



Committee: AUDIT COMMITTEE
Date: WEDNESDAY, 29 JUNE 2016
Venue: MORECAMBE TOWN HALL
Time: 6.00 P.M.

A G E N D A

1. **Apologies for Absence**

2. **Appointment of Vice-Chairman**

To appoint a Vice-Chairman for the 2016/17 municipal year. (The Vice-Chairman must not be a member of Cabinet or Overview and Scrutiny.)

3. **Minutes**

Minutes of meeting held on 20th January 2016 (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 9 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. **Certification of Claims and Returns - Annual Report 2014-15 (Pages 1 - 3)**

Report of KPMG LLP

7. **External Audit Plan 2015/16** (Pages 4 - 18)
Report of KPMG LLP
8. **Annual Audit Fee Letter 2016/17** (Pages 19 - 26)
Report of KPMG LLP
9. **Counter Fraud - Annual Report 2015/16** (Pages 27 - 30)
Report of the Corporate Fraud Manager
10. **Fighting Fraud and Corruption Locally - Strategy for 2016-2019** (Pages 31 - 35)
Report of the Internal Audit and Assurance Manager
11. **Annual Review of Internal Audit's Compliance with Professional Standards** (Pages 36 - 43)
Report of the Internal Audit and Assurance Manager
12. **Internal Audit Annual Report and Assurance Statement 2015/16** (Pages 44 - 51)
Report of the Internal Audit and Assurance Manager
13. **Annual Governance Review 2015/16 - Update** (Pages 52 - 54)
Report of the Internal Audit and Assurance Manager
14. **Internal Audit Monitoring Report** (Pages 55 - 57)
Report of the Internal Audit and Assurance Manager
15. **Internal Audit Strategy and Risk Based Plan** (Pages 58 - 65)
Report of the Internal Audit and Assurance Manager

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

Councillors Matt Mann (Chairman), Abbott Bryning, Colin Hartley, Elizabeth Scott, Malcolm Thomas, David Whitaker and Nicholas Wilkinson

(ii) Substitute Membership

Councillors Stuart Bateson, Tim Hamilton-Cox, Brendan Hughes, Roger Sherlock and Peter Williamson

(iii) Queries regarding this Agenda

Please contact Sarah Moorghen, Democratic Services – telephone 01524 582132, or email smoorghen@lancaster.gov.uk

(iv) Changes to Membership, substitutions or apologies

Please contact Democratic Support, telephone 01524 582170, or email democraticsupport@lancaster.gov.uk.

MARK CULLINAN,
CHIEF EXECUTIVE,
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Our ref **RL/016**

Contact **Richard Lee**
0161 246 4661

29 February 2016

Dear Nadine

Certification of claims and returns - annual report 2014/15

Public Sector Audit Appointment 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 2014/15.

In 2014/15 we carried out certification work on two claims / returns; the Housing Benefit Subsidy claim and the Pooling of Housing Capital Receipts return.

Housing Subsidy Benefit

The certified value of the Housing Subsidy Benefit claim was £43.939 million, and we completed our work and certified the claim on 26 November 2015.

Our certification work on the Housing Subsidy Benefit qualification identified a number of cases where the Council had misclassified or made incorrect benefit payments. Consequently we issued a qualification letter in respect of this claim. The errors we identified are set out in the table below.



Ref	Summary observations
1	<p>Rent Allowance – Total expenditure (benefit granted)</p> <p>Our initial sample identified:</p> <ul style="list-style-type: none"> • One case where LA delay of £48.46 was incorrectly classed as an eligible overpayment. • Two cases where initial overpayments of £78.40 and £156.80 respectively were recovered through subsequent reductions in benefit rather than being overpaid in total and so there was no net overpayment. <p>Testing of an additional sample of 40 cases identified:</p> <ul style="list-style-type: none"> • 4 cases where a total of £524.53 had been incorrectly classified as eligible overpayments when they should have been recorded as administrative delays.
2	<p>Rent Rebates – Total expenditure (benefit granted)</p> <p>Our initial sample identified:</p> <ul style="list-style-type: none"> • One case where the eligible rent used to determine the weekly award was incorrect. This was due to Academy, the Authority’s housing benefit system, not being updated with the correct 2014/15 rates. This error has resulted in an underpayment of £16.33 <p>Testing of an additional sample of 40 cases identified no further errors.</p>
3	<p>Modified Schemes – Total subsidy claimed</p> <p>Our initial sample identified:</p> <ul style="list-style-type: none"> • One case where the claimant’s assessed income figures and applicable amounts had been input correctly, as confirmed to DWP confirmations, but Academy has produced a £356.62 underpayment. This was due to a software error. <p>The Authority has reported this issue to Capita and testing of the system has been performed to confirm that this was an isolated error, relating only to this case in 2014/15. Capita have confirmed that the rate applied to this case and to all other cases in 2013/14 and 15/16 is correct.</p>

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.

Certification requirements mandate that any unadjusted error, regardless of its value, is reported and that a ‘zero materiality’ threshold is applied.



Certification work fees

In respect of the Housing Benefit Subsidy claim, Public Sector Audit Appointments set an indicative fee for our certification work in 2014/15 of £10,320. Our actual fee was the same as the indicative fee, and this compares to the 2013/14 fee for this claim of £12,606.

Pooling of Housing Capital Receipts

In addition to the Housing Subsidy Benefit claim, we certified the Council's Pooling of Housing Capital Receipts return for 2014/15. Although this return does not form part of the Public Sector Audit Appointments certification regime, it is a requirement of the Department for Communities and Local Government. We issued our certificate for this return on 26 November 2015. No issues were identified from our test work. Our fee for this certification work was £3,000.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Tim Cutler', written over a horizontal line.

Tim Cutler
Partner



External Audit Plan 2015/16

Lancaster City Council

April 2016

Financial Statement Audit



There are no significant changes to the Code of Practice on Local Authority Accounting in 2015/16, which provides stability in terms of the accounting standards the Authority need to comply with.

Materiality

Materiality for planning purposes has been based on 2014/15 expenditure and the Authority's general fund balance, and is set at **£ 2.5 million**.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at **£125,000**.

Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls; and
- Fraudulent revenue recognition

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding have been identified as:

- Pay and pensions
- Non pay expenditure
- Property, plant and equipment valuations

See pages 3 to 4 for more details.

Value for Money Arrangements work



The National Audit Office has issued new guidance for the VFM audit which applies from the 2015/16 audit year. The approach is broadly similar in concept to the previous VFM audit regime, but there are some notable changes:

- There is a new overall criterion on which the auditor's VFM conclusion is based; and
- This overall criterion is supported by three new sub-criteria.

Our risk assessment is ongoing and we will report VFM significant risks during our audit.

See pages 6 to 9 for more details.

Logistics



Our team is:

- Tim Cutler – Partner
- Richard Lee – Senior Manager
- Anita McGoay – Assistant Manager

More details are on **page 12**.

Our work will be completed in four phases from March to July and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 11**.

Our fee for the audit is £58,388 see **page 10**.

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2015/16 presented to you in June 2015, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

Our audit has two key 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 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.

Acknowledgements

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

Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.



Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 6 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2015/16.



Financial Statements Audit Planning

Our planning work takes place during December 2015 to February 2016. This involves the following key aspects:

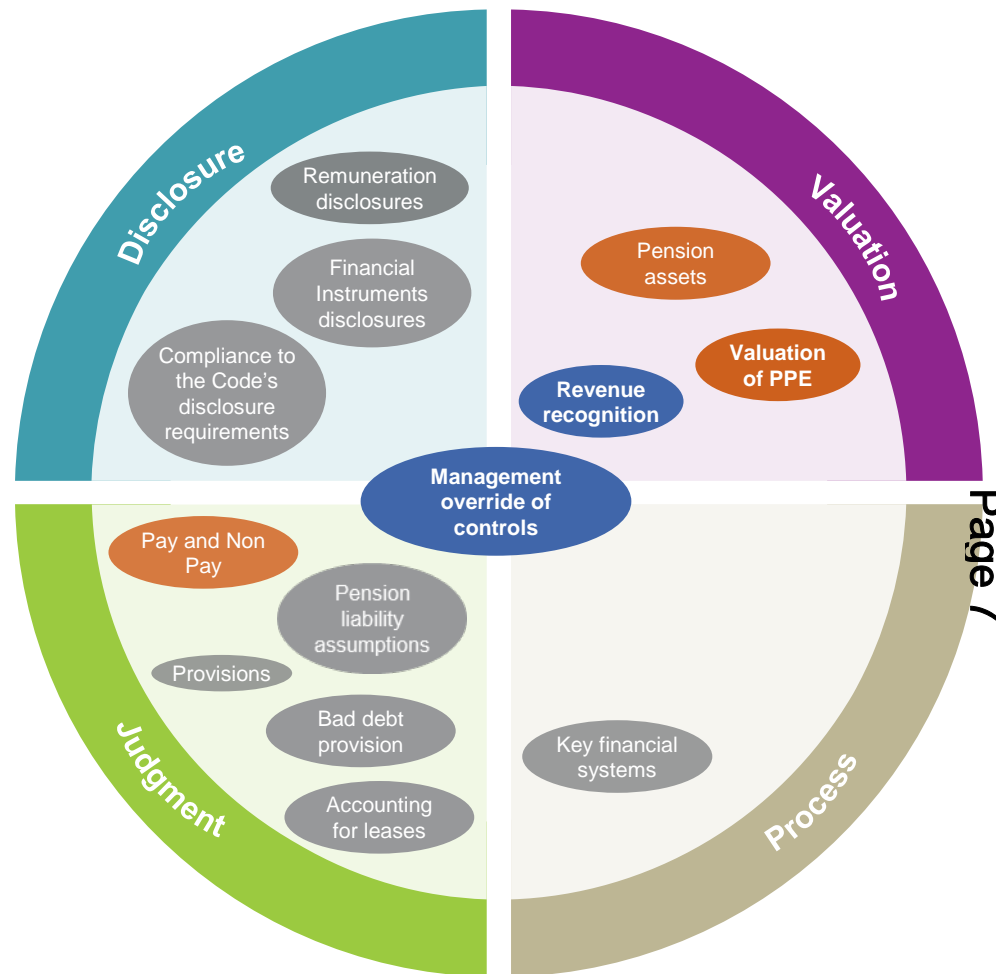
- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

Risk assessment

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.

The diagram opposite identifies, significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.



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Keys: ● Significant risk ● Other area of audit focus ● Other areas considered by our approach



Other areas of audit focus

Those areas with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Pensions valuations

- Pensions accounting entries, which should be prepared in line with IAS19, are based on estimates. As such pensions balances included in the accounts are subject to fluctuation from actuarial assumptions.
- We will consider the data sent to the pension scheme actuary and the actuarial information received by the Council and used in the financial statements.
- We will confirm with the Pension Fund auditor that the procedures and controls have operated effectively.

Payroll expenditure

- Remuneration disclosures and payroll costs included in the financial statements are subject to particular interest by users of the accounts. However, the nature of payroll expenditure is such that we would consider there to be limited likelihood of a material misstatement.
- We will review the payroll system and controls as part of our audit work, including testing a sample of starters and leavers to gain assurance over the number of employees.
- We will agree all pay disclosures to supporting information to ensure that costs are correctly classified.

Fair Value of PPE

- The PPE balance is the largest figure in the Council's balance sheet and values are subject to estimation. Local Authorities are required to value assets at least once every five years and must ensure the carrying value is not misstated in the interim years.
- We will audit additions, disposals and revaluations and consider the Council's impairment review process as part of our audit work.

Provisions

- Provisions represent an area of management estimation and judgement in the accounts.
- We will consider the basis for provisions included in the accounts.
- We will hold discussions with management throughout the year and review minutes of key meetings to identify whether the Council has any obligations or liabilities that may result in further provisions being required.

Key financial systems

- Our approach includes understanding and testing of key controls in the key financial systems that support your financial statements.
- Our audit approach will test the general ledger and the following processes; treasury management, accounts payable, NNDR, council tax and housing benefits systems.



Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

Materiality for planning purposes has been set at £2.5 million, which equates to 1.96% percent of gross expenditure, and reflects the general fund balance as at 31 March 2015.

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

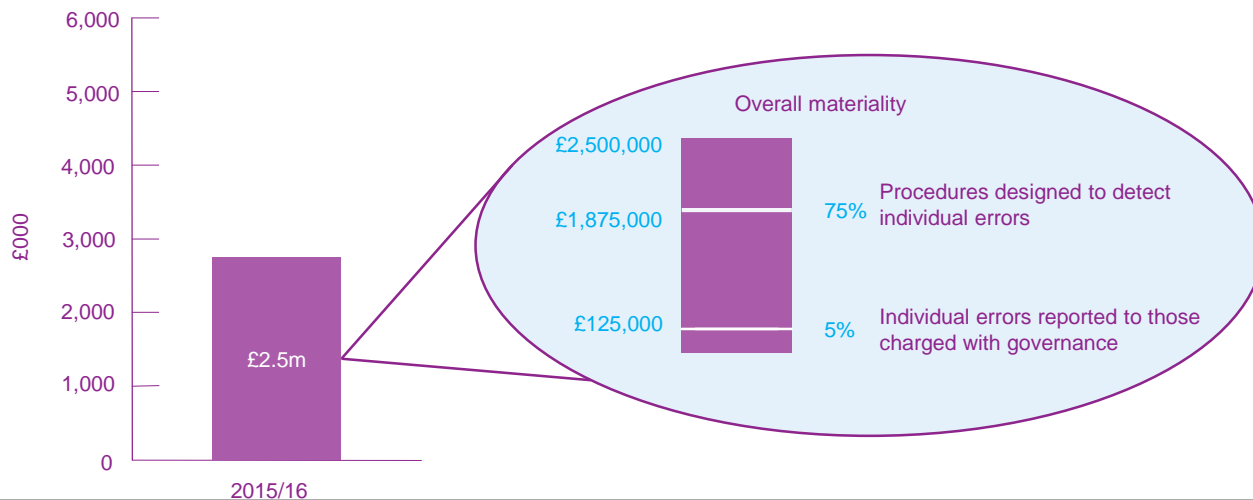
Reporting to the Audit Committee

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 unadjusted 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.

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 £125,000.

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.

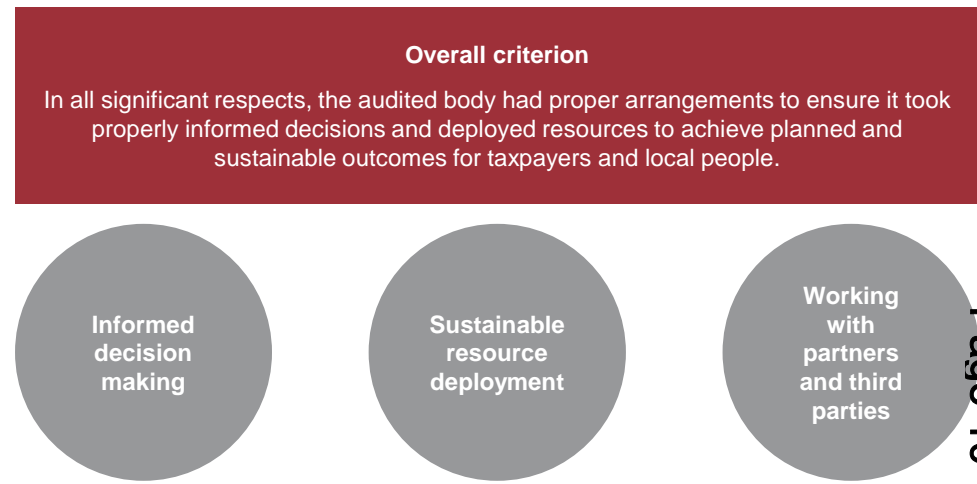


Background to approach to VFM work

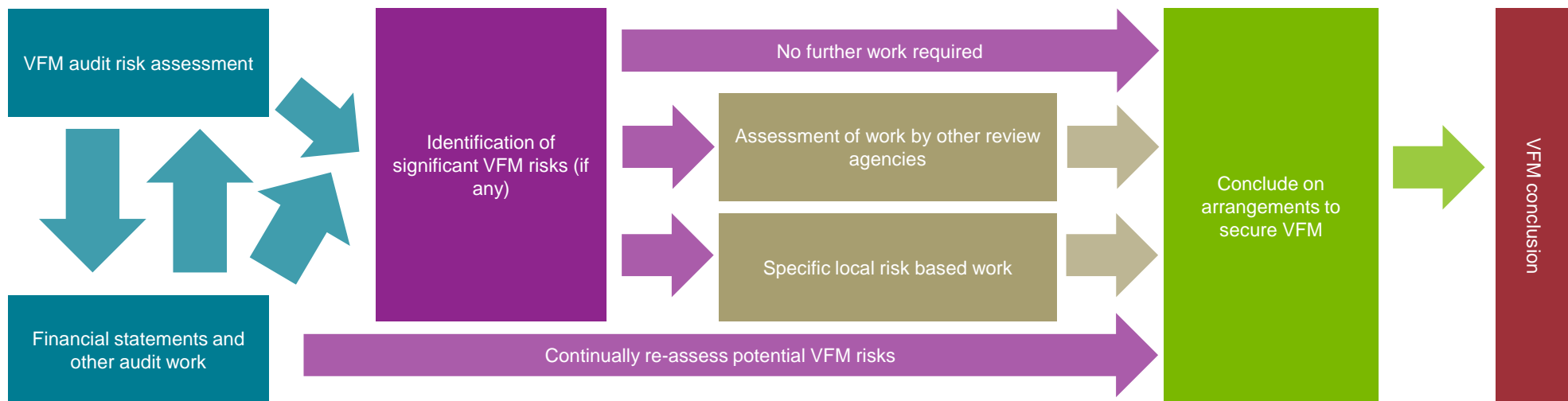
The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria. These sub-criteria provide a focus to our VFM work at the Authority. The diagram to the right shows the details of this criteria.



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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 Public Sector Auditor Appointments Limited VFM profile tool; ■ Evidence gained from previous audit work, including the response to that work; and ■ The work of other inspectorates and review agencies.
Linkages with financial statements and other audit work	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
Identification of significant risks	<p>The Code identifies a matter as significant '<i>if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.</i>'</p> <p>If we identify significant VFM 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.



VFM audit stage	Audit approach
<p>Assessment of work by other review agencies</p> <p>and</p> <p>Delivery of local risk based work</p>	<p>Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.</p> <p>If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:</p> <ul style="list-style-type: none"> ■ Meeting with senior managers across the Authority; ■ Review of minutes and internal reports; ■ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.
<p>Concluding on VFM arrangements</p>	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
<p>Reporting</p>	<p>We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion.</p> <p>On the following page, we report the results of our initial planning.</p> <p>If considered appropriate, we may produce a separate report on the VFM audit, either overall or for any specific reviews that we may undertake.</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>



Significant VFM Risks

Those risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

Financial Resilience

- Risk

The Authority continues to face substantial budgetary pressures – largely as a result of the significant cuts in Government funding as part of its programme of reductions in public sector spending. To date it has managed these through a combination of measures, mainly through efficiency savings. However the cumulative impact of these budget pressures results in a risk to the ongoing financial viability of the authority. There is a risk that savings plans are not achieved and it is increasingly more challenging for authorities to accurately estimate future savings targets and financially plan for the medium term.
- Approach

We will continue to monitor achievement of budgeted savings and the financial position of the Authority. We will review the processes for setting the 16-17 budget and medium term financial planning.

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 2015/16 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 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 PSAA's fee scales.

Our audit team

Our audit team will be led by Tim Cutler, supported by Richard Lee and Anita McGoay. Appendix 2 provides more details on specific roles and contact details of the team.

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 communication outputs are included in Appendix 1.

Independence and Objectivity

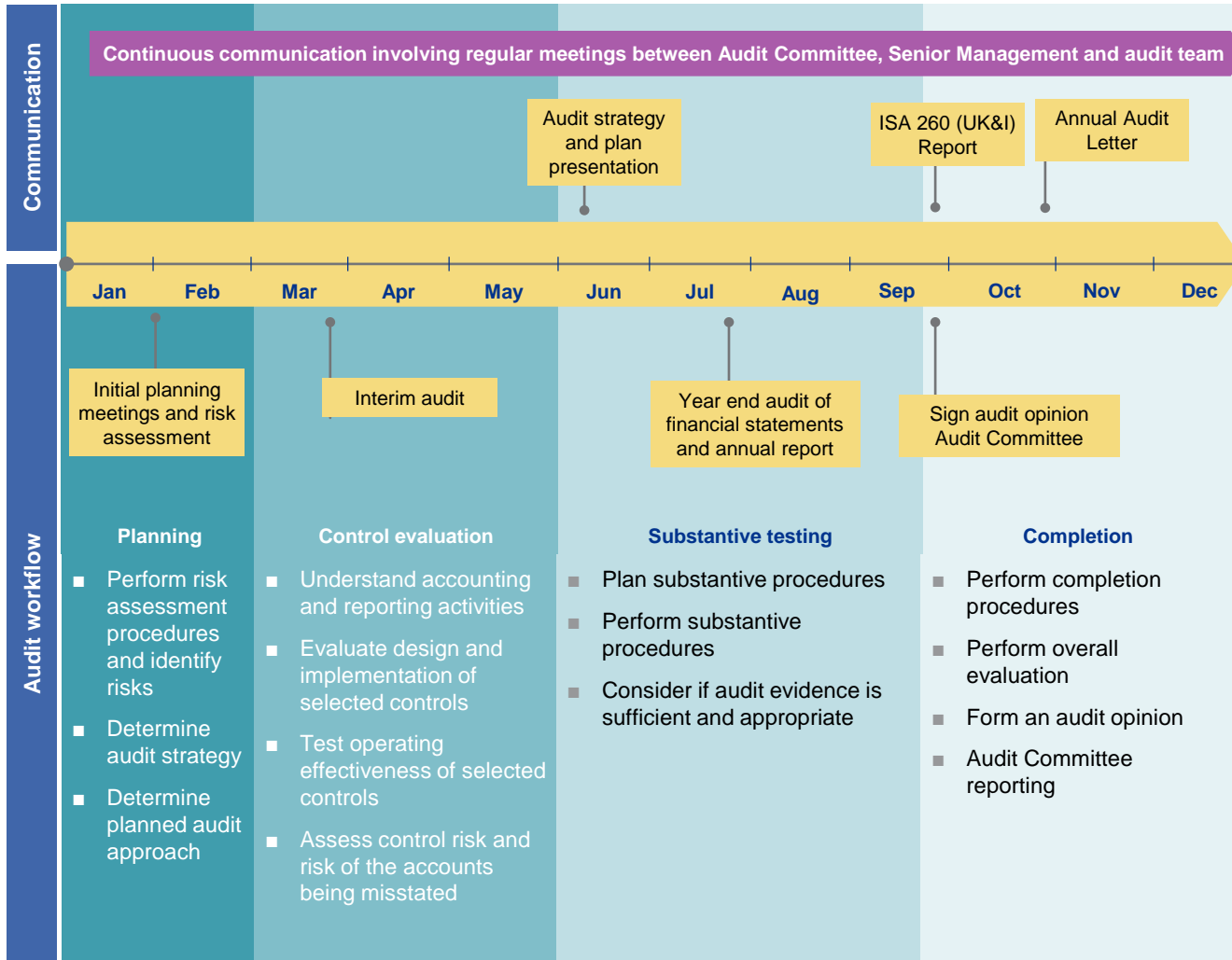
Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

Audit fee

Our Audit Fee Letter 2015/16, provided to you in June 2015, first set out our fees for the 2015/16 audit. This letter also sets out our assumptions. We have not considered it necessary to make any changes to the agreed fees at this stage.

The planned audit fee for 2015/16 is £58,388, excluding grant claim fee. In general the Audit Commission set 2015/16 scale fees based on a reduction of 25% to the fees applicable for 2015/16. This reduction is in addition to the savings of up to 40% in scale audit fees in 2012. The planned fee is in line with the scale fee.

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



Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.' Data and Analytics allows us to:

- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as accounts payable. We also expect to provide insights from our analysis of these tranches of data in our reporting to add further value from our audit.

Your audit team has been drawn from our specialist public sector assurance department.



Name	Tim Cutler
Position	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 the Chief Executive.'
Contact	Tel: 0161 246 4774 Email: tim.cutler@kpmg.co.uk



Name	Richard Lee
Position	Senior Manager
	'I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with Tim to ensure we add value and will liaise with the Director of Finance'
Contact	Tel: 0161 246 4661 Email: richard.lee@kpmg.co.uk



Name	Anita McGoay
Position	Assistant Manager
	'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'
Contact	Tel: 07824 835 356 Email: anita.mcgoay@kpmg.co.uk

Independence and objectivity

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.

Further to this auditors are required by the National Audit Office's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment 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 PSAA audit work 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.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the PSAA'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 Terms of Appointment.

Confirmation statement

We confirm that as of April 2016 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.



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. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

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

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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 Tim Cutler, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@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 3HZ.

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Private & confidential

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 Chief Officer (Resources)
 Lancaster City Council
 Town Hall
 Dalton Square
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 LA1 1PJ

Our ref RI/016

26 April 2016

Dear Nadine

Annual audit fee 2016/17

I am writing to confirm the audit work and fee that we propose for the 2016/17 financial year at Lancaster City Council. Our proposals are based on the risk-based approach to audit planning as set out in the Code of Audit Practice and Public Sector Audit Appointments Ltd's (PSAA's) published work programme and fee scales.

Planned audit fee

The planned audit and certification fees for 2016/17 are shown below, along with a comparison to the prior year's fee. All fees are exclusive of VAT.

Audit area	Planned fee 2016/17	Planned fee 2015/16
Code of Audit Practice audit fee	£58,388	£58,388
Certification of housing benefit grant claims	£7,740	£9,573

PSAA has set the 2016/17 scale fees on the same basis as in 2015/16, thereby preserving the 25 per cent reductions that were applied that year which in turn was in addition to the savings of up to 40 per cent in scale audit fees and certification fees in 2012/13. There has been a decrease in the scale fee for the certification of housing benefit grant claims. This is due to a reduction in the number of errors identified during the certification process for this claim.

As we have not yet completed our audit for 2015/16 the audit planning process for 2016/17, 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.



Redistribution of Audit Commission surplus

Following completion of the Audit Commission's 2014/15 accounts, PSAA received a payment in respect of the Audit Commission's retained earnings. PSAA will distribute this and any other surpluses from audit fees to audited bodies, on a timetable to be established by the PSAA Board.

This distribution will be made directly by PSAA and not via KPMG. Based on current information, PSAA anticipates that the amount of the redistribution is likely to be in the order of 15% of the scale fee.

Factors affecting audit work for 2016/17

We plan and deliver our work to fulfil our responsibilities under the Code of Audit Practice (the Code) issued by the National Audit Office (NAO). Under the Code, 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 any changes affecting our audit responsibilities or financial reporting standards.

CIPFA/LASAAC has confirmed that the 2016/17 *Code of Practice on Local Authority Accounting in the United Kingdom* will adopt the measurement requirements of the CIPFA *Code of Practice on Transport Infrastructure Assets* for highways network assets. CIPFA/LASAAC has indicated that it is unlikely that these changes will apply to district councils as it is unlikely that they hold assets which form part of the highways network, however this will need to be assessed by the Authority. If the Authority does hold material highways network assets then this change will require additional work in 2016/17, but PSAA has indicated that it is not appropriate to increase the scale fees to cover the costs of this work because the amount of work required at individual authorities will vary based on local circumstances. The fees for this additional work will therefore be discussed and agreed with you in due course and will be subject to PSAA's normal fee variation process. PSAA expects that the additional fees for a non-highways authority to be up to £5,000, where authorities are able to provide the information required and the auditor is able to rely on central assurance of the valuation models in use. This amount is indicative and therefore higher costs may be necessary.

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 and to do this we will undertake appropriate value for money (VFM) audit work. The 2016/17 fees have been set on the basis that the NAO's Code and supporting guidance does not change the level of work required on the VFM audit. Should this not be the case, or if new or increased significant VFM audit risks arise that require further audit work, additional fees will be necessary over and above the scale fee. Any such additional fees will be subject to approval through PSAA's fee variation process.



Certification work

As well as our work under the Code, we will certify the 2016/17 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 early next year. 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. A statement of our independence is included at Appendix 3.

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 2016/17 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
Anita McGoay	Assistant Manager	anita.mcgoay@kpmg.co.uk 0161 246 4775

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, Andy Sayers (andrew.sayers@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 3HZ

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 2015/16;
- 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 2016/17 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 2017
Interim audit report	March 2017
Report to those charged with governance (ISA260 report)	September 2017
Auditor's report giving the opinion on the financial statements, value for money conclusion and audit certificate	September 2017
Opinion on Whole of Government Accounts return	September 2017
Annual audit letter	November 2017
Certification of grant claims and returns	December 2017

Appendix 3 – Independence & objectivity requirements

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.

Further to this auditors are required by the NAO's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment 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 PSAA audit work 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.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

Confirmation statement

We confirm that as of April 2016 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.

AUDIT COMMITTEE**Counter Fraud – Annual Report 2015/16
29 June 2016****Report of the Corporate Fraud Manager****PURPOSE OF REPORT**

To inform the Committee of the extent and outcome of counter fraud work during the 2015/16 financial year.

This report is public

RECOMMENDATIONS

1. That the report is noted.

1.0 Introduction

- 1.1 Local Authorities have a statutory duty under section 151 of the Local Government Finance Act 1972 to make arrangements for the proper administration of their financial affairs. As responsibility for Housing Benefit fraud investigation passed to the Department for Work and Pensions on 1st June 2015, the Council made a decision to form a Corporate Fraud Team, shared between Preston, Lancaster and Fylde Councils. There is a duty to have effective controls and procedures in place to prevent, detect and investigate fraud and error in Council Tax Support, Council Tax and Business Rates. The Corporate Fraud, or Corporate Enquiry Team (CET) as it is also known, also works in partnership with Social Housing providers to investigate tenancy fraud.
- 1.2 The Corporate Fraud Manager made a presentation to the Committee on 20th January 2016 on the team's counter fraud activity. This report follows on from that presentation, detailing performance and counter fraud activity undertaken by the Fraud Team/Corporate Enquiry Team during 2015/16 in this specialist area of work.

2.0 Report

- 2.1 Early in 2015, the Council supported a bid by Preston City Council for funding from the Department for Communities and Local Government (DCLG) to set up a shared Corporate Enquiry Team, with the partners being Preston City Council, Lancaster City Council and Fylde Borough Council. The bid was successful and £125,750 was awarded towards the cost. This team effectively replaced the former Benefit Fraud Team hosted by Preston City Council, with six staff from the share service transferred to the Department for Work and Pensions (“DWP”) on 1st June 2015.
- 2.2 At the same time, the Corporate Enquiry Team was established and consists of five staff, including a Manager, two Investigators and two Administrative Officers. The staff continue to be employed by Preston City Council and resources are shared between the three authorities, giving Lancaster full time equivalent staff of Manager (0.4 fte), Investigator (0.7 fte) and Administrative Officer (0.8 fte).
- 2.3 The objectives of the Corporate Enquiry Team are to:-
- Protect public funds
 - Undertake fraud prevention measures
 - Detect and stop fraud
 - Increase fraud awareness
 - Implement sanctions in accordance with Council prosecution policies
 - Ensure that investigations comply with the regulatory environment
 - Recover properties from fraudsters to enable re-housing of those identified as most in need of social housing
 - Encourage a strong culture of good performance in relation to cost
 - Promote the principles of fairness, equality of opportunity, social inclusion and poverty reduction through service provision
 - Embrace partnership working to enable the delivery of an excellent service, whilst achieving savings based on economies of scale, reductions in duplication and financial savings to the authority
- 2.4 The Corporate Enquiry Team strives to prevent and detect as much Council Tax Support fraud as possible, working with outside agencies such as the Department for Work and Pensions, HM Revenues & Customs, Police and Immigration when appropriate. Currently no joint working arrangements are in place with DWP due to their national policies. However, this may change in the next twelve months as some pilot exercises are underway to explore the possibility of this being re-introduced.
- 2.5 The team acts as Single Point of Contact (SPOC) for providing information on Housing Benefit investigations to DWP. This is work which would otherwise have been allocated to the Benefit Assessment team.
- 2.6 The team has an excellent working relationship with Lancashire Police and acts as SPOC for Police Data Protection Act requests.
- 2.7 The Corporate Enquiry Team are active members of NAFN (National Anti Fraud Network). NAFN’s key services include:
- Acquiring data legally, efficiently and effectively from a wide range of information providers;
 - Acting as the hub for the collection, collation and circulation of intelligence alerts;
 - Providing best practice examples of process, forms and procedures.
- 2.8 The team are also members of the Institute for Revenues, Rating and Valuation (IRRV) and Local Authorities Investigation Officers Group (LAIOG) in order to share best practice and receive information on up and coming initiatives. They work closely with all Lancashire Authorities and benchmark in fraud work, meeting regularly to discuss common problems and best practice.

PERFORMANCE

2.9 Performance data is detailed as below:

	Year	Target	Achieved
Overpayments	2015/16	N/A	£166,565.10
Sanctions	2015/16	N/A	15

- 2.10 From 1st April 2015 to 31st May 2015 the Housing Benefit Fraud Team achieved 8 sanctions at Lancaster, consisting of 2 financial penalties with a value of £1990.67, 4 cautions and 2 prosecutions. In the same period Housing Benefit and Council Tax Support overpayments of £104,711.65 were recorded. However, live investigations of Housing Benefit claims were transferred by secure courier to the Department for Work and Pensions on 31st May 2015.
- 2.11 From 1st June 2015 to 31st March 2016 the new Corporate Enquiry Team achieved 7 sanctions at Lancaster, consisting of 1 financial penalty with a value of £100 and 6 cautions. In the same period overpayments of £61,853.45 were identified, consisting of Benefit, Council Tax Support and incorrect Council Tax discounts/exemptions. Two Council owned properties were recovered from tenants who were sub-letting properties to family members.
- 2.12 The team has undertaken pro-active work by reviewing high risk claims for Council Tax Support.
- 2.13 A management checking regime is in place, structured to monitor performance and compliance with legislation. This process includes:-
- 1-2-1's with all staff at least three times a year to discuss the officer's full caseload, giving advice and direction, identifying inactive cases, together with any training needs;
 - A review of all "Interviews Under Caution" before prosecution is considered;
 - A full management check on all sanction cases; and regular checks are undertaken of fraud officer's pocket notebooks.
- 2.14 Surveillance is only authorised in appropriate cases where considered necessary and proportionate, in line with the Regulation of Investigatory Powers Act (RIPA). No surveillance has been undertaken in 2015/16.
- 2.15 The team has delivered corporate fraud awareness training to Customer Services staff at Lancaster. Additionally the team has provided training to local social housing providers on The Prevention of Social Housing Fraud Act (POSHFA) (2013) and tenancy fraud. These included Places for People, Your Housing Group, Great Places, Progress Housing Group and Housing Officers from Lancaster City Council.

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 None – the report is for noting.

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

The Benefits Service has a major impact upon the wellbeing of the poorer members of the local community. The Council is committed to protecting the gateway to Benefits and Council Tax Support with a service that is accessible to everyone in the community, ensuring that customers receive all the allowances to which they are entitled. As an essential part of this service provision, the prevention and detection of fraud remains high on the Council's agenda.

FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report. However, the Corporate Enquiry Team has generated savings for the Council from their Corporate Fraud Shared Service work, and delivers value for money in this new area. It should be noted that the Chancellor announced plans in his autumn statement for Councils to keep the Business Rates they collect from 2020. The Council recognises the impact that collection of Business Rates will have on its finances in future and the Corporate Enquiry Team will seek to ensure that income from business rate is maximised by dealing with fraud in the system.

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

None arising from this report

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

Contact Officer: Andrew Taylor
Telephone: 01772 906013
E-mail: a.taylor@preston.gov.uk
Ref: aud\comm\audit\290616\fraud

AUDIT COMMITTEE**Fighting Fraud and Corruption Locally
– Strategy for 2016-2019
29 June 2016****Report of the Internal Audit & Assurance Manager****PURPOSE OF REPORT**

To inform the Committee of a recently released counter fraud and corruption strategy for English local authorities.

This report is public

RECOMMENDATIONS

1. That the report be noted
2. That the Committee endorses the adoption of the strategy as a guide to the Council's continued development of its counter fraud and corruption arrangements

1.0 Introduction

- 1.1 Fighting Fraud and Corruption Locally (FFCL) is a strategy for English local authorities that is the result of collaboration by local authorities and key stakeholders from across the counter fraud landscape. It builds on the previously issued 'Fighting Fraud Locally' strategy 2011. The new strategy's production and subsequent implementation is overseen by an independent board, which includes representation from key stakeholders. The board commissioned the drafting and publication of the strategy from the CIPFA Counter Fraud Centre.
- 1.2 The executive summary from the strategy is attached as Appendix A.
- 1.3 The full strategy, a companion document and checklist are available on the CIPFA website at <http://www.cipfa.org/services/counter-fraud-centre/fighting-fraud-and-corruption-locally>

2.0 Report

- 2.1 As the executive summary comments, the strategy is aimed at providing a blueprint for a tougher response to fraud and corruption perpetrated against local authorities. By pursuing the strategy, local authorities will:
 - develop and maintain a culture in which fraud and corruption are understood to be unacceptable;
 - understand their fraud risk and prevent fraud more effectively;
 - use technology to improve their response and share information and resources more effectively to prevent and detect fraud loss;
 - bring fraudsters to account more quickly and efficiently, and improve the recovery of losses.

- 2.2 The summary suggests that local authorities can ensure that their counter fraud response is comprehensive and effective by considering their performance against each of the following six themes that emerged from the research:
- Culture
 - Capability
 - Capacity
 - Competence
 - Communication
 - Collaboration
- 2.3 The strategy is not subject to a regulatory framework, its adoption and any associated developments being for individual authorities to consider and self-regulate.
- 2.4 The companion document includes a 34 point checklist for local authorities to use in measuring their positioning and progress against the strategy. The council already has well developed arrangements in place in the response it has taken to the previous strategy and in particular in establishing the shared corporate fraud team.
- 2.5 Appendix B to this report sets out the strategy's recommendations to local authorities, the final one of these being that the checklist is completed and reported to the Audit Committee and external auditor. It is proposed to undertake this exercise over the summer and report the results to the Audit Committee at its meeting on 7th September 2016.

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 It is proposed that the Committee endorses the adoption of the FFCL strategy as a guide to the Council's continued development of its counter fraud and corruption arrangements.
- 4.2 Endorsing the adoption of the strategy provides a positive message in terms of the Council's culture and approach to combatting fraud and corruption. The strategy is welcomed as a guide for future developments and no significant risks have been identified with taking this approach.
- 4.3 The alternative option is that the strategy is acknowledged without any specific comment or commitment being made.

5.0 Conclusion

- 5.1 The Fighting Fraud and Corruption Locally Strategy builds on previous strategies to provide a blueprint for local authorities in combatting fraud and corruption for the period 2016 to 2019. As such, adoption of the strategy is welcomed as a guide to the Council's ongoing development of its counter fraud and corruption arrangements.

CONCLUSION OF IMPACT ASSESSMENT

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

Whilst the report has no direct impact on these areas, the continued development of effective counter fraud arrangements plays an important role in supporting the Council's corporate plans and priorities by seeking to ensure that resources and interests are safeguarded.

FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report.

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

None arising directly from this report

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

Fighting Fraud Locally – The Local Government Counter Fraud and Corruption Strategy 2016-2019

Contact Officer: Derek Whiteway

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E-mail: d.whiteway@lancaster.gov.uk

Ref: aud/ctee/audit/2016-06-29/fraudstrat

Executive Summary

Fighting Fraud and Corruption Locally is the new counter fraud and corruption strategy for local government. It provides a blueprint for a tougher response to fraud and corruption perpetrated against local authorities. By using this strategy local authorities will develop and maintain a culture in which fraud and corruption are understood to be unacceptable, understand their fraud risk and prevent fraud more effectively, use technology to improve their response, share information and resources more effectively to prevent and detect fraud loss, bring fraudsters account more quickly and efficiently, and improve the recovery of losses.

This strategy is aimed at council leaders, chief executives, finance directors, and all those charged with governance in local authorities. It is produced as part of the Fighting Fraud and Corruption Locally initiative, a partnership between local authorities and key stakeholders, and succeeds the previous strategy, written in 2011.

Local authorities face a significant fraud challenge. Fraud costs local authorities an estimated £2.1bn a year. Every £1 that a local authority loses to fraud is £1 that it cannot spend on supporting the community. Fraud and corruption are a drain on local authority resources and can lead to reputational damage.

Fraudsters are constantly revising and sharpening their techniques and local authorities need to do the same. There is a clear need for a tougher stance. This includes tackling cross boundary and organised fraud and corruption attempts, as well as addressing new risks.

In addition to the scale of losses, there are further challenges arising from changes in the wider public sector landscape including budget reductions, service remodelling and integration, and government policy changes. Local authorities will need to work with new agencies in a new national counter fraud landscape.

This will offer opportunities to support the National Crime Agency in the fight against organised crime and work with the CIPFA Counter Fraud Centre, which has agreed to take on the hosting of Fighting Fraud and Corruption Locally, and other leaders in this field. Local authorities reported that they were still encountering barriers to tackling fraud effectively, including incentives, information sharing and powers.

The strategy also addresses the issue of new anti-corruption measures for local authorities and integrates the relevant elements of the government's Anti-Corruption Plan.

In response to these challenges, local authorities will need to continue to follow the principles developed in Fighting Fraud Locally 2011 (FFL):

- **Acknowledge:** acknowledging and understanding fraud risks and committing support and resource to tackling fraud in order to maintain a robust anti-fraud response.
- **Prevent:** preventing and detecting more fraud by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture.
- **Pursue:** punishing fraudsters and recovering losses by prioritising the use of civil sanctions, developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive law enforcement response.

Local authorities have achieved success by following this approach; however, they now need to respond to an increased threat.

This strategy sets out ways in which local authorities can further develop and enhance their counter fraud response by ensuring that it is comprehensive and effective and by focusing on the key changes that will make the most difference.

Local authorities can ensure that their counter fraud response is comprehensive and effective by considering their performance against each of the six themes that emerged from the research:

- Culture
- Capability
- Capacity
- Competence
- Communication
- Collaboration

“At a time when resources are becoming ever more scarce, all of us involved in delivering local public services are looking at ways of doing more with less. Acknowledging the risk of fraud and committing resources to tackle it, taking steps to prevent fraud and pursuing offenders must be part of the answer. What we have learnt as a consequence of our continuing work is that success in this field depends not just on what you do but how you do it. Having an embedded anti-fraud approach across an organisation is critical to success and by focusing this strategy on the cross cutting themes of culture, capability, capacity, competence, communication, and collaboration will in my view help ensure that an anti-fraud approach becomes integral to the way we work.

Charlie Adan

Chief Executive Babergh and Mid Suffolk



The Companion to this document contains a section on each of these themes, with information on fraud risks, good practice and case studies to assist local authorities in strengthening their response and ensuring that it is fit for purpose.

This strategy also identifies the areas of focus that will make the most difference to local authorities' counter fraud efforts. These are:

- Leadership
- Assessing and understanding the scope of fraud and corruption risks
- Making the business case
- Using resources more effectively
- Collaborating to improve
- Using technology to tackle fraud
- Tackling corruption

Many local authorities have demonstrated that they can tackle fraud innovatively and can collaborate effectively to meet the challenges. Indeed, many have identified that a reduction in fraud can be a source of sizeable savings.

For example:

- Birmingham City Council, working with other agencies, secured a confiscation order against 2 organised fraudsters of £380,000
- The London Borough of Lewisham, working with Lewisham Homes, recouped £74,000 from one internal fraudster
- The Royal Borough of Kensington and Chelsea, by using data matching techniques to prevent fraud, made savings of £376,000 in the first year, and £250,000 for the following two years.

This strategy has been designed for local authorities by local authorities and other stakeholders.

It provides a firm and practical basis to help them to take the next steps in the continuing fight against fraud and corruption.

The strategy:

- Calls upon local authorities to continue to tackle fraud with the dedication they have shown so far and to step up the fight against fraud in a challenging and rapidly changing environment
- Illustrates the financial benefits that can accrue from fighting fraud more effectively
- Calls upon central government to promote counter fraud activity in local authorities by ensuring the right further financial incentives are in place and helping them break down barriers to improvement
- Updates and builds upon *Fighting Fraud Locally 2011* in the light of developments such as *The Serious and Organised Crime Strategy* and the first *UK Anti-Corruption Plan*
- Sets out a new strategic approach that is designed to feed into other areas of counter fraud and corruption work and support and strengthen the ability of the wider public sector to protect itself from the harm that fraud can cause.

It is now for elected members, chief executives, finance directors, and all those charged with governance to ensure this strategy is adopted and implemented in their local authorities.

AUDIT COMMITTEE**Annual Review of Internal Audit's Compliance with
Professional Standards
29 June 2016****Report of the Internal Audit and Assurance Manager****PURPOSE OF REPORT**

To advise Members of the outcome from a self-assessment review against Public Sector Internal Audit standards as a contribution to the annual review of Internal Audit effectiveness, and to seek endorsement for an updated Quality Assurance and Improvement Programme

This report is public

RECOMMENDATIONS

- (1) **That the Internal Audit Manager's conclusions from the self-assessment exercises are accepted as evidence that Internal Audit is operating effectively and the Committee can therefore place reliance on Internal Audit's reports and work when considering the overall effectiveness of the Council's governance arrangements.**
- (2) **That the Internal Audit Quality Assurance and Improvement Programme (QAIP) for 2016/17, presented at Appendix B is noted and endorsed.**

1.0 Background

- 1.1 The Accounts & Audit Regulations 2015 include a requirement that local authorities Internal Audit functions take into account public sector internal auditing standards. These standards are those set out in the Public Sector Internal Audit Standards (PSIAS) and the associated Local Government Application Note (LGAN) (CIPFA 2013).
- 1.2 The PSIAS require the Internal Audit Manager to maintain a 'Quality Assurance and Improvement Programme' (QAIP) which includes periodical internal and external assessments of compliance with the Standards. Furthermore, standard 1322 of the PSIAS requires the council to consider disclosing any significant deviations in its annual Governance Statement.

2.0 Report**2.1 Compliance with the PSIAS and LGAN**

- 2.1.1 A report was presented to the Audit Committee on 16th September 2015 setting out the most recent results from an initial self-assessment against the 334 lines included in the PSIAS/LGAN. At that point, the exercise identified 310 points where compliance was achieved (or which were not applicable to our situation). Non-compliance was identified in 2 instances and partial compliance (where we do comply but it is felt that there is scope to raise standards) in 22 instances.

- 2.1.2 A further annual self-assessment has now been undertaken in accordance with the QAIP, with the following outcomes:
- a) Of the 334 lines in the PSIAS/LGAN, compliance is achieved (or is not applicable to our situation) in 317 instances (previously 310);
 - b) Partial compliance is now demonstrated in 17 instances (previously 22), reflecting the position that action is ongoing to review arrangements in a number of areas.
 - c) There are no areas where non-compliance has been identified.
- 2.1.3 Appendix A sets out an update on those areas assessed as falling short of full compliance in the review of the PSIAS and a revised set of actions.

2.2 Summary

- 2.2.1 The annual review of Internal Audit's compliance with professional standards is used to inform the Audit Committee's consideration of the Internal Audit & Assurance Manager's Annual Report (presented elsewhere on this agenda) and ultimately the annual governance review and the contents of the Annual Governance Statement. (also referred to elsewhere on this agenda).
- 2.2.2 From the information presented in this report, it is felt that the Audit Committee can take reasonable assurance that Internal Audit is operating effectively and can place reliance on its reports and work in considering the overall effectiveness of governance arrangements. No significant deviations from the standards, or other issues regarding effectiveness, have been identified which would warrant disclosure in the Governance Statement.

2.3 External Reviews

- 2.3.1 The Standards require each Internal Audit service to undergo an independent external review against the standards at least once every five years. In line with proposals reported to Audit Committee in the past, ten of the district councils represented on the Lancashire Auditors' Group have now agreed a programme of peer reviews. These arrangements involve three peer groups organised on a geographical basis in which Lancaster is grouped with Wyre BC and Allerdale BC. Lancaster's scheduled involvement is as follows:
- a) July 2017 - Review of Allerdale BC by Lancaster CC and Wyre BC
 - b) November 2017 - Review of Lancaster CC by Wyre BC and Allerdale BC
 - c) March 2018 – Review of Wyre BC by Lancaster CC and Allerdale BC
- 2.3.2 In each case the reviews will be undertaken by the authorities' head of Internal Audit, with each review planned to take a total of 5 days including two days on-site.

2.4 Assurance and Improvement Programme (QAIP)

- 2.4.1 The QAIP draws together those practices which have been established to deliver quality and continuous review and improvement in internal audit work.
- 2.4.2 The current version of the QAIP, endorsed by the Committee in September 2015, has been updated to reflect the progress made in agreeing arrangements for external assessments and the 2016/17 document is presented as Appendix B. Members are again asked to consider, comment on and endorse this document.

3.0 Details of Consultation

- 3.1 None specifically undertaken.

4.0 Options and Options Analysis (including risk assessment)

- 4.1 In terms of the review of Internal Audit’s effectiveness, the options available to the Committee are to:
- a. Accept the results of the self-assessment against the PSIAS/LGAN and the overall conclusion presented in §2.2.2; or
 - b. Adopt an alternative view to that presented in the report.
- 4.2 Option a) is the preferred option. This will inform the Audit Committee in its consideration of the annual governance review, which is referred to elsewhere on the agenda.

5.0 Conclusion

- 5.1 The requirement for an annual review of the internal audit’s compliance with professional standards is at present primarily informed by self-assessment reviews undertaken by officers. The results of these reviews provide elected members with information to inform their consideration of both Internal Audit’s effectiveness and the Council’s overall governance arrangements and Annual Governance Statement.

<p>CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</p> <p>Not applicable</p>	
<p>FINANCIAL IMPLICATIONS</p> <p>None directly arising from this report</p>	
<p>SECTION 151 OFFICER’S COMMENTS</p> <p>The Section 151 Officer has been consulted and has no further comments</p>	
<p>LEGAL IMPLICATIONS</p> <p>None directly arising from this report</p>	
<p>MONITORING OFFICER’S COMMENTS</p> <p>The Monitoring Officer has been consulted and has no further comments</p>	
<p>BACKGROUND PAPERS</p> <p>Public Sector Internal Audit Standards</p> <p>Local Government Application Note for the UK PSIAS - (CIPFA, in collaboration with the Chartered Institute of Internal Auditors)</p>	<p>Contact Officer: Derek Whiteway Telephone: 01524 582028 E-mail: dwhiteway@lancaster.gov.uk Ref: aud/comm/audit/160629IARreview</p>

Conformance with the Standard	Current Assessment	Update	Review May 2016	Action Required	By Whom	By When
Standards						
Attribute Standards						
1220 Due Professional Care						
Do internal auditors exercise due professional care by considering the:						
e) Cost of assurance in relation to potential benefits?	Partial	This is considered in terms of the overall level of IA coverage and number of days planned on assurance work. It is not done at individual assignment level.	No change	Following the service review of Internal Audit, proposals for improving information on IA costs overall and the costs/benefits surrounding assurance will be developed and reported to the Audit Committee	Internal Audit and Assurance Manager	31/01/2017
Do internal auditors exercise due professional care during a consulting engagement by considering the:						
c) Cost of the consulting engagement in relation to potential benefits?	Partial	Not progressed	No change	As above, proposals for improving information on IA costs overall and the costs/benefits surrounding assurance will be developed and reported to the Audit Committee	Internal Audit and Assurance Manager	31/01/2017
1300 Quality Assurance and Improvement Programme						
1311 Internal Assessments						
Do internal assessments include ongoing monitoring of the internal audit activity, such as:						
Does ongoing performance monitoring include comprehensive performance targets?	Partial	Current arrangements are still to be reviewed.	No change	An in-depth review will be undertaken during 2016/17, with reference to arrangements in other local authorities, and reported to the Audit Committee	Internal Audit and Assurance Manager	31/01/2017
Are the performance targets developed in consultation with appropriate parties and included in any service level agreement?	Partial					
Does the CAE measure, monitor and report on progress against these targets?	Partial					

Conformance with the Standard	Current Assessment	Update	Review May 2016	Action Required	By Whom	By When
Performance Standards						
2000 Managing the Internal Audit Activity						
2010 Planning						
Does the risk-based plan take into account the organisation's assurance framework?	Partial	Internal Audit are in the process of developing the Council's wider assurance framework with a view to ensuring that assurances from all relevant sources are captured, reviewed and reported as appropriate. Internal Audit are developing a "three lines of defence" model which aims to provide clarity in terms of responsibilities for the provision of assurance. Alongside the development of the assurance framework, the Internal Audit and Assurance Manager is reviewing and revising the council's Risk Management Strategy. As a result, Internal Audit have developed a schedule of the council's underlying	No change	Proposals surrounding the corporate Assurance Framework have been discussed with Management Team and will be reported to Audit Committee alongside proposals for a revised Risk Management Strategy.	Internal Audit and Assurance Manager	31/03/2017
If such a risk management framework does not exist, has the CAE used his or her judgement of risks after input from senior management and the board and evidenced this?	Partial	As above	No change	As above	As above	31/03/2017
2050 Coordination						
Does the risk-based plan include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources?	Partial	As above. Proposals for defining and reporting on a corporate Assurance Framework are currently being developed.	No change	Proposals surrounding the corporate Assurance Framework have been discussed with Management Team and are due to be reported to Audit Committee.	Internal Audit and Assurance Manager	31/03/2017
Has the CAE carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance?	Partial		No change			

Conformance with the Standard	Current Assessment	Update	Review May 2016	Action Required	By Whom	By When
2100 Nature of Work						
2110 Governance						
Does the internal audit activity:						
b) Ensure effective organisational performance management and accountability?	Partial	Corporate arrangements for performance management continue to be developed. Internal Audit is routinely consulted in corporate developments in this area.	No change	These issues will be continue to be considered in developing future IA strategic and annual plans.	Internal Audit and Assurance Manager	31/03/2017
c) Communicate risk and control information to appropriate areas of the organisation?	Partial		No change			
Has the internal audit activity assessed whether the organisation's information technology governance supports the organisation's strategies and objectives?	Partial	Arrangements are being progressed to set up a new information governance function reporting to the Internal Audit and Assurance Manager (IAAM) There is a need to review and provide greater assurance on risks to the organisation associated with ICT.	No change	Continue to implement the information governance function and develop greater corporate capacity in this area. Establish a clearer understanding of ICT risks and an associated programme of assurance work.	Internal Audit and Assurance Manager	31/03/2017
2120 Risk Management						
Has the internal audit activity evaluated the effectiveness of the organisation's risk management processes by determining that:						
c) Appropriate risk responses are selected that align risks with the organisation's risk appetite?	Partial	Arrangements corporately to determine risk appetite and to manage risk are being considered in the development of an Assurance Framework for the Council.	No change	Proposals surrounding the corporate Assurance Framework to be agreed with Management Team and the Audit Committee.	Internal Audit and Assurance Manager	31/03/2017
d) Relevant risk information is captured and communicated in a timely manner across the organisation, thus enabling the staff, management and the board to carry out their responsibilities?	Partial		No change			
2200 Engagement Planning						
For consulting engagements, have internal auditors established an understanding with the engagement clients about the following:						
c) The respective responsibilities of the internal auditors and the client and other client expectations?	Partial	Attention will be given to developing these as necessary if consultancy work is taken on during 2016/17 No new opportunities have arisen to date.	No change	Develop protocols and the level of consideration and documentation required when agreeing consulting engagements.	Internal Audit and Assurance Manager	31/03/2017
For significant consulting engagements, has this understanding been documented?	Partial		No change			
2450 Overall Opinion						
Does the annual report incorporate the following:						
j) A summary of the performance of the internal audit activity against its performance measures and targets?	Partial	Not progressed significantly	No change	See action in relation to standard 1311.		

Internal Audit Quality Assurance & Improvement Programme (QAIP) 2016/17

Introduction

Internal Audit's Quality Assurance and Improvement Programme (QAIP) is designed to provide reasonable assurance to the various stakeholders of Lancaster City Council that Internal Audit:

- Performs its work in accordance with its Charter, which is consistent with the Public Sector Internal Audit Standards (PSIAS) and associated Local Government Application Note (LGAN), Definition of Internal Auditing and the Code of Ethics;
- Operates in an efficient and effective manner; and
- Is adding value and continually improving Internal Audit's operations.

The Internal Audit and Assurance Manager is ultimately responsible for the QAIP, which covers all types of Internal Audit activities. In accordance with the PSIAS, the QAIP makes provision for both internal and external assessments. Internal assessments are both ongoing and periodical and external assessments must be undertaken at least once every five years.

Internal Assessment

Internal Assessment is made up of both on-going reviews and periodic reviews.

On-going Reviews

On-going review is maintained through:

- Audit policies and procedures used for each engagement including the Internal Audit Manual to ensure compliance with applicable planning, fieldwork and reporting standards;
- Assignments managed and recorded using the established electronic Audit Management System;
- An appropriate level of supervision of all engagements;
- Weekly team update meetings on progress with assignments;
- Regular, documented review of work papers during engagements.
- Seeking and reviewing post-completion feedback from audit clients for individual audit assignments;
- All draft and final reports and action plans reviewed and approved by the Internal Audit Manager.

Periodic Reviews

Periodic reviews are designed to assess conformance with Internal Audit's Charter, the PSIAS/LGAN, Definition of Internal Audit, the Code of Ethics, and the efficiency and effectiveness of internal audit in meeting the needs of the Council and its other stakeholders. Periodic reviews will be conducted through:

- Monthly one-to-one meetings between each member of the Internal Audit team and their line manager;
- Activity and performance reporting to each scheduled meeting of the Audit Committee; and
- Annual self-assessment of conformance with the PSIAS/LGAN.

Any resultant action plans will be monitored by the Internal Audit Manager in line with the Audit Committee reporting cycle.

External Assessment

External assessments will appraise and express an opinion about Internal Audit conformance with the PSIAS/LGAN, Definition of Internal Audit and Code of Ethics and include recommendations for improvement as appropriate.

Ten of the authorities involved in the Lancashire District Chief Auditors Group have now agreed upon arrangements for a 'peer review' process to meet this requirement. A memorandum of understanding has been drawn up for the 'Peer Review' process setting the methodology for the assessment.

A schedule for assessments has recently been drawn up and agreed between the participants. This schedule provides for the external assessment of Lancaster City Council's internal audit function to be carried out in October 2017.

Reporting

Internal Assessments: the outcomes and conclusions from internal assessments will be reported to the Audit Committee on an annual basis; normally as part of the Internal Audit and Assurance Manager's Annual Report.

External Assessments: the results of external assessments will be reported to the Audit Committee at the earliest opportunity following receipt of the external assessor's report. The external assessment report will be accompanied by an action plan in response to significant findings and recommendations contained in the report.

Follow Up: the Internal Audit and Assurance Manager will implement appropriate follow-up actions to ensure that recommendations made in the report and action plans developed are implemented in a reasonable timeframe.

AUDIT COMMITTEE**Internal Audit Annual Report and
Assurance Statement 2015/16
29 June 2016****Report of the Internal Audit and Assurance Manager****PURPOSE OF REPORT**

To inform the Committee of the extent and outcome of Internal Audit work during the 2015/16 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 and Assurance Manager's Assurance Statement and Annual Internal Audit Opinion (paragraphs 2.12 to 2.24) be accepted and considered by the Committee in relation to the annual governance review and Annual Governance Statement, which is included elsewhere on this agenda.

1.0 Introduction

- 1.1 The terms of reference of the Audit Committee include: *To receive the Internal Audit Annual Report and annual controls assurance statement.* (the Constitution, part 3 section 8, TOR 8.8).
- 1.2 Professional standards for Internal Audit in local government¹ specify that "*The chief audit executive (the Internal Audit and Assurance 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 2015/16

- 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 2015/16 Internal Audit Plan was approved by the Audit Committee at its meeting on 17th June 2015. Adjustments to the plan were approved by the Committee at its meetings on 16th September 2015 and 20th January 2016.
- 2.2 The annual outturn position against the 2015/16 annual plan is summarised in the following table.

Area of work	Resources (days)		
	Original Plan	Revised Plan (20/01/16)	Actuals
Assurance Audit			
Core Financial Systems	50	30	19
Revenues & Benefits Shared Services	40	26	26
Core Management Arrangements	50	50	30
Risk Based Assurance Audits	170	108	74
Follow-Up Reviews	50	64	63
Sub-Total, Assurance Work	360	278	212
Advice & Support Work	115	85	118
Investigations	30	31	30
Audit Management	50	68	68
Other Duties (Non-Audit)	35	48	67
Work for Other Bodies (LDNPA)	0	0	11
General Contingency	40	0	0
Total Chargeable Days	630	510	506
Non-Chargeable Activities (note1)	113	121	126
Total Available Days	743	631	632

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 111, this being due to a service review (reported to the January meeting of the Committee) which resulted in the Internal Audit section being reduced from 3.8 FTE staff to 3.0.
- 2.4 In consequence, the number of chargeable days delivered was 506 compared with the original plan of 630. As well as the reduction in resources referred to above, there have been slightly higher levels of non-chargeable work arising mainly from additional staff development time and the need to adapt to changes in working practices.
- 2.5 Most significantly, 148 fewer days than originally planned were delivered on the core programme of assurance audit work. This inevitably diminishes the assurance that the Committee is able to take from Internal Audit's output over the period. This is reflected in the Internal Audit and Assurance Manager's audit opinion.
- 2.6 The heading of non-audit duties has traditionally covered the Internal Audit and Assurance Manager's role as a Deputy Section 151 Officer. During 2015/16, new workload has arisen from the Internal Audit & Assurance Manager's adoption of managerial responsibilities regarding the council's information governance and corporate fraud functions.





- 2.7 In the information governance area in particular, issues surrounding recruitment to new posts have generated a significant demand on resources and has impacted the delivery of Internal Audit services. Whilst this position has to some extent continued into the 2016/17 year, arrangements are in hand to resolve the staffing situation and ensure that an effective level of audit is provided.

Review of the Effectiveness of Internal Audit

- 2.8 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. The conclusions and outcomes from the most recent internal annual review is reported elsewhere on this agenda.
- 2.9 The review concludes that the Audit Committee can take reasonable assurance that Internal Audit is operating effectively and can place reliance on its reports and work in considering the overall effectiveness of governance arrangements. No significant deviations from the standards, or other issues regarding effectiveness, have been identified which would warrant disclosure in the Governance Statement.

Results of Assurance Work





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

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

- 2.11 The Table in Appendix A sets out the assurance opinions issued from audits and follow-up reviews completed since 31st March 2015, and any subsequent changes in assurance level.

Assurance Statement

- 2.12 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.
- 2.13 This assurance statement is drawn from both the results of individual internal audit assignments and the results of follow-up reviews into previously completed audits, as reflected in the contents of Appendix A. The following table summarises the assurance opinions covered in the appendix, based on the most recent review, with the previous year's totals, for comparison.

Assurance Level (most recent review)	Number of Audit Opinions				
	2015/16				2014/15
	Financial Audits	Governance Audits	Other Audits	Total	
Maximum 	0	0	1	1	1
Substantial 	6	0	4	10	17
Limited 	0	0	3	3	5
Minimal 	0	0	0	0	0
Totals	6	0	8	14	23

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

Financial Systems Audits

- 2.16 This relates to six financial system audits. Assurance levels on the Council’s core financial systems remain consistently high. The results include four audits from earlier periods where a follow-up has resulted in the assurance opinion being raised to ‘substantial’. The two new audit reports during the year, those relating to Payroll (15/0925) and Housing Benefit Subsidy – Overpayment Classifications (15/0952) both received a ‘substantial’ assurance opinion.
- 2.17 Given the work undertaken, it is the Internal Audit and Assurance 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

- 2.18 No new audit work has been carried out during the year into specific governance arrangements.
- 2.19 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, but have not yet been fully addressed by, an ongoing reorganisation of the corporate information governance function.
- 2.20 In the Internal Audit and Assurance Manager’s opinion, at this stage of development, an update on the position regarding information governance should again be included in the annual governance statement.

Other Audits

- 2.21 This section covers eight audits, three of which resulted in a “limited” assurance opinion, these being in relation to:
- Corporate Property Related Service Contracts; and
 - CCTV;
 - Safeguarding Adults

- 2.22 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.
- 2.23 In the Internal Audit and Assurance 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

- 2.24 Resourcing issues during 2015/16 and their implications for the provision of assurance 2015/16 Internal Audit Plan have been mentioned in § 2.5. The reduction in the amount of internal audit time spent on assurance work and the associated reduction in the number of assurance opinions issued inevitably has an impact on the level of assurance that the Audit Committee can derive from the work undertaken.
- 2.25 The Internal Audit and Assurance Manager’s opinion is therefore that, whilst the audit work completed has not identified significant issues regarding the council’s framework of governance, risk management and control, reductions in the amount of assurance work mean that only ‘Limited’ assurance can be provided for this particular period.

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 and Assurance 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 2015/16 financial year, Internal Audit’s work has provided ‘Limited’ assurance.

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 2015/16

Contact Officer: Derek Whiteway


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E-mail: dwhiteway@lancaster.gov.uk


Ref: aud/ctte/aud/160629/IAAnnRep

Financial Audits


12/0861 Debt Management - Council Housing

04-Jun-15	Substantial		The Principal 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.
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13/0885 Environmental Health Income Streams

29-Jul-15	Substantial		Good progress has been made to implement the actions resulting from the original audit. Work is ongoing to ensure that all Environmental Health fees and charges are appropriately reviewed and can be fully substantiated should they be challenged.
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13/0896 Grounds Maintenance, Nursery and Cleansing Income Streams

18-Nov-15	Substantial		The assurance opinion has been raised to substantial on the basis that all Service charges have been fully reviewed, security arrangements have been strengthened and good progress has been made to share knowledge and experience in relation to the Nursery therefore aiding succession
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14/0920 Council Housing Tenancy Fraud

16-Dec-15	Substantial		Significant progress has been made with implementation of the actions agreed following the original review. Given the improvements made substantial assurance can now be provided in relation to arrangements in place in relation to the prevention and detection of tenancy fraud.
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15/0925 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.
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15/0952 Housing Benefit Subsidy - Overpayment Classifications (Lancaster)


24-Dec-15	Substantial		Substantial assurance has been given on the basis that the overpayment classification error rate is considered reasonable. Classifications are in line with DWP guidance and an appropriate audit trail is available to support each overpayment and the classification awarded.
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Other Audits


13/0897 CCTV

10-Aug-15	Limited		The Commercial Centre Manager reported that whilst a significant amount of progress has been made in addressing the issues identified in the audit, work is still ongoing and therefore the assurance opinion cannot be raised to Substantial at this time. A consultant has been appointed to advise on the Public Space CCTV system. The consultant has carried out a Technical, Management and Compliance Audit with a view to assessing the system's performance, operation and compliance with relevant legislation, British Standards and Best Practice Guidelines. The results of the Audit, including the required improvements, are currently being assessed and have also been discussed with the company with which the council has a contact for operation of the Public Space CCTV system. In addition to the report, the consultant has also produced a draft Code of Practice, Privacy Impact Assessment and Operation Procedures Manual, these to be subject to consultation as appropriate.
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Whilst the scope of the work carried out by the consultant did not extend to other council CCTV systems, work is currently ongoing with a view to improving management of these systems. Further, since specialist advice is required, the same consultant is to be used to assist in this area to ensure consistency across all council CCTV installations


15-Jun-15	Limited		The Commercial Centre Manager reported that although a significant amount of work has been done, the assurance opinion cannot be raised to Substantial given that actions are still in the process of being implemented.
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13/0908 Commercial Property Leases and Licenses


12-Nov-15	Limited		Whilst some progress has been made, the assurance opinion remains at 'limited' given. This is on the basis that there is still a significant amount of work to be done in order to fully populate the asset management system (Technology Forge) so that the council has a comprehensive record of its property holdings and the system can be utilised to its full potential.
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Other Audits

14/0921 Outdoor Events Management


26-Aug-15 Substantial  Excellent progress has been made with all actions agreed having been implemented. Given the significant amount of progress made substantial assurance can now be provided in relation to outdoor events management.

14/0943 Rent Deposit Scheme


24-Feb-16 Substantial  Substantial assurance has been given on the basis that good progress has been made with implementation of the actions agreed following the original review. Overall management of the Rent Deposit Scheme has been strengthened through the documentation of a Homeless Prevention Fund Policy and associated procedures. Record keeping has improved, however there is scope to further strengthen arrangements with a view to demonstrating transparency through the maintenance of a comprehensive audit trail. This is currently being addressed by the Service.


14-Jul-15 Limited  Limited assurance is given on the basis that whilst good arrangements are in place to ensure that payments made under the Rent Deposit Scheme are legitimate, with checks being carried out to verify that applicants meet set criteria, these checks are not clearly evidenced at present. Record keeping arrangements require improvement therefore to ensure that the council is able to demonstrate transparency, and that a fair and consistent approach has been adopted. A number of actions have been agreed to address this which once implemented should result in substantial assurance being provided.

15/0954 Port Health


14-Jan-16 Maximum  Risks associated with port health functions are very well controlled and systems and procedures in place to prevent the spread of infection disease, and pollution, from vessels are robust. Therefore Internal Audit can provide maximum assurance in relation to arrangements for managing port health related issues.

15/0955 Public Health Funerals


17-May-16 Substantial  The assurance opinion has been raised to substantial to reflect the considerable progress that has been made with implementation of the action plan resulting from the original audit review. Processes and procedures surrounding the administration of Public Health Funerals have been significantly strengthened and appropriate measures have been put into place to ensure that all avenues of responsibility are explored prior to the council accepting responsibility for burial arrangements. A comprehensive audit trail is now in place to support all actions and decisions taken for each public health funeral the council administers or is involved with.

22-Dec-15 Limited  A limited assurance opinion has been given on the basis that although the Council is fulfilling its statutory responsibilities, measures to avoid incurring avoidable expenditure/resource need to be strengthened. There is also scope to improve documentation in order to provide a comprehensive audit trail for each public health funeral administered. Implementation of the agreed action plan will enable a Substantial level of assurance being achieved in this area.

15/0960 RingGo Cashless Parking System

17-Feb-16 Substantial  Substantial assurance has been provided on the basis that efficient and effective arrangements have been put in place in relation to the introduction of a cashless parking system. However, if current arrangements are to extend beyond the initial 12 month trial period they need to be placed on a more formal footing. Actions have therefore been agreed to ensure that a signed Service Level Agreement/contract setting out the contractual roles and responsibilities of both parties is sought and defined objectives, targets and success measures are set and monitored.

15/0963 Safeguarding Adults

13-Jun-16 Limited  A limited assurance opinion has been given on the basis that current arrangements in relation to safeguarding vulnerable adults require strengthening with a view to bringing them in line with the good arrangements already in place for children and young people. An action plan has been agreed which once implemented should result in substantial assurance being achieved relatively quickly, improvements to address some of the issues identified already being in hand.

AUDIT COMMITTEE

Annual Governance Review 2015/16 – Update 29 June 2016

Report of the Internal Audit and Assurance Manager

PURPOSE OF REPORT

To update the Committee on arrangements for the annual governance review and the production of a Governance Statement for the year 2015/16 and to seek Members' views on the outcome to date.

This report is public

RECOMMENDATIONS

(1) That the report is noted

1.0 Introduction

1.1 The terms of reference of the Audit Committee include: *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.* (The Constitution, part 3 section 8).

2.0 Report

Review of Compliance with the Code of Governance

2.2 As in previous years, a review is being undertaken of the Council's position and performance against the Code of Governance approved in September 2012. The Code of Corporate Governance consists of a set of seventy-eight elements within the following six core principles, which underpin a council's system of governance:

1. **Focusing on the purpose of the authority and on outcomes for the community including citizens and service users and creating and implementing a vision for the local area.**
2. **Members and officers working together to achieve a common purpose with clearly defined functions and roles.**
3. **Promoting the values of the authority and demonstrating the values of good governance through behaviour.**
4. **Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.**
5. **Developing the capacity and capability of members to be effective and ensuring that officers – including the statutory officers - also have the capability and capacity to deliver effectively.**

6. Engaging with local people and other stakeholders to ensure robust local public accountability.

Assurance

- 2.3 A document compiled to detail the identified “sources” of assurance for each element of the Code has again been updated. Sources of assurance range from a record of official policy and strategy documents such as the Constitution to the results of reviews such as Internal Audit and External Audit reports, to procedures such as one-to-one management meetings.
- 2.4 Individual “assurance statements” have been sought from managers at the level immediately below Chief Officer level, in relation to internal control and governance arrangements within their areas and this assurance has been built in to the overall evaluation. These statements have also been reviewed individually by the relevant Chief Officers.
- 2.5 The Internal Audit and Assurance Manager’s Annual Report and Assurance Statement for 2015/16, which is included elsewhere on this agenda, concluded that the Authority had a significant ongoing governance issue in relation to its information management arrangements and that this should be disclosed in the Governance Statement. No other significant issues for disclosure were identified.
- 2.6 In his Annual Internal Audit Opinion for 2015/16, however, the Internal Audit and Assurance Manager did conclude, that reductions in the amount of internal audit assurance work undertaken meant that only ‘Limited’ assurance could be provided for this year.
- 2.7 The Internal Audit and Assurance Manager also reports elsewhere on this agenda on the results of an internal self-assessment of Internal Audit against professional standards. The conclusion and recommendation from the self-assessment is that the Audit Committee can take reasonable assurance that Internal Audit is operating effectively and can place reliance on its reports and work in considering the overall effectiveness of governance arrangements. No significant deviations from the standards, or other issues regarding effectiveness, have been identified which would warrant disclosure in the Governance Statement.

Governance Review – Emerging Messages

- 2.8 Inevitably the governance review focuses on areas for improvement and development and from the review processes mentioned above, concerns and/or inconsistencies have been raised in the following broad areas:
- General capacity, brought about by budget pressures and associated staffing changes.
 - Provision of advice on legal and governance matters, in view of temporary cover arrangements regarding the Monitoring Officer role.
 - Production of service business plans and arrangements for measuring the quality of service for users.
 - Delivery of staff development arrangements and limitations of training budgets.
 - Effectiveness of both internal and external communications.
 - Application of risk management principles.

Concluding the Process

- 2.9 The next step in the process is for Management Team to consider, at its meeting on 28th June 2016, a report into the assurance, conclusions and observations arising so far from the review, along with an initial draft of the annual governance statement for 2015/16.
- 2.10 It is intended that Management Team will, in considering the report, develop and finalise the draft Governance Statement. This draft statement will then be presented to the Audit Committee at its meeting on 7th September 2016.

3.0 Details of Consultation

- 3.1 As part of the assurance gathering exercise, senior managers have provided an assurance statement for their areas of responsibility, with any matters raised being considered by Management Team and built in to the evaluation exercise.

4.0 Options and Options Analysis (including risk assessment)

- 4.1 The report is for noting; no options are presented.

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

The report has no direct impact on the above issues.

FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

There are no legal implications 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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AUDIT COMMITTEE**Internal Audit Monitoring Report
29 June 2016****Report of the Internal Audit and Assurance 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 10th June 2016

1.1 This report covers audit work and reports issued since the last update report to Committee on 20th January 2016. 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				
15/0954	Port Health	28/01/16	Maximum	✓✓
15/0956	Stores	16/03/16	Limited	⚠
15/0960	RingGo Cashless Parking System	17/02/16	Substantial	✓
15/0963	Safeguarding Adults	13/06/16	Limited	⚠

Follow up Reviews				
14/0943	Rent Deposit Scheme	24/02/16	Substantial	✓
15/0955	Public Health Funerals	17/05/16	Substantial	✓

2.0 Matters Arising from Audit Reviews**2.1 15/0956 - Stores**

2.2 Limited assurance was given on the basis that a significant number of improvements were required in key areas and current arrangements did not make the most effective use of the Stores system. An action plan has been agreed with a view to addressing these issues which once implemented should result in substantial assurance being provided. Headline messages from the audit included:

- Purchasing arrangements are to be reviewed with a view to ensuring that opportunities to achieve savings through efficiencies are fully explored and value for money is obtained.
- Stock management arrangements are to be improved with a view to reducing the risk of stock becoming obsolete or Stores being inadequately stocked to meet demand.
- A review of the Stores system capabilities is to be carried out with a view to ensuring that the most effective use is made of the system to aid, inform and automate stock management arrangements as much as possible.
- Write-off arrangements are to be improved to ensure that appropriate separation of duties are in place, transactions are properly authorised and a clear audit trail exists through documentation maintained.
- Arrangements for the disposal of stock items are to be defined, these to ensure that disposals are appropriately authorised, are in line with contract procedure rules and that a clear audit trail is maintained.
- Stocktaking procedures are to be reviewed.

2.3 **15/0957 – Safeguarding Adults**

2.4 A limited assurance opinion has been given on the basis that current arrangements in relation to safeguarding vulnerable adults require strengthening with a view to bringing them in line with the good arrangements already in place for children and young people. An action plan has been agreed which once implemented should result in substantial assurance being achieved relatively quickly, improvements to address some of the issues identified already being in hand.

2.5 Headline messages from the audit included:

- The council's Safeguarding Adults Policy is in the process of being developed with a view to ensuring it addresses and makes clear the councils statutory responsibilities following the introduction of the Care Act 2014.
- Robust recruitment and selection processes are in place to ensure that the safeguarding of adults is not jeopardised.
- There is a need to improve training to increase awareness of the relevant roles, responsibilities, procedures and processes in relation to safeguarding adults.
- Decision making processes have recently been revised to ensure that they consider safeguarding issues as appropriate.
- Effective arrangements for joint working and information sharing with other agencies, practitioners and councils are in place.
- Arrangements for ensuring that the council can effectively identify and report suspected abuse need to be strengthened through appropriate training and awareness, and up to date and accessible online information.

3.0 **Updates on Tracked Items**

13/0977 - Corporate Property Related Service Contracts

3.1 This audit was completed in August 2013 with a 'Limited' assurance opinion. The follow-up review in December 2014 concluded that whilst good progress had been made in implementing the action plan, the achievement of a more structured and corporate approach was necessary to improve the assurance level.

3.2 Progress with the action plan has been tracked by Internal Audit since the follow-up review. The Senior Property Officer has confirmed that all identified actions have now been implemented and that all service contracts across the property portfolio are being centrally managed by Property Group. As a result the Senior Property Officer is now comfortable that as from the official implementation date of the 1st April 2016 the authority is now in a position where the assurance level can be raised from limited to substantial. The assurance level could potentially be raised to maximum but it is felt that the new monitoring processes and systems need to be given 12 months to bed in before the maximum assurance can be given.

4.0 Details of Consultation

4.1 None specifically regarding this report.

5.0 Options and Options Analysis (including risk assessment)

5.1 The report is for noting.

<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/160629IAMon</p>

AUDIT COMMITTEE

**Internal Audit Strategy and Risk Based Plan
29 June 2016**

Report of the Internal Audit and Assurance Manager

PURPOSE OF REPORT

To seek the Committee’s approval for a proposed Internal Audit Strategy and Annual Risk Based Plan for 2016/17

This report is public

RECOMMENDATIONS

1. That the Internal Audit Strategy and Risk Based Plan for 2016/17 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 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 develop the level and quality of independent assurance provided to the organisation on the effectiveness of its arrangements.

Risk Based Internal Audit Plan 2016/17

- 2.3 The draft Risk Based Internal Audit Plan submitted in section 2 of Appendix A is currently set out in similar lines to recent years. This takes account of a current position in which the Council's approach to risk management and to the generation of assurance are both under review.
- 2.4 It is anticipated that the adoption of a revised corporate risk management strategy will entail a re-focusing of internal audit objectives and an associated re-design of the annual plan. Developments in the risk management strategy and the implications for internal audit will be reported to Audit Committee in due course.
- 2.5 The annual plan for 2016/17 is based on estimated available resources of 535 days, this being delivered by the in-house team of three staff. The Internal Audit and Assurance Manager's managerial responsibilities outside of internal audit, including his role as Deputy Section 151 Officer and management in relation to the information governance function and the Corporate Counter Fraud Team has been estimated as requiring 55 days. This gives a net allocation to audit activity of 480 days.
- 2.6 As with established practice, the Internal Audit and Assurance Manager continues to consult with Chief Officers, the statutory officers, service managers and Management Team generally to inform and develop the detailed programme.

Financial Considerations

- 2.7 The overall 2016/17 budget for the Internal Audit and Assurance service is £307k of which £154k relates to the Internal Audit team, including the Internal Audit and Assurance Manager.
- 2.8 Applying an average charging rate for the team, calculated at £288 per chargeable day or £39 per hour, the cost of the individual elements in the plan are summarised as follows:

Plan Element	Planned Days	Cost £
Assurance Audit Work	330*	95,000
Ad-hoc Advice	50	14,400
Corporate Risk Management	20	5,750
Support Work	20	5,750
Internal Audit Management	40	11,500
Non-Audit Duties	55	15,850
Investigations	20	5,750
Totals	535	154,000

* Includes the general contingency of 20 days

3.0 Details of Consultation

3.1 Management Team has been consulted in the preparation of 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 2016/17.

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 2016/17. 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.

**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

The budgeted costs of providing the planned internal audit service are set out in the report. There are no further financial implications arising from the report at this point.

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

None arising from this report

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

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Internal Audit Strategy and Risk Based Plan 2016/17

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;
- developing the corporate 'assurance framework' and coordinating the capture and reporting of sources of assurance;
- developing and supporting managers in the management of risk
- working closely with the corporate enquiry 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 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
- 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, the Corporate Management Team and the Audit Committee Chairman;
- 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 Council's developing risk management strategy and associated assurance framework, the risk-based audit plan seeks to provide assurance in areas of significant risk where alternative sources of assurance are not readily available. Typically this will tend to focus on the auditing of "underlying risks", being those risks which are not being addressed by a current corporate or service-based project or initiative. The plan will be reviewed and updated on a rolling basis to accommodate any emerging 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 2016/17

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 2016/17 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.</p>	120
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		310
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. 	50
<p>Corporate Risk Management</p>	<ul style="list-style-type: none"> ➤ Provision of corporate support and guidance on the risk management strategy and associated issues 	20
<p>Support Work</p> <p>To provide support and advice to management in the development and implementation of new policies, systems and projects.</p>	<p>Support areas may include:</p> <ul style="list-style-type: none"> ➤ RIPA central record ➤ Annual governance review 	20
SUB-TOTAL – CONSULTANCY WORK		90

3. MANAGERIAL DUTIES		
Work Area and Objectives	This Covers	Planned Days
Internal Audit Management	<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. 	40
<p>Non Audit Duties</p> <p>The professional standard regarding independence states that Internal Auditors should have no operational responsibilities. The Council's arrangements currently depart from this expectation in the following areas:</p>		
Deputy Section 151 Officer Duties	<ul style="list-style-type: none"> ➤ The IAAM currently shares Deputy Section 151 duties with the Financial Services Manager 	20
Information Governance Function	<ul style="list-style-type: none"> ➤ Line management responsibility for the Council's information governance function 	25
Corporate Enquiry Team	<ul style="list-style-type: none"> ➤ Client officer responsibility for the delivery of the shared corporate counter fraud service 	10
SUB-TOTAL – MANAGERIAL DUTIES		95
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 	20
<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. 	20
SUB-TOTAL – CONTINGENCIES		40
TOTAL – ALL ACTIVITIES		535