consistently thus potentially leading to significant or consistent failings going unnoticed. However, there is a desire and willingness throughout the council to improve arrangements and an officer working group is currently working on a comprehensive review of the Authority's approach to complaints handling.

Governance Audits

12/0850 Corporate Whistleblowing Arrangements


28-Jan-13	Substantial		Actions agreed following the review in August have either been fully implemented, or are in the process of being developed. The Raising Concerns (formerly Whistleblowing) Policy is in place which reflects good practice, and staff have been made aware of the Policy and reminded of its objectives. Training and guidance in support of the Policy is currently being developed.
02-Aug-12	Substantial		A review of the current Whistleblowing Policy and associated arrangements established that whilst the Policy broadly complies with good practice, with few improvements required, more needs to be done to raise awareness and confidence in current arrangements, and that Managers have a significant role to play in helping to achieve this. Arrangements will be strengthened through implementation of the agreed action plan.

12/0856 Information Security and the Use of Emails


21-Dec-12	Minimal		The assurance opinion reflects the fact that arrangements for the security of information, including personal and sensitive information, are inadequate in some Services and the Authority is at risk of external challenge which could negatively impact upon its reputation and result in a significant fine. There is an urgent need to raise awareness and foster a culture where data is appropriately protected.
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Other Audits


10/0799 IT Standards and Change Control

27-Apr-12	Limited		Effective IT standards and change control should ensure any changes to the IT environment are appropriate, authorised and correct, and service delivery and system quality and security is not compromised. Whilst a change control policy setting out these standards has been drafted it is yet to be formally adopted and published and a number of actions which are linked to the introduction of this document remain outstanding. Progress to develop a program documentation standard has been delayed as a result of the ongoing negotiations surrounding the One Connect shared service arrangement. The level of assurance which can be provided at this time therefore remains at limited.
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11/0821 Repairs and Maintenance Section - Partnership with Forrest

15-May-13	Substantial		Since the time of the review in October 2011, officers have continued to develop effective arrangements for working within the partnership framework. Communication and trust have also significantly improved resulting in strong working relationships and good working practices. Effective arrangements are in place to ensure that work is completed on time, within budget and to a high standard. Good arrangements are also in place for recharging leaseholders.
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10/0830 Consultancy Commissioning and Procurement Arrangements - CBRE and Cobbetts

29-May-12	Substantial		The assurance opinion given is the same as that given on the original, more extensive Internal Audit review of Consultancy Commissioning and Procurement Arrangements (11/0826 reported 20th September 2011) on the basis that the non-compliance found in respect of the engagements of CBRE and Cobbetts was down to systems and procedures not having been followed by officers rather than any systemic weaknesses or shortcomings in corporate procedures or Contract Procedure Rules. The officer failings have been dealt with through the proper personnel procedures and are outside the scope of this report.
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11/0831 Williamson Park



04-Sep-12	Substantial		The assurance opinion has been raised to reflect that a number of procedures and processes at the Park have been strengthened, with the majority of actions resulting from the original review having been fully implemented.
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12/0847 AONB



25-Mar-13	Substantial		The Unit is continuing to further improve its already effective financial management arrangements and is taking positive steps to secure its long term viability. The three actions resulting from the original audit have been implemented.
02-Oct-12	Substantial		The review has established that the AONB Unit is taking positive steps to manage the ongoing reductions in core funding and is taking appropriate action to secure its long term viability. The Unit has effective financial management arrangements in place and working arrangements between the Unit and the City Council are good. The Unit has effective arrangements in place to ensure that SDF grants are awarded in accordance with the requirements of the scheme and that this can be appropriately demonstrated. Although there are good arrangements in place between the City Council and the Unit to manage the LNR wardening contract, actions have been agreed to review these arrangements ensuring that they are appropriate to the needs of the Service, risks are minimised and the Council continues to achieve good value for money.

Other Audits



12/0851 Disabled Facilities Grant (DFG)

26-Oct-12	Substantial		The Service is in the process of introducing new procedures which will help to evidence the verification of information supporting disabled facilities grants. 'Maximum' assurance should be achievable once the new procedures are fully operational.
27-Jun-12	Substantial		The council has good arrangements and processes in place for administering disabled facilities grants and implementation of the action agreed to evidence the verification of information supporting claims will further strengthen control.


12/0855 Septic Tanks

06-Jun-13	Limited		Whilst significant progress has been made with implementation of the action plan and improvements have been made, the review of systems is ongoing and new procedures will not be fully implemented until the new contract is in place. Therefore, a limited level of assurance remains. Given the current position, Internal Audit will review progress again with a view to reporting to the September meeting of the Audit Committee.
24-Oct-12	Limited		The review has identified that improved arrangements are required in order to ensure efficient and effective management of the septic tank maintenance contract. These include more robust monitoring arrangements, better record keeping, improved communication with householders, and more efficient invoicing arrangements. Therefore limited assurance can be provided at present in relation to the arrangements in place. A substantial level of assurance could be achieved through implementation of the agreed action plan.

12/0860 Markets

10-May-13	Substantial		Good progress has been made to implement the actions agreed at the original review and this is reflected in the assurance opinion being raised from 'Limited' to 'Substantial'. A comprehensive master record of stalls and stallholders has been produced which is being used to ensure that licences are appropriately issued, all traders maintain up-to-date public liability insurance and payments due are correctly calculated and the audit trail is complete.
30-Oct-12	Limited		The opinion is limited on the basis that a master record of stalls and stallholders is needed to ensure: <ul style="list-style-type: none"> - payments due are correctly calculated and the audit trail is complete; - licences are issued appropriately and correctly; and - all traders maintain up-to-date public liability insurance. Once this is in place, management arrangements at the three markets have been aligned, responsibilities are clear and the changes have had chance to settle down 'Substantial' assurance should be achieved.

12/0878 Affordable Warmth

30-May-13	Limited		Whilst the Authority is currently helping vulnerable households to achieve affordable warmth, the development of a strategy with clearly defined aims and objectives would provide more strategic direction and a co-ordinated approach. Funding is available to March 2014, however arrangements for resourcing affordable warmth objectives beyond this point need to be considered in the context of overall Council priorities.
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AUDIT COMMITTEE**Internal Audit Monitoring Report
26 June 2013****Report of Internal Audit Manager****PURPOSE OF REPORT**

To advise Members of the latest monitoring position regarding the 2013/14 Internal Audit Plan and update Members on the results of recent audits. Also, to seek Members' approval for the proposed supply of internal audit work to an external body, with an associated change to planned resource allocations.

This report is public

RECOMMENDATIONS

- (1) That the current monitoring position is noted.
- (2) That the proposal to supply up to 25 days of audit resource to the Lake District National Park Authority in 2013/14 is approved and the audit plan adjusted as set out in § 1.6 to take account of this arrangement.
- (3) That the results of recent audits (sections 2-3 of the report) are noted.

1.0 Audit Plan Monitoring to 31st May 2013

- 1.1 The 2013/14 Internal Audit Plan was approved by the Audit Committee at its meeting on 24th April 2013. This report is based on the monitoring position up to 31st May 2013 and a detailed monitoring report as at that date is attached as Appendix A. In summary, the position at that date was as shown in the following table.

1.2 Summary of monitoring position at 31st May 2013



Area of work	Resources (audit days)					
	Actuals to 31/05/13	Remain-ing	Comm-itted	Current Plan	Variance	Proposed Plan
Assurance Work						
Core Financial Systems	10	0	10	100	90	100
Revenues & Benefits Shared Services	6	3	9	60	51	60
Core Management Arrangements	8	14	22	80	58	80
Risk Based Assurance Audits	38	50	88	140	52	140
Follow-Up Reviews	19	41	60	60	0	60
Sub-Total, Assurance	81	108	189	440	251	440
Consultancy Work						
Support Work	6	10	16	40	24	40
Ad-Hoc Advice	17	48	65	65	0	65
Sub-Total, Consultancy	23	58	81	105	24	105
Other Work						
Other Duties (Non-Audit)	0	15	15	15	0	15
Work for Other Bodies	2	0	2	10	8	25
Audit Management	8	42	50	50	0	50
Sub-Total, Other Work	10	57	67	75	8	90
Contingencies						
Investigations	0	0	0	30	30	30
General Contingency	0	0	0	40	40	40
Sub-Total, Contingencies	0	0	0	70	70	70
Total	114	223	337	690	353	690

- 1.3 The monitoring position takes account of ongoing and planned work commitments. This shows that overall, current commitments total 337 days, compared with the current plan of 690 days, giving an uncommitted resource of 353 days. This includes both the general contingency of 40 days and contingency for investigation work of 30 days.
- 1.4 At this early stage in the year there is no indication of any pressures arising within the plan.
- 1.5 As reported to the last meeting of the Committee, audit work had been carried out in 2012/13 on behalf of the Lake District National Park Authority (LDNPA) and a provision of 10 days was included in the 2013/14 plan in case further opportunities arose. Two further days have been supplied to the LDNPA in May 2013 to provide necessary internal audit certificates for two grant claims.

- 1.6 Further discussions with the LDNPA have led to a request for the council's internal audit function to provide up to 25 days audit resource during 2013/14, to help fulfil the authority's internal audit plan. Given the resources available for, and current lack of identifiable pressures within the City Council's plan, it is felt that undertaking this work can be managed with a minimal impact on the levels of audit assurance provided to the City Council. It is proposed to find the additional 15 days required by reducing the budget for Risk Based Audits by 10 days and the budget for Support Work by 5 days. Members are asked to approve both the proposal to provide audit resources to the LDNPA and the associated changes to the plan.

2.0 Results of Internal Audit Work to 31st May 2013

- 2.1 This report covers audit work and reports issued since the Results of Audit Work were last reported to Committee on 24th April 2013. Summary reports have been 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	
New Audit Reports				
12/0861	Debt Management – Council Housing	29/05/13	Limited	
12/0878	Affordable Warmth	30/05/13	Limited	
12/0862	Housing and Council Tax Benefits 2012/13	05/06/13	Substantial	
Follow up Reviews				
12/0859	Income Management	22/04/13	Substantial	
12/0860	Markets	10/05/13	Substantial	
12/0847	AONB	14/05/13	Substantial	
12/0821	RMS – Partnership with Forrest	15/05/13	Substantial	

3.0 Matters Arising from Audit Reviews

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

3.2 12/0861 Debt Management – Council Housing (Limited)

- Both the corporate system (Civica) and Council Housing's system (Anite) facilitate the management of debts in accordance with Financial Regulations and Procedures.
- A way forward is to be determined on the system(s) to be used, ensuring corporate financial monitoring arrangements are met.
- Housing rent arrears and associated costs managed in Anite, are pursued in accordance with corporate debt recovery procedures and effective monitoring arrangements are in place.
- Actions have been agreed to improve charging and billing arrangements in respect of rechargeable repairs.
- Procedures and processes have been developed over the past twelve months to improve the administration and collection of Lifeline charges and these should be fully operational during 2013/14.

- A review of leaseholder charging arrangements is needed to ensure accurate and prompt invoicing which is in line with legislation.
- Procedures for reconciling rent arrears between Anite and the general ledger are robust.

An action plan has been developed, setting out measures to address the issues arising from the audit. Progress will be reviewed and reported to the Audit Committee in line with normal follow-up arrangements.

3.3 12/0878 Affordable Warmth (Limited)

- The Authority's aims and objectives are to be defined, and a strategy developed, to ensure a co-ordinated approach is taken to helping vulnerable households achieve affordable warmth.
- Ownership of the Authority's aims and objectives in relation to affordable warmth is to be defined, and roles and responsibilities formally agreed.
- As a member of the Fylde Coast and Lancaster Affordable Warmth Group, the Authority has access to a useful network to share knowledge and skills.
- Good arrangements are in place for identifying vulnerable households which the Authority is seeking to help achieve affordable warmth.
- Robust arrangements are in place for monitoring and reporting on performance.
- Arrangements for funding affordable warmth objectives beyond March 2014, when current funding ends, are to be reviewed.
- Arrangements are in place for keeping up to date with impending changes brought about by the transfer of public health responsibilities.

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 options available to the Committee are either to endorse the proposed changes to the plan or to propose an alternative course of action.

6.0 Conclusion

6.1 There are no unmanageable pressures within the audit plan at present. Some realignment of plan allocations is required to reflect additional time spent on Core Financial Systems and Support Work issues. The programme of audits for the rest of the year continues to be developed in consultation with senior management.

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 2013/14

Contact Officer: Derek Whiteway

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E-mail: dwhiteway@lancaster.gov.uk

Ref: aud/comm/audit/130626IAMon

Internal Audit Annual Plan 2012/13 - Monitoring to 31 May 2013

Appendix A

Work Allocations		Actuals to 31/05/13	Remaining	Committed	Approved Plan (24/04/13)	Variance	Status at 31/05/13
Job No	Title						
1. ASSURANCE WORK							
LCC Core Financial Systems							
12/0861	Debt Management - Council Housing	10	0	10			✓
Sub-total - Core Financial Systems		10	0	10	100	90	
Revenues Shared Service - Financial Systems							
12/0862	Housing & Council Tax Benefits 2012/13 (Lancaster)	4	3	7			✓
12/0863	Housing & Council Tax Benefits 2012/13 (Preston)	1	0	1			✓
12/0867	Council Tax 2013/13 (Preston)	1	0	1			✓
Sub-total - Revenues Shared Services		6	3	9	60	51	
Core Management Arrangements							
12/0846	National Fraud Initiative 2012/13	2	3	5			⚠
12/0868	Risk Management	5	1	6			⚠
12/0871	HR Systems Replacement - ResourceLink Aurora	0	6	6			⚠
12/0879	Annual Governance Review 2012/13	1	4	5			⚠
Sub-total - Core Management Arrangements		8	14	22	80	58	
Risk Based Assurance Work Programme							
12/0874	Fees & Charges - Salt Ayre Sports Centre	5	8	13			⚠
12/0875	Fees & Charges - Visitor Information Centres	7	2	9			⚠
12/0877	Corporate Property Service Contracts	11	2	13			⚠
12/0878	Affordable Warmth	3	0	3			✓
13/0883	Working Time Arrangements	3	13	16			⚠
13/0885	Fees & Charges - Environmental Health	3	9	12			⚠
13/0886	Fees & Charges - Planning & Building Control	3	7	10			⚠
13/0887	Heritage Assets	3	9	12			⚠
Sub-total - Risk Based Assurance Work		38	50	88	140	52	
Follow-Up Reviews		19	41	60	60	0	∞
SUB-TOTAL - ASSURANCE WORK		81	108	189	440	251	
2. CONSULTANCY WORK							
Support Work (projects and other)							
12/0509	RIPA Monitoring and Central Register	1	2	3			∞
12/0807	Information Management Group	0	2	2			∞
12/0870	Information Security and PSN Code of Connection	0	3	3			⚠
12/0876	Financial Regulations Review	5	3	8			⚠
Sub-total - Support Work		6	10	16	40	24	
Ad-Hoc Advice		17	48	65	65	0	∞
SUB-TOTAL - CONSULTANCY WORK		23	58	81	105	24	
3. OTHER							
12/0392	Deputy s151 Officer Duties	0	15	15	15	0	∞
	Audit Work for Other Bodies - LDNPA	2	0	2	10	8	⚠
SUB-TOTAL - OTHER		2	15	17	25	8	
4. AUDIT MANAGEMENT							
12/0172	Committee Work	2	13	15			∞
12/0189	Audit Planning & Monitoring	6	29	35			∞
SUB-TOTAL - AUDIT MANAGEMENT		8	42	50	50	0	
5. CONTINGENCIES							
Investigations		0	0	0	30	30	
General Contingency		0	0	0	40	40	
SUB-TOTAL - CONTINGENCIES		0	0	0	70	70	
TOTALS		114	223	337	690	353	

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

AUDIT COMMITTEE**Internal Audit Charter and New
Public Services Internal Audit Standards
26 June 2013****Report of Internal Audit Manager****PURPOSE OF REPORT**

To advise Members of the introduction of new professional standards relating to internal audit and to seek Members' approval for a revised Internal Audit Charter

This report is public

RECOMMENDATIONS

- (1) That the report is noted.
- (2) That the revised Internal Audit Charter is approved.

1.0 Background

- 1.1 The Accounts and Audit (England) Regulations 2011 require local authorities to undertake internal audit in accordance with "proper practices". Up until 1st April 2013, proper practices have been defined as those professional standards published by CIPFA¹. From 1st April 2013 these are replaced by the Public Sector Internal Audit Standards (PSIAS), a new set of standards developed for the UK's public services and based on the Global Institute of Internal Auditors (IIA Global) International Professional Practices Framework (IPPF).
- 1.2 CIPFA have recently supplemented the new standards with an Application Note providing guidance on the specific requirements for local government organisations. All local authorities who are subject to the Accounts and Audit Regulations are required to make provision for internal audit in accordance with the PSIAS as well as the Application Note.

2.0 Report

- 2.1 The PSIAS categorises standards into "Attribute Standards", being those that apply to the organisation as well as to individual auditors; and "Performance Standards", which describe the nature of internal audit services and criteria for assessing performance.

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

2.2 The two categories include the following:

Attribute Standards:

- (a) Purpose, Authority and Responsibility
- (b) Independence and Objectivity
- (c) Proficiency and Due Professional Care
- (d) Quality Assurance and Improvement Programme

Performance Standards:

- (e) Managing the Internal Audit Activity
- (f) Nature of Work
- (g) Engagement Planning
- (h) Performing the Engagement
- (i) Communicating Results
- (j) Monitoring Progress

2.3 In the majority of areas, the substance of the PSIAS is not significantly different to the former Code of Practice. The PSIAS does raise a number of specific points of relevance for the Audit Committee, which vary from, or add to, the previous Code requirements. These are outlined in Appendix A.

2.4 The Application Note also contains an extensive checklist for assessing compliance with the PSIAS and this will be used in future assessments of the effectiveness of internal audit. A full, preliminary self-assessment is to be made against the checklist to inform future direction, identify any changes required, and develop an action plan as necessary.

2.5 One of the mandatory aspects of the PSIAS, which can be addressed immediately, is the requirement for organisations to have an Internal Audit Charter. A charter as such was not required under the previous Code, and although one has been in place in the council for many years, it is timely to review its purpose and content.

2.6 This links well with an ongoing review of the Council's Financial Regulations and Financial Procedures. The current Internal Audit Charter covers a number of matters which are also set out in the existing Financial Procedures; this provides an opportunity to simplify and rationalise the documents, making the Audit Charter the comprehensive and definitive source of reference.

2.7 A proposed draft Internal Audit Charter is attached at Appendix B. This incorporates the key organisational elements required to meet the requirements of the PSIAS.

2.8 Members are asked to consider and approve the proposed charter.

3.0 Details of Consultation

3.1 Management Team have been consulted in developing the draft Audit Charter.

4.0 Options and Options Analysis (including risk assessment)

4.1 The options available to the Committee are to:

- a. approve the draft charter, either as presented, or with suggested changes; or
- b. propose an alternative course of action.

4.2 Option a) is the preferred option as it will provide the council and its internal audit function with the basis to establish compliance with the PSIAS. It will be possible to consider further minor changes should any be deemed necessary following a thorough assessment of the internal audit function against the PSIAS.

5.0 Conclusion

5.1 It is timely and appropriate to review the council's Internal Audit Charter at this time and establish the basis for compliance with new professional standards for internal audit.

<p>CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</p> <p>Not applicable</p>	
<p>FINANCIAL IMPLICATIONS</p> <p>None directly arising from this report</p>	
<p>SECTION 151 OFFICER'S COMMENTS</p> <p>The Section 151 Officer has been consulted and has no further comments</p>	
<p>LEGAL IMPLICATIONS</p> <p>None directly arising from this report</p>	
<p>MONITORING OFFICER'S COMMENTS</p> <p>The Monitoring Officer has been consulted and has no further comments</p>	
<p>BACKGROUND PAPERS</p> <p>Public Sector Internal Audit Standards</p> <p>Local Government Application Note for the UK PSIAS - (CIPFA, in collaboration with the Chartered Institute of Internal Auditors)</p>	<p>Contact Officer: Derek Whiteway Telephone: 01524 582028 E-mail: dwhiteway@lancaster.gov.uk Ref: aud/comm/audit/130626Charter</p>

Considerations arising from the PSIAS having implications for the Audit Committee

- (a) Requirement to have an Internal Audit Charter, with specific requirements for the public sector
- (b) Definition of the body which will fulfill the role of “the Board” as referred to in each standard, and include this definition within the Charter. (For the time being, and pending a full assessment against the standards, any reference to “the Board” as used in the PSIAS is being taken to refer to the Audit Committee.)
- (c) Approval must be sought from the board for any significant additional consulting services not already included within the audit plan, prior to accepting the engagement.
- (d) An external assessment of internal audit will be required at least every five years. The format of the external assessment can be either a full external assessment or an internal assessment with independent validation.
- (e) Local authorities must find an “appropriate sponsor” to whom the results of the external assessment must be communicated. This could be the audit committee chair or another officer within the organisation. The aim is to further safeguard the independence of the external assessment process.
- (f) All instances of non-conformance with the Standards must be reported to the board



**LANCASTER
CITY COUNCIL**

Promoting City, Coast & Countryside

LANCASTER CITY COUNCIL INTERNAL AUDIT CHARTER

TO BE PRESENTED TO AUDIT COMMITTEE 26/06/13

PREPARED BY THE INTERNAL AUDIT MANAGER

Revision History

Date of this revision:

Revision Date	Summary of Changes	Version
14/11/07	Initial Draft	0.01
23/01/08	Approved by Audit Committee	1.00
06/06/13	Complete Re-draft – to take account of PSIAS requirements	1.02

Distribution

Name	Title
Audit Committee	Internal Audit Charter

Approvals

Name	Date Approved	Link to Approval Minutes	Version
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Draft

INTERNAL AUDIT CHARTER (Draft, June 2013)

1. Introduction

- 1.1 Internal Audit in local authorities is a statutory function, required under the Accounts and Audit (England) Regulations 2011. The regulations state that; “***A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control***”
- 1.2 “Proper practices” in internal audit have to date been defined as complying with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit. This provided guidelines around the management, operations, resourcing and accountability of the service, and was used as the benchmark for external auditors to determine the extent to which they could place reliance on the Internal Audit Service.
- 1.3 From 1st April 2013, a completely new standard came into operation¹. This combines best practice from the global and private sector experience of the Institute of Internal Auditors (IIA), with the UK public sector expertise of CIPFA and other audit bodies in the public services. The resultant UK Public Sector Internal Audit Standards (PSIAS) will form the new benchmark against which local authority internal audit services will be assessed.
- 1.4 The Standards comprise a revised definition of Internal Auditing, a Code of Ethics for Internal Auditors working in the Public Sector and the Standards themselves. The Standards are mandatory for all internal auditors working in the UK public sector.

2. Definition of Internal Audit

- 2.1 The PSIAS defines internal auditing as “*an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.*”

3. Key Organisational Roles and Relationships

- 3.1 The PSIAS require that the internal audit charter defines the terms ‘*Board*’ and ‘*Senior Management*’ in relation to the work of internal audit. For the purposes of internal audit work, the ‘*Board*’ is taken to refer to the full Council, although in practice, the Audit Committee has delegated responsibility for overseeing the work of internal audit, on behalf of full Council. ‘*Senior Management*’ is taken to refer to the Chief Executive and Service Heads.
- 3.2 The authority has adopted CIPFA’s “*Statement on the Role of the Chief Financial Officer in Local Government*”, 2010, and the associated “*Statement on the Role of the Head of Internal Audit in Public Service Organisations*”, 2011. These statements set out principles and standards for the Head of Resources (as CFO and Section 151 Officer) and the Internal Audit Manager to act in a mutually supportive way in fulfilling their statutory and professional responsibilities.
- 3.3 Internal Audit supports the Chief Executive, as Head of Paid Service, in providing high level assurances relating to the council’s strategy and governance arrangements.
- 3.4 Internal Audit also supports the Head of Governance, as Monitoring Officer, in discharging his/her responsibilities in maintaining high standards of governance, conduct and ethical behaviour.
- 3.5 The Internal Audit Manager is responsible for the effective review of all aspects of governance, risk and internal control across the full range of the Authority’s activities.

¹ Public Sector Internal Audit Standards (Relevant Internal Audit Standard Setters, 2012)

- 3.6 The existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient, accountable and well-ordered manner.
- 3.7 Internal Audit works with, and is accountable to the council's Audit Committee, to ensure it can:
- o rely on the assurances provided by Internal Audit
 - o Rely on the assurances provided in respect of all other aspects of the Council's Governance arrangements, to enable them to perform an informed critique of the Annual Governance Statement, on behalf of the Council.

4. Independence and Objectivity

- 4.1 Internal Audit operates independently within the Council to ensure it is able to appraise the Authority's governance, risks and internal control systems in the impartial and unbiased manner essential to the proper conduct of audits.
- 4.2 To ensure this independence, Internal Audit operates within a framework that allows unrestricted access to all council officers, senior management and elected Members. As such, all Internal Audit staff have the right to access all premises, records and documentation held by the Council, its officers and Elected Members, and to seek explanations as they see necessary to effectively discharge their duties. This position is supported by the Accounts and Audit (England) Regulations 2011 (§ 6(2)).
- 4.3 The Internal Audit Manager will report in his / her own name to officers and Elected Members, as they are charged with maintaining effective governance within the organisation. The work of Internal Audit will be performed and reported in accordance with the direction and agreement of the Internal Audit Manager.
- 4.4 Objectivity is preserved by ensuring that internal audit personnel are free from conflicts of interest and do not undertake any non-audit duties. The sole exception to this is the Internal Audit Manager's role as a Deputy Section 151 Officer, which could lead to involvement in operational matters, creating a conflict of interest. Where there is a 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 directly by the Principal Auditor.
- 4.5 Where internal auditors have a perceived or real conflict of interest in undertaking a particular piece of work, this will be managed through the internal audit management and supervisory process. Internal auditors are required to declare any potential conflict of interest on an annual basis, and when they are assigned a particular audit review. The work will then be reassigned to another auditor.

5. Reporting Lines and Audit Reports

- 5.1 The Internal Audit Manager reports administratively to the Head of Resources.
- 5.2 Functionally, the work of internal audit is reported in full to senior managers, Members of the Audit Committee and the external auditor by means of specific reports, and in summary form to Audit Committee via periodic monitoring and activity reports.
- 5.3 The Internal Audit Manager and Chairman of the Audit Committee have mutual direct access to each other as they consider appropriate.
- 5.4 Most internal audit assignments will result in the production of a formal report. Draft reports will be sent to the manager(s) responsible for the area under review for agreement of the factual accuracy of findings and to develop an action plan to address weaknesses in internal controls.
- 5.5 Once agreed, final reports will be copied to the relevant Service Head(s), the Chief Executive and the Head of Resources as well as Members of the Audit Committee and the external audit manager.

- 5.6 Internal Audit will report regularly on the results of its work to senior management and the Audit Committee, highlighting significant control issues and potential for improving risk management and internal control processes.
- 5.7 Whilst management are responsible for the implementation of agreed actions, follow up work will be performed of significant recommendations to ensure they are being progressed. The Audit Committee will be advised of progress with the implementation of action plans, and the Committee may seek explanations directly from the managers responsible for any delays or failure to implement.

6. Scope of Internal Audit Work

- 6.1 The scope of Internal Audit covers all the Council's governance arrangements, procedures for ensuring the effective management of all significant risks and ensuring regularity in all its financial affairs, including achieving value for money.
- 6.2 Where the Council works in partnership with other organisations, the role of Internal Audit will be defined on an individual basis or agreed with the organisation through liaison with the relevant Service Head.
- 6.3 Where Internal Audit undertakes work on behalf of any other organisations, this will be determined in conjunction with the Audit Committee and in consultation with the Head of Resources, to ensure that adequate audit resources remain available to provide assurance over the council's activities. External assurance work will result in a report and assurance statement to the relevant organisation's Board and recommendations to its senior management.
- 6.4 Internal Audit may undertake consultancy work in addition to its primary assurance role and the extent of each will be set out in internal audit plans. The scope of any consultancy work will be agreed with management and will only be undertaken where resources permit without impacting on the annual assurance process. In line with the PSIAS, the Audit Committee will be advised of any consultancy work requested and performed.

7. Responsibility

- 7.1 The Internal Audit Manager is responsible for:
- o Developing and proposing the future strategic direction for Internal Audit within the Authority;
 - o Developing an annual audit plan in the context of the strategic direction and based on an understanding of the significant risks to which the organisation is exposed;
 - o Managing the provision of a complete professional internal audit service to the authority that is compliant with the PSIAS;
 - o Monitoring and reporting the performance of the Internal Audit service in accordance with the documented Internal Audit Performance Management Framework;
 - o Producing and reporting to Audit Committee an annual audit opinion, based on the outcomes of internal audit work conducted throughout the year;
 - o Providing advice and guidance on risks and the application and development of internal controls;
 - o Maintaining good working relationships with External Audit based on mutual recognition and respect, leading to a joint improvement in performance and the avoidance of unnecessary overlapping of work;
 - o Assessing all matters of potential fraud or irregularity in line with the requirement of the Council's Anti-Fraud, Corruption and Bribery Policy. Internal audit will undertake investigations as necessary into such matters and advise the Statutory Officers and Audit Committee of the outcomes.

8. Resourcing and Staffing Matters

- 8.1 Internal audit will be staffed according to the staffing structure as approved by the Head of Resources and advised to the Audit Committee and will aim to maintain a suitable mix of experienced and qualified staff. Adequate resources will be maintained to enable meaningful, evidenced assurances to be provided.
- 8.2 Individual training needs are established and agreed through the Employee Development and Performance Appraisal (EDPA) process along with the most cost effective means of meeting those needs. As a professional service, staff are expected to actively participate in formal Continuing Professional Development (CPD) schemes.

9. Ethics

- 9.1 The PSIAS contain a Code of Ethics which is mandatory for all internal auditors in the public sector. In addition, individuals are also required to adhere to the council's Code of Conduct for Employees and the Codes of Ethics of their professional bodies, where appropriate.
- 9.2 Internal Audit has adopted the PSIAS Code of Ethics. Staff will be required to declare annually any personal interests and certify that they understand and will comply with requirements of the Code.

10. Limitations of Internal Audit Responsibilities

- 10.1 In seeking to discharge the responsibilities of Internal Audit set out in §7 above, it should be noted that Internal Audit is not responsible for the following, which are the proper responsibility of management:
- Controlling the risks of the Authority;
 - Establishing and maintaining systems of internal control;
 - Determining operational policies or procedures; and
 - Preventing or detecting fraud and irregularity.