



Committee: AUDIT COMMITTEE
Date: WEDNESDAY, 17 JUNE 2015
Venue: MORECAMBE TOWN HALL
Time: 6.00 P.M.

AGENDA

1. **Apologies for Absence**

2. **Appointment of Vice-Chairman**

To appoint a Vice-Chairman for the 2015/16 municipal year. (The Vice-Chairman must not be a member of Cabinet or Overview and Scrutiny.)

3. **Minutes**

Minutes of the meeting held on 21 January 2015 (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.

Matters for Decision

6. **External Auditors Certification of Claims and Returns - Annual Report 2013/14**
(Pages 1 - 4)

Report of KPMG LLP

7. **External Audit Plan 2014/15** (Pages 5 - 31)
Report of KPMG LLP
8. **External Audit Annual Audit Fee Letter 2015/16** (Pages 32 - 37)
Report of KPMG LLP
9. **Audit Committee Terms of Reference** (Pages 38 - 43)
Report of Internal Audit Manager
10. **Internal Audit Annual Report and Assurance Statement for 2014/15** (Pages 44 - 53)
Report of Internal Audit Manager
11. **Internal Audit Strategy and Risk Based Plan 2015/16** (Pages 54 - 62)
Report of Internal Audit Manager
12. **Internal Audit Monitoring Report** (Pages 63 - 64)
Report of Internal Audit Manager

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

Councillors Matt Mann (Chairman), Brendan Hughes, Susan Sykes, Malcolm Thomas, David Whitaker, Anne Whitehead and Nicholas Wilkinson

(ii) Substitute Membership

Councillors Stuart Bateson, Colin Hartley, Roger Sherlock and Peter Williamson

(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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22 February 2015

Dear Nadine

Certification of claims and returns - annual report 2013/14

The Audit Commission requires its external auditors to prepare an annual report on the claims and returns it certifies for each client. This letter is our annual report for the certification work we have undertaken for 2013/14.

In 2013/14 we carried out certification work on the following claims/returns:

Claim/return	Certified value (£)
BEN01 – Housing Benefit Subsidy claim	42,549,454
CFB06 – Pooling of Housing Capital Receipts	428,220
Total	42,977,674

Matters arising

Our certification work did not identify any issues or errors with the Pooling of Housing Capital Receipts return and we certified this return unqualified without amendment.

A qualification was necessary for the Housing Benefit Subsidy claim as our sample testing found cases where the Council had misclassified or made incorrect benefit payments. The errors we identified are set out in the table below.



Ref	Summary observations
1	<p>Incorrect classification of overpayment of benefit</p> <p>Our initial sample identified:</p> <ul style="list-style-type: none"> ➤ 1 case (total value £302) where the Authority had incorrectly classified an overpayment as an eligible overpayment, rather than an LA error and administrative delay overpayment. <p>Testing of an additional sample of 40 cases identified:</p> <ul style="list-style-type: none"> ➤ 4 additional cases (total value of £580) which featured an overpayment which had been incorrectly classified as eligible.
2	<p>Incorrect calculation of rent officer's determination</p> <p>Our initial sample identified:</p> <ul style="list-style-type: none"> ➤ 1 case (total value £120) where the rent officer's determination had not taken into consideration ineligible costs. The maximum weekly benefit therefore included ineligible costs. <p>Testing of an additional sample of 40 cases identified:</p> <ul style="list-style-type: none"> ➤ 1 case (total value £56) where the rent officer's determination had not taken into considerations ineligible costs.
3	<p>Application of tax credits</p> <p>Our initial sample identified:</p> <ul style="list-style-type: none"> ➤ 1 error where a weekly tax credit was included in the calculation as if it were a 4 weekly tax credit therefore understating the claimant's income for the purpose of calculating benefit. <p>Testing of an additional sample of 40 cases identified no further errors.</p>
4	<p>Application of rent increases</p> <p>Our initial sample identified:</p> <ul style="list-style-type: none"> ➤ 1 error where a claimant's rent increased in the year but was not reflected in the benefit awarded, therefore the authority did not increase the benefit resulting in an underpayment of £44.19

No adjustments were made for the errors identified as given the nature of the population and the error found, it is unlikely that even significant additional work will result in amendments to the claim form that will allow us to conclude that it is fairly stated.

The Audit Commission's certification requirements mandate that any unadjusted error, regardless of its value, is reported and that a 'zero materiality' threshold is applied.



Certification work fees

The Audit Commission set an indicative fee for our certification work in 2013/14 of £10,589. Our actual fee was higher than the indicative fee, and this compares to the 2012/13 fee for these claims of £12,630. The fee is higher than the indicative fee as the amount of work and time required to certify the claim was much greater due to an increase in the number of errors.

The details are set out in the table below.

Claim	2013/14 Indicative fee (£)	2013/14 Final fee (£)	2012/13 Final fee (£)
BEN01 – Housing Benefit subsidy claim	9,459	12,606	11,500
CFB06 – Pooling of Housing Capital Receipts	1,130	1,130	1,130
Total	10,589	13,736	12,630

Yours sincerely

Tim Cutler
Partner



This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tim Cutler, who is the engagement leader to the Authority (telephone 0161 246 4774, e-mail tim.cutler@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees (telephone 0161 236 4000, e-mail trevor.rees@kpmg.co.uk) who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 444 8330.



cutting through complexity

External Audit Plan 2014/15

Lancaster City Council

June 2015

The contacts at KPMG in connection with this report are:

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

Scope of this report

This document supplements our *Audit Fee Letter 2014/15* presented to you in June 2014. It describes how we will deliver our financial statements audit work for Lancaster City Council ('the Authority'). It also sets out our approach to value for money (VFM) work for 2014/15.

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* and the *Audit Commission's Code of Audit Practice*.

The Audit Commission ceased to exist as of 31 March 2015. However our audit responsibilities under the *Audit Commission Act 1998* and the *Code of Audit Practice* in respect of the 2014/15 financial year remain unchanged.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to audit/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.

Details of the new audit arrangements are set out in Appendix 4. The Authority can expect further communication from the Audit Commission's successor bodies as the new arrangements are established. This plan restricts itself to reference to the existing arrangements.

Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, including any key risks identified this year for the financial statements audit and Value for Money arrangements Conclusion.
- 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 arrangements 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.

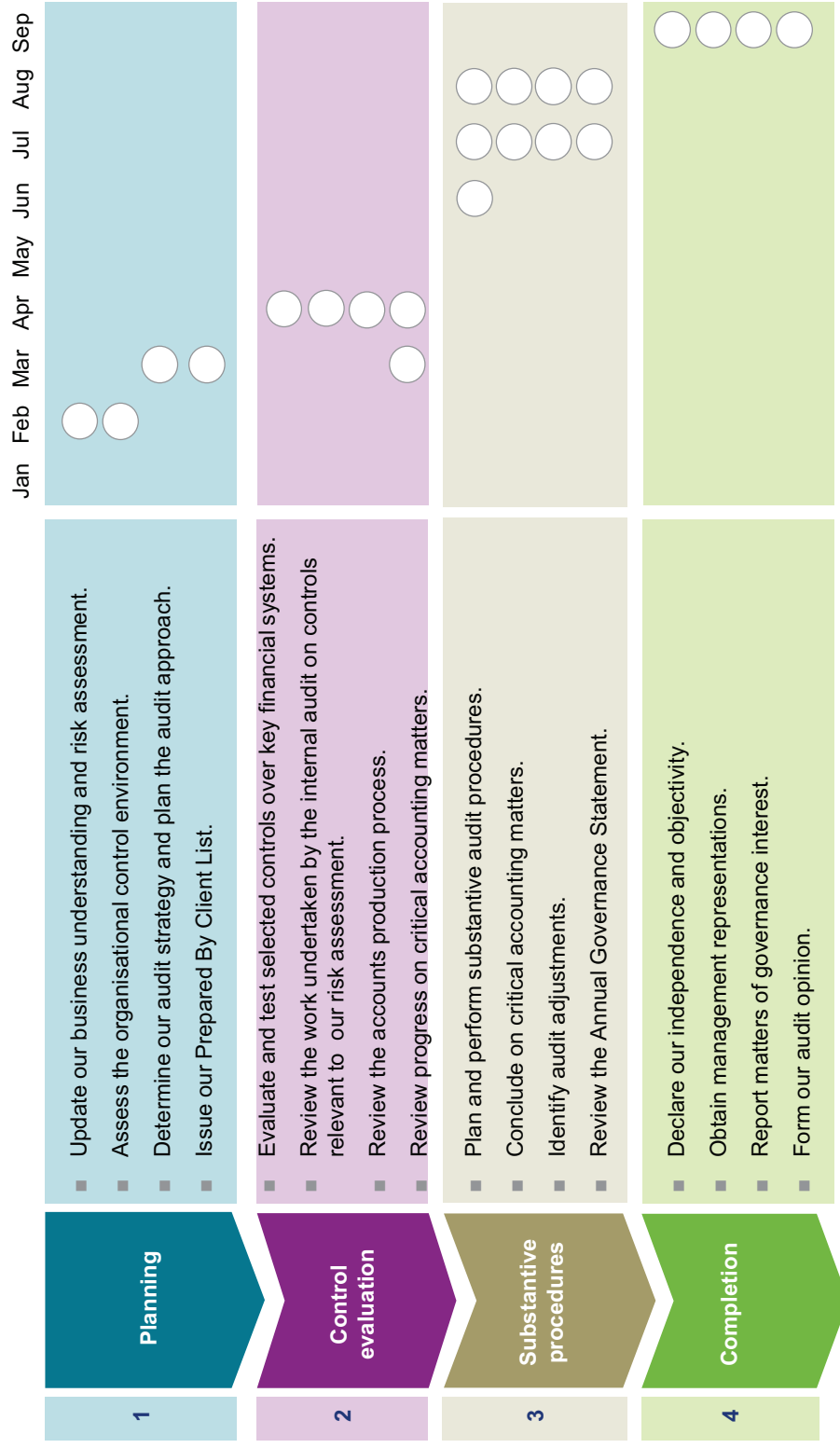
<p>Audit approach</p>	<p>Our overall audit approach remains similar to last year with no fundamental changes . Our work is carried out in four stages and the timings for these, and specifically our on site work, have been agreed with the Chief Officer (Resources) and Financial Services Manager.</p> <p>Our audit strategy and plan remain flexible as risks and issues change throughout the year. We will review the initial assessments presented in this document throughout the year and should any new risks emerge we will evaluate these and respond accordingly.</p>
<p>Key financial statements audit risks</p>	<p>We have completed our initial risk assessment for the financial statements audit and have identified a significant risk in relation to the NDR rates appeals provision, which requires management to estimate the potential cost of outstanding NDR rates appeals up until 31 March 2015. The calculation of the provision requires management to make significant assumptions and judgements, therefore there is a high level of estimation uncertainty in relation to this balance within the financial statements.</p> <p>This is described in more detail on page 11. We will assess this risk area as part of our interim work and conclude this work at year end.</p>
<p>VFM audit approach</p>	<p>We have completed our initial risk assessment for the VFM conclusion and have identified one VFM risk at this stage. However risk assessment is an on-going process. If we identify any new VFM risks during this on-going process we will communicate that to you.</p>
<p>Audit team, deliverables, timeline and fees</p>	<p>There have been no changes to the audit team 2014/15.</p> <p>Our main year end audit is currently planned to commence in July 2015. Upon conclusion of our work we will again present our findings to you in our <i>Report to Those Charged with Governance (ISA 260 Report)</i>.</p> <p>The planned fee for the 2014/15 audit is £76,950. This is unchanged from the position set out in our <i>Audit Fee Letter 2014-15</i>.</p>

Section three Our audit approach

We undertake our work on your financial statements in four key stages during 2015:

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

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



Section three Our audit approach – planning (continued)

During February and March 2015 we completed our planning work.

We assessed the key risks affecting the Authority's financial statements and discussed these with officers.

We assessed if there are any weaknesses in respect of central processes that would impact on our audit.

Our planning work took place in February and March 2015. This involved the following aspects:

Planning

- Updated our business understanding and risk assessment including fraud risk.
- Assessed the organisational control environment.
- Determined our audit strategy and planned the audit approach.

Business understanding and risk assessment

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

We identified the key risks including risk of fraud 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. Any risks identified to date through our risk assessment process 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.

We meet with the finance team on a regular basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

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 the relevant work of your internal auditors also informs our risk assessment.

Audit strategy and approach to materiality

Our audit is performed in accordance with International Standards on Auditing (ISAs) (UK and Ireland). 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 professional judgement and is set by the Engagement Lead.

In accordance with ISA 320 (UK&I) 'Audit materiality', we plan and perform our audit to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. Information is considered material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

Further details on assessment of materiality is set out on page 6 of this document.

Prepared By Client List

At the end of our planning work we have issued our *Prepared By Client List*, which sets out our audit approach and timetable, and also summarises the working papers and other evidence we require the Authority to provide during our interim and final accounts visits.

When we determine our audit strategy we set a monetary materiality level for planning purposes.

For 2014/15 we have set this at £3.0 million.

We will report all audit differences over £150,000 to the Audit Committee.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader’s perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

Materiality for planning purposes has been set at £3 million, which equates to 2 percent of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

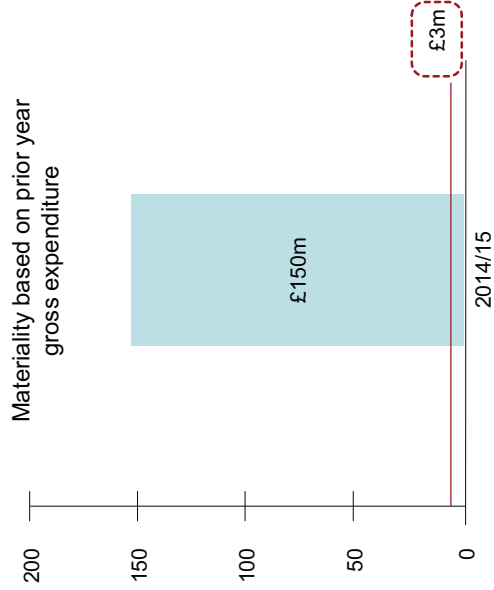
Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) ‘*Communication with those charged with governance*’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK&I) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 (UK&I), ‘*Evaluation of misstatements identified during the audit*’, requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £150,000.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



Section three

Our audit approach – control evaluation

During April 2015 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2014/15. 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 report any significant findings arising from our work to the management.

Our on site interim visit 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.

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.

Review of internal audit

Where our audit approach is to undertake controls work on financial systems, we seek to review any relevant work internal audit have completed to minimise unnecessary duplication of work. This will inform our overall risk assessment process.

Our audit approach – substantive procedures

During July to August 2015 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 2015.

Our final accounts visit on site has been provisionally scheduled for the two weeks commencing 13 July 2015. 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 part of this.

We report the findings of our audit of the financial statements work in our *ISA 260 Report*, which we will issue in September 2015.

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 key risk areas identified at the planning stage and any additional issues that may have emerged since.

We will discuss our early findings of the Authority's approach to address the key risk areas with the Chief Officer (Resources) and Financial Services Manager prior to reporting to the Audit Committee in September 2015.

Audit adjustments

During our on site work, we will meet with the Chief Officer (Resources) and Financial Services Manager to discuss the progress of the audit, any differences found and any other issues emerging.

In addition to the financial statements, we also review 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 your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2014/15 have not yet been confirmed.

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 specific 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 18.

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.

Appendix 1 provides further detail on auditors' responsibilities regarding independence and objectivity.

Confirmation statement

We confirm that as of 29 May 2015 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.

In this section we set out our assessment of the significant risks or other key areas of audit focus of the Authority's financial statements for 2014/15.

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our *ISA 260 Report*.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

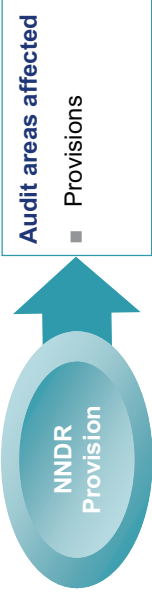
Appendix 3 covers more details on our assessment of fraud risk.

The table overleaf sets out the significant risk we have identified through our planning work that is specific to the audit of the Authority's financial statements for 2014/15.

We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.

Key financial statements audit risks (continued)

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

Key audit risk	Impact on audit
 <p>The diagram consists of a blue oval labeled 'NNDR Provision' with a large blue arrow pointing upwards to a white box with a blue border labeled 'Audit areas affected'. Inside this box, there is a bullet point labeled 'Provisions'.</p>	<p>Risk Following the introduction of the Business Rates Retention Scheme in April 2013, local authorities are liable for the cost of successful business rates appeals, up to the level of the annual safety net. As a result, the Authority was required to recognise a provision within the 2013/14 financial statements which estimated the potential cost of outstanding appeals up until 31 March 2014.</p> <p>A similar provision will need to be calculated and recognised within the 2014/15 financial statements to accurately reflect any changes to existing appeals and consider any new appeals up until 31 March 2015. The calculation of the provision requires management to make significant assumptions and judgements, therefore there is a high level of estimation uncertainty in relation to this balance within the financial statements. Since the year end, we understand that the Authority has reached a settlement for two of the significant appeals relating to the Heysham power stations. As such, the Authority will be able to include the actual impact of this settlement within the year end accounts, although the full financial impact is still to be determined.</p> <p>Our proposed audit work We will hold regular update meetings with management to discuss and understand the authority's ongoing approach to calculating the provision and ensuring it is accurate and complete.</p> <p>As in the prior year, the authority has chosen to use an expert, Inform CPI, to assist them in calculating the provision. We will evaluate the competence and capabilities of this expert and the adequacy of their work.</p> <p>The underlying assumptions used as the basis of the provision will be reviewed and assessed for reasonableness.</p> <p>The calculations implicit within the provision will be re-performed and assessed for accuracy and completeness.</p> <p>The accounting treatment relating to the settlement of the power station appeals will be reviewed to ensure the transactions have been accurately and completely recorded.</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

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 ; ■ evidence gained from previous audit work, including the response to that work; and ■ the work of 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. 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. 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. 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. 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, inspectorates and other 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 conclude on the results of the VFM audit through our ISA 260 Report.

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>On the following page, we report the results of our initial risk assessment.</p> <p>We will report on the results of the VFM audit through our <i>ISA 260 Report</i>. This will summarise 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>

Section five VFM audit approach (continued)


We have identified one specific VFM risk.

We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to this risk area is adequate.

We will carry out additional risk-based work in the following area:

- Savings Plans

- In line with the risk-based approach set out on the previous page, we have
- assessed the Authority's key business risks which are relevant to our VFM conclusion;
 - identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- considered the results of relevant work by the Authority, the Audit Commission, other inspectorates and review agencies in relation to these risk areas; and
- concluded to what extent we need to carry out additional risk-based work.
- Below we set out our preliminary findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion, We will report our final conclusions in our *ISA 260 Report 2014/15*.

Key VFM risk	Risk description and link to VFM conclusion	Preliminary assessment
	<p>In recent years, the City Council has faced substantial budgetary pressures, and it has managed these through a combination of measures.</p> <p>More specifically, the Authority originally estimated it would need to make savings of £1m in 2015/16. It has now set a balanced budget for that year, albeit drawing £1m from balances. Furthermore, it now estimates it will need to find savings of £1.5m in 2016/17 and £2m in 2017/18. Against a backdrop of continued demand pressures, it will become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability.</p> <p>Additionally, with the uncertainty around the political landscape, the direction of economic policy is unclear and therefore it is increasingly more challenging for authorities to accurately estimate future savings targets and financially plan for the medium term.</p> <p>This is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of the VFM conclusion.</p>	<p>Throughout our audit we will review the financial forecasts for 2015/16 and medium term financial plans.</p> <p>We will understand how management plans to deliver the required savings in a way that secures longer term financial and operational sustainability.</p> <p>Specific risk based work required: No</p>

Our 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.



Tim Cutler
Partner

“My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.

I will be the main point of contact for the Audit Committee and Chief Executive.”



Richard Lee
Senior Manager

“I am responsible for the management, review and delivery of the audit. I will work closely with Tim to ensure we add value and will liaise with the Chief Officer (Resources) and the Internal Audit Manager.”



Sukhsimran Singh
Assistant Manager

“I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.”

Deliverable	Purpose	Committee dates
Planning		
External Audit Plan	<ul style="list-style-type: none"> ■ Outlines our audit approach. ■ Identifies areas of audit focus and planned procedures. 	June 2015
Control evaluation and Substantive procedures		
Report to Those Charged with Governance (ISA 260 Report)	<ul style="list-style-type: none"> ■ Details control and process issues. ■ Details the resolution of key audit issues. ■ Communicates adjusted and unadjusted audit differences. ■ Highlights performance improvement recommendations identified during our audit. ■ Comments on the Authority's value for money arrangements. 	September 2015
Completion		
Auditor's Report	<ul style="list-style-type: none"> ■ Provides an opinion on your accounts (including the Annual Governance Statement). ■ Concludes on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion). 	September 2015
Whole of Government Accounts	<ul style="list-style-type: none"> ■ Provide our assurance statement on the Authority's WGA pack submission. 	September 2015
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 2015

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

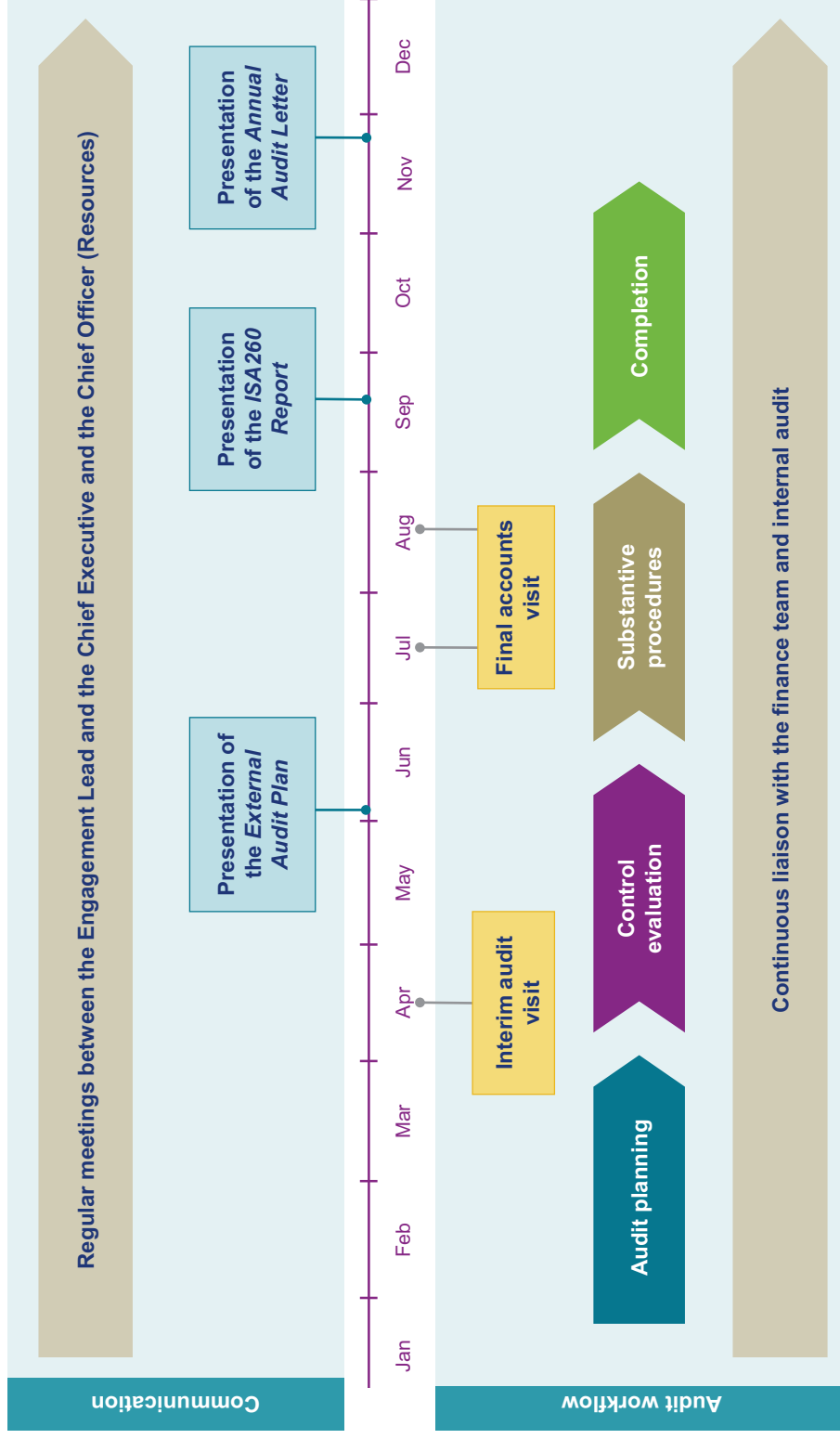
Key formal interactions with the Audit Committee are:

- June – External 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 and August.



The fee for the 2014/15 audit of the Authority is £76,950.

The fee has not changed from that set out in our Audit Fee Letter 2014/15 issued in June 2014.

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 2014/15* presented to you in June 2014 first set out our fees for the 2014/15 audit. We have not considered it necessary to make any changes to the agreed fees at this stage.

Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.

The planned audit fee for 2014/15 is **£76,950**. This is the same as the audit fee for 2013/14.

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 2014/15;
- 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 2014/15* within your 2014/15 financial statements;
- you will comply with the expectations set out in our Prepared By Client List, 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 or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

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 Chief Officer (Resources).

Appendix 1: 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:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of Commission-related work, and senior members of their audit teams should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.

- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Firms are expected to comply with the requirements of the Commission's protocols on provision of personal financial or tax advice to certain senior individuals at audited bodies, independence considerations in relation to procurement of services at audited bodies, and area wide internal audit work.
- 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 a periodic basis.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the standing guidance.

Appendix 2: 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. Tim Cutler 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.

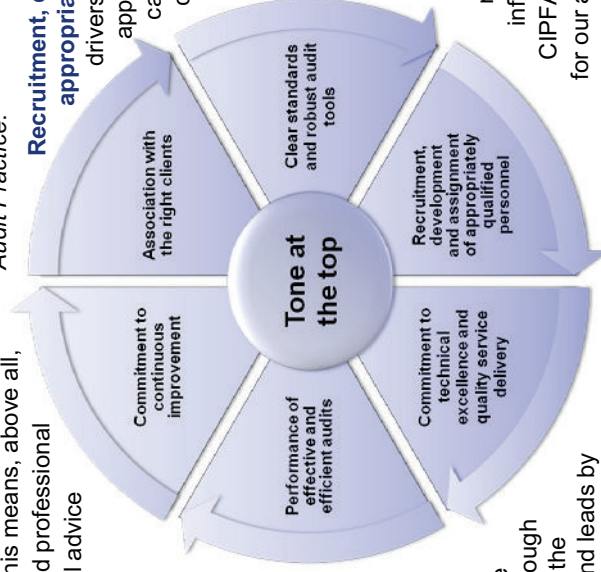
We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- 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 quarterly technical training.



Appendix 2: 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.

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 Audit Commission reviews. The Audit Commission publishes information on the quality of work provided by KPMG (and all other firms) for audits undertaken on behalf of them (<http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/principal-audits/kpmg-audit-quality>).

The latest Annual Regulatory Compliance and Quality Report (issued June 2014) showed that we are meeting the Audit Commission's overall audit quality and regularity compliance requirements.

Appendix 3 : Assessment of fraud risk

We are required to consider fraud and the impact that this has on our audit approach.

We will update our risk assessment throughout the audit process and adapt our approach accordingly.

Officers' responsibilities

- Adopt sound accounting policies.
- With oversight from those charged with governance, establish and maintain internal control, including controls to prevent, deter and detect fraud.
- Establish proper tone/culture/ethics.
- Require periodic confirmation by employees of their responsibilities.
- Take appropriate action in response to actual, suspected or alleged fraud.
- Disclose to Audit Committee and auditors:
 - any significant deficiencies in internal controls.
 - any fraud involving those with a significant role in internal controls.

KPMG's identification of fraud risk factors

- Review of accounting policies.
- Results of analytical procedures.
- Procedures to identify fraud risk factors.
- Discussion amongst engagement personnel.
- Enquiries of management, Audit Committee, and others.
- Evaluate controls that prevent, deter, and detect fraud.

KPMG's response to identified fraud risk factors

- Accounting policy assessment.
- Evaluate design of mitigating controls.
- Test effectiveness of controls.
- Address management override of controls.
- Perform substantive audit procedures.
- Evaluate all audit evidence.
- Communicate to Audit Committee and management

KPMG's identified fraud risk factors

- We will monitor the following areas throughout the year and adapt our audit approach accordingly.
 - Revenue recognition.
 - Management override of controls.

Appendix 4: Transfer of Audit Commissions' functions

The Audit Commission will be writing to audited bodies and other stakeholders in the coming months with more information about the transfer of the Commissions' regulatory and other functions.

From 1 April 2015 a transitional body, Public Sector Audit Appointments Limited (PSAA), established by the Local Government Association (LGA) as an independent company, will oversee the Commission's audit contracts until they end in 2017 (or 2020 if extended by DCLG). PSAA's responsibilities will include setting fees, appointing auditors and monitoring the quality of auditors' work. The responsibility for making arrangements for publishing the Commission's value for money profiles tool will also transfer to PSAA.

From 1 April 2015, the Commission's other functions will transfer to new organisations:

- responsibility for publishing the statutory Code of Audit Practice and guidance for auditors will transfer to the National Audit Office (NAO) for audits of the accounts from 2015/16;
- the Commission's responsibilities for local value for money studies will also transfer to the NAO;
- the National Fraud Initiative (NFI) will transfer to the Cabinet Office; and



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Lancaster
LA1 1PJ

Our ref **RL/016**

Contact **Richard Lee**
0161 246 4661

9 April 2015

Dear Nadine

Annual audit fee 2015/16

I am writing to confirm the audit work and fee that we propose for the 2015/16 financial year at Lancaster City Council.

Closure of the Audit Commission

Although the Audit Commission formally closed at the end of March 2015, it was responsible for setting audit fees for the audit of the 2015/16 financial year. Our fee proposals are therefore based on the Audit Commission's *Work Programme & Scales of Fees 2015/16*.

Following the closure of the Audit Commission, responsibility for determining audit fees in the future has transferred to Public Sector Audit Appointments Limited (PSAA), an independent company established by the Local Government Association. PSAA will oversee the management of the Audit Commission's audit contracts until they end in 2017, or 2020 if they are extended. The Secretary of State for Communities and Local Government has delegated certain functions formerly exercised by the Audit Commission to PSAA to enable it to deliver these functions.

Also following the Audit Commission's closure, the National Audit Office (NAO) is now responsible for producing and maintaining the Code of Audit Practice (the Code) and providing supporting guidance to auditors. We will follow the requirements of the Code and supporting guidance when delivering our audit work.

Planned audit fee

The planned audit and certification fees for 2015/16 are shown below, along with a comparison to the prior year's fee. All fees are exclusive of VAT.

Audit area	Planned fee 2015/16	Planned fee 2014/15
Code of Audit Practice audit fee	£58,388	£76,950*
Certification of grant claims & returns	£9,573	£10,320

*excludes recurring NNDR fee adjustment of £900 agreed during 2014/15 following changes to national certification arrangements.

In general, the Audit Commission set 2015/16 scale fees based on a reduction of 25 per cent to the fees applicable for 2014/15. This reduction is in addition to the savings of up to 40 per cent in scale audit fees and certification fees in 2012. The planned fee is in line with the scale fee.

As we have not yet completed our audit for 2014/15 the audit planning process for 2015/16, 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.

Factors affecting audit work for 2015/16

We tailor our work to reflect local circumstances and our assessment of audit risk. We do this by assessing the significant financial and operational risks facing an audited body, and the arrangements it has put in place to manage those risks, as well as considering changes affecting our audit responsibilities or financial reporting standards.

The Chartered Institute for Public Finance and Accountancy (CIPFA) has confirmed that a change in accounting policy will be introduced for the accounts from 2016/17, in relation to the measurement of transport infrastructure assets for authorities with highways responsibilities. Fees for any additional audit work required in 2015/16, the preparatory year, in relation to disclosures in the financial statements, will be subject to approval under the normal fee variations process. The Audit Commission decided that it was not appropriate to increase scale fees because the amount of work required at individual authorities will vary based on local circumstances, and may not be required for more than one year.

Under the Code, we have a responsibility to consider an audited body's arrangements to secure economy, efficiency and effectiveness in its use of resources. The 2015/16 fees have been set on the basis that the NAO's Code maintains the scope of work required by auditors under the Audit Commission's previous Code and supporting guidance. The NAO has not yet published guidance for auditors on the required approach to work on value for money arrangements for 2015/16.



Certification work

As well as our work under the Code, we will certify the 2015/16 claim for housing benefit subsidy to the Department for Work & Pensions.

There are no longer any other claims or returns that we are required to certify under the PSAA audit contract. Assurance arrangements for other schemes are a matter for the relevant grant-paying body, and may be the subject of separate fees and tri-partite arrangements between the grant-paying body, the audited body, and the auditor. We would be happy to discuss any such certification needs with you.

Assumptions

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, we 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 current year's audit. A more detailed audit plan will be issued in early 2016. This will detail the risks identified, planned audit procedures and (if required) any changes in fee. If we 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.

We expect to issue a number of reports relating to our 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.



Our team

The key members of our audit team for the 2015/16 audit are:

Name	Role	Contact details
Tim Cutler	Partner	tim.cutler@kpmg.co.uk 0161 246 4774
Richard Lee	Senior Manager	richard.lee@kpmg.co.uk 0161 246 4661
Sukhsimran Singh	Assistant Manager	sukhsimran.singh@kpmg.co.uk 0161 246 4668

Quality of service

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact me and I will try to resolve your complaint. If you are dissatisfied with your response please contact the national contact partner for all of KPMG's work under our contract with PSAA, Trevor Rees (on 0161 246 4063, or by email to trevor.rees@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to:

Public Sector Audit Appointments Limited
 3rd Floor
 Local Government House
 Smith Square
 London
 SW1P 3H

Yours sincerely

Tim Cutler
 Partner, KPMG LLP



Appendix 1 – Audit fee assumptions

In setting the fee, we have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2014/15;
- you will inform us of significant developments impacting on our audit work;
- 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 2015/16 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 KPMG, PSAA, the NAO 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	January 2016
Interim audit report	March 2016
Report to those charged with governance (ISA260 report)	September 2016
Auditor's report giving the opinion on the financial statements, value for money conclusion and audit certificate	September 2016
Opinion on Whole of Government Accounts return	September 2016
Annual audit letter	November 2016
Certification of grant claims and returns	December 2016
External audit plan	January 2016
Interim audit report	March 2016
Report to those charged with governance (ISA260 report)	September 2016

AUDIT COMMITTEE

**Audit Committee Terms of Reference
17th June 2015**

Report of Internal Audit Manager

PURPOSE OF REPORT

To seek Members' acceptance to revised terms of reference for the Audit Committee, to be recommended to full Council for approval.

This report is public

RECOMMENDATIONS

- (1) That the proposed revisions of the Audit Committee's Terms of Reference are accepted and recommended to full Council for adoption.**

1.0 Background

1.1 No substantive changes have been necessary to the Audit Committee's terms of reference (TOR) for a number of years. Over the past 12 months, two new pieces of legislation, the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015 have brought in changes to audit arrangements which need to be reflected in the TOR.

2.0 Proposed Revision

2.1 A copy of the current TOR along with the proposed revision are attached as Appendix A. All of the proposals are relatively minor in nature and at this stage do not change the substantive role and responsibilities of the Committee. In brief the changes are:

- A slight change in the Committee's focus in evaluating the performance of Internal Audit. The previous requirement for an annual evaluation of the effectiveness of Internal Audit is replaced by consideration of Internal Audit's compliance with professional standards. This refers to the Public Sector Internal Auditing Standards (PSIAS) introduced in 2013. A report on compliance with the standards will be included in the wider reporting to Audit Committee concerning the annual review of governance. (paragraph 8.9)
- With the abolition of the Audit Commission, interim arrangements are in place to deal with the appointment of Councils' external auditors via the Public Sector Audit Appointments Ltd. The Local Audit and Accountability Act provides for the future appointment of external auditors by the body itself, although the exact date at which this will commence is as yet unclear. The proposed revision provides for the Committee to continue to review internal audit arrangements on behalf of full Council in this interim period. (paragraph 8.10)

- Updating reference to current legislation from the Accounts and Audit (England) Regulations 2011 to the Accounts and Audit Regulations 2015 (paragraph 8.17 and 8.18)
- Deletion of the reference to the Committee having a role in acting “as the mechanism for Members as the mechanism for Members of the Council to liaise with the Independent Remuneration Panel on the Members’ Allowances Scheme of the Council to liaise with the Independent Remuneration Panel on the Members’ Allowances Scheme” Other arrangements are in place to manage this function. (paragraph 8.24)

3.0 Details of Consultation

3.1 None specifically regarding this report.

4.0 Options and Options Analysis (including risk assessment)

4.1 The options available are to accept the proposed revisions to the terms of reference for recommendation to full Council, or recommend alternatives wording if necessary.

<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>Contact Officer: Derek Whiteway Telephone: 01524 582028 E-mail: dwhiteway@lancaster.gov.uk Ref: aud/comm/audit/150617TOR</p>

Current Version**SECTION 8 – AUDIT COMMITTEE**

Composition: 7 Members of the Council on a PR basis, Chairman and Members of the Committee appointed by Council annually. The Chairman must not be a member of Cabinet or Overview and Scrutiny. Changes can be made by Council during the course of the year.

Terms of Reference

- 8.1 To review all matters relating to Internal and External Audit. It will have the right of access to all the information it considers necessary and can consult directly with Internal and External Auditors.
- 8.2 To monitor arrangements for discharging the Council's responsibilities for efficient and effective financial and operational resource management. In pursuing this aim, it will consider:-
 - the soundness, adequacy and application of controls;
 - compliance with policies, procedures and statutory requirements;
 - arrangements for safeguarding the Council's assets and interests;
 - the integrity and reliability of management information and financial records;
 - the economic, efficient and effective use of resources.
- 8.3 To approve a Statement of Purpose for the Audit Committee.
- 8.5 To approve Internal Audit plans.
- 8.6 To monitor Internal Audits progress with the annual Audit Plan, evaluating the effectiveness of Internal Audit and the use of audit resources and approving adjustments to the Audit Plan.
- 8.7 To receive and review the findings of both Internal and External Audit examinations and to ensure that management takes appropriate action to implement agreed recommendations and to remedy any internal accounting, organisational or operational control weaknesses identified.
- 8.8 To receive the Internal Audit Annual Report and annual controls assurance statement.
- 8.9 To review internal audit's compliance with 'proper practices' as set out in the Public Sector Internal Audit Standards and perform an annual evaluation of the effectiveness of Internal Audit in accordance with the Accounts and Audit (England) Regulations 2011.
- 8.10 To be consulted as part of the process in agreeing the appointment by the Audit Commission of the Council's external auditor.
- 8.11 To receive and comment upon the External Auditor's Annual Plan, considering the scope and depth of external audit work and to ensure it gives value for money.
- 8.12 To monitor the External Auditor's progress with the Annual Plan.
- 8.13 To receive all scheduled outputs from the External Auditor's work, including the annual Audit Letter.

- 8.14 To review and comment upon liaison arrangements between Internal and External Audit with a view to optimising the effective deployment of Audit resources.
- 8.15 To evaluate the adequacy and effectiveness of the Council's financial and operational policies and procedures including financial and accounting management through discussions with the External Auditors, Internal Auditors and appropriate officers.
- 8.16 To consider and endorse amendments to the Council's Financial Regulations and Contract Procedure Rules and, on behalf of full Council, give any instructions to the Section 151 Officer as may be appropriate.
- 8.17 To approve the annual Statement of Accounts on behalf of full Council in accordance with the Accounts and Audit (England) Regulations 2011.
- 8.18 To monitor the effective development and operation of risk management and corporate governance by considering the effectiveness of the Council's adopted local Code of Governance. Also to oversee the production of the authority's annual Governance Statement in accordance with the Accounts and Audit (England) Regulations 2011 and recommend its adoption.
- 8.19 To prepare an Annual Report to full Council setting out the committee's work and performance during the year and to refer to Council any matters it shall see fit.
- 8.20 To review any issue referred to it by the Chief Executive or any Council body.
- 8.21 To consider any matters referred to it by the Monitoring Officer in accordance with Overview and Scrutiny Procedure Rule 12.
- 8.22 With the Monitoring Officer to monitor and review the operation of the Constitution to ensure the aims and principles of the Constitution are given full effect.
- 8.23 With the exception of those parts of the Constitution which are assigned specifically to the Council Business Committee, to consider and propose to Council any other amendments to the Constitution as necessary.
- 8.24 To act as the mechanism for Members of the Council to liaise with the Independent Remuneration Panel on the Members' Allowances Scheme.

Proposed Revision

SECTION 8 – AUDIT COMMITTEE

Composition: **7 Members of the Council on a PR basis, Chairman and Members of the Committee appointed by Council annually. The Chairman must not be a member of Cabinet or Overview and Scrutiny. Changes can be made by Council during the course of the year.**

Terms of Reference

- 8.1 To review all matters relating to Internal and External Audit. It will have the right of access to all the information it considers necessary and can consult directly with Internal and External Auditors.

- 8.2 To monitor arrangements for discharging the Council's responsibilities for efficient and effective financial and operational resource management. In pursuing this aim, it will consider:-
- the soundness, adequacy and application of controls;
 - compliance with policies, procedures and statutory requirements;
 - arrangements for safeguarding the Council's assets and interests;
 - the integrity and reliability of management information and financial records;
 - the economic, efficient and effective use of resources.
- 8.3 To approve a Statement of Purpose for the Audit Committee.
- 8.5 To approve Internal Audit plans.
- 8.6 To monitor Internal Audit's progress with the annual Audit Plan, evaluating the effectiveness of Internal Audit and the use of audit resources and approving adjustments to the Audit Plan.
- 8.7 To receive and review the findings of both Internal and External Audit examinations and to ensure that management takes appropriate action to implement agreed recommendations and to remedy any internal accounting, organisational or operational control weaknesses identified.
- 8.8 To receive the Internal Audit Annual Report and annual controls assurance statement.
- 8.9 To review internal audit's compliance with public sector internal auditing standards or guidance, in accordance with the Accounts and Audit Regulations 2015.**
- 8.10 To review and advise full Council on arrangements relating to the appointment of the Council's external auditor under the provisions of the Local Audit and Accountability Act 2014.**
- 8.11 To receive and comment upon the External Auditor's Annual Plan, considering the scope and depth of external audit work and to ensure it gives value for money.
- 8.12 To monitor the External Auditor's progress with the Annual Plan.
- 8.13 To receive all scheduled outputs from the External Auditor's work, including the annual Audit Letter.
- 8.14 To review and comment upon liaison arrangements between Internal and External Audit with a view to optimising the effective deployment of audit resources.
- 8.15 To evaluate the adequacy and effectiveness of the Council's financial and operational policies and procedures including financial and accounting management through discussions with the External Auditors, Internal Auditors and appropriate officers.
- 8.16 To consider and endorse amendments to the Council's Financial Regulations and Contract Procedure Rules and, on behalf of full Council, give any instructions to the Section 151 Officer as may be appropriate.
- 8.17 To approve the annual Statement of Accounts on behalf of full Council in accordance with the Accounts and Audit Regulations 2015.**

- 8.18 **To monitor the effective development and operation of risk management and corporate governance by considering the effectiveness of the Council's adopted local Code of Governance. Also to oversee the production of the authority's annual Governance Statement in accordance with the Accounts and Audit Regulations 2015 and recommend its adoption.**
- 8.19 To prepare an Annual Report to full Council setting out the committee's work and performance during the year and to refer to Council any matters it shall see fit.
- 8.20 To review any issue referred to it by the Chief Executive or any Council body.
- 8.21 To consider any matters referred to it by the Monitoring Officer in accordance with Overview and Scrutiny Procedure Rule 12.
- 8.22 With the Monitoring Officer to monitor and review the operation of the Constitution to ensure the aims and principles of the Constitution are given full effect.
- 8.23 With the exception of those parts of the Constitution which are assigned specifically to the Council Business Committee, to consider and propose to Council any other amendments to the Constitution as necessary.
- 8.24 ~~To act as the mechanism for Members of the Council to liaise with the Independent Remuneration Panel on the Members' Allowances Scheme.~~
Deleted

AUDIT COMMITTEE**Internal Audit Annual Report and
Assurance Statement 2014/15
17 June 2015****Report of the Internal Audit Manager****PURPOSE OF REPORT**

To inform the Committee of the extent and outcome of Internal Audit work during the 2014/15 financial year and to present an annual Statement of Assurance regarding the Council's framework of governance, risk management and control.

This report is public

RECOMMENDATIONS

1. That the report be noted.
2. That the Internal Audit Manager's Assurance Statement and Annual Internal Audit Opinion (paragraphs 2.14 to 2.28) 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).*
- 1.2 Professional standards for Internal Audit in local government¹ specify that "*The chief audit executive (the Internal Audit Manager) must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement*", and that "*The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.*"

¹ *Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN) (CIPFA 2013)*

2.0 Report

Annual Audit Plan 2014/15

- 2.1 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 2014/15 Internal Audit Plan was approved by the Audit Committee at its meeting on 18th June 2014. Adjustments to the plan were approved by the Committee at its meetings on 17^h September 2014 and 21st January 2015.
- 2.2 The annual outturn position against the 2014/15 annual plan is summarised in the following table.

Area of work	Resources (days)		
	Original Plan	Revised Plan (21/01/15)	Actuals
Assurance Audit			
Core Financial Systems	60	40	26
Revenues & Benefits Shared Services	40	60	59
Core Management Arrangements	50	40	32
Risk Based Assurance Audits	180	125	109
Follow-Up Reviews	50	63	79
Sub-Total, Assurance Work	380	328	305
Advice & Support Work	80	109	126
Corporate Service Reviews	50	19	19
Investigations	30	7	7
Audit Management	50	50	51
Other Duties (Non-Audit)	10	19	30
Work for Other Bodies (LDNPA)	50	55	52
General Contingency	40	20	0
Total Chargeable Days	690	587	590
Non-Chargeable Activities (note1)	107	118	119
Total Available Days	797	705	709

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

Explanation of Major Variances

- 2.3 The summary shows that the number of available days in the year reduced by 88, this primarily being due to a vacancy following the internal promotion of the Principal Auditor to the post of Exchequer Manager. The Senior Auditor has recently been promoted to the Principal Auditor post and arrangements are in hand to deal with the vacancy that this generated.
- 2.4 The number of chargeable days delivered was 590 compared with the original plan of 690. In addition to the vacancy referred to above, there have been slightly higher levels of non-chargeable work arising mainly from an increase in workload surrounding service wide management and development.
- 2.5 Overall, 75 fewer days than originally planned were delivered on the core programme of assurance audit work. In comparison with previous years, this does to some extent diminish the assurance that the Committee is able to take from Internal Audit. It is the Internal Audit Manager's view that, given the results of the work undertaken, previous experience, and other assurance obtained, this does not invalidate his audit opinion.





- 2.6 Advice and support work increased during the year (by 46 days compared with the original plan), the main items covered in this heading being the review of Financial Regulations (26 days) and work related to arrangements for taking card payments at Salt Ayre Sports Centre.
- 2.7 As a result of the staff vacancy mentioned, there have been fewer opportunities to contribute to the corporate programme of service reviews.
- 2.8 The heading of non-audit duties covers the Internal Audit Manager's role as a Deputy Section 151 Officer. The Internal Audit Manager has spent additional time recently in the development of proposals relating to the council's information governance and corporate fraud functions. This new call on resources will continue into 2015/16 and beyond.
- 2.9 As reported to the Committee during the year, the council's Internal Audit team provided the Lake District National Park Authority (LDNPA) with its internal audit service for 2014/15, this amounting to 55 days of work. Whilst this arrangement has worked well, there are no ongoing commitments following the Authority's appointment of a new Internal Audit provider from 1st April 2015.
- 2.10 Elsewhere in the plan, there has been little call for formal investigative work and no other major variations in workload. The general contingency of 40 days was fully allocated to help cover the changes in the plan.

Review of the Effectiveness of Internal Audit

- 2.11 Professional standards expect that an annual review is undertaken of the effectiveness of internal audit. This process forms part of a Quality Assurance and Improvement Programme (QAIP) which feeds in to the wider annual review of the effectiveness of the system of internal control and governance. These will all be covered in the report on the annual review of governance to be considered at the next meeting of the Committee in September 2015.

Results of Assurance Work





- 2.12 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.

- 2.13 The Table in Appendix A sets out the assurance opinions issued from audits and follow-up reviews completed since 31st March 2014, and any subsequent changes in assurance level.

Assurance Statement

- 2.14 It must be recognised that Internal Audit can be expected to provide reasonable and not absolute assurance that risk is being effectively managed and that control weaknesses or irregularities do not exist.
- 2.15 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				
	2014/15				2013/14
	Financial Audits	Governance Audits	Other Audits	Total	
Maximum 	1	0	0	1	1
Substantial 	10	1	6	17	18
Limited 	2	0	3	5	9
Minimal 	0	0	0	0	0
Totals	13	1	9	23	28

- 2.16 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 five audits listed in Appendix A whose assurance ratings stand as "limited".
- 2.17 These procedures for reporting and following up audits and reporting progress to Audit Committee continue to operate effectively.

Financial Systems Audits

- 2.18 This relates to thirteen financial system audits, including three audits relating to the council's various income streams and the associated fees and charges. Assurance levels on the Council's core financial systems remain consistently high. A "maximum" assurance opinion was issued in relation to the council's arrangement surrounding Housing Benefit and Welfare Reforms. Two audits resulted in a "limited" assurance opinion, these being in relation to:
- Debt Management – Council Housing; and
 - Council Housing Tenancy Fraud.
- 2.19 The Council Housing Debt Management audit dates back to early 2013/14. At that point, a key element related to the systems used for the management of Former Tenant Arrears (FTAs); this was resolved in June 2013. The Housing Manager reports that, since the follow-up review in July 2014, collection arrangements for other sundry debts have been significantly improved, with a fundamental review of leaseholder charging having been carried out. Improvements required in relation to the management of rechargeable repairs and court costs are also currently being addressed.
- 2.20 A follow-up review has just been completed on the Council Housing Tenancy Fraud report. This concludes that the assurance opinion should remain at 'limited' at this stage, on the basis that, whilst gateway checks to verify the identity of tenants at application stage have been improved, new tenancy visits to verify that the lawful tenant is occupying the property are not being carried out. Work to ensure that the

level of resources assigned to council housing tenancy fraud is appropriate, proportionate and targeted is also currently ongoing. It has been agreed to carry out a further follow-up review in August with input from the newly established Corporate Fraud Team, in anticipation that Substantial assurance can be reached and reported to the next Audit Committee in September 2015.

- 2.21 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 unmanaged risks or ongoing control weaknesses have been identified.

Governance Arrangements

- 2.22 An audit of arrangements relating to officer gifts, hospitality and interests which originally resulted in an opinion of "limited", was raised to 'substantial' when followed-up in March 2015, reflecting action taken to strengthen the role of managers, raise awareness generally and promote greater consistency across the authority.
- 2.23 There remain a number of outstanding considerations from earlier audit work relating to the council's information governance arrangements. These considerations are being addressed through an ongoing reorganisation of the corporate information governance function.
- 2.24 In the Internal Audit Manager's opinion, at this stage of development, an update on the position regarding information governance, and recognition of the council's achievements in achieving PSN compliance should again be included in the annual governance statement.

Other Audits

- 2.25 This section covers nine audits, three of which resulted in a "limited" assurance opinion, these being in relation to:
- Corporate Property Related Service Contracts; and
 - CCTV;
 - Salt Ayre Sports Centre – Financial Procedures
- 2.26 In each of these, work is ongoing to implement the action plans. Arrangements are in hand to for Internal Audit to monitor and provide the Audit Committee with updates on the progress made.
- 2.27 In the Internal Audit Manager's opinion, no unmanaged risks or control weaknesses have been identified which are so significant as to warrant disclosure in the Council's Annual Governance Statement. Where 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.

Annual Internal Audit Opinion

- 2.28 Drawing on the work undertaken and the above summaries, it is the Internal Audit Manager's opinion that, subject to the individual matters highlighted, the council has reliable and effective framework of governance, risk management and control.

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 the Internal Audit Manager's assurance statement as a contribution to the overall assessment of the internal control environment and the Annual 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 2014/15 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 and the conduct of service reviews.

CONCLUSION OF IMPACT ASSESSMENT

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

This report has no direct impact on these areas.

FINANCIAL IMPLICATIONS

None arising directly from this report.

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

None arising from this report

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

Internal Audit Plan 2014/15

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Ref: aud/ctte/aud/150617/IAAnnRep

Financial Audits

12/0861 Debt Management - Council Housing

23-Jul-14 Limited



Progress against the action plan from the original review is ongoing, the Service carrying out a comprehensive review of its debt management arrangements with a view to improving efficiency and effectiveness. Whilst there are still issues to be addressed and the assurance opinion remains 'Limited', procedures are compliant with Financial Regulations and Procedures.

13/0886 Planning and Building Control Income

15-Aug-14 Substantial



Substantial assurance is provided on the basis that current proposals regarding new charges are in line with the requirements of legislation, will ensure that fees set cover the cost of provision of the service and can be effectively substantiated. Due consideration is also being given to how the council can fulfil its statutory responsibility to provide a Building Control Service, whilst addressing the current deficit position on the trading account, Members being informed of progress as appropriate.

13/0889 Debtors

23-Jul-14 Substantial



Actions arising from the original audit sought to build on what was found to be a good system for managing debts effectively. One of the two actions has been fully implemented and the second is being addressed through an ongoing comprehensive review of debt management arrangements in Council Housing.

13/0890 Private Housing and Cemeteries Income Streams

07-May-14 Substantial



A substantial assurance opinion has been given on the basis that HMO re-licensing fees have been revised and reduced in accordance with the amendment to the Housing Act which came into force in September 2014. A number of other private housing fees have also been reviewed and arrangements for the collection of fees in respect of HMO re-licensing have been strengthened.

13/0895 Trade Waste and Recycling, Bulky Waste and Litter Enforcement Fees and Charges

19-Nov-14 Substantial



Good progress has been made to address the actions resulting from the original review. Fees and charges have been reviewed as required and income collection arrangements in respect of ad-hoc collections have been strengthened. The bulky waste collection service is currently undergoing a full review and the outstanding action will be considered as part of this process.

13/0902 Housing Benefit (Welfare Reforms) - Lancaster

08-May-14 Maximum



The original review found that Welfare Reforms had been effectively implemented and assessments made were in accordance with the new Regulations. With a view to demonstrating good practice two actions were agreed following the original audit, however these have subsequently been found to be impractical. The assurance opinion remains 'maximum'.

13/0906 Revenues and Benefits - Operational Support and Performance

25-Nov-14 Substantial



Good progress has been made with implementation of the actions resulting from the original review, with six of the nine actions agreed having been addressed, or are in the process of being addressed. Improvements have been made to further strengthen arrangements in place to support the Revenues and Benefits operation with documentation now being retained to clearly evidence checks carried out. A revised target date has been agreed in relation to those actions not yet implemented.

07-Apr-14 Substantial



Evaluation of systems and procedures in place have established that arrangements made to support the Revenues and Benefits operation are effective. Employees are well trained and quality assurance mechanisms are appropriate. Freedom of Information requests are dealt with in accordance with council policy and complaints handling procedures are well controlled. Good change control arrangements are in place in relation to system upgrades and system back-up arrangements are robust. The printing and posting project was well managed and good contractual arrangements are in place with the supplier. Assurance provided therefore is substantial.

Financial Audits

14/0920 Council Housing Tenancy Fraud

21-Jul-14 Limited



Whilst arrangements in place are proportionate to the perceived level of risk exposure, limited assurance is given on the basis that there is scope to strengthen procedures in relation to the prevention and detection of tenancy fraud. Gateway checks to verify the identity of tenants need to be reviewed to ensure they are as robust as they can be. Procedures for verifying that the lawful tenant remains in occupation of the property also need to be strengthened through improved arrangements in relation to post allocation visits and tenancy audits. With a view to ensuring that the priority given/level of resources assigned to council housing tenancy fraud is properly informed, careful monitoring of the results of work carried out to detect tenancy fraud also needs to take place with a view to ensuring that arrangements in place remain appropriate.

14/0925 Payroll

18-May-15 Substantial



There are good arrangements in place to ensure that the establishment is properly authorised and to ensure that the payroll system is updated promptly and correctly upon receipt of new starter, leaver and internal transfer information. Through implementation of the Aurora system an improved separation of duties between the Payroll and HR functions has been established and this has now been built into system access permissions. Actions have been agreed to strengthen system access arrangements to ensure that access to the Aurora Payroll system is appropriately controlled, authorised and secure. Managers recognise the potential to achieve efficiencies for both Services through better utilisation of the system's calculations, therefore reducing the level of manual intervention currently required and actions have been agreed in order to achieve this.

14/0936 Housing Benefits 2014-15

10-Mar-15 Substantial



Good arrangements are in place to ensure that high level Housing Benefits related risks are well managed. Actions agreed are in relation to the review of arrangements once the Single Fraud Investigation Service has been fully established, and ensuring BACS processing arrangements are consistent across the shared service.

14/0937 Council Tax 2014-15

31-Oct-14 Substantial



Council Tax transactions are appropriate, effectively managed and are in accordance with legislative requirements. Only minor actions have been agreed which aim to strengthen internal controls surrounding quality assurance checks and evidencing system parameter checks prior to annual billing.

14/0938 NDR 2014-15

03-Dec-14 Substantial



Good arrangements are in place to ensure that high level NNDR related risks are well managed. Only minor improvements are necessary with a view to further strengthening procedures in place and ensuring arrangements are consistent across the shared service.



14/0939 Operations and Performance 2014-15

06-Feb-15 Substantial





Good arrangements are in place to ensure that high level Operations and Performance related risks are well managed. Only minor improvements have been agreed with a view to further strengthening procedures in place.


Governance Audits**13/0911 Officer Gifts, Hospitality and Register of Interests**

27-Mar-15	Substantial		Substantial assurance has been given on the basis that excellent progress has been made with six of the seven actions agreed during the original review having been fully implemented. The role of managers has been strengthened and there is increased awareness and understanding of responsibilities regarding compliance with the Code of Conduct in relation to officer gifts, hospitality and register of interests.
24-Apr-14	Limited		Current arrangements effectively demonstrate the council's commitment to high standards of conduct, this being clearly stated in the Officers' Code of Conduct (the Code). Systems and procedures are in place, however staff need to be made more aware of their responsibilities, with standards and expectations being more effectively communicated. Effectiveness of the Code is difficult to measure, compliance with standards set being dependent on the awareness and integrity of employees. However, feedback obtained indicates understanding and compliance with the Code varies across the council. Strengthening the role of managers in current arrangements, and increased awareness of the standards in place, should address the issues identified in this review and help to ensure that the requirements of the Code are met.


Other Audits**13/0871 HR Systems Replacement - ResourceLink Aurora**

16-Dec-14	Substantial		The assurance opinion remains unchanged given that a number of actions from the original audit remain outstanding. These outstanding actions will be kept under review and will be addressed as necessary as part of the Payroll audit (job number 14/0925) that is currently in progress.
25-Apr-14	Substantial		A substantial assurance opinion has been given in respect of the HR element of the new system, on the basis that although implementation is still very much 'work in progress', controls have been put in place to ensure that each module is built and tested and that appropriate training and guidance is provided, prior to each module being rolled out. Actions have been agreed to review system access requirements ensuring that a good separation of duties between the HR and Payroll roles is enforced through the system.


13/0874 Salt Ayre Sports Centre, Williamson Park and Other Recreational Facilities

24-Dec-14	Substantial		Good progress has been made to implement the actions resulting from the original review given that the Service has undergone a restructure resulting in changes to personnel, roles and responsibilities and that some of the actions were agreed by officers that have either left the authority or responsibilities have transferred to another service. Work is currently underway to address all outstanding actions and progress relating to stock management arrangements will be kept under review as part of a subsequent audit of Salt Ayre's Financial Procedures (job number 14/0922).
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13/0877 Corporate Property Related Service Contracts

26-Nov-14	Limited		Good progress has been made with implementation of the action plan resulting from the original review, with all actions agreed being in the process of being implemented. Work is ongoing to centralise the management of property related service contracts with a view to a more coordinated, corporate approach being achieved. A more structured and automated approach to monitoring compliance is also being developed. Once these arrangements have been fully implemented a substantial level of assurance should be achieved.
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13/0878 Affordable Warmth

11-Aug-14	Substantial		Substantial assurance is given on the basis that the council's Renewable Energy Strategy, which is currently being developed, includes a commitment to oversee the implementation of the Affordable Warmth Action Plan. Minimisation of the council's impact on the environment through delivery of the Renewable Energy Strategy is a priority in the 2014 - 2016 Corporate Plan. As such, resources have been identified and approved by Cabinet as necessary to allow proposals to be developed and brought forward for consideration and approval, including those in relation to achieving affordable warmth objectives.
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Other Audits

13/0897 CCTV

16-Dec-14 Limited



Due to staffing changes in relation to CCTV management, implementation of the agreed action plan has been delayed. However, good progress is now being made to address the issues identified in the original audit. Responsible officers have made significant headway in bringing themselves up to speed with the requirements of the Code of Practice and related legislation. The CCTV Officer Working Group is also keen to make the improvements required to ensure that the council is fully compliant as necessary. Once the agreed action plan has been fully implemented a substantial level of assurance should be achieved.

14/0916 Fleet Management

08-Jan-15 Substantial



Significant progress has been made with implementation of the agreed action plan, all actions having been addressed. Arrangements have been put in place to ensure continued compliance with the requirements of legislation in terms of having a qualified Transport Manager named on the Operator's Licence. Responsibilities in relation to reporting driving convictions have been reiterated to those concerned. Drivers are required to record all hours worked, including those in relation to second jobs outside the council. Arrangements for monitoring cases of driving infringements have also been strengthened. Therefore substantial assurance can now be provided in relation to arrangements for ensuring compliance with the rules relating to the Goods Vehicle Operator's Licensing system.

02-Jun-14 Limited



The assurance opinion is 'Limited' primarily on the basis of non-compliance found with the Operator's Licence rules on drivers' hours where drivers have a second job outside the Council. The council is in the process of reallocating Transport Manager responsibilities, the previous Transport Manager having recently left. Those taking responsibility already demonstrate a good understanding of their role and the requirements to ensure compliance with the terms of the Licence. A review of current arrangements is already underway and implementation of the action plan resulting from this review should ensure compliance and result in an assurance opinion of 'Substantial'.

14/0918 Planning Audit - Strategic Housing Market Assessment

21-Aug-14 Substantial



A substantial assurance opinion has been given on the basis that a comprehensive strategic housing market assessment has been carried out which is NPPF compliant and was based on the most up-to-date and relevant data available at the time. Building on this position, arrangements are now being put into place to ensure that this evidence base is monitored, updated and analysed on a regular basis and findings inform future planning for housing policies as required.

14/0922 Salt Ayre - Financial Procedures

24-Dec-14 Limited



Good progress has been made to streamline arrangements at SASC and procedures and processes have been made more efficient and effective in many of the areas identified during the original review. However, stock management arrangements and the streamlining of processes relating to the input and authorisation of overtime claims are still in the process of being addressed and until this work is complete the assurance opinion will remain at limited.

01-Jul-14 Limited



The review has highlighted a number of areas where current arrangements can be streamlined and procedures and processes can be made more efficient and effective, therefore a limited assurance opinion has been given. However, the fact that the Service is keen to implement the agreed actions within the next two months, should result in a substantial level of assurance being achieved fairly quickly.

14/0924 Housing Options and Allocations

20-Oct-14 Substantial



Substantial assurance is given on the basis that procedures in place provide for a fair and transparent housing allocations system, decisions made being consistent and in line with the objectives as stated in the Housing Allocations Policy. Whilst there is scope to improve the management of some of the risk areas evaluated, the current risk exposure is not considered significant, actions agreed being with a view to further strengthening arrangements already in place.

AUDIT COMMITTEE**Internal Audit Strategy and Risk Based Plan
17 June 2015****Report of Internal Audit Manager****PURPOSE OF REPORT**

To seek the Committee's approval for a proposed three-year Internal Audit Strategic Plan and Annual Operational Plan for 2015/16

This report is public

RECOMMENDATIONS

1. That the Internal Audit Strategy and Risk Based Plan for 2015/16 is approved.

1.0 Introduction

- 1.1 The terms of reference of the Audit Committee include: *"To approve Internal Audit strategic plans and the Annual Internal Audit Plan"* (the Constitution, part 3 section 8, TOR 11).
- 1.2 Professional standards for Internal Audit in local government¹ specify that *"The chief audit executive (the Internal Audit Manager) must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals."*
- 1.3 The standards also specify that *"The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. It must incorporate or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities."*

¹ *Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN) (CIPFA 2013)*

2.0 Proposal Details

Internal Audit Strategy

- 2.1 In accordance with the standards, a strategy statement has been incorporated in the Risk Based Internal Audit Plan, which is attached to this report as Appendix A.
- 2.2 There is an ongoing strategic theme for internal audit to support the council's change programme by contributing to the implementation of new service structures and the conduct of service reviews.
- 2.3 As the organisation responds to the continuing financial pressures it is experiencing and new structures, systems and working practices are introduced, there is an ongoing need to ensure that standards of governance, internal control and conduct in the organisation are maintained. Internal Audit's strategy aims both to promote these standards and to provide independent assurance on the effectiveness of arrangements.

Risk Based Internal Audit Plan 2015/16

- 2.4 The draft Risk Based Internal Audit Plan (section 2 of Appendix A) has been developed along similar lines to recent years and retains the following features:
- being explicit about which elements of work are intended to provide assurance to support the overall annual opinion on the internal control environment;
 - being explicit about the resources to be devoted to other "consultancy" work aimed at helping the Council's ongoing improvement programme; and
 - providing for a rolling programme of audit work to be operated within the plan which will provide a suitable level of flexibility and responsiveness to changes in the risk environment, and any emerging demands for internal audit assurance work.
- 2.5 The annual plan for 2015/16 is based on estimated available resources of 630 days, this being delivered by the in-house team of four staff. The Internal Audit Manager's role as Deputy Section 151 Officer has been estimated as requiring 10 days with a further 25 days on other managerial duties. This gives a net allocation to audit activity of 595 days. The estimated resources take account of a staff vacancy at the beginning of the financial year.
- 2.6 As with established practice, the Internal Audit Manager continues to consult with Chief Officers, the statutory officers, service managers and Management Team generally to inform and develop the detailed programme. As indicated in the strategy statement, it is anticipated that the scope and objectives of audit work during the year will once again be greatly influenced by the financial pressures affecting the council. In all categories of work, the plan will be managed flexibly to ensure that audit effort is targeted as effectively as possible.
- 2.7 The current quarterly rolling programme, as at 1st June 2015 is attached on the final page of Appendix A. This is currently under development through consultation with Chief Officers and senior managers. As each quarterly programme is developed, it will be publicised both to Members of the Audit Committee and to Chief Officers and senior managers as well as the plan being formally reported to and monitored by each meeting of the Audit Committee.

3.0 Details of Consultation

3.1 No specific consultation has been undertaken in compiling this report. Management Team, the statutory officers and senior managers are being consulted in detail in the preparation of Internal Audit's detailed work programmes for 2015/16.

4.0 Options and Options Analysis (including risk assessment)

4.1 The proposal is that the Committee approves the Risk Based Internal Audit Plan for 2015/16. Members are invited to comment on the proposed plan, but no specific alternative options are identified.

5.0 Conclusion

5.1 Audit strategy and planning are key elements in the provision of an effective internal audit service. The proposed risk-based plan seeks to maintain a firm platform for the ongoing effectiveness and improvement of the Council's internal audit service.

<p>CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</p> <p>This report has no direct impact on these areas.</p>

<p>FINANCIAL IMPLICATIONS</p> <p>None arising from this report</p>

<p>SECTION 151 OFFICER'S COMMENTS</p> <p>The Section 151 Officer has been consulted and has no further comments</p>
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<p>LEGAL IMPLICATIONS</p> <p>None arising from this report</p>

<p>MONITORING OFFICER'S COMMENTS</p> <p>The Monitoring Officer has been consulted and has no further comments.</p>

<p>BACKGROUND PAPERS</p>	<p>Contact Officer: Derek Whiteway Telephone: 01524 582028 E-mail: dwhiteway@lancaster.gov.uk Ref: aud/ctte/aud/150617/IAPPlans</p>
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Internal Audit Strategy and Risk Based Plan 2015/16

1. Internal Audit Strategy

1.1. This strategy is the high level statement of how the Internal Audit service will be delivered and developed in accordance with its approved terms of reference (the Audit Charter) and how it links to the Council's organisational objectives and priorities.

1.2. Service Purpose

1.2.1. The key purposes of the Internal Audit service are to:

- provide the Council* with independent assurance regarding the effectiveness of its systems of Governance and Internal Control;
- support the Council in delivering organizational change and its development programme; and
- help the Council secure and demonstrate value for money throughout its activities.

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

1.3. Strategic Aims & Objectives

1.3.1. Internal Audit's strategic aims and objectives are defined as:

- promoting and helping develop standards of risk management throughout the Council's operations;
- contributing to improving standards of internal control and governance within the authority and its key partnerships;
- supporting the Council in the implementation of its change programme and providing assurance on the effectiveness of both new and existing arrangements;
- developing the corporate 'assurance framework' and coordinating the capture and reporting of sources of assurance;
- working closely with the newly introduced corporate fraud team to develop programmes of work to combat and reduce the risk of fraud;
- supporting the Council in identifying efficiencies and achieving value for money in service delivery; and
- continuing to develop the scope, robustness and effectiveness of Internal Audit's assurance and support work.

1.4. Identifying and accommodating significant local and national issues and risks

1.4.1. Emerging local and national issues that might warrant Internal Audit attention will primarily be identified through:

- contributing to the development, updating and monitoring of the assurance framework;
- reviewing the Corporate Plan and individual service plans; and
- through regular consultation and liaison with Chief Officers, the statutory officers, service managers and the corporate Management Team.

- 1.4.2. This approach will seek to ensure that significant risks are adequately identified, assessed and evaluated in terms of the level of assurance necessary and already available, and will involve:
- tracking corporate policy/priority developments and the decisions taken by the authority's decision-making bodies;
 - regular consultation with service managers and the Corporate Management Team;
 - regular liaison with other review bodies, especially the Council's external auditor;
 - liaison with/considering the approach and work programmes of other internal review bodies, for example the Overview & Scrutiny function;
 - liaison with other local government auditors and active participation in local/regional professional groups;
 - consideration of key corporate risks; and
 - maintaining a professional focus and taking advantage of opportunities for professional updates/development, including CPD where appropriate.
- 1.4.3. In line with the above, the risk-based audit plan is designed to be sufficiently flexible to meet the changing risks and priorities of the Council. It provides for a programme of work to be developed on a rolling basis to reflect and accommodate significant risks and assurance needs identified through an ongoing review of the assurance framework.
- 1.4.4. Internal Audit activity may involve any one, or a combination of the following:
- a specific piece of Internal Audit assurance work;
 - efficiency/VfM or support work directed at improving the efficiency of existing procedures and/or standards of governance and control;
 - contributing to corporate groups/projects/reviews (officer and/or Member based) established for a given purpose/objective.

Internal Audit Risk Based Plan 2015/16

1. ASSURANCE WORK

CORE FINANCIAL SYSTEMS		
Approach and objectives	Covers the following areas:	Planned Days
<p>The focus will be on those systems (selected from the areas listed alongside) which currently demonstrate higher levels of risk.</p> <p>The objective is to provide assurance that in practice, key system controls remain robust and are operating securely and efficiently.</p> <p>There will be a focus throughout this work on providing assurance on the robustness of measures to combat fraud and corruption</p>	<ul style="list-style-type: none"> ➤ Main Accounting ➤ Asset Management ➤ Payroll ➤ Ordering & Payments ➤ Sundry Debtors ➤ Income Management ➤ Treasury Management ➤ Housing Rents ➤ Anti-Fraud & Corruption Arrangements 	50
<p>Revenues and Benefits Shared Service</p> <p>Coverage is agreed through consultation with the Shared Service managers and Preston CC's head of internal audit.</p>	<ul style="list-style-type: none"> ➤ Council Tax ➤ Housing Benefit & Council Tax Benefit ➤ Council Tax Support ➤ National Non-Domestic Rates 	40
CORE MANAGEMENT ARRANGEMENTS		
Approach and objectives	Covers the following areas:	Planned Days
<p>Assurance work in 2015/16 will continue to focus on key corporate systems (selected from the areas listed alongside) with the objectives of:</p> <ul style="list-style-type: none"> ➤ providing assurance that newly introduced arrangements are fit for purpose; ➤ existing arrangements remain robust and reliable; and ➤ helping identify and implement efficiencies and improvement. 	<ul style="list-style-type: none"> ➤ Financial Management ➤ Performance Management ➤ Human Resource Management ➤ Risk Management ➤ Information Management ➤ Corporate Governance ➤ Partnership / Shared Services Arrangements ➤ Procurement & Contract Management ➤ Project and Programme Management ➤ National Fraud Initiative 	50

RISK BASED ASSURANCE WORK PROGRAMME		
Approach and objectives	Covers the following areas:	Planned Days
<p>Drawing on the Corporate Plan and service plans, the risk based programme is developed and reviewed in consultation with Chief Officers and service managers, taking account of the nature and levels of risk in their spheres of activity.</p> <p>The main objectives in this work are to provide assurance that:</p> <ul style="list-style-type: none"> ➤ sound arrangements are in place to identify and assess risks; ➤ risks are being effectively managed; ➤ value for money is being achieved. 	<p>Areas identified for assurance audit through the risk-based planning process and consultation with Chief Officers and senior managers. Covered in the Quarterly rolling audit plan.</p>	170

FOLLOW-UP REVIEWS		
Approach and objectives	Covers the following areas:	Planned Days
<p>Following the production of an Internal Audit report and assurance opinion, a follow-up review is undertaken at an agreed time (usually after 6 months) to review progress with the agreed action plan.</p> <p>Progress is reported to management and to the Audit Committee.</p>	<p>All Internal Audit reports which result in the issuing of either a 'limited' or 'minimal' assurance opinion and associated action plan.</p>	50

SUB-TOTAL – ASSURANCE WORK	360
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2. CONSULTANCY WORK		
Work Area and Objectives	This Covers	Planned Days
<p>Ad-Hoc Advice</p> <p>To provide an on-demand advice service in respect of day-to-day internal control, risk management and governance matters.</p>	<ul style="list-style-type: none"> ➤ Advice provided on request from employees and elected members; ➤ Liaison with the external auditor and other agencies; ➤ Publication of fraud alerts and other guidance notices; ➤ Provision of training. 	65
<p>Support Work (projects and other support)</p> <p>To provide support and advice to management in the development and implementation of new policies, systems and projects.</p> <p>To contribute to review teams and/or undertake specific audits to inform service reviews.</p>	<p>Current support areas include:</p> <ul style="list-style-type: none"> ➤ Development of the Assurance Framework ➤ CCTV Working Group ➤ Financial Regulations roll-out and development ➤ Arrangements re use of fuel cards in Environmental Services 	50

SUB-TOTAL – CONSULTANCY WORK	115
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3. OTHER		
Work Area and Objectives	This Covers	Planned Days
<p>Non Audit Duties</p> <p>The professional standard regarding independence states that Internal Auditors should have no operational responsibilities.</p> <p>Internal Audit currently departs from this expectation in that the Internal Audit Manager:</p> <ul style="list-style-type: none"> currently shares Deputy Section 151 duties with the Financial Services Manager; and has managerial responsibility over the council's Information Governance function and officers 	<ul style="list-style-type: none"> Deputy Section 151 duties (undertaken by the Internal Audit Manager) Other non-audit managerial responsibilities 	<p>10</p> <p>25</p>
4. AUDIT MANAGEMENT		
Work Area and Objectives	This Covers	Planned Days
<p>Planning, Monitoring and Committee Work</p>	<ul style="list-style-type: none"> Development and updating of the Internal Audit Strategy and Risk Based Audit Plan; Monitoring and review of activity; Reporting to and attending Audit Committee / other member meetings 	<p>50</p>
5. CONTINGENCIES		
Work Area and Objectives	This Covers	Planned Days
<p>Investigations</p> <p>Requests to undertake investigative work are irregular and unpredictable</p> <p>At the time of preparing the plan the section was not involved in any ongoing investigations</p>	<ul style="list-style-type: none"> Investigating and reporting on alleged malpractice Attending and submitting evidence to disciplinary hearings as necessary 	<p>30</p>
<p>General Contingency</p> <p>A general provision made to help accommodate unforeseen variations in demand for Internal Audit work during the year</p>	<ul style="list-style-type: none"> Additional calls for work, particularly in areas such as investigations, or in support of corporate initiatives/major projects. 	<p>40</p>
TOTAL – ALL ACTIVITIES		630

Internal Audit**Quarterly Rolling Programme 2015/16 (as at 1st June 2015)**

Q1 and Q2

Area of Work	Q1 Apr – Jun (days)	Q2 Jul – Sep (days)
A. Completion of assurance audits commenced in 2014/15		
Payroll (14/0925)	4	
National Fraud Initiative (14/0917)	3	3
B. New assurance audits		
Rent Deposit Scheme (14/0943)	9	
HMP cash collection and banking (15/0947)	3	
Housing Benefit write-offs	2	
Housing Benefit subsidy claims		20
Concessions and leases (Environmental Services)	tbc	tbc
Unallocated	15	60
C. Follow-up of assurance audits	22	12
D. Completion of audits for LDNPA commenced in 2014/15	6	
E. Support Work and Advice		
RIPA monitoring (13/0509)	1	1
Financial Regulations (14/0490)	6	8
Annual Governance Review (14/0948)	5	5
Assurance Framework development	3	5
Ad-hoc Advice	16	15
F. Investigations	6	
G. Audit Management, etc.	17	10
H. Non-Audit Duties	5	5
Total Chargeable	123	144

AUDIT COMMITTEE**Internal Audit Monitoring Report
17th June 2015****Report of Internal Audit Manager****PURPOSE OF REPORT**

To update Members on the results of recent audits.

This report is public

RECOMMENDATIONS

- (1) That the results of recent audits are noted.

1.0 Results of Internal Audit Work to 1st June 2015

- 1.1 This report covers audit work and reports issued since the last update report to Committee on 21st January 2015. Summary reports have been issued to Members for consideration and are also posted on the Council's Intranet. The reports issued have been:

Audit Title		Report Date	Assurance Level	
New Audit Reports				
14/0925	Payroll	18/05/15	Substantial	✓
14/0936	Housing Benefits	18/03/15	Substantial	✓
14/0939	Operations & Performance (Revenues & Benefits)	06/02/15	Substantial	✓

Follow up Reviews				
13/0911	Officer Gifts, Hospitality and the Register of Interests	25/03/15	Substantial	✓

2.0 Matters Arising from Audit Reviews

- 2.1 All of the reviews returned a 'substantial' assurance level. There are no matters arising requiring specific referral to the Committee.

3.0 Details of Consultation

3.1 None specifically regarding this report.

4.0 Options and Options Analysis (including risk assessment)

4.1 The report is for noting.

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

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