You are requested to attend a meeting of
the Audit Committee
on Thursday, 8 December 2011, at 7.00 p.m.
in the Georgian Room at the Town Hall, Kendal

Please note – This meeting will be preceded at 6.30 p.m. by an informal meeting of the Committee with representatives of both Internal and External Audit, without the presence of officers, also in the Georgian Room at the Town Hall, Kendal.

Committee Membership

Councillors

Jonathan Brook

Stephen Coleman (Chairman)

Pru Jupe (Vice-Chairman)

Kevin Lancaster

Ted Walsh

30 November 2011

Debbie Storr, Corporate Director (Monitoring Officer)

For all enquiries, please contact:-

Committee Administrator: Inge Booth
Telephone: 01539 733333 Ext.7434
e-mail: committeeservices@southlakeland.gov.uk
AGENDA

PART I

1. APOLOGIES
   To receive apologies for absence, if any.

2. MINUTES
   To authorise the Chairman to sign, as a correct record, the minutes of the meeting of the Committee held on 28 September 2011 (copy attached).

3. DECLARATIONS OF INTEREST
   To receive declarations by Members of personal and prejudicial interests in respect of items on this Agenda.
   If a Member requires advice on any item involving a possible declaration of interest which could affect his/her ability to speak and/or vote, he/she is advised to contact the Monitoring Officer at least 24 hours in advance of the meeting.

4. LOCAL GOVERNMENT ACT 1972 – EXCLUDED ITEMS
   To consider whether the items, if any, in Part II of the Agenda should be considered in the presence of the press and public.

5. PROGRESS REPORT/WORK PROGRAMME
   Progress is reported against the Committee’s 2011/12 Work Programme.

6. UPDATE OF PROGRESS REGARDING EXTERNAL AND INTERNAL AUDIT ACTIONS
   To consider an exceptions report on progress on External and Internal Audit recommendations (Covalent will be available at the meeting).

7. INTERNAL AUDIT
   (1) Internal Audit Progress and Performance Report (November 2011)
       To consider the report from the Internal Audit Manager on his progress in delivering the Audit Plan.
   (2) Internal Audit Reports
       Two audit reports have been finalised since the last meeting of the Committee:- Treasury Management Report and Procurement and Contract Monitoring (see Part II)
   (3) Implementation of Internal Audit Recommendations
       The Internal Audit Manager will report on any current issues of concern regarding the implementation of recommendations.
   (4) Review Internal Audit Terms of Reference
       To receive an update on the progress of the procurement and the associated developments.

8. EXTERNAL AUDIT
   (1) Opinion Audit Plan 2011/12
       This plan sets out the audit work proposed to be undertaken for the audit of financial statements for 2011/12.
(2) **Grant Certification Report**

Funding from government grant-paying departments is an important income stream for the Council. The Council needs to manage claiming this income carefully. It needs to demonstrate to the auditors that it has met the conditions which attach to these grants. This report summarises the findings from the certification of 2010/11 claims.

(3) **Annual Audit Letter**

To receive and consider the Annual Audit Letter.

(4) **Audit Committee Update**

To receive an update on Audit Commission work, both locally and nationally and the plans for the future provision of external audit services.

### 9. REGULATORY FRAMEWORK

1. **Review of Local Code of Governance**

To consider the results of the review of the Council’s Code of Local Governance.

2. **Review of Anti-Fraud Policy**

To consider the results of the review of the Council’s Anti-Fraud and Corruption Policy.


To provide an update to the Committee on actions taken in respect of risks identified as part of the recent review of the Annual Governance Statement.

4. **Review of Effectiveness of the Audit Committee**

To consider the results of the annual review of the Committee’s effectiveness.

### 10. POTENTIAL FINANCIAL ISSUES

A verbal update will be provided by the Assistant Director (Resources)/Section 151 Officer, if required.

### PART II

Private Section (exempt reasons under Schedule 12A of the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) Order 2006, specified by way of paragraph number)

### 11. PROCUREMENT AND CONTRACT MONITORING REPORT

- Information relating to the financial or business affairs of any particular person (including the authority holding that information). (Paragraph 3)

This audit report has been finalised since the last meeting.
AUDIT COMMITTEE

Minutes of the proceedings at a meeting of the Committee held in the Georgian Room at the Town Hall, Kendal, on Wednesday, 28 September 2011, at 6.30 p.m.

Present

Councillors

Stephen Coleman (Chairman)
Jonathan Brook
Kevin Lancaster
Ted Walsh

An apology for absence was received from Councillor Pru Jupe (Vice-Chairman).

Officers

Inge Booth Democratic Services Officer
John Brook IT Services Manager (part)
John Davies Performance and Risk Officer
Shelagh McGregor Assistant Director (Resources)/Section 151 Officer
Helen Smith Strategic Finance Manager

Also in attendance at the meeting was Keith Jackson, Internal Audit Manager, and Karen Murray from the Audit Commission.

AUD/042 MINUTES
RESOLVED – That the Chairman be authorised to sign, as a correct record, the minutes of the meeting of the Committee held on 28 July 2011.

AUD/043 DECLARATIONS OF INTEREST
RESOLVED – That it be noted that no declarations of interest were made.

AUD/044 LOCAL GOVERNMENT ACT 1972 – EXCLUDED ITEMS
RESOLVED – That the item in Part II of the Agenda be dealt with following the exclusion of the press and public.

INTERNAL AUDIT

AUD/045 IT Disaster Recovery Planning, Back-up and Recovery, Implementation Review (IT10-01) and IT Service Support, Implementation Review (IT10-02) – Update

AUD/037(4) (2011/12), Members had requested that the IT Services Manager be requested to attend the next meeting of the Committee in order to provide assurance and confirmation that the outstanding recommendations identified within the above-mentioned reports had been implemented.

The IT Services Manager informed Members that all of the recommendations had been implemented some time ago, and pointed out that improvements were continuously being examined. A good back-up system was now in place, together with a tried and tested Disaster Recovery Plan. The IT Services Group was now looking into the provision of a single back-up strategy for both Eden and South Lakeland. The IT Services Manager was of the opinion that improvements being made within the Section went beyond those problems outlined within the audit report, and he provided details relating to new communications links which would help with offsite back-ups.
Members, however, wished to be provided with information on the Council’s wider plans rather than simply those for the protection of data in the event of a disaster. The IT Services Manager informed the Committee that both Eden and South Lakeland made extensive use of virtualisation which meant that it was possible to recover an entire server rather than simply recovering data which could be time consuming. In addition, Eden and South Lakeland had reciprocal arrangements in place which meant that they would be able to make use of each other’s facilities in the event of a disaster. The IT Services Manager also confirmed that the Council’s critical systems could be back on line within one day.

Although Members acknowledged what the IT Services Manager had said, they still sought information in relation to the physical dimensions in the event of a disaster, for example a location from which to operate and the acquisition of a large number of laptops. The IT Services Manager advised that this aspect was covered by the Council’s Business Continuity Plan, although pointed out that Citrix could be operated from any location. The Performance and Risk Officer, who was also present at the meeting, referred to the Council’s Business Continuity Plan and advised that this covered accommodation for teams of staff who delivered the Council’s most important services. Emergency exercises were carried out on a regular basis, although the Business Continuity Plan had not actually been tested out, as such.

In conclusion, Members felt that they would like to have sight of the Council’s Business Continuity Plan and Emergency Plan.

RESOLVED – That

(1) the report be received; and

(2) the Council’s Business Continuity Plan and Emergency Plan be brought to a future meeting of the Committee.

AUD/046 PROGRESS REPORT/WORK PROGRAMME

Members considered a report on progress against the Committee’s 2011/12 Work Programme.

The Strategic Finance Manager advised that all items were on schedule, with the exception of the Regulatory Framework item on the Committee’s Contribution to the Review of the Constitution. She pointed out that the planned restructure of senior management and the proposed housing stock transfer were likely to have a significant impact on the Council’s Constitution, and suggested that consideration of this item be deferred until either December 2011 or April 2012.

RESOLVED – That

(1) the Regulatory Framework item on the Committee’s Contribution to the Review of the Constitution be deferred until the meeting scheduled to be held on 26 April 2012; and

(2) the report be noted.
Members considered a report generated from Covalent which showed details of those Internal and External Audit Recommendations for which actions had not yet been completed.

RESOLVED – That the progress made to date on External and Internal Audit recommendations be noted.

EXTERNAL AUDIT

RESOLVED – That it be noted that this had been considered at the joint meeting of the Accounts and Audit Committees earlier in the day.

INTERNAL AUDIT

The Internal Audit Manager reported on progress made by Furness Audit in delivering the Audit Plan between April and September 2011, including final reports issued relating to a previous reporting period and significant issues that had arisen during this period as a result of their work. Out of a total of 15 recommendations which had been made, 14 had been fully accepted by management and one partly accepted.

The Internal Audit Manager informed Members that work had now started on the audits for Council Tax, Business Rates (NNDR) and Treasury Management. He advised that the number of man days delivered between April and September 2011 as a proportion of the annual plan was 38% compared to 47% for the same period on the previous year. This was due to additional benefit testing work which was outside the audit plan, which had been undertaken by Internal Audit. He also referred to the number of man days delivered by Furness Audit and pointed out that the Council had benefitted from a change in the structure of business.

The Chairman of the Committee commented on the performance indicator relating to management responses to draft internal audit reports and the need for the Committee to focus on this issue as the year progressed.

RESOLVED – That the report be noted.

The Internal Audit Manager reported that three internal audit reports had been finalised since the meeting of the Committee held on 15 July 2011. One of the reports contained exempt information and would be considered following the exclusion of the press and public.

**Income Collection (11-02) – Unqualified Assurance**

With effect from 31 January 2006, the Council’s three cash offices in South Lakeland House, Kendal, Ulverston Town Hall and Langstone House, Windermere, had been closed to create financial savings. Alternative payment methods had been developed and introduced, and an enquiry service had been retained in Kendal, together with part-time services in Ulverston and Windermere.
Payments could be made by a number of methods, including postal cheque, Allpay cards or bar-coded invoices at post offices or Paypoint outlets, Internet, touchtone telephone payments, bank transfers and by direct debit. Payment by electronic method was actively encouraged in order to help the Council achieve further savings. During the financial year 2009/10, in excess of 151,000 receipting transactions had been performed, with a value of over £252m.

The audit objectives had been to test the internal controls over the collection and receipt of income within the Council.

As a result of the audit, it had been concluded that there appeared to be an adequate system of controls designed to achieve the system objectives and, as such, no recommendations had been raised.

A constructive management response had been received from the Revenues and Benefits Support Manager, accepting the report.

Members welcomed the report and asked that the Committee’s thanks be passed on to the Revenues and Benefits Support Manager.

**Risk Management (11-13) – Substantial Assurance**

Risk Management had come to be regarded as an essential element of good governance and decision-making. It was an integral part of internal control and, for local government, a statutory requirement defined in the Accounts and Audit (England) Regulations 2011.

The Council’s risks were derived from the Corporate Plan and were documented in the Corporate Strategic Risk Register within the Council’s Covalent Performance Management System. The Covalent System was administered by officers from the Change and Improvement Section within the Vision and Strategy Directorate.

Audit work had included a control evaluation of the system design, and testing of the operation of key controls.

As a result of the audit, it had been concluded that while there was a basically sound system, there were weaknesses, which might put some of the system objectives at risk. Seven Priority 2 recommendations had been made which related to ensuring that:

- the Council’s Risk Management Strategy was approved by the Cabinet and formally reviewed on an annual basis;
- the Council’s Risk Management Strategy was revised and amended to include a clear outline of responsibilities and opportunity analysis;
- the Council’s Risk Management Strategy included details of the approach to the management of Organisational Risks;
- high risks within the Corporate Strategic Risk Register were formally reviewed at the start of the year, subsequently reviewed each quarter, and that the reviews were fully documented;
- the Corporate Strategic Risk Register was reported to the Cabinet on a quarterly basis;
- a formal report of risk management activity was reported to the Audit Committee every six months; and
- significant findings from Internal Audit reports were provided to the Risk and Performance Officer for possible inclusion in the Council's Risk Register.
In addition, two Priority 3 recommendations had been made which related to ensuring that:

- the Council’s Risk management Strategy was published on the Council’s intranet and internet site; and
- the Corporate Strategic Risk Register was accessible via the Council’s internet site.

A constructive management response had been received from the Performance and Risk Officer, accepting each of the recommendations.

RESOLVED – That

(1) the two internal audit reports above be accepted as presented; and

(2) the Committee’s thanks be conveyed to the Revenues and Benefits Support Manager in relation to achieving unqualified assurance from Internal Audit in relation to the final audit report on Income Collection (11-02).

AUD/051 Implementation of Internal Audit Recommendations

Further to AUD/041 (2011/12) when the Committee had been provided with an update report on the issue of Gas Safety Checks, the Internal Audit Manager informed the Committee that South Lakes Housing had employed a consultant to carry out a specialist audit which it was anticipated would provide assurance regarding system controls and to ensure that the actions outlined within the Internal Audit Report had been completely achieved. If they were unable to take gain full assurance from this review, then Internal Audit would re-examine the issue before Christmas.

At AUD/037(2) (2011/12) the Committee had considered an Internal Audit Report on Housing Rents and had expressed concern in relation to the recommendation regarding recovery of former tenants’ arrears. The Internal Audit Manager advised that he was still unable to provide a clean bill of health on this issue, although it was understood that additional resource had been utilised to improve the situation. A final report would be brought to the next meeting and the Internal Audit Manager queried whether the Committee wished to invite a representative from South Lakes Housing. The Strategic Finance Manager pointed out the need to ensure that all possible steps were taken to recover the outstanding debts before March 2011 and the transfer of the Council’s housing stock.

RESOLVED – That

(1) the report be received; and

(2) a representative from South Lakes Housing be invited to attend the next meeting of the Committee to provide an update on outstanding debts relating to former tenants’ arrears.
ACCOUNTS

AUD/052 Statement of Accounts 2010/11

RESOLVED – That it be noted that this had been considered at the joint meeting of the Accounts and Audit Committees and approved by the Accounts Committee earlier in the day.

REGULATORY FRAMEWORK

AUD/053 Review of Actions from Annual Governance Statement

The Committee was provided with an update on actions taken in respect of risks which had been identified as part of the recent review of the Annual Governance Statement.

Further to AUD/038 (2011/12), officers had now updated both Action Plans, as appropriate, and these were presented at Appendix 1 and 2 to the report.

The Assistant Director (Resources)/Section 151 Officer informed Members that the Plans would be brought to all future meetings in order to enable the Committee to have regular sight of progress on actions.

RESOLVED – That the actions taken to date in respect of both Actions Plans be noted.

AUD/054 Review of Anti-Fraud Activity

The Council’s Anti-Fraud and Corruption Policy required a central log to be kept of all reported cases of fraud and whistleblowing which would be periodically reported to the Audit Committee. Members were presented with an analysis summarising the work undertaken by the Council and the outcome of investigations.

The Committee was advised that, further to AUD/035 (2011/12) where an area of fraud recently highlighted nationally and locally had been reported, the Council had reviewed its procedures to ensure that they were robust. The District Auditor, whilst recognising that the correct controls were in place, queried whether these had been adequately tested, and the Committee discussed suitable ways in which to address this.

RESOLVED – That

(1) the analysis of activity on detection and investigation of fraudulent acts be noted; and

(2) suitable testing of controls be carried out, as discussed at the meeting.

AUD/055 Corporate Plan Targets and Risks, Risk Management Process and Annual Report

Members were presented with details of the targets and risks which had been approved by Cabinet for the Corporate Plan. These targets and risks would be subject to quarterly reporting to the Resources and Partnerships Overview and Scrutiny Committee. In addition, Members were advised that the Risk Management Process for 2011/12 had also been updated and approved and that the Annual Report had also been approved and published.

RESOLVED – That the contents of the report be noted.
AUD/056  Resources and Partnerships Overview and Scrutiny Recommendations and Reviewed Performance Management Framework

It was reported that the Resources and Partnerships Overview and Scrutiny Committee had made several recommendations during March 2011 for performance management arrangements. The Corporate Vision Group had considered the recommendations and had made several changes to the reviewed Performance Management Framework which put the Council on the front foot with regard to the localism agenda and the Government's shift to “reducing the burden”. The Group had streamlined performance management arrangements with a focus on concentrating the Council’s efforts on Corporate Plan Priorities with highest risk. This approach would require the monitoring of much fewer but more critical actions. This added value because the Council’s monitoring efforts were focussed on the most important areas.

RESOLVED – That the contents of the report be noted.

AUD/057  POTENTIAL FINANCIAL ISSUES

The Assistant Director (Resources)/Section 151 Officer referred to the District Auditor's Unqualified Opinion on the Council's Statement of Accounts for 2010/11. She expressed thanks to the Audit Commission for its professional approach and commended the Commission’s excellent working relationship with the Finance Team.

The Finance Team continue to manage the budget deficits being faced by the Council over the next five years, with regular reports being presented to Cabinet and Council.

RESOLVED – That the report be noted.

AUD/058  PRESS AND PUBLIC

RESOLVED – That, under Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Part 1 of Schedule 12A of the Act as amended by the Local Government (Access to Information) (Variation) Order 2006 by virtue of the Paragraph indicated.

INTERNAL AUDIT

AUD/059  Internal Audit Reports

- Information relating to the financial or business affairs of any particular person (including the authority holding that information). (Paragraph 3)

Further to AUD/048 above, the Committee gave consideration to the following internal audit report:-

Disabled Facilities Grants (11-20) – Substantial Assurance

Disabled Facilities Grants were available for disabled people who required aids and adaptations to provide better freedom of movement into and around their houses or to give access to essential facilities within the home.
The Council’s system of approval and payment of Disabled Facilities Grants was administered by the Environment and Housing Section, within the Communities Directorate. The Council budget for Disabled Facilities Grants in 2011/12 was £459,000 (£446,000 in 2010/11).

Audit work had included a control evaluation of the system design, and testing of the operation of key controls.

As a result of the audit it had been concluded that while there was a basically sound system, there were weaknesses, which might put some of the system objectives at risk. Six Priority 2 recommendations had been made.

A constructive management response had been received from the Principal Housing Renewal Officer, accepting five of the recommendations and partially accepting one. He had also made some general comments.

Members expressed concern in relation to the processes outlined and wished to see more detail, particularly with regard to two of the cases outlined within Recommendation 1.

RESOLVED – That further details be provided at the next meeting of the Committee.

The meeting ended at 8.10 p.m.
<table>
<thead>
<tr>
<th>Committee Terms of Reference</th>
<th>Committee Administration</th>
<th>External Audit</th>
<th>Internal Audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>26 April 2012</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28 September 2011</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28 July 2011</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 June 2011</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Committee Terms of Reference**
  - Set work programme for coming year
  - Review progress against work programme
  - Training – to be arranged as necessary outside meetings
  - Training on new format of accounts
  - Audit Committee Annual Report
  - Private Meeting – Internal and External Audit
  - 2011/12 Opinion Audit Plan
  - 2011/12 Audit & Inspection Fee Letter
  - Grant Certification Report
  - Annual Governance Report
  - Annual Audit Letter
  - Audit Commission Update
  - Annual Plan
  - Individual Audit Reports

- **Committee Administration**
  - Reports on this agenda

- **External Audit**
  - Reports on this agenda

- **Internal Audit**
  - Reports on this agenda
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Updates on high priority recommendations – as required</td>
<td>✓</td>
<td></td>
<td></td>
<td>Verbal update</td>
<td></td>
</tr>
<tr>
<td>Progress and Performance Report</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>Report on this agenda</td>
<td>✓</td>
</tr>
<tr>
<td>Update of progress regarding Internal Audit recommendations – report from Covalent</td>
<td>✓</td>
<td>Covalent viewed at the meeting</td>
<td>✓</td>
<td>Report on this agenda</td>
<td>✓</td>
</tr>
<tr>
<td>Review Internal Audit Terms of Reference</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Review effectiveness of Internal Audit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Accounts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Review Accounting Policies in accordance with revisions to Code of practice</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Review draft Statement of Accounts (incorporates progress on the Implementation of IFRS)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Progress regarding Final Accounts Audit Action Plan</td>
<td></td>
<td></td>
<td></td>
<td>Verbal update</td>
<td></td>
</tr>
<tr>
<td>Statement of Accounts - Receive Audit Commission's opinion on Accounts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Regulatory Framework</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Review Annual Governance Statement</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Response to Future of Local Public Audit consultation paper</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>AGS: Monitoring Planned Actions</td>
<td></td>
<td></td>
<td></td>
<td>Report on this agenda</td>
<td>✓</td>
</tr>
<tr>
<td>Contribute to review of Constitution</td>
<td></td>
<td></td>
<td></td>
<td>Defer to April</td>
<td></td>
</tr>
<tr>
<td>--------------------------------------------------------</td>
<td>-------------</td>
<td>--------------</td>
<td>-------------------</td>
<td>----------------</td>
<td>--------------</td>
</tr>
<tr>
<td>Annual Review of Anti-Fraud Activity</td>
<td></td>
<td></td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Review of Risks &amp; Risk Management Process</td>
<td></td>
<td></td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Review Local Code of Governance</td>
<td></td>
<td></td>
<td></td>
<td>Report on this agenda</td>
<td></td>
</tr>
<tr>
<td>Review Anti-Fraud Policy</td>
<td></td>
<td></td>
<td></td>
<td>Report on this agenda</td>
<td></td>
</tr>
<tr>
<td>Review Whistleblowing Policy</td>
<td></td>
<td></td>
<td></td>
<td>Defer to next meeting</td>
<td></td>
</tr>
<tr>
<td>Review of Performance Management Framework</td>
<td>Defer to next meeting</td>
<td></td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Review Audit Committee’s effectiveness</td>
<td></td>
<td></td>
<td></td>
<td>Report on this agenda</td>
<td></td>
</tr>
<tr>
<td>Financial Issues</td>
<td></td>
<td></td>
<td>√</td>
<td>√</td>
<td>Verbal update</td>
</tr>
</tbody>
</table>

- Annual Review of Anti-Fraud Activity: Defer to next meeting
- Review of Risks & Risk Management Process: √
- Review Local Code of Governance: Report on this agenda
- Review Anti-Fraud Policy: Report on this agenda
- Review Whistleblowing Policy: Defer to next meeting
- Review of Performance Management Framework: Defer to next meeting
- Review Audit Committee’s effectiveness: Report on this agenda
- Financial Issues: Update of significant financial issues not covered (as required)
- Financial Issues: √
AUDIT COMMITTEE
8 December 2011

INTERNAL AUDIT PROGRESS REPORT

April to November 2011
<table>
<thead>
<tr>
<th>CONTENTS</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXECUTIVE SUMMARY</td>
<td>1</td>
</tr>
<tr>
<td>1. STATISTICAL SUMMARY OF RECOMMENDATIONS</td>
<td>2</td>
</tr>
<tr>
<td>2. ACCEPTED PRIORITY 1 RECOMMENDATIONS</td>
<td>3</td>
</tr>
<tr>
<td>3. REJECTED RECOMMENDATIONS</td>
<td>4</td>
</tr>
<tr>
<td>4. PROGRESS AGAINST AUDIT PLAN 2011/12</td>
<td>5</td>
</tr>
<tr>
<td>5. CUMULATIVE PERFORMANCE INDICATORS</td>
<td>7</td>
</tr>
<tr>
<td>6. CLASSIFICATIONS</td>
<td>8</td>
</tr>
</tbody>
</table>
EXECUTIVE SUMMARY

Purpose
The purpose of the report is to update the Council on:

- Internal Audit work performed between April and November 2011, including final reports issued relating to a previous reporting period; and
- Significant issues that have arisen during this period as a result of our work.

Content
The information is presented in the following schedules:

1. **A Statistical Summary of Recommendations**
   This schedule includes all audit recommendations to which Council management have responded in the period. The figures are analysed according to the ‘priority’ of the recommendations, and the extent to which each has been accepted by management for action.

2. **Accepted Priority 1 Recommendations**
   This schedule provides details of major recommendations which have been accepted by management.

3. **Rejected Recommendations**
   This schedule provides details of major and significant (i.e. Priority 1 and 2) recommendations, which have been rejected by Council Management.

4. **2011/12 Audit Plan**
   Details of the progress to date regarding the current financial year.

5. **Performance Indicators**
   Details of performance indicators included within contract specification.

6. **Classifications**
   Internal Audit classifications for assurance levels and recommendation priorities.
1. STATISTICAL SUMMARY OF RECOMMENDATIONS

The following table summarises the number of audit recommendations we made in our final reports up to November 2011, analysed by their priority, including whether accepted by management.

<table>
<thead>
<tr>
<th>Recommendations</th>
<th>Total</th>
<th>Priority 1</th>
<th>Priority 2</th>
<th>Priority 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Made</td>
<td>15</td>
<td>0</td>
<td>13</td>
<td>2</td>
</tr>
<tr>
<td>Fully Accepted</td>
<td>14</td>
<td>0</td>
<td>12</td>
<td>2</td>
</tr>
<tr>
<td>Partly Accepted</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Not Accepted</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
2. ACCEPTED PRIORITY 1 RECOMMENDATIONS

There have been no priority one recommendations made during the reporting period.
3. REJECTED RECOMMENDATIONS

3.1 PRIORITY ONE RECOMMENDATIONS
There have been no rejected priority one recommendations during the reporting period.

3.2 PRIORITY TWO RECOMMENDATIONS
There have been no rejected priority two recommendations during the reporting period.
4. PROGRESS AGAINST AUDIT PLAN 2011/12

<table>
<thead>
<tr>
<th>Audit Assignment</th>
<th>Report Number</th>
<th>Significance Band</th>
<th>Status</th>
<th>Assurance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ANNUAL AUDITS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income Collection</td>
<td>11-02</td>
<td>1</td>
<td>Final</td>
<td>Unqualified</td>
</tr>
<tr>
<td>Housing and Council Tax Benefits</td>
<td>11-03</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Car Parking</td>
<td>11-04</td>
<td>1</td>
<td>Draft</td>
<td>Substantial</td>
</tr>
<tr>
<td>Council Tax</td>
<td>11-05</td>
<td>1</td>
<td>In Progress</td>
<td></td>
</tr>
<tr>
<td>Business Rates (NNDR)</td>
<td>11-06</td>
<td>1</td>
<td>In Progress</td>
<td></td>
</tr>
<tr>
<td>Housing Rents</td>
<td>11-07</td>
<td>1</td>
<td>Draft</td>
<td>Substantial</td>
</tr>
<tr>
<td>Treasury Management</td>
<td>11-08</td>
<td>2</td>
<td>Final</td>
<td>Unqualified</td>
</tr>
<tr>
<td>Accounting System and General Ledger</td>
<td>11-09</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budgetary Control</td>
<td>11-10</td>
<td>2</td>
<td>In Progress</td>
<td></td>
</tr>
<tr>
<td>Sundry Debtors</td>
<td>11-11</td>
<td>2</td>
<td>Draft</td>
<td>Substantial</td>
</tr>
<tr>
<td>Payroll</td>
<td>11-12</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk Management Process/Performance Management</td>
<td>11-13</td>
<td>2</td>
<td>Final</td>
<td>Substantial</td>
</tr>
<tr>
<td>Corporate Governance</td>
<td>11-14</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Periodic Checks</td>
<td>11-15</td>
<td>2</td>
<td>Q2 Complete</td>
<td>N/a</td>
</tr>
<tr>
<td>Payments</td>
<td>11-16</td>
<td>2</td>
<td>Draft</td>
<td>Substantial</td>
</tr>
<tr>
<td>Procurement/Contract Letting</td>
<td>11-17</td>
<td>2</td>
<td>Draft</td>
<td>Substantial</td>
</tr>
<tr>
<td>Review of Constitution (Financial &amp; Contract Procedure Rules)</td>
<td>11-18</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spot Checks</td>
<td>11-01</td>
<td>-</td>
<td>Complete</td>
<td>N/a</td>
</tr>
<tr>
<td><strong>IT AUDIT</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IT General Controls</td>
<td>IT 11-01</td>
<td>-</td>
<td>Planning</td>
<td></td>
</tr>
<tr>
<td>Joint (Eden DC) Back-up Arrangements</td>
<td>IT 11-02</td>
<td>-</td>
<td>Planning</td>
<td></td>
</tr>
</tbody>
</table>
### RISK ASSESSED SYSTEMS

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Fiscal Year</th>
<th>Risk Level</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disabled Facilities Grants</td>
<td>11-20</td>
<td>3</td>
<td>Final</td>
</tr>
<tr>
<td>Client Leisure Management</td>
<td>11-21</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Markets</td>
<td>11-22</td>
<td>5</td>
<td>In Progress</td>
</tr>
</tbody>
</table>

### AUDIT MANAGEMENT

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Fiscal Year</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementation Review Memo - Council Vehicles</td>
<td>09-23</td>
<td>Complete</td>
</tr>
<tr>
<td>Implementation Review Memo - Cemeteries</td>
<td>09-20</td>
<td>Complete</td>
</tr>
<tr>
<td>Implementation Review Memo - Land Charges</td>
<td>09-22</td>
<td>Complete</td>
</tr>
<tr>
<td>Implementation Review Memo - Procurement</td>
<td>09-17</td>
<td>Complete</td>
</tr>
<tr>
<td>Implementation Review Memo - Westmorland Centre Car Park Income</td>
<td>09-36</td>
<td>Complete</td>
</tr>
<tr>
<td>Implementation Review Memo - Housing Strategy</td>
<td>09-19</td>
<td>Complete</td>
</tr>
<tr>
<td>Implementation Review Memo - Concessionary Travel</td>
<td>10-24</td>
<td>Complete</td>
</tr>
</tbody>
</table>

### AGREED ADDITIONAL WORK

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Fiscal Year</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing Benefit Grant Certification</td>
<td>11-24</td>
<td>Complete</td>
</tr>
<tr>
<td>DHP Boilers Year 2</td>
<td>11-23</td>
<td>Complete</td>
</tr>
<tr>
<td>Probit- Depot Fuel</td>
<td>11-25</td>
<td>n/a</td>
</tr>
<tr>
<td>DDA Improvements to Council buildings</td>
<td>11-26</td>
<td>Complete</td>
</tr>
</tbody>
</table>
## 5. CUMULATIVE PERFORMANCE INDICATORS
### APRIL 2011 TO NOVEMBER 2011

<table>
<thead>
<tr>
<th>Performance Indicator</th>
<th>Target</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Draft reports to Assistant Director Resources</td>
<td>Within 20 working days of completion of audit fieldwork.</td>
<td>Of 9 audits, 9 draft reports were issued within 20 working days. 100%</td>
</tr>
<tr>
<td>Final Reports</td>
<td>Within 10 working days of receipt of management response.</td>
<td>Of 4 audits, 4 final reports were issued within 10 working days. 100%</td>
</tr>
<tr>
<td>Management Responses</td>
<td>Auditees should provide their responses to draft reports within 21 calendar days of issue</td>
<td>Of 4 audits, 2 management responses were received within 21 calendar days. 50%</td>
</tr>
<tr>
<td>Proportion of priority 1 and priority 2 recommendations acceptable to the audit client.</td>
<td>An average of 80% over a year.</td>
<td>Of 13 recommendations, 13 were acceptable to the client. 100%</td>
</tr>
<tr>
<td>Number of man days delivered in period expressed as a proportion of annual plan.</td>
<td>90% by 31 March with an even spread throughout the year.</td>
<td>70% (Excludes input re Benefits Certification and contract audit)</td>
</tr>
</tbody>
</table>

| Previous year delivery at November 2011                    | 67%                                                                    |                                                                         |

### Number of man days delivered in period analysed by staff grade.

<table>
<thead>
<tr>
<th>Staff Grade</th>
<th>Target</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Days</td>
<td>%</td>
</tr>
<tr>
<td>Manager</td>
<td>56</td>
<td>22</td>
</tr>
<tr>
<td>IT Audit Manager</td>
<td>14</td>
<td>6</td>
</tr>
<tr>
<td>Principal Auditor</td>
<td>125</td>
<td>50</td>
</tr>
<tr>
<td>Senior/Internal Auditor</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Internal Audit Assistant</td>
<td>55</td>
<td>22</td>
</tr>
<tr>
<td>TOTAL</td>
<td>250</td>
<td>100</td>
</tr>
</tbody>
</table>
6. CLASSIFICATIONS

Classification of Assurance Levels

At the conclusion of each audit, we give an overall opinion on the level of assurance, which we consider is provided by the controls in place within the system audited. The following classification of assurance levels has been adopted:

<table>
<thead>
<tr>
<th>Level</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Unqualified Assurance</td>
<td>The controls appear to be consistently applied.</td>
</tr>
<tr>
<td>2. Substantial Assurance</td>
<td>Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk.</td>
</tr>
<tr>
<td>3. Restricted Assurance</td>
<td>The level of non-compliance identified places the system objectives at risk.</td>
</tr>
<tr>
<td>4. None</td>
<td>Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse.</td>
</tr>
</tbody>
</table>

Priority of Recommendations

Our audit recommendations are categorised by three priority levels: -

Priority 1 Major issues that we consider need to be brought to the attention of senior management.

Priority 2 Important issues which should be addressed by management in their area of responsibility.

Priority 3 Detailed issues of a relatively minor nature.
Executive Summary

Introduction

The Council’s core investments are placed with external fund managers. The management of the Council’s cash flow position, investment and borrowing activities, are performed by Financial Services, under the supervision of the Assistant Director (Resources). The related activities are day-to-day lending, long-term investments and borrowing.

The Council have an approved Treasury Management Strategy Statement and Treasury Management Policy Statement & Framework. The Council defines its treasury management activities as “the management of the authority’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

As at 30 September 2011 there have been 39 investments placed since 1 April 2011 which resulted in the Council receiving interest of £4,913. There are currently six loans in place with the Public Works Loan Board with a principal amount of £20.5m, in addition there have been 12 short term loans of between £330,000 and £2,000,000, all of which have been repaid.

Audit Objectives

This system has been classified as significance band 2 and forms part of the agreed 2011/2012 programme. The audit objectives were to evaluate and test the internal controls over the Council’s Treasury Management function. The scope and objectives of the audit were discussed and agreed in advance with Sue Hill, Corporate Finance Manager and June Lee, Financial Services Officer.

Audit work included a control evaluation of the system design, and testing of the operation of key controls. Details of the audit methodology are provided in Appendix 1. The audit was undertaken September to October 2011.

Audit Conclusion – Unqualified Assurance

As a result of the audit we have concluded that there is an adequate system of controls designed to achieve the system objectives and as such we have not raised any recommendations.

Internal Audit also reviewed the three agreed recommendations made in Audit Report 10-08, dated July 2011. The recommendations have been implemented.
Management Response

We have received a constructive management response from Sue Hill, Corporate Finance Manager, accepting the report.

Acknowledgement

Internal Audit would like to thank staff for their co-operation and assistance during the review.
APPENDIX 1

AUDIT FRAMEWORK

Coverage

The review covered the following areas, which were agreed as part of the preliminary planning stage:

- Treasury Management Policy/Strategy;
- Investment of funds;
- Long term borrowing;
- Temporary borrowing; and
- Management information and reporting.

Methodology

A system based audit approach has been used for this audit, involving the following key procedures:

- determine specific management objectives for each area under review;
- identify the risk applicable to each area;
- evaluate controls against each of the key risks;
- test key controls to establish whether they are operating as prescribed; and
- report findings, with practical recommendations for improvement where appropriate.

In addition, Internal Audit reviewed management's progress in implementing the agreed recommendations from the previous audit report.

Performance

Auditor: Steve Crompton

The fieldwork was performed: September to October 2011.
APPENDIX 2

CLASSIFICATIONS

Assurance Level

<table>
<thead>
<tr>
<th>Assurance Level</th>
<th>Evaluation of Controls</th>
<th>Testing of Controls</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unqualified</td>
<td>There is an adequate system of controls designed to achieve the system objectives.</td>
<td>The controls appear to be consistently applied.</td>
</tr>
<tr>
<td>Substantial</td>
<td>While there is a reasonable system of control, there are weaknesses, which may put the system objectives at risk.</td>
<td>Evidence was identified to suggest that the level of non-compliance with controls may put some of the system objectives at risk.</td>
</tr>
<tr>
<td>Restricted</td>
<td>Significant weaknesses have been identified in the system of control, which put the system objectives at risk.</td>
<td>The level of non-compliance identified places the system objectives at risk.</td>
</tr>
<tr>
<td>None</td>
<td>Control is weak, causing the system to be vulnerable to error and abuse.</td>
<td>Significant non-compliance with controls was identified leaving the system vulnerable to error and abuse.</td>
</tr>
</tbody>
</table>

Audit Recommendations and Follow-up

<table>
<thead>
<tr>
<th>Priority</th>
<th>Recommendation</th>
<th>Follow Up</th>
</tr>
</thead>
<tbody>
<tr>
<td>Priority 1</td>
<td>Major issues that we consider need to be brought to the attention of senior management.</td>
<td>Follow-up will be performed at specific dates agreed with senior management.</td>
</tr>
<tr>
<td>Priority 2</td>
<td>Important issues which should be addressed by management in their areas of responsibility.</td>
<td>Follow-up of the recommendations will be performed by the end of the next audit year.</td>
</tr>
<tr>
<td>Priority 3</td>
<td>Minor issues which provide scope for operational improvement.</td>
<td>Follow-up performed by the end of the next audit year.</td>
</tr>
</tbody>
</table>
South Lakeland District Council
AUDIT COMMITTEE

Meeting Date: 8 December 2011
Report Author: Helen Smith
Portfolio: Not applicable
Report from: Assistant Director (Resources) and Section 151 Officer
Wards affected: Not applicable
Key Decision: Not applicable
Forward Plan: Not applicable

REVIEW OF INTERNAL AUDIT TERMS OF REFERENCE

1.0 PURPOSE OF REPORT

1.1 This report is presented to confirm the annual review of the Terms of Reference of the Council’s Internal Auditors. These were last approved in February 2011 and remain valid, although some minor changes are required to reflect the publication of the Accounts and Audit Regulations 2011.

2.0 RECOMMENDATIONS

It is recommended that the Audit Committee:

(1) approves the revised Internal Audit Terms of Reference.

3.0 BACKGROUND

3.1 The Council’s Internal Auditors, Furness Audit, operate within a broad framework set by the contract between the two organisations. The Terms of Reference for Internal Audit supplement that contractual arrangement by specifying how the firm will deliver an effective service to the standards of the relevant CIPFA Code of Practice. The Terms were revised in February 2011 and are due to be reviewed by the Committee.

4.0 RESEARCH AND CONSULTATION

4.1 The current Terms of Reference anticipated the adoption by CIPFA of its draft Statement on the Role of the HIA in Local Government. Although this was published in December 2010, it has not yet been approved by CIPFA.

4.2 With effect from 31 March 2011, the Accounts and Audit Regulations 2003, which had been amended on several occasions, were replaced by a new set of
Regulations. The statutory basis of internal audit was slightly amended in the 2011 Regulations, necessitating changes to the Terms of Reference.

5.0 PROPOSAL
5.1 No other changes are proposed to the Terms of Reference, which are shown at Appendix A.

6.0 ALTERNATIVE OPTIONS
6.1 The Committee can alter the detail of the Terms of Reference, however it should ensure that any amendments comply with best practice and the legislative framework.

7.0 NEXT STEPS
7.1 The next review of the Terms of Reference should take place towards the end of 2012.

8.0 IMPLICATIONS
8.1 Financial and Resources
8.1.1 No financial implications.
8.2 Human Resources
8.2.1 Not Applicable.
8.3 Legal
8.3.1 The Terms of Reference reflect the requirements of the current Accounts and Audit Regulations.
8.4 Social, Economic and Environmental Impact
8.4.1 Has a sustainability impact assessment been carried out? No
This is a corporate governance issue with no social, economic or environmental impact.
8.4.2 This proposal is considered to have a neutral impact on sustainability.

9.0 RISK ASSESSMENT

<table>
<thead>
<tr>
<th>Risk</th>
<th>Consequence</th>
<th>Controls required</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Internal Audit service is poorly focused and/or fails to meet recognised standards.</td>
<td>Inadequate service and the dilution of a major control mechanism.</td>
<td>Application of clear, appropriate terms of reference which stipulate service requirements and define accountability.</td>
</tr>
</tbody>
</table>

10.0 EQUALITY AND DIVERSITY
10.1 An equality and diversity impact assessment has not been carried out.
10.2 This is a corporate governance issue with no social, economic or environmental impact.

11.0 LINKS TO THE CORPORATE PLAN AND PERFORMANCE INDICATORS
11.1 The proposal is not linked to the objectives of the Corporate Plan.
11.2 No Performance Indicators relate to the proposals.
12.0 CONCLUSION AND EXPECTED OUTCOMES

12.1 Confirmation of the Terms of Reference for Internal Audit demonstrates that the Council is complying with this important element of internal control.

APPENDICES ATTACHED TO THIS REPORT

<table>
<thead>
<tr>
<th>Appendix No.</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Internal Audit Terms of Reference</td>
</tr>
</tbody>
</table>

CONTACT OFFICERS

Helen Smith, Strategic Finance Manager, h.smith@southlakeland.gov.uk, 01539 717217

BACKGROUND DOCUMENTS AVAILABLE

CIPFA Code of Practice for Internal Audit
CIPFA draft Statement on the Role of the Head of Internal Audit in Local Government Accounts and Audit Regulations 2011

TRACKING

<table>
<thead>
<tr>
<th>Assistant Director</th>
<th>Portfolio Holder</th>
<th>Solicitor to the Council</th>
<th>CMT</th>
<th>Scrutiny Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not applicable</td>
<td></td>
<td>Not applicable</td>
<td></td>
<td>Not applicable</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Executive (Cabinet)</th>
<th>Committee</th>
<th>Council</th>
<th>Section 151 Officer</th>
<th>Monitoring Officer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not applicable</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Human Resource Services Manager</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not applicable</td>
</tr>
</tbody>
</table>
Responsibilities and Objectives
The Head of Internal Audit is responsible for complying with these Terms of Reference, and conducting his work in accordance with CIPFA’s Code of Practice for Internal Audit and its Statement on the Role of the Head of Internal Audit in Local Government.

It is important to distinguish between the respective roles of the auditor and management. Internal Audit has no responsibilities over the Council’s activities, other than providing recommendations and advice to management on risks and controls as a result of the reviews it undertakes. It also reserves the right to review and make further recommendations on policies, procedures, controls and operations at a later date. In contrast, management is responsible for maintaining a secure internal control environment and managing risks to the organisation’s activities.

The CIPFA Code of Practice 2006 states that:

Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation’s objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

CIPFA has supplemented this Code by the production of a Statement on the Role of the Head of Internal Audit in Local Government which sets out best practice for that role in terms of the organisational arrangements for Internal Audit, the responsibilities of its Head and his personal skills and professional standards. The Statement’s key principle is that:

The Head of Internal Audit should play a critical role in delivering the organisation’s strategic objectives by giving assurance on its internal control arrangements and promoting good corporate governance. He should occupy a senior position, lead a properly resourced service and possess suitable qualifications, experience and personal skills.

Internal Audit has produced a Strategy which sets out its approach to the delivery of an effective service which fully meets the standards of the CIPFA Code and Statement. In order to achieve this, the objectives of Internal Audit include:

- assessing and strengthening the Council’s corporate governance, risk and performance management processes;
- assisting with identification, assessment and management of the risks to achieving the Council’s objectives;
- facilitating policy and decision making;
- promoting the economical, effective and efficient use of resources;
ensuring compliance with established policies (including behavioural and ethical expectations), procedures, laws and regulation;

- safeguarding the organisation’s assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption; and

- ensuring the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes.

**Legislation**

The requirement for an Internal Audit function within the Council arises from Section 151 of the Local Government Act 1972, which requires that authorities “make arrangements for the proper administration of their financial affairs”. One of the ways in which this duty is discharged is by maintaining an adequate and effective internal audit service.

More specific requirements are detailed in the Accounts and Audit Regulations 2011, which state that a relevant body must “undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control”. Proper internal control practices for internal audit are accepted as those contained within the CIPFA Code of Practice for Internal Audit.

**Independence**

A critical element of the performance of Internal Audit is independence from the activities that it audits. This enables Internal Audit to form impartial and effective judgements in audit recommendations and opinions on the control environment. Internal Auditors have no operational responsibilities and thus are not required to manage or deliver non-audit activities. In addition, rotation of audits amongst auditors will be operated to increase this independence.

**Accountability, Reporting Lines and Relationships**

Internal Audit is an outsourced function and is accountable to the senior officer with Section 151 responsibility. The Head of Internal Audit has freedom of access to all relevant Members and officers. This includes (but is not limited to) the Chief Executive, the Chair and Members of the Audit Committee, and External Audit.

The operational line of reporting for Internal Audit is to the appropriate level of management/service head, the Section 151 Officer and Audit Committee. The Audit Committee receives all Final Internal Audit reports together with the Annual Plan, Progress Reports and the Annual Report.

In addition, Internal Audit will co-operate with external audit and other appropriate review agents to:

- ensure that duplication of work is minimised;
- consider joint delivery;
- determine the level of assurance that can be obtained from the work; and
• review the reliance that can be placed on that assurance as part of Internal Audit’s opinion on the control environment.

The relationship with external audit is subject to a formal protocol agreed between the two parties.

Remit

The work of Internal Audit embraces the whole internal control system of the Council, not just financial, including all of its activities, funded from any source.

Internal Audit’s remit includes:

• assessing if operations are being carried out as planned, and if objectives/goals are being achieved;
• assessing the adequacy of systems established to ensure compliance with policies, plans, procedures, laws and regulations;
• assessing the completeness, reliability and integrity of information, both financial and operational;
• assessing the extent to which the Council’s assets, data and interests are properly accounted for and safeguarded from losses of all kinds, including fraud, corruption, waste, extravagance, abuse, ineffective management and poor value for money; and
• assessing the economy, efficiency and effectiveness with which resources are deployed.

Control Environment and Annual Audit Opinion

To achieve optimum benefit, Internal Audit should work in “partnership” with management to improve the control environment and assist in achieving objectives.

Internal Audit will provide an independent and objective opinion to the organisation on the control environment; where reasonable assurance cannot be given, the opinion will be worded accordingly.

Each year Internal Audit prepares an Annual Internal Audit Opinion within the Annual Internal Audit Report, which is based on work performed in accordance with the annual audit plan and relevant assurance work. This opinion provides assurance on the Council’s governance arrangements and as such advises on the establishment and maintenance of sound risk management systems, control systems, financial records and governance arrangements. The Annual Report is presented to Audit Committee and forms an important part of the Annual Corporate Governance Statement.

Role in Fraud Related and Consultancy Work

Internal Audit will respond to reported irregularity with an initial investigation to determine facts, which may indicate weaknesses in control systems. Any work beyond this initial response will be agreed in consultation with management. Internal Audit should be notified of all suspected or detected frauds through arrangements in the Anti-Fraud and Corruption
Strategy and Whistleblowing Policy in order to inform the opinion on the control environment and to determine risk.

Internal Audit does not have a specific responsibility to detect or prevent fraud or corruption. That responsibility remains with management. However, Internal Audit will, through its work be attentive to issues that may lead to fraud and corruption and to indications that fraud may be occurring. Audit reviews alone do not guarantee that fraud or corruption will be detected, even when performed in compliance with the Code of Practice with due professional care.

The role of Internal Audit in carrying out any consultancy work will be on the basis that it does not prevent the delivery of the Annual Internal Audit Opinion. This includes areas where the delivery of the opinion could be prevented by compromising the independence of Internal Audit.

The role of Internal Audit in potential ‘non-audit’ work will be discussed and agreed with management and the extent to which this contributes or detracts from the delivery of the Audit Opinion will be a prime factor in this decision.

Assessment of Resource Requirements

Audit resources are limited and must be appropriately targeted by assessing the Council’s total audit needs and preparing audit plans that ensure systems are reviewed on a cyclical basis according to the impact they have on service delivery. The frequency of audit reviews of systems and processes varies, depending on the associated risk, materiality and dependency.

Whilst some reviews will be carried out on a cyclical basis, audit resources will, increasingly, be allocated on the principle of continuous planning which takes into account key risks as they emerge.

By its very nature, fraud-related work is unpredictable in terms of its timing and extent. All reported irregularities would be investigated in line with established strategies and protocols.

The Head of Internal Audit will assess annually the staff resources necessary to meet the delivery of Internal Audit’s responsibilities, including the required audit days and the mixture of skills and experience needed to deliver the service. He will employ suitably qualified and capable staff, carry out a continuous review of the development and training needs of all audit personnel.

If resources are considered insufficient to meet the requirements of forming an Annual Internal Audit Opinion, this will be reported to Audit Committee.

Access to Information

The scope of Internal Audit allows for unrestricted coverage of the Council’s activities, including partners or agents contracted to provide goods or services on its behalf.
The Accounts and Audit Regulations 2011 provide that:
‘Any officer or member of a relevant must, if the body requires:
  a) make available such documents and records as appear to that body to be necessary
     for the purposes of the audit; and
  b) supply the body with such information and explanation as that body considers
     necessary for that purpose.’

Internal Audit therefore has unrestricted access to all Council records (whether manual or computerised systems), personnel, cash, stores, other assets and premises, including those of partner organisations, and has authority to obtain such information and explanations as considered necessary to fulfil Internal Audit responsibilities.

All staff of the Council, its partners or agents, are expected to give complete co-operation to Internal Audit personnel in carrying out the audit process.

**Approval and Review of Terms of Reference**

The objectives of Internal Audit must be shared within the organisation, and stated in clear terms. The Terms of Reference reflect the need to have a strong and respected Internal Audit service. Steps have therefore been taken to ensure that these Terms of Reference are communicated to the whole organisation, in order to achieve a common understanding of the role of Internal Audit.

These Terms of Reference were last revised in December 2011 and are subject to annual review.

KJ

December 2011
# Contents

Introduction ......................................................................................................................................................... 4
  Responsibilities .................................................................................................................................................... 4

Accounting statements and Whole of Government Accounts ............................................................................. 5
  Materiality ............................................................................................................................................................ 5
  Whole of Government Accounts ........................................................................................................................ 8

Value for money ..................................................................................................................................................... 9
  Identification of significant risks ........................................................................................................................ 9

Key milestones and deadlines .............................................................................................................................. 11

The audit team ........................................................................................................................................................ 12

Independence and quality .................................................................................................................................... 13
  Independence ....................................................................................................................................................... 13
  Quality of service .................................................................................................................................................. 13

Fees .......................................................................................................................................................................... 14
  The Audit Fee ....................................................................................................................................................... 14
  Assumptions ....................................................................................................................................................... 14
  Specific actions you could take to reduce your audit fee ..................................................................................... 15
  Total fees payable .............................................................................................................................................. 15
Appendix 1 – Independence and objectivity ........................................................................................................16
Appendix 2 – Basis for fee ......................................................................................................................................18
Appendix 3 – Glossary ...........................................................................................................................................19
Introduction

This plan sets out the work for the 2011/12 audit. The plan is based on the Audit Commission’s risk-based approach to audit planning.

Responsibilities

The Audit Commission’s Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

I comply with the statutory requirements governing my audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice for local government bodies.

My audit does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.
Accounting statements and Whole of Government Accounts

I will carry out the audit of the accounting statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view.

Materiality

I will apply the concept of materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying audit risks

I need to understand the Authority to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

■ identifying the business risks facing the Authority, including assessing your own risk management arrangements;
■ considering the financial performance of the Authority;
■ assessing internal control, including reviewing the control environment, the IT control environment and internal audit; and
■ assessing the risk of material misstatement arising from the activities and controls within the Authority's information systems.

Identification of significant risks

I have considered the additional risks that are relevant to the audit of the accounting statements and have set these out below.
### Table 1: Significant risks

<table>
<thead>
<tr>
<th>Risk</th>
<th>Audit response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subject to gaining central government approval, the Council aims to transfer its housing stock to South Lakes Housing by 31 March 2012. If the transfer goes ahead this one-off transaction will have a significant impact on all primary statements. There is a risk that the 2011-12 financial statements will be materially misstated if there are errors in the accounting entries posted to reflect the outcome of the housing stock transfer.</td>
<td>My team will undertake a detailed review of the transactions and accounting entries which relate to the stock transfer. I will enlist specialist support from within the Audit Practice if I consider this to be necessary.</td>
</tr>
<tr>
<td>South Lakes Housing became an Industrial and Provident Society in October 2011 as part of the Council’s proposals to transfer its housing stock. The nature of the Council’s interest in South Lakes Housing has changed as a result of this development. The 2011-12 Group Financial Statements may not adequately reflect the Council’s interest in South Lakes Housing and may therefore not comply with the Code of Accounting Practice and International Financial Reporting Standards.</td>
<td>My team will agree with officers at an early stage the extent to which the Council is required to produce financial statements for the Group. I will liaise with the auditors of South Lakes Housing as required by auditing standards. As part of my opinion work, I will complete substantive testing to review the consolidation process put in place by officers to prepare the Group Financial Statements.</td>
</tr>
<tr>
<td>Councils are required to account for heritage assets for the first time in 2011-12. An initial disclosure disclosing the heritage assets held by the Council was included in the 2010-11 accounts. The Council may not have identified all heritage assets and valued these assets using a valuation method permitted by the Code of Accounting Practice and International Financial Reporting Standards.</td>
<td>My team will meet with officers at an early stage to gain an understanding of the Council’s approach to identifying and valuing heritage assets. I will confirm whether the approach used complies with the Code of Accounting Practice and International Financial Reporting Standards and agree changes to the approach if necessary.</td>
</tr>
</tbody>
</table>
Group accounts

I am responsible for the direction, supervision and performance of the group audit. I may contact the auditors of the following components as part of my audit procedures:

- South Lakes Housing

Please discuss with me any concerns about me contacting component auditors.

Testing strategy

My audit involves:

- review and re-performance of work of your internal auditors;
- testing of the operation of controls;
- reliance on the work of other auditors;
- reliance on the work of experts; and
- substantive tests of detail of transactions and amounts.

I have sought to:

- maximise reliance, subject to review and re-performance, on the work of your internal auditors; and
- maximise the work that can be undertaken before you prepare your accounting statements.

The nature and timing of my proposed work is as follows.
### Table 2: Proposed work

<table>
<thead>
<tr>
<th>Interim visit</th>
<th>Review of internal audit</th>
<th>Controls testing</th>
<th>Reliance on the work of other auditors</th>
<th>Reliance on work of experts</th>
<th>Substantive testing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cash Receipting</td>
<td>Cash Receipting</td>
<td>Valuation of property, plant and equipment – NPS</td>
<td>Investments and other non-current assets – ownership and existence</td>
<td>Investments and other non-current assets – ownership and existence</td>
</tr>
<tr>
<td></td>
<td></td>
<td>General Ledger</td>
<td></td>
<td></td>
<td>Accounting entries relating to pension contributions and liabilities</td>
</tr>
</tbody>
</table>

| Final visit   | Housing and Council Tax benefits | Consolidation of South Lakes Housing to produce the Council’s Group Accounts Pension assets and liabilities – auditor to Cumbria County Council Pension Fund | All material accounts balances and amounts Year-end feeder system reconciliations |

I will agree with you a schedule of working papers required to support the entries in the accounting statements.

**Whole of Government Accounts**

Alongside my work on the accounting statements, I will also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office.
Value for money

I am required to reach a conclusion on the Authority’s arrangements to secure economy, efficiency and effectiveness.

My conclusion on the Authority’s arrangements is based on two criteria, specified by the Commission. These relate to the Authority’s arrangements for:

- securing financial resilience – focusing on whether the Authority is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Authority is prioritising its resources within tighter budgets and improving productivity and efficiency.

Identification of significant risks

I have considered the risks that are relevant to my value for money conclusion. I have identified the following significant risks that I will address through my work:

<table>
<thead>
<tr>
<th>Table 3: Significant risks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risk</strong></td>
</tr>
<tr>
<td>Cost-savings arising from the service review programme may be insufficient to ensure the Council is able to deliver its Medium Term Financial Plan.</td>
</tr>
<tr>
<td>Risk</td>
</tr>
<tr>
<td>---------------------------------------------------------------------</td>
</tr>
<tr>
<td>If the Council successfully transfers its housing stock this will result in the closure of its Housing Revenue Account (HRA) in 2012-13. The loss of the HRA will result in significant changes to the Council’s financial arrangements. The Council’s plans to ensure the organisation is financially sustainable without its housing stock may be inadequate.</td>
</tr>
</tbody>
</table>
Key milestones and deadlines

The Authority is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion and value for money conclusion by 30 September 2012.

Table 4: Proposed timetable and planned outputs

<table>
<thead>
<tr>
<th>Activity</th>
<th>Date</th>
<th>Output</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opinion: receipt of accounts and supporting working papers</td>
<td>By 30 June 2012</td>
<td>None</td>
</tr>
<tr>
<td>Opinion: substantive testing</td>
<td>July 2012 – September 2012</td>
<td>Annual Governance Report</td>
</tr>
<tr>
<td>Present Annual Governance Report at the Audit Committee</td>
<td>By 30 September 2012</td>
<td>Annual Governance Report</td>
</tr>
<tr>
<td>Issue opinion and value for money conclusion</td>
<td>By 30 September 2012</td>
<td>Auditor’s report</td>
</tr>
<tr>
<td>Auditor’s assurance statement on whole of government accounts</td>
<td>By 30 September 2012</td>
<td>WGA Assurance Statement</td>
</tr>
<tr>
<td>(WGA)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Summarise overall messages from the audit</td>
<td>October 2012</td>
<td>Annual Audit Letter</td>
</tr>
</tbody>
</table>
# The audit team

The key members of the audit team for the 2011/12 audit are:

<table>
<thead>
<tr>
<th>Name</th>
<th>Contact details</th>
<th>Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jackie Bellard</td>
<td><a href="mailto:j-bellard@audit-commission.gov.uk">j-bellard@audit-commission.gov.uk</a></td>
<td>Responsible for the overall delivery of the audit including quality of reports,</td>
</tr>
<tr>
<td>District Auditor</td>
<td>0844 798 7011</td>
<td>signing the auditor’s report and liaison with the Chief Executive.</td>
</tr>
<tr>
<td>Heather Green</td>
<td><a href="mailto:h-green@audit-commission.gov.uk">h-green@audit-commission.gov.uk</a></td>
<td>Manages and coordinates the different elements of the audit work. Key point of</td>
</tr>
<tr>
<td>Audit Manager</td>
<td>0844 798 7087</td>
<td>contact for the Assistant Director (Resources).</td>
</tr>
</tbody>
</table>
Independence and quality

Independence

I comply with the ethical standards issued by the APB and with the Commission’s additional requirements for independence and objectivity as summarised in Appendix 1.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission’s Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).
The fee for the audit is £130,774, as set out in my letter of 12 April 2011.

The Audit Fee

The Audit Commission has set a scale audit fee of £130,774 which represents a 5% reduction on the audit fee for 2010/11.

The scale fee covers:

- my audit of your accounting statements and reporting on the Whole of Government Accounts return; and
- my work on reviewing your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The scale fee reflects:

- the Audit Commission’s decision not to increase fees in line with inflation;
- a reduction resulting from the new approach to local VFM audit work; and
- a reduction following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the fee equal to the scale fee.

Assumptions

In setting the fee, I have made the assumptions set out in Appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Assistant Director (Resources) and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.
Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. I have identified the following actions that you could take:

- Improve quality control procedures to ensure that when the Council presents its financial statements for audit the primary statements and supporting notes are internally consistent. This would reduce the risk that it might be necessary for me to charge additional fees.

Total fees payable

In addition to the fee for the audit, the Audit Commission will charge fees for:

- certification of claims and returns; and
- the agreed provision of non-audit services under the Audit Commission’s advice and assistance powers.

Based on current plans the fees payable are:

<table>
<thead>
<tr>
<th>Table 6: Fees</th>
<th>2011/12 proposed</th>
<th>2010/11 actual</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit</td>
<td>£130,774</td>
<td>£137,657</td>
<td>Reduction following the one-off work in 2010/11 associated with the first-time adoption of International Financing Reporting Standards (IFRS)</td>
</tr>
<tr>
<td>Certification of claims and returns</td>
<td>£25,305</td>
<td>£29,076</td>
<td>Additional work undertaken in 2010/11 due to implementation of a new revenue and benefits systems.</td>
</tr>
<tr>
<td>Total</td>
<td>£155,809</td>
<td>£166,733</td>
<td></td>
</tr>
</tbody>
</table>
Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

Table 7: Independence and objectivity

<table>
<thead>
<tr>
<th>Area</th>
<th>Requirement</th>
<th>How we comply</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business, employment and personal relationships</td>
<td>Appointed auditors and their staff should avoid any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement. The appointed auditor and senior members of the audit team must not take part in political activity for a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.</td>
<td>All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.</td>
</tr>
<tr>
<td>Area</td>
<td>Requirement</td>
<td>How we comply</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Long association with audit clients</td>
<td>The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.</td>
<td>The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.</td>
</tr>
<tr>
<td>Gifts and hospitality</td>
<td>The appointed auditor and members of the audit team must abide by the Commission’s policy on gifts, hospitality and entertainment.</td>
<td>All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.</td>
</tr>
<tr>
<td>Non-audit work</td>
<td>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised. Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission. Work over a specified value must only be undertaken with the prior approval of the Audit Commission’s Director of Audit Policy and Regulation.</td>
<td>All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.</td>
</tr>
</tbody>
</table>

*Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards*
Appendix 2 – Basis for fee

In setting the fee, I have assumed that:

■ the risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11. For example:
  − internal controls are operating effectively;
  − internal audit complete its work on the Council's key financial systems in accordance with agreed deadlines;

■ the risk in relation to my value for money responsibilities is not significantly different to that identified for 2010/11

■ Internal Audit meets professional standards;

■ the Authority provides:
  − good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by 30 June 2012
  − other information requested within agreed timescales;
  − prompt responses to draft reports; and

■ there are no questions asked or objections made by local government electors.

Where these assumptions are not met, I will have to undertake more work which is likely to result in an increased audit fee.
Appendix 3 – Glossary

Accounting statements
The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Annual Audit Letter
Report issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors’ work.

Annual Governance Report
The auditor’s report on matters arising from the audit of the accounting statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement
The annual report on the Authority’s systems of internal control that supports the achievement of the Authority’s policies aims and objectives.

Audit of the accounts
The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body
A body to which the Audit Commission is responsible for appointing the external auditor.
Auditing Practices Board (APB)
The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards
Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)
Auditors appointed by the Audit Commission.

Code (the)
The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)
The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards
Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Group accounts
Consolidated accounting statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control
The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.
Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

Significance

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the accounting statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its accounting statements.
The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.
Certification of claims and returns - Annual report

South Lakeland District Council

Audit 2010/11
Introduction

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and are required to complete returns providing financial information to government departments. My certification work provides assurance to grant-paying bodies that claims for grants and subsidies are made properly or that information in financial returns is reliable. This report summarises the outcomes of my certification work on your 2010/11 claims and returns.

Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of authorities, make arrangements for certifying claims and returns because scheme terms and conditions include a certification requirement. Where such arrangements are made, certification instructions issued by the Audit Commission to its auditors set out the work auditors must do before they give their certificate. The work required varies according to the value of the claim or return and the requirements of the government department or grant-paying body, but in broad terms:

- for claims and returns below £125,000 the Commission does not make certification arrangements and I was not required to undertake work;
- for claims and returns between £125,000 and £500,000, I undertook limited tests to agree form entries to underlying records, but did not undertake any testing of eligibility of expenditure; and
- for claims and returns over £500,000 I planned and performed my work in accordance with the certification instruction to assess the control environment for the preparation of the claim or return to decide whether or not to place reliance on it. Depending on the outcome of that assessment, I undertook testing as appropriate to agree form entries to underlying records and test the eligibility of expenditure or data.

Claims and returns may be amended where I agree with your officers that this is necessary. My certificate may also refer to a qualification letter where there is disagreement or uncertainty, or you have not complied with scheme terms and conditions.
Summary of my 2010/11 certification work

The Authority has effective arrangements in place to prepare accurate claims and returns.

The Authority continues to submit claims on time that have been prepared in accordance with the relevant terms and conditions. Most claims only required minor amendments before they could be signed off. The only significant qualification letter issued related to housing and council tax benefit.

Table 1: Summary of 2010/11 certification work

<table>
<thead>
<tr>
<th>Number of claims and returns certified</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total value of claims and returns certified</td>
<td>6</td>
</tr>
<tr>
<td>Number of claims and returns amended due to errors</td>
<td>4</td>
</tr>
<tr>
<td>Number of claims and returns where I issued a qualification letter because there was disagreement or uncertainty over the content of the claim or return or scheme terms and conditions had not been complied with</td>
<td>2</td>
</tr>
<tr>
<td>Total cost of certification work</td>
<td>£29,076</td>
</tr>
</tbody>
</table>
Results of 2010/11 certification work

This section summarises the results of my 2010/11 certification work and highlights the significant issues arising from that work.

Table 2: Claims and returns certified in 2010/11

<table>
<thead>
<tr>
<th>Claim or return</th>
<th>Value of claim or return presented for certification</th>
<th>Value of any amendments made</th>
<th>Was a qualification letter issued?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing and council tax benefit subsidy</td>
<td>£22,459,688</td>
<td>£20,045</td>
<td>Yes – see paragraphs 2-3 below</td>
</tr>
<tr>
<td>HRA subsidy</td>
<td>£3,429,028</td>
<td>£1,313</td>
<td>No</td>
</tr>
<tr>
<td>Housing finance base data return</td>
<td>N/A – the claim provides details of the Council’s housing stock</td>
<td>Some corrections were made to ensure the claim provided correct information about the Council’s housing stock.</td>
<td>No</td>
</tr>
<tr>
<td>National non-domestic rates (NNDR) return</td>
<td>£34,813,700</td>
<td>£nil</td>
<td>Yes – the letter informed the Department for Communities and Local Government about a minor issue relating to the reconciliation between the old and the new NNDR systems.</td>
</tr>
</tbody>
</table>
### Installation of Open Revenues System

1. In 2010/11 the Council implemented Open Revenues, a new revenues and benefits system. Two of the highest value claims I audited (NNDR and housing and council tax benefit subsidy) were based on records extracted from the old and the new revenues and benefits system. The introduction of a new system during the year made the process of preparing the grant claims more complicated for officers. This increased the risk of error and resulted in me undertaking additional audit work so that I could certify the claims. Officers handled the transition between systems well. My work identified only minor issues relating to the implementation of the new system.

2. My work on the NNDR claim has given me a good understanding of the new NNDR system and I was able to gain assurance that the new system is working effectively. I will consider placing reliance on the new system when I complete my certification of the 2011/12 claim. If I am able to place reliance on the system this should help reduce the fee I charge to the Council.

### Housing and Council Tax Benefit

3. Certifying the housing and council tax benefit claim involves testing a sample of benefit cases to confirm that the Council has paid the correct amount to benefit claimants and claimed the correct amount of subsidy due from the Department for Work and Pensions (DWP). In common with previous years, internal audit have provided assistance with detailed testing of individual benefit cases. I reviewed internal audit’s work and was able to place reliance upon it. Using internal audit helps to reduce the fees I charge for the certification of this claim.

4. My work is undertaken in accordance with certification instructions which the Audit Commission has agreed with the DWP. These instructions require me to test an initial sample of claimant cases covering each of the four types of benefit. When errors are found in the initial sample, I am required to undertake additional testing on those sections of the subsidy claim form affected by the errors I detected. There were six sections of the claim where additional testing was undertaken and as part of my audit a total of 275 cases were tested. I reported the errors I found to the DWP in my qualification letter.
The errors I identified this year were similar in nature to those identified in previous years but there was an increase in the total number of errors. Some of this increase can be attributed to the challenges associated with introducing a new system during the year. Errors identified included the following.

- Testing of rent allowance expenditure, HRA rent rebate expenditure and council tax benefit expenditure identified cases where the overpayment type had been incorrectly classified. The Council receives different levels of subsidy depending on the classification of the overpayment and therefore it is important that overpayments are correctly identified and classified.

- Testing of rent allowance expenditure and rent rebate expenditure identified cases where the Council had made errors in the benefit assessment resulting in an overpayment of benefit. In many cases these overpayments arose from mistakes made by officers when inputting details of claimants’ income. The Council can only claim full subsidy on overpayments due to local authority error up to a specified amount. There is a risk of financial loss to the Council if the value of overpayments due to local authority error is high. The Council should ensure that it has adequate processes in place to minimise errors in benefit assessments caused by local authority error.

**Recommendation**

**R1** Enhance existing arrangements for quality checking to reduce the number of errors in the housing and council tax benefit claim.
Summary of progress on previous recommendations

This section considers the progress made in implementing recommendations I have previously made arising from certification work.

The Council has made progress in implementing recommendations agreed last year. Improving the regime of quality checks should help further reduce the number and value of errors reported in relation to housing and council tax benefit.

Table 3: Summary of progress made on recommendations arising from certification work undertaken in earlier years

<table>
<thead>
<tr>
<th>Agreed action</th>
<th>Priority</th>
<th>Date for implementation</th>
<th>Responsible officer</th>
<th>Current status</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Council should ensure that adequate quality control arrangements are in place to minimise errors in benefit entitlement calculations and classification of overpayments.</td>
<td>Medium</td>
<td>31 March 2011</td>
<td>Assistant Director (Customer Focus)</td>
<td>Partially Implemented</td>
<td>The number of errors identified during the 2010/11 audit has increased compared with the level detected in previous years. Whilst some errors can be attributed to the challenge of implementing a new system, officers should aim to make improvements in 2011/12.</td>
</tr>
<tr>
<td>Agreed action</td>
<td>Priority</td>
<td>Date for implementation</td>
<td>Responsible officer</td>
<td>Current status</td>
<td>Comments</td>
</tr>
<tr>
<td>---------------</td>
<td>----------</td>
<td>--------------------------</td>
<td>---------------------</td>
<td>---------------</td>
<td>----------</td>
</tr>
<tr>
<td>Ensure the planned system to record the costs of disposals of council houses is implemented to inform the 2010/11 pooling of housing capital receipts return.</td>
<td>Low</td>
<td>31 March 2011</td>
<td>Strategic Finance Manager</td>
<td>Implemented</td>
<td>My work this year confirmed that this issue had been satisfactorily addressed.</td>
</tr>
</tbody>
</table>
### Summary of recommendations

This section highlights the recommendations arising from my certification work and the actions agreed for implementation.

#### Table 4: Summary of recommendations arising from 2010/11 certification work

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Priority</th>
<th>Agreed action</th>
<th>Date for implementation</th>
<th>Responsible officer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enhance existing arrangements for quality checking to reduce the number of errors in the housing and council tax benefit claim.</td>
<td>High</td>
<td>All staff will continue to have ongoing subsidy awareness training. Resources are in place to monitor performance and quality assurance. During 2010/11 and 2011/12 these resources have been focussed on successfully migrating South Lakeland DC and Eden DC to their new computer systems. These projects are now complete so these resources can now focus again on addressing quality assurance issues.</td>
<td>31 March 2012</td>
<td>Assistant Director (Customer Focus)</td>
</tr>
</tbody>
</table>
## Summary of certification fees

This section summarises the fees arising from my 2010/11 certification work and highlights the reasons for any significant changes in the level of fees from 2009/10.

### Table 5: Summary of certification fees

<table>
<thead>
<tr>
<th>Claim or return</th>
<th>2010/11 fee</th>
<th>2009/10 fee</th>
<th>Reasons for changes in fee greater than +/- 10 per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing and council tax benefit subsidy</td>
<td>£18,972</td>
<td>£13,362</td>
<td>Additional audit procedures undertaken because the claim was prepared using two benefits systems and there was an overall increase in the number of errors found.</td>
</tr>
<tr>
<td>HRA subsidy</td>
<td>£1,452</td>
<td>£835</td>
<td>This year’s claim had to be adjusted to take account of changes arising from the implementation of International Financial Reporting Standards.</td>
</tr>
<tr>
<td>Housing finance base data return</td>
<td>£3,056</td>
<td>£3,378</td>
<td>N/A</td>
</tr>
<tr>
<td>National non-domestic rates return</td>
<td>£4,246</td>
<td>£1,816</td>
<td>More detailed testing was undertaken in 2010/11 compared to previous years due to the introduction of the new NNDR system part way through the year.</td>
</tr>
<tr>
<td>Single Programme – Market Towns Initiative</td>
<td>£414</td>
<td>£438</td>
<td>N/A</td>
</tr>
<tr>
<td>Pooling of Housing Capital Receipts Return</td>
<td>£936</td>
<td>£738</td>
<td>The Council implemented a new methodology for calculating costs attributable to the disposal of council house sold during the year. This methodology had to be assessed as part of our work.</td>
</tr>
<tr>
<td>Total</td>
<td>£29,076</td>
<td>£21,247</td>
<td></td>
</tr>
</tbody>
</table>
The Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body.
Annual Audit Letter

South Lakeland District Council

Audit 2010/11
This report summarises the findings from my 2010/11 audit. My audit comprises two elements:
- the audit of your financial statements; and
- my assessment of your arrangements to achieve value for money in your use of resources. 
I have included only significant recommendations in this report. The Council has accepted these recommendations.

### Findings

<table>
<thead>
<tr>
<th>Unqualified audit opinion</th>
<th>Proper arrangements to secure value for money</th>
</tr>
</thead>
<tbody>
<tr>
<td>![Green Circle]</td>
<td>![Green Circle]</td>
</tr>
</tbody>
</table>

### Audit opinion and financial statements
- I issued an unqualified opinion on the financial statements.
- The accounts were prepared on time, to a reasonable standard and the quality of the Council’s working papers improved significantly.
- Amendments to the accounts were agreed, affecting both the primary statements and the disclosure notes, to correct errors identified during the audit.

### Value for money
- I concluded that the Council has put in place proper arrangements to secure financial resilience and economy efficiency and effectiveness.

### Current and future challenges
- The Council faces financial pressures as a result of the Comprehensive spending review. The Council needs to make total savings of £2.004 million by 2015/16, of which £1 million is yet to be identified. Options under consideration by the Council for this include increasing revenue as well as reducing costs. Careful monitoring will be required to ensure the Council remains financially stable.
Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

Overall conclusion from the audit

The Council prepared its accounts under International Financial Reporting Standards (IFRS) for the first time this year. The IFRS transition posed a considerable challenge, as it required the Council to change its accounting treatment of some items and include new disclosures in its accounts. The Council approved its draft accounts for issue, and submitted them for audit, on time. The working papers supporting the accounts were significantly better than last year's and our queries were answered quickly.

In its draft accounts, the Council met most of the accounting requirements of the new Code of Accounting Practice. My audit identified some changes to primary statements and disclosures, necessary to ensure full compliance. Many of the errors I identified during the audit were connected with the implementation of IFRS. Some further changes were required to ensure the primary statements were consistent with each other and the notes.

I recommended, after my audit of the 2009/10 accounts, that a senior officer conducts an independent quality review of the draft accounts before they are submitted for audit. Although the 2010/11 accounts' closedown plan included extra time for review, the challenges of preparing the accounts under IFRS for the first time used up the review time. Officers have agreed that, in future years, enough resources will be made available for a detailed and independent quality review of the draft accounts before they are approved for issue.

I did not identify any significant weaknesses in your internal control arrangements.
Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

<table>
<thead>
<tr>
<th>Value for money criteria and key messages</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Criterion</strong></td>
</tr>
<tr>
<td>1. Financial resilience</td>
</tr>
<tr>
<td>The organisation has proper arrangements in place to secure financial resilience.</td>
</tr>
<tr>
<td>Focus for 2010/11:</td>
</tr>
<tr>
<td>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</td>
</tr>
</tbody>
</table>
### 2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Key messages</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Criterion</strong></td>
<td><strong>Key messages</strong></td>
</tr>
<tr>
<td>2. Securing economy efficiency and effectiveness</td>
<td>My review found that:</td>
</tr>
<tr>
<td>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</td>
<td>- the Chief Financial Officer has made management and Members aware of the challenging financial position faced by the Council, as a result of the current economic environment and policy changes made by Central Government;</td>
</tr>
<tr>
<td>Focus for 2010/11:</td>
<td>- the Council has a fees and charges policy in place and is actively exploring options to generate additional income;</td>
</tr>
<tr>
<td>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</td>
<td>- the Council engages with its stakeholders through the budget-setting process and regular updates made available to staff;</td>
</tr>
<tr>
<td></td>
<td>- the Council has established shared services to help to reduce costs and improve the efficiency of administration; and</td>
</tr>
<tr>
<td></td>
<td>- service reviews are underway, to identify improvements to value for money. Action points resulting from the service reviews could more clearly identify whether their proposals aim to make savings or improve quality, or both.</td>
</tr>
</tbody>
</table>
## Current and future challenges

This is a period of challenge for the public sector. The following outline some of the key challenges faced by the Council over the next few years.

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Action needed</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economic downturn and pressure on the public sector</strong></td>
<td>The Council had already started to reduce its costs as part of its service review and savings programme. However, there are further savings of £1 million which still need to be found if the Council is to adhere to the targets set out in its Medium Term Financial Plan. Options currently being considered include changes to the leisure contract, asset transfers and income generating schemes relating to the marina development. Although the Council does not have a history of overspending, Members will need to monitor the 2011/12 budget position closely and take robust corrective action where required.</td>
</tr>
<tr>
<td><strong>Housing stock transfer</strong></td>
<td>The timescale for the transfer is tight. Good project management, together with effective communication and engagement with stakeholders, will need to be in place if the Council is to achieve its aim.</td>
</tr>
</tbody>
</table>

The Council had already started to reduce its costs as part of its service review and savings programme. However, there are further savings of £1 million which still need to be found if the Council is to adhere to the targets set out in its Medium Term Financial Plan. Options currently being considered include changes to the leisure contract, asset transfers and income generating schemes relating to the marina development. Although the Council does not have a history of overspending, Members will need to monitor the 2011/12 budget position closely and take robust corrective action where required.

In addition, the Localism Bill and other changes in the way central government sees the delivery of local council services present challenges for the Council. Proposed changes to business rates retention, council house funding, the administration and funding of housing and council tax benefits and local government pension arrangements will also need to be managed by the Council in the coming years.

The Council has recently balloted tenants on a proposal to transfer its housing stock to a registered social landlord, South Lakes Housing. It secured the support of tenants for its proposal and is therefore moving forward with plans to transfer ownership of its 3183 council dwellings and associated properties to the new owner on 31 March 2012.
Closing remarks

I have discussed and agreed this letter with the Chief Executive and Assistant Director (Resources). I will present this letter at the Audit Committee on Thursday, 8 December 2011 and will provide copies to all members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

<table>
<thead>
<tr>
<th>Report</th>
<th>Date issued</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010/11 audit fee letter</td>
<td>27 April 2010</td>
</tr>
<tr>
<td>Opinion Audit Plan 2010/11</td>
<td>January 2011</td>
</tr>
<tr>
<td>Annual governance report</td>
<td>September 2011</td>
</tr>
<tr>
<td>Auditor's report giving an opinion on the financial statements</td>
<td>28 September 2011</td>
</tr>
<tr>
<td>Value for money conclusion</td>
<td>28 September 2011</td>
</tr>
<tr>
<td>Auditor's assurance statement on whole of government accounts (WGA)</td>
<td>30 September 2011</td>
</tr>
<tr>
<td>Annual audit letter</td>
<td>November 2011</td>
</tr>
</tbody>
</table>

The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Karen Murray
District Auditor
November 2011
### Appendix 1 – Fees

<table>
<thead>
<tr>
<th></th>
<th>Actual (£)</th>
<th>Proposed (£)</th>
<th>Variance (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scale fee</td>
<td>137,657</td>
<td>137,657</td>
<td>0</td>
</tr>
<tr>
<td>Non-audit work</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>137,657</strong></td>
<td><strong>137,657</strong></td>
<td><strong>0</strong></td>
</tr>
</tbody>
</table>
Appendix 2 – Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

■ whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
■ whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

■ I find the statements do not give a true and fair view; or
■ I cannot confirm that the statements give a true and fair view.

Value for money conclusion

The auditor’s conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.
The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.
Audit Committee update

South Lakeland District Council

Audit 2011/12
The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.
Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>2</td>
</tr>
<tr>
<td>Progress report</td>
<td>3</td>
</tr>
<tr>
<td>Financial statements</td>
<td>3</td>
</tr>
<tr>
<td>VFM conclusion</td>
<td>3</td>
</tr>
<tr>
<td>Other areas of work</td>
<td>3</td>
</tr>
<tr>
<td>Other matters of interest</td>
<td>4</td>
</tr>
<tr>
<td>Update on the externalisation of the Audit Practice</td>
<td>4</td>
</tr>
<tr>
<td>Income Generation</td>
<td>5</td>
</tr>
<tr>
<td>Code on Data Transparency</td>
<td>5</td>
</tr>
<tr>
<td>Guides to Local Government Finance</td>
<td>6</td>
</tr>
<tr>
<td>For information: Fighting Fraud Together</td>
<td>6</td>
</tr>
<tr>
<td>Key considerations</td>
<td>8</td>
</tr>
<tr>
<td>Contact details</td>
<td>9</td>
</tr>
</tbody>
</table>
Introduction

1 The purpose of this paper is to provide the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. It includes an update on the externalisation of the Audit Practice.

2 This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Audit Committee. The paper concludes by asking a number of questions which the Committee may wish to consider in order to assess whether it has received sufficient assurance on emerging issues.

3 If you require any additional information regarding the issues included within this briefing, please feel free to contact me or your Audit Manager using the contact details at the end of this update.

4 Finally, please also remember to visit our website (www.audit-commission.gov.uk) which now enables you to sign-up to be notified of any new content that is relevant to your type of organisation.

Jackie Bellard
District Auditor
28 November 2011
Progress report

Financial statements

5 My team have commenced work on the 2011/12 interim audit. This work involves examining each of the Council's key financial systems. My team will update existing systems documentation and undertake walkthrough tests to confirm that the expected controls within each system are in place. I anticipate that the majority of this work will be complete by early January 2012. To maximise audit efficiency, I will place reliance on work undertaken by internal audit wherever possible.

6 My 2011/12 Opinion Audit Plan which sets out my approach to the audit and risks I have identified at this stage is a separate item on the agenda for today's meeting.

VFM conclusion

7 Through minute review and regular discussions with management, I continue to monitor the Council's progress towards securing the efficiencies and savings needed to deliver the 2011/12 budget. I will undertake a more detailed review of the Council's VFM arrangements later in the year. The criteria against which I make my assessment of your arrangements have remained unchanged from last year and are:

■ the organisation has proper arrangements in place to secure financial resilience; and
■ the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Other areas of work

8 I recently completed my 2010/11 certification work. A report on the outcome of that work is included as a separate item on the agenda for today's meeting.
Other matters of interest

Update on the externalisation of the Audit Practice

9 The Audit Commission’s Chief Executive, Eugene Sullivan, wrote to clients on 21 September 2011 summarising the Department for Communities and Local Government’s plans for externalising the Audit Commission’s work that is currently undertaken by the Audit Practice.

10 The key points are as follows.
■ Contracts will be let from 2012/13 on a three- or five-year basis. The earliest you will be able to appoint your own auditors is therefore for the 2015/16 audit.
■ The work is split into four regions, comprising ten ‘lots’. Each lot will be awarded separately, but any individual bidder can only win a maximum of one lot in each region (ie four lots in total).
■ The Commission is managing a fair and equitable procurement process to allow suitable private-sector providers the opportunity to bid.
■ Bids are due in by mid-December 2011, with the contract awards planned for mid-February 2012, with formal Commission approval planned for late July 2012 following consultation.
■ Appointments will start on 1 September 2012. As such, the Commission will extend the current audit appointment to allow any audit issues arising between 1 April 2012 and 31 August 2012 to be dealt with. The costs of this ‘interim’ audit role will be met by the Commission.
■ Audit Practice staff in each lot area will in the main transfer to the successful bidders on 31 October 2012.

11 A further update was provided in Eugene Sullivan's letter to clients of 10 November 2011. Thirteen potential providers have now been invited to tender following the initial pre-qualification stage.

12 Further details are available on the Audit Commission’s website. We will continue to keep you updated on developments.

13 Against this background, the Audit Practice's focus remains.
■ Fulfilling our remaining responsibilities – completing our work for 2010/11 and delivering your 2011/12 audit - to the high standards you expect and deserve.
■ Managing a smooth transition from the Audit Practice to your new audit provider.
Income Generation

14 Income from fees and charges is a key financial area for local authorities with the top ten income streams generating over £7 billion each year.

15 CIPFA has recently produced an updated guide to income generation and much has happened since the earlier editions were published in 2005 and 2008.

16 In 2011, organisations are looking at income in its widest sense as a key factor in their funding equation. The economic downturn has demonstrated the risks associated with excessive reliance on income from fees and charges. However, the Spending Review 2010 has motivated local authorities to evaluate robustly every possible funding source.

17 Rather than just focussing on savings, organisations are increasingly focussing on maximising their income generation opportunities.

18 This new 2011 edition should enable local authorities to make the most of their fees and charges potential. It provides a full update of the charging opportunities available as at March 2011, reflecting recent legislation and regulations.

Code on Data Transparency

19 On 29 September 2011 the Department for Communities and Local Government (DCLG) published the Code of Recommended Practice for Local Authorities on Data Transparency.

20 Subject to consultation, we understand that Ministers are minded to make this Code a legally binding requirement.

21 The Code requires local authorities to publish public data as soon as possible following production even if it is not accompanied with detailed analysis. Where practical, local authorities should seek to publish in real time. As a minimum, the public data that should be released are:

- expenditure over £500 (including costs, supplier and transaction information);
- senior employee salaries, names (with the option for individuals to refuse to consent for their name to be published), job descriptions, responsibilities, budgets and numbers of staff;
- an organisational chart of the staff structure of the local authority including salary bands and details of currently vacant posts;
- the ‘pay multiple’ - the ratio between the highest paid salary and the median average salary of the whole of the authority’s workforce;
- councillors' allowances and expenses;
- copies of contracts and tenders to businesses and to the voluntary community and social enterprise sector;
- grants to the voluntary community and social enterprise sector should be clearly itemised and listed;
- policies, performance, external audits and key inspections and key indicators on the authority’s fiscal and financial position;
- the location of public land and building assets and key attribute information that is normally recorded on asset registers; and
- data regarding the democratic running of the local authority including the constitution, election results, committee minutes, decision-making processes and records of decisions.

**Guides to Local Government Finance**

22 CIPFA has recently issued a comprehensive guide to Local Government finance. This guide reflects proposals for academies, HRA self financing, the future of local audit, police and crime commissioners and social care reform.

23 In addition to the above changes, the guide also looks at the impact the recent cuts have had on local authority finances.

24 In addition to the comprehensive guide, a shorter guide has also been prepared which is aimed specifically at members. It provides councillors with a brief overview of key facts, figures and requirements in relation to local government finance in a more user friendly and handy reference format.

**For information: Fighting Fraud Together**

25 In October 2011, thirty-seven organisations joined forces to launch ‘Fighting Fraud Together’, a new strategy that aims to reduce fraud - a crime estimated to cost the UK £38 billion every year.

26 The organisations involved include the NHS, the Charity Commission, the Department for Communities and Local Government, HM Revenues and Customs and the Association of Chief Police Officers.

27 It is the first time that government, industry, voluntary groups and law enforcement agencies have joined together on such a large scale to sign a joint commitment to tackle fraud.

28 All thirty-seven partners that have signed up to the ‘Fighting Fraud Together’ strategy which will contribute to and be accountable for its success.

29 The strategy and its accompanying action plan place a strong emphasis on preventing fraud through greater fraud awareness and self protection, combined with stronger government and industry prevention systems and controls.

30 Examples of the new initiatives include the following.

- Preventing fraud: Industry and the public sector will develop their intelligence-sharing capabilities to prevent fraud attacks.
- Increasing awareness and reporting: A new research tool will help all sectors provide more targeted prevention advice to the public, particularly vulnerable people, and develop a better understanding of small businesses’ vulnerability to fraud and the support they need; and
A more effective enforcement response: Greater intelligence capabilities of the National Fraud Intelligence Bureau will disrupt fraudsters’ activities and rapidly close down the channels through which they operate and launder money.
Key considerations

The Audit Committee may wish to consider the following questions in respect of the issues highlighted in this briefing paper.

■ Has the Council reviewed CIPFA’s guide on income generation and is the Audit Committee satisfied that all potential income sources have been identified?

■ Does the Council have adequate arrangements in place to ensure that it complies with the Code of Recommended Practice for Local Authorities on Data Transparency and that all published information is both accurate and complete?

■ Have Members been provided with a copy of CIPFA’s guide to Local Government finance?
Contact details

31 If you would like further information on any items in this briefing, please feel free to contact either your District Auditor or Audit Manager.

32 Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: www.audit-commission.gov.uk.

Jackie Bellard
District Auditor
0844 798 7011
07976 351 680
j-bellard@audit-commission.gov.uk

Heather Green
Audit Manager
0844 798 7087
07786 198 459
h-green@audit-commission.gov.uk
The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131
Fax: 0844 798 2945
Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk

November 2011
South Lakeland District Council  
AUDIT COMMITTEE  
Meeting Date: 8 December 2011  
Report Author: Helen Smith, Strategic Finance Manager & Keith Jackson, Internal Audit Manager  
Portfolio: Not applicable  
Report from: Assistant Director (Resources) & S151 Officer  
Wards affected: Not applicable  
Key Decision: Not applicable  
Forward Plan: Not applicable  

REVIEW OF LOCAL CODE OF GOVERNANCE  
1.0 PURPOSE OF REPORT  
1.1 This report is presented to show the results of the review of the Council’s Code of Local Governance.  

2.0 RECOMMENDATIONS  
It is recommended that Audit Committee:-  
(1) Note the review of the Local Code of Governance;  
(2) consider any revisions to the Local Code of Governance.  

3.0 BACKGROUND  
3.1 The Audit Committee Work Programme for 2011/12 includes an annual review of the Code of Local Governance.  

3.2 South Lakeland District Council is responsible for ensuring that its 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. South Lakeland District Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.  

3.3 South Lakeland District Council approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework “Delivering Good Governance in Local Government” in May 2008.
The Annual Governance Statement explains how the Council complies with the Code, identifies any areas of weakness and has an action plan to address these weaknesses. The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

3.4 CIPFA and Solace produced a document “Application Note to Delivering Good Governance in Local Government: a Framework” in March 2010. This reflects the requirements included in the “Statement on the Role of the Chief Financial Officer in Public Sector Organisations” of June 2009 which sets out five principles that define the core activities and behaviours that belong to the Chief Finance Officer and the governance requirements needed to support them. The Local Code of Governance was updated in early 2011 to reflect these new requirements.

4.0 RESEARCH AND CONSULTATION

4.1 Officers have reviewed the existing Local Code of Governance, the Council’s Annual Governance Statement and the results of internal, external and national audit exercises.

5.0 PROPOSAL

5.1 No changes are proposed to the existing Local Code of Governance shown in Appendix 1.

5.2 There is only one area that is not directly included in the local code, which relates to the Chief Finance Officer (Section 151 Officer) reporting directly to the Chief Executive. Under the Council’s Management Structure, the Chief Finance Officer (Section 151 Officer) reports directly to the Council’s Monitoring Officer instead.

6.0 ALTERNATIVE OPTIONS

6.1 It is good practice to have a Code of Local Governance. No changes are recommended to the existing policy but amendments may be made to this if it is felt appropriate.

7.0 IMPLICATIONS

7.1 Financial and Resources

7.1.1 No financial implications.

7.2 Human Resources

7.2.1 No staffing implications.

7.3 Legal

7.3.1 No legal implications.

7.4 Social, Economic and Environmental Impact

7.4.1 Has a sustainability impact assessment been carried out? No

7.4.2 This proposal is considered to have a neutral impact on sustainability.
8.0 RISK ASSESSMENT

<table>
<thead>
<tr>
<th>Risk</th>
<th>Consequence</th>
<th>Controls required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weaknesses identified in the Annual Governance Statement action plan are not addressed adequately.</td>
<td>Non-compliance with Local Code of Corporate governance with possible loss of public confidence about the way the Council conducts its business</td>
<td>Regular reporting schedule so that Members and senior officers can monitor progress in addressing the weaknesses identified.</td>
</tr>
</tbody>
</table>

9.0 EQUALITY AND DIVERSITY

9.1 An equality and diversity impact assessment has not been carried out.

10.0 LINKS TO THE CORPORATE PLAN AND PERFORMANCE INDICATORS

10.1 Not Applicable.

11.0 CONCLUSION AND EXPECTED OUTCOMES

11.1 The review updates the Local Code of Governance to meet best practice.

APPENDICES ATTACHED TO THIS REPORT

<table>
<thead>
<tr>
<th>Appendix No.</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Proposed Local Code of Governance</td>
</tr>
</tbody>
</table>

CONTACT OFFICERS

Helen Smith, Strategic Finance Manager, h.smith@southlakeland.gov.uk, 01539 717217

BACKGROUND DOCUMENTS AVAILABLE

None

TRACKING

<table>
<thead>
<tr>
<th>Assistant Director</th>
<th>Portfolio Holder</th>
<th>Solicitor to the Council</th>
<th>CMT</th>
<th>Scrutiny Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>22/11/11</td>
<td>N/A</td>
<td>22/11/11</td>
<td>22/11/11</td>
<td>N/A</td>
</tr>
<tr>
<td>Executive (Cabinet) Committee</td>
<td>Council</td>
<td>Section 151 Officer</td>
<td>Monitoring Officer</td>
<td></td>
</tr>
<tr>
<td>N/A</td>
<td>22/11/11</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human Resource Services Manager</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
SOUTH LAKELAND DISTRICT COUNCIL

Local Code of Governance

February 2011
Local Code of Governance

Contents

Introduction

Principle 1 – Vision, forward planning, and performance

Principle 2 – Members' and officers' roles and responsibilities

Principle 3 – Standards of conduct

Principle 4 – Scrutiny and risk management

Principle 5 – Developing capacity

Principle 6 – Engaging with local people and stakeholders

Annual Review of Corporate Governance
Local Code of Governance

Introduction

Corporate Governance is defined by CIPFA/SOLACE as comprising “the systems and processes for the direction and control of local authorities through which they account to, engage with and lead their communities. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services”.

This Local Code of Governance has been developed from a framework document produced by The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE).

The six sections of the code define how we comply with the six principles of good governance laid down by the independent commission on good governance in public services. These are:

• vision, forward planning, and performance
• members and officers roles and responsibilities
• standards of conduct
• scrutiny and risk management
• developing capacity
• engaging with local people and stakeholders

What is “governance?”

Sometimes there can appear to be a degree of mystery about the subject of governance which can hinder improvement. To avoid this and to be clear about how the Council views the term, we define governance as:

“Ensuring we are doing the right things in the right way, for the right people, in an open, honest inclusive and timely manner”

How important is it?

The Council recognises that all democratic and public governance relies on high standards of probity. When conduct and behaviour are corrupt or improper it erodes confidence in the democratic system. The UK has a strong reputation for high standards in public life, however citizen expectations are always increasing and it is important for the future well-being of local government and democracy that these standards are not only maintained, but improved, in the future.
The Council commits itself to the following principles:

**Principle 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.**

Leadership is exercised by clearly communicating the authority’s purpose and vision and its intended outcomes for citizens and service users. We ensure that users receive a high quality of service whether directly, or in partnership or by commissioning. We also ensure that we make the best use of resources and that taxpayers and service users receive excellent value for money.

In pursuance of this principle we will:

a) make a clear statement of the authority’s purpose and vision and use it as a basis for corporate and service planning and shaping the community strategy and local area agreements;
b) review on a regular basis the authority’s vision for the local area and its impact in the authority’s governance arrangements;
c) publish an annual report on a timely basis to communicate the authority’s activities and achievements, its financial position and performance;
d) decide how the quality of service for users is to be measured and ensure that the information needed to review service quality effectively and regularly is available;
e) decide how value for money is to be measured and ensure that it has the information needed to review value for money and performance effectively;
f) produce timely, accurate and impartial financial information for decision making, enabling the Authority to meet its objectives and providing effective stewardship and value for money;
g) maintain a prudential financial framework, balance commitments with available resources; and monitor income and expenditure levels to ensure this balance is achieved;
h) ensure compliance with the CIPFA codes regarding a Prudential Framework for Capital Finance and Treasury Management;
i) put in place effective arrangements to deal with a failure in service delivery;
j) when working in partnership, ensure that there is a common vision underpinning the work of the partnership that is understood and agreed by all partners. The vision should:
   • be supported by clear and measurable objectives with targets and indicators
   • identify quality and cost drivers for deciding what services will be either provided or commissioned by the partnership.
**Principle 2 – Members and officers working together to achieve a common purpose with clearly defined functions and roles.**

Effective leadership requires clarity regarding the roles of executive and non-executive members and respect and recognition for the scrutiny function. In addition to this constructive working relationship between members and staff, mutual respect for each of these respective roles is vital.

Finally we need to ensure that residents understand our role and the levels of service they can expect. This is particularly important where the district council operates alongside the county as well as parish and town councils.

In pursuance of this principle we will:

a) set out a clear statement of the respective roles and responsibilities of the Council’s executive committee and the members individually and the authority’s approach towards putting this into practice;

b) set out a clear statement of the respective roles and responsibilities of the Council’s other committees and members and senior officers;

c) develop protocols to ensure effective communication between members and officers in their respective roles;

d) develop protocols to ensure that the leader and chief executive negotiate their respective roles early in their relationship and that a shared understanding of roles and objectives is maintained;

e) set out the terms and conditions for remuneration of members and officers and an effective structure for managing the process including an effective remuneration panel;

f) ensure that its vision, strategic plans, priorities and targets are developed through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated;

g) establish a medium term business and financial planning process in order to deliver - a financial strategy ensuring sustainable finances, a robust annual budget process ensuring financial balance and an adequate monitoring process; all of which are subject to regular review;

h) when working in partnership:
   - ensure that there is clarity about the legal status of the partnership
   - ensure that the roles and responsibilities of the partners are agreed so that there is effective leadership and accountability
   - ensure that Council representatives make clear to all other partners the extent of their authority to bind their organisations to partner decisions

i) ensure that effective mechanisms exist to monitor service delivery;

j) determine a scheme of delegated and reserved powers within the constitution and ensure that it is monitored and updated when required;
k) require appropriate management accounting, functions and controls to be in place within the Council, together with outsourced and partnership arrangements;

l) ensure budget calculations are robust and reserves are adequate;

m) ensure that effective management arrangements are in place at the top of the organisation;

n) make a Chief Executive (or equivalent) responsible and accountable to the authority for all aspects of operational management;

o) make a senior officer (the Section 151 Officer) responsible to the authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control;

p) require the Chief Finance Officer (Section 151 Officer) to be a member of the Council’s Senior Management Team, with access to the Chief Executive and other members of the leadership team as appropriate;

q) appoint a professionally qualified and experienced Chief Finance Officer (Section 151 Officer), who will lead the promotion and delivery of good financial management, safeguarding public money and ensuring appropriate, economic, efficient and effective use of funds; together with professional accountability for finance staff throughout the Council;

r) make a senior officer (the Monitoring Officer) responsible to the authority for ensuring that agreed procedures are followed and that all applicable statutes, regulations and other relevant statements of good practice are complied with.
**Principle 3 – Promoting our values and demonstrating the values of good governance through upholding high standards of conduct and behaviour.**

High standards of conduct and effective governance can only be achieved if those who hold public office have the highest standards of behaviour and encourage others to do so by providing leadership by visibly embodying our core values of listening, learning and delivering.

In pursuance of this principle we will:

a) develop and maintain shared values including leadership values both for the Council and its staff reflecting public expectations about the conduct and behaviour of individuals and groups within and associated with the Council;

b) use the Council’s shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the Council;

c) develop and adopt formal codes of conduct defining standards of personal behaviour;

d) develop and maintain an effective standards committee that acts as the main means to raise awareness and take the lead in ensuring high standards of conduct are firmly embedded within the local culture;

e) put in place arrangements to ensure that members and staff of the Council are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and put in place appropriate processes to ensure that they continue to operate in practice;

f) put in place arrangements to ensure that procedures and operations are designed in conformity with appropriate ethical standards, and to monitor their continuing compliance in practice;

g) ensure that systems and processes for financial administration and control, protection of the Authority’s resources and assets, are designed in conformity with appropriate ethical standards; and are subject to monitoring of their effectiveness;

h) in pursuing partnerships, agree a set of values against which decision making and actions can be judged in line with and having referred to the Partnership Working Framework.
Principle 4 – Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.

Informed decision-making is a fundamental part of good corporate governance. It requires councils to be both rigorous in their examination of options but also open to consider representation and views from all sectors of the community and policy development groups. Complementing this we need to have robust knowledge of the community needs and the quality of the services we are providing or commissioning. Finally we have to robustly manage the risks associated with these activities and ensure that we use (but do not exceed) the legal powers available.

In pursuance of this principle we will:

a) develop and maintain an effective scrutiny function which encourages constructive challenge and enhances the authority’s performance overall;
b) ensure an effective internal audit function is resourced and maintained;
c) develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based;
d) put in place arrangements so that conflicts of interest on behalf of members and employees can be avoided and put in place appropriate processes to ensure that they continue to operate in practice;
e) put in place arrangements for whistle blowing to which staff and all those contracting with the authority have access;
f) put in place effective transparent and accessible arrangements for dealing with complaints;
g) develop and maintain an effective audit committee which is independent of the executive and scrutiny functions;
h) enable the Chief Finance Officer (Section 151 Officer) to have direct access to the Council’s Audit Committee and External Auditor;
i) develop and maintain an effective standards committee which lies at the heart of decision making and awareness raising on standards issues;
j) ensure that those making decisions are provided with information that is fit for the purpose – relevant, timely and gives clear explanations of technical issues and their implications;
k) produce clear, timely, complete and accurate information for budget holders and senior officers relating to the budgetary and financial performance of the Council;
l) develop and maintain effective arrangements for determining the remuneration of senior staff;
m) ensure that professional advice on legal and financial matters is available and recorded well in advance of decision making and used appropriately when decisions have significant legal or financial implications;
n) enable the Chief Finance Officer (Section 151 Officer) to bring influence to
bear on all material decisions and provide advice on the levels of reserves and balances to be retained;

o) ensure that risk management is embedded into the culture of the authority, with members and managers at all levels recognising that risk management is part of their job;

p) require our arrangements for financial and internal control and management of risk to be formally addressed within the annual governance reports;

q) ensure effective internal control arrangements exist for sound financial management systems and processes;

r) actively recognise the limits of lawful activity placed on them by the ultra vires doctrine but also strive to utilise their powers to the full benefit of their communities;

s) observe all specific legislative requirements placed upon them, as well as the requirements of general law, and in particular integrate the key principles of administrative law – rationality, legality and natural justice into their procedures and decision making;

t) when working in partnership, put in place protocols for working together which include a shared understanding of respective roles and responsibilities of each organisation;

u) when working in partnership, ensure that there are robust procedures for scrutinising decisions and behaviour and that these decisions and behaviour are compliant with any local authority rules/codes or comply with any rules/codes developed for the purpose of the partnership;

v) when working in partnership, ensure that partnership papers are easily accessible and meetings are held in public unless there are good reasons for confidentiality. The partners must ensure that:

- the partnership receives good quality advice and support and information about the views of citizens and stakeholders, so that robust and well reasoned decisions are made; and
- risk is managed at a corporate and operational level.
**Principle 5 - Developing the capacity and capability of members and officers to be effective.**

Ensuring that members and officers have the necessary skills to operate a multi-million pound organisation that provides a multitude of different services, often to highly dependent residents, and in addition govern the district by preparing it to meet the challenges of the future, is one of the most important aspects of governance. Setting and monitoring performance is one way of rising to this challenge.

In pursuance of this principle we will ensure that we:

a) assess the skills required by members and officers and make arrangements to agree a development plan to develop those skills and address any training gaps, to enable roles to be carried out effectively;

b) embed financial competencies within all appropriate person specifications and appraisals;

c) ensure that Councillor’s roles and responsibilities for monitoring financial/budgetary performance are clear; and they are provided with and have access to adequate financial skills and training to assist in discharging these responsibilities;

d) develop skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed, in line with the member development strategy;

e) provide induction programmes tailored to individual needs and opportunities for members and officers to update their knowledge on a regular basis;

f) ensure that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the authority;

g) review the scope of the Chief Finance Officer’s (Section 151 Officer’s) non financial areas of responsibility to ensure financial matters are not compromised;

h) provide the Financial Services with the resources, expertise and systems necessary to perform its role effectively within the Council;

i) put in place effective arrangements designed to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the authority;

j) consider career structures for members and officers to encourage participation and development;

k) when working in partnership, ensure that partners individually and the partnership collectively share responsibility for appointing people to the partnership who have the required skills and are at an appropriate level. The partnership should:
   - identify the capacity and capability requirements of the partnership
• conduct an audit of the capacity and capability of the partnership and partners
• develop an effective plan for addressing any gaps.
**Principle 6 - Engaging with local people and other stakeholders to ensure robust local public accountability.**

Public authorities not only have to do things in the right way, but have to face the additional challenge of being seen to do things in the right way. This requires full engagement with local people through a process which is planned and resourced in a way that is fair. We are a “people” business providing services to people by people. People are our most important, and our most expensive asset, so a planned approach to their development is required.

In pursuance of this principle we will ensure that we:

a) make clear to ourselves, all staff and the community, to whom we are accountable and for what;

b) consider those institutional stakeholders to whom we are accountable and assess the effectiveness of the relationships and any changes required;

c) establish clear channels of communication with all sections of the community and other stakeholders and put in place monitoring arrangements to ensure that they operate effectively;

d) put in place arrangements to enable the authority to engage with all sections of the community effectively. These arrangements will recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands;

e) will on an annual basis, publish an annual report giving information on the authority’s vision, strategy, plans and financial statements as well as information about the outcomes, achievements and the satisfaction of service users in the previous period;

f) put in place effective systems to protect the rights of staff. Ensure that policies for whistle blowing which are accessible to staff and those contracting with the authority, and arrangements for the support of whistle blowers, are in place;

g) develop and maintain a clear policy on how staff and their representatives are consulted and involved in decision making;

h) produce an annual report on scrutiny function activity;

i) ensure that the authority as a whole is open and accessible to the community, service users and staff and make a commitment to openness and transparency in all our dealings, including partnerships subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so;

j) when working in partnership, ensure that engagement and consultation undertaken by the partnership is planned with regard to methodology, target audience and required outcomes. Existing mechanisms and groups will be used where appropriate. In the work cycle of the partnership it must be clear and demonstrable to the public what has happened to any feedback and what has changed as a result.
Annual Review of Corporate Governance

At the end of the year, the Council will produce its Statement on Governance, which includes end of year Departmental assurance statements and Internal Audit’s opinion report. This statement will also assess the effectiveness of both the Code of Governance and its application, identifying any necessary changes to either and making recommendations to the Council.

As part of its governance role, the Audit Committee will undertake this review on behalf of the Council.
South Lakeland District Council

AUDIT COMMITTEE

Meeting Date: 8 December 2011
Report Author: Helen Smith, Strategic Finance Manager & Keith Jackson, Internal Audit Manager
Portfolio: Not applicable
Report from: Assistant Director (Resources) & S151 Officer
Wards affected: Not applicable
Key Decision: Not applicable
Forward Plan: Not applicable

REVIEW OF ANTI-FRAUD POLICY

1.0 PURPOSE OF REPORT

1.1 This report is presented to show the results of the review of the Council’s Anti-Fraud and Corruption Policy. Amendments have been made to the previous policy to reflect the Bribery Act 2010 and to clarify reporting arrangements.

2.0 RECOMMENDATIONS

It is recommended that Audit Committee:-

(1) consider and approve the revised Anti-Fraud and Corruption Policy; and

(2) require officers to make appropriate steps to publicise the policy.

3.0 BACKGROUND

3.1 The Audit Committee Work Programme for 2010/11 includes an annual review of the Anti-Fraud and Corruption Policy. This policy links very closely with the Whistleblowing Policy, which was last reviewed in February 2011.

4.0 RESEARCH AND CONSULTATION

4.1 Since the last review of the Anti-Fraud and Corruption Policy by Audit Committee in February 2011 the Bribery Act 2010 has come into effect which replaces offences at common law and under the Prevention of Corruption Acts 1889 to 1916 with two general offences. Broadly, these offences are:

- bribing another person – offering, promising or giving a financial or other advantage to another;
- being bribed – requesting, agreeing to receive or accept financial or other advantage.
An offence is committed under the Act where the advantage is intended as an inducement to improper performance of a function, or as a reward for such improper action.

4.2 The Act also introduces two further specific offences:

- bribing a foreign public official;
- corporate failure to prevent bribery.

The offence of corporate failure to prevent bribery applies to incorporated bodies or partnerships which carry on business, trade or profession. It is, though, a defence to prove that the organisation had in place ‘adequate procedures’ designed to prevent bribery. It is believed the Council’s Anti-Fraud and Corruption Policy and arrangements would constitute ‘adequate procedures’

5.0 PROPOSAL

5.1 The proposed Anti-Fraud and Corruption Policy is attached at Appendix 1. The amendments proposed make reference to the new Bribery Act. The amendments also clarify the arrangements for reporting suspected fraud, corruption or improprieties.

6.0 ALTERNATIVE OPTIONS

6.1 It is good practice to have an Anti-Fraud and Corruption Policy. The attached policy has been recommended for acceptance but amendments may be made to it if this is felt appropriate.

7.0 NEXT STEPS

7.1 The new Anti-Fraud and Corruption policy will be publicised through the Council’s internet and intranet sites and the leaflets updated.

8.0 IMPLICATIONS

8.1 Financial and Resources

8.1.1 No financial implications.

8.2 Human Resources

8.2.1 No staffing implications.

8.3 Legal

8.3.1.

8.4 Social, Economic and Environmental Impact

8.4.1 Has a sustainability impact assessment been carried out? No

8.4.2 This proposal is considered to have a neutral impact on sustainability.

9.0 RISK ASSESSMENT

<table>
<thead>
<tr>
<th>Risk</th>
<th>Consequence</th>
<th>Controls required</th>
</tr>
</thead>
</table>

118
Failure to have an Anti-Fraud and Corruption Policy in place.  
There will be no high level direction to the way in which fraudulent or corrupt acts are reported, investigated or dealt with.

Fraud and corruption will not be detected resulting in significant losses in council finances and bad publicity.

Lack of procedures to prevent bribery may lead to prosecution

A policy that clearly reflects the Council’s stance on fraud and corruption which acts as a deterrent to potential fraudsters.

A policy that clearly defines responsibilities and the introduction of monitoring arrangements to highlight high risk areas.

A policy that clearly defines bribery and defines responsibilities for ensuring ‘adequate procedures’ to prevent bribery.

10.0 EQUALITY AND DIVERSITY
10.1 An equality and diversity impact assessment has not been carried out.

11.0 LINKS TO THE CORPORATE PLAN AND PERFORMANCE INDICATORS
11.1 Not Applicable.

12.0 CONCLUSION AND EXPECTED OUTCOMES
12.1 The review updates the Anti-Fraud and Corruption Policy.

APPENDICES ATTACHED TO THIS REPORT

<table>
<thead>
<tr>
<th>Appendix No.</th>
<th>Proposed Anti-Fraud and Corruption Policy</th>
</tr>
</thead>
</table>

CONTACT OFFICERS

Helen Smith, Strategic Finance Manager, h.smith@southlakeland.gov.uk, 01539 717217

BACKGROUND DOCUMENTS AVAILABLE
None.

TRACKING

<table>
<thead>
<tr>
<th>Assistant Director</th>
<th>Portfolio Holder</th>
<th>Solicitor to the Council</th>
<th>CMT</th>
<th>Scrutiny Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>22/11/11</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Executive (Cabinet)</th>
<th>Committee</th>
<th>Council</th>
<th>Section 151 Officer</th>
<th>Monitoring Officer</th>
</tr>
</thead>
<tbody>
<tr>
<td>N/A</td>
<td>22/11/11</td>
<td>22/11/11</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Services Manager</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>------------------</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>N/A</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
ANTI-FRAUD AND CORRUPTION POLICY

Policy Document

1. FOREWORD

1.1 The United Kingdom public sector maintains high standards of probity and has a good reputation for protecting the public purse. Sound systems of public accountability are vital to effective management and in maintaining public confidence. This Council shares these high standards and is committed to protecting the public funds entrusted to it. The minimisation of losses from fraud and corruption is essential to ensure that resources are used for their intended purpose, that of providing services to the citizens of South Lakeland.

1.2 The public is entitled to expect the Council to conduct its affairs with integrity, honesty and openness and demand the highest standards of conduct from those working for it. This Anti-Fraud and Corruption Policy outlines the Council’s commitment to creating an anti-fraud culture and maintaining high ethical standards in its administration of public funds.

1.3 The Policy is based on a series of comprehensive and inter-related procedures, designed to prevent, detect and deter fraud and to take effective action against any attempted or actual fraudulent act affecting the Council. The Policy also satisfies the legislative requirements of having effective arrangements for tackling fraud and conforms with professional guidance laid down in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government.

2. INTRODUCTION

2.1 The Council is required to maintain an effective internal audit of its activities, with a key role to monitor the effectiveness of internal controls operating within the Council. The Internal Audit function is currently provided by Furness Audit.

2.2 Fraud and Corruption have been defined in the Fraud Act 2006 as:-

- Fraud – “the intentional distortion of financial statements or other records by persons internal or external to the organisation which is carried out to mislead or misrepresent”
- Corruption – “the offering, giving, soliciting or acceptance of an inducement or reward which may influence the action of any person”.

The Fraud Act also sets out a general offence of fraud as follows:

“a dishonest act where a perpetrator intends to make a gain for themselves or cause loss to another”.

The Bribery Act 2010 makes it a criminal offence to give, promise or offer a bribe and to request, agree to receive or accept a bribe either at home or abroad.

Incidents of fraud or corruption often come to light as a result of an irregularity being noticed.
Irregularity – “any action that is contrary to rule or moral principle or abnormal in any way”.

This Policy covers all the above.

2.3 The purpose of this Policy is to outline the Council’s approach, as well as defining roles and responsibilities, for dealing with the threat of fraud and corruption, both internally and externally. It applies to:

- Councillors
- Employees
- Contractors
- Consultants
- Suppliers
- Service users
- Partnerships and organisations supported by the Council

In addition to the above, the Council also expects the residents of South Lakeland to be honest in their dealings with the authority.

2.4 The Policy sets out the Council’s commitment to tackling fraud and corruption. This makes it clearly apparent to all concerned that appropriate and decisive action will be taken against those committing, or attempting to commit, fraudulent or corrupt acts against the authority.

3. CORPORATE FRAMEWORK AND CULTURE

3.1 The Council has a range of interrelated policies and procedures that provide a corporate framework to counter fraudulent activity. These have been formulated in line with appropriate legislative requirements, and include:

- Codes of Conduct for Members and officers [Part 5 of the Constitution of the Council]
- A Register of Interests
- Registers of Gifts and Hospitality
- Accounting procedures and records including general procedures for receiving income
- Sound internal control systems
- Effective internal audit, provided by Furness Audit
- Officer Employment Procedure Rules
- Disciplinary Procedure
- Criminal Acts Procedure
- Fraud Investigation Procedures and Guidelines
- Whistleblowing Policy
- The Regulation of Investigatory Powers Act (RIPA) Procedure
- Training

3.2 The Council believes that the maintenance of a culture of honesty and openness is a key element in tackling fraud. The Codes of Conduct for Members and Staff are based on the Nolan Principles of Standards in Public Life. Failure to uphold these Codes will be considered as detrimental to the aims of the Council and will lead to the appropriate action being taken against those concerned.
4. PREVENTION

The Council recognises that incidences of fraud and corruption are costly, both in terms of reputational risk and financial losses. The prevention of fraud is therefore a key objective of the authority and respective roles and responsibilities are outlined below.

4.1 Council Employees

4.1.1 A key preventative measure in the fight against fraud and corruption is to take effective steps at the recruitment stage. These will be to establish, as far as possible, the previous record of potential staff, in terms of their propriety and integrity. In this regard, temporary staff should be treated in the same manner as permanent officers.

4.1.2 Staff recruitment will be undertaken in accordance with the Council's policies for Recruitment and Selection. Whenever possible, written references should be obtained regarding the known honesty and integrity of potential members of staff, before formal employment offers are made.

4.1.3 For all appointments to posts where the employee will:

- have access to corporate computer systems or
- be required to order goods or authorise invoices or
- be required to handle cash or cheques or
- negotiate contracts for the supply of goods or services

or for any other post which the responsible Director considers appropriate, the Council will seek a declaration from applicants that they have not been involved in false claims for Housing and/or Council Tax Benefit. The declaration will be sought in respect of successful applications and with their agreement. The Council will carry out random checks on declarations: a job offer will be withdrawn if the checks produce proven evidence of false benefit claims or the person refuses to make the declaration. This process will be made clear in recruitment packs.

4.1.4 All staff must abide by the Council's Code of Conduct for Officers, which sets out requirements on personal conduct. All professional staff are expected to follow the codes of conduct laid down by their respective professional institutes.

4.1.5 The Council recognises that staff are often the first line of defence in preventing fraud. The Financial Procedure Rules place responsibility for fraud prevention on all employees. Staff should therefore be alert to the possibility of fraud and to report any concerns.

4.1.6 The Council has in place disciplinary procedures for all employees. Those found to have committed any acts of impropriety will be dealt with in accordance with these procedures. Where criminal activity is suspected or found, the matter will be referred to the police for investigation and possible prosecution, in accordance with the Criminal Acts Procedure. In addition, restitution will be sought from those who are found to have perpetrated fraudulent acts.

4.1.7 Under the Council's Constitution, staff must be aware of the disclosure of pecuniary interests in contracts relating to the Council, or the non-acceptance of any fees, gifts, hospitality or any other rewards, other than their proper remuneration. These requirements are set out in Part 5 of the Constitution of the Council.
4.2 Members

4.2.1 Members are required to operate within:

- National Code of Local Government Conduct
- Sections 94-96 of the Local Government Act 1972
- Part 5 of the Constitution of the Council

4.2.2 These matters and other guidance are specifically brought to the attention of new Members at induction courses. They include rules on the declaration and registration with the Chief Executive of potential areas of conflict between Members' Council duties and responsibilities and any other areas of their personal or professional lives.

4.2.3 After approving an Anti-Fraud and Corruption Policy, Members will be expected to play an important role through leading by example and being seen to support it.

4.2.4 The Council has in place an Overview and Scrutiny process. Its remit includes the review of decisions and actions undertaken by the Council. Any matter arising from this process, in which fraud is suspected, can be referred to Furness Audit for independent investigation.

4.2.5 The Council has established a Standards Committee, which has independent representatives within its membership, to examine issues of potential misconduct by Members.

4.2.6 The Local Government Act 2000 requires all Members to give a written undertaking to comply with the Code of Conduct, if they are to remain on the Council.

4.3 Internal Control Systems

4.3.1 The Council has Financial and Contract Procedure Rules, Accounting Procedures and various rules and codes of conduct in place. Staff are required to comply with this best practice when dealing with the Council's affairs.

4.3.2 The Assistant Director (Resources) has a statutory responsibility under Section 151 of the Local Government Act 1972, to ensure proper arrangements are made for the Council's financial affairs. In addition, under the Accounts and Audit Regulations 2003, the Council is required to maintain an adequate and effective internal audit of its financial records and systems of internal control.

4.3.3 The Council's aim is to have sound financial systems and procedures, which incorporate efficient and effective internal controls. The "separation of duties" is considered a fundamental control in such systems, especially when involving significant transactions. Directors and Heads of Service are responsible for maintaining effective internal controls including the prevention and detection of fraud and other illegal acts. Furness Audit will monitor and report upon these controls.

4.4 Combining with Others to Prevent and Fight Fraud

4.4.1 There are a variety of arrangements in place which facilitate the regular exchange of information between the Council and other local authorities and agencies, for the purpose of preventing and detecting fraud. These involve national, regional and local networks of investigators such as internal auditors, housing benefits investigators etc.

4.4.2 The Council operates the Verification Framework (VF) in line with central government initiatives to reduce fraud and error in Housing and Council Tax Benefit.
4.4.3 There is also an intelligence gathering, collation and dissemination service on fraud and corruption known as the National Anti-Fraud Network (NAFN). The Council will participate fully with this initiative.

4.4.4 Data matching will also be undertaken. This is recognised as an important tool in the prevention and detection of fraud, and is used by all other local authorities. The Audit Commission has drawn up a Code of Data Matching Practice for its National Fraud Initiative (NFI), which is recognised by the Information Commissioner as complying with Data Protection legislation.

4.4.5 The Council has also introduced a Benefit Fraud Hotline, to allow Members of the public to report individuals who are suspected of abusing the benefits system.

5. REPORTING, DETECTION AND INVESTIGATION

5.1 It is the responsibility of Directors and Heads of Service to maintain good control systems and ensure that all staff comply with these systems.

5.2 Furness Audit has a planned programme to undertake a cyclical programme of audits to test for fraud and corruption, based on a risk assessment model. This includes liaison with external audit when considering the programme of audits.

5.3 Despite the best efforts of managers and auditors, many frauds are discovered by chance or "tip off", either through the alertness of staff or from a member of the public. In addition, members of the public may wish to raise concerns relating to areas of local authority responsibility. In such cases there is a requirement within the Council’s Financial Procedure Rules for staff to:

- Report actual or suspected instances of fraud to the Director concerned who shall immediately notify the Assistant Director (Resources) who shall take such steps as he considers necessary by way of investigation
- The Assistant Director (Resources) will decide whether to involve the Police in matters of serious fraud and inform the Leader of the Council or appropriate Chairman accordingly.

5.4 There is a dedicated Fraud and Verification team responsible for conducting evidence checks in line with VF procedures, the Housing Benefit (General) Regulations and the Council Tax Benefit (General) Regulations

Evidence checks will include:

- Identity
- Residency and rent
- Household composition
- Earnings, employed and self-employed
- Benefits
- Income
- Capital

The Team will also investigate all allegations of fraudulent activity including interviews under caution. Risk assessment will be undertaken to direct cases to the resources deemed to be the highest risk in terms of loss to the public purse. Separate guidelines and Codes of Practice for the prosecution of offenders are in
place, including a Code of Conduct for Fraud investigators and practices for the treatment and questioning of persons and tape recording of interviews.

5.5 Money laundering is the practice whereby criminals attempt to “clean” the proceeds of criminal activity by passing it through a legitimate institution. All staff who receive cash as part of their duties will be vigilant for any unusual transactions that might indicate that an attempt is being made to launder money. As an additional safeguard receipt of notes, coins or travellers’ cheques will not be accepted over £5,000 for any one transaction.

5.6 Reporting suspected irregularities is essential to the Anti-Fraud and Corruption Policy and ensures:

- consistent treatment of information regarding fraud and corruption
- proper investigation by an experienced team
- the optimum protection of the Council’s interests

Staff will report any irregularities to the Assistant Director concerned who will refer all cases the matter to the Head of Internal Audit and to his/her director. The Assistant Director—and the Assistant Director (Resources) will determine if it is considered an investigation is necessary. The Head of Internal Audit will be notified of all cases where fraud, corruption or improprieties are suspected. The Assistant Director (Resources) will decide whether to involve the Police in cases where an offence is suspected and inform the Leader of the Council or the appropriate Chairman accordingly. Every concern raised will be centrally and formally recorded through the Assistant Director (Resources) or nominated representative Head of Internal Audit. Details of all concerns will be periodically reported to the Audit Committee.

5.7 Depending on the nature and anticipated extent of the allegations, the Assistant Director (Resources) may involve Furness Audit who work closely with:

- Departmental Management
- Human Resources Group
- Legal Services
- Other agencies, such as the Police

This is to ensure that all allegations and evidence are properly investigated and reported upon, and that where appropriate, recoveries are made for the Council.

5.8 The Council’s Whistleblowing Policy provides a clear path for individuals to raise concerns of malpractice in any aspect of the Council’s work, without the fear of recrimination or victimisation. The Council will take appropriate action to protect any individual who has raised a concern in good faith. The Policy deals with the reporting of fraud or alleged fraud through formal channels. The Policy also covers making disclosures to external bodies if there is an unsatisfactory outcome to a disclosure made internally.

The Fraud Hotline freephone facility (0800 389 2330) is available to staff, suppliers and members of the public for raising whistleblowing concerns. All calls will be specifically logged, treated confidentially and investigated through the most appropriate means.

5.9 The Council’s disciplinary procedures will be used to their fullest extent where a disciplinary panel finds that fraud has taken place.
5.10 Where financial impropriety is discovered relating to employees or Members, or grant aided voluntary organisations, the matter may be referred to the Police in accordance with the Criminal Acts Procedure. Such decisions are a matter for the Assistant Director (Resources) in consultation with the Director concerned. Referral to the Police will not necessarily prohibit action under the disciplinary procedure.

5.11 The Council’s External Auditor, the Audit Commission, also has powers to independently investigate fraud and corruption.

6. TRAINING AND AWARENESS

6.1 The Council recognises that the success and credibility of its Anti-Fraud and Corruption Policy will depend largely on how effectively it is communicated throughout the organisation and beyond. To this end, details of the Policy will be provided to all Members and all staff and be included on induction programmes. The Policy will also be shown on the Council’s website and be available on the Intranet.

6.2 The Council supports the concept of induction training, particularly for officers involved in internal control systems, to ensure that their responsibilities and duties in this respect are regularly highlighted and reinforced.

6.3 The officers involved in the review of internal control systems and investigative work should be properly and regularly trained. Those involved with fraud investigation will be required to undertake special Professionalism in Security (PINS) training with the Department for Work and Pensions.

6.4 It is the responsibility of Assistant Directors Heads of Service to communicate the Anti-Fraud and Corruption Policy to their staff and to promote a greater awareness of fraud within their services.

7. DETERRENCE

7.1 There are a number of ways to deter potential fraudsters from committing or attempting fraudulent or corrupt acts, whether they are inside or outside of the Council, and these include:

- publicising the fact the Council is firmly set against fraud and corruption and states this at every appropriate opportunity, e.g. statements in contracts, on claim forms, and in publicity literature
- acting robustly and decisively when fraud and corruption is suspected and proven, e.g. the termination of contracts, the dismissal and/or prosecution of offenders
- taking action to effect the maximum recoveries for the Council, e.g. through agreement, court action, penalties, insurance, superannuation etc
- having sound internal control systems, that still allow for innovation and calculated risk, but at the same time minimising the opportunity for fraud and corruption.

8. REVIEW

8.1 This policy will be reviewed at appropriate times in response to procedural and legal changes.
9 CONCLUSIONS

9.1 The Council has in place a robust network of systems and procedures to assist it in the fight against fraud and corruption. It is determined that these arrangements will keep pace with any future developments in both preventative and detection techniques regarding fraudulent or corrupt activity that may affect its operation or related responsibilities. To this end, the Council maintains a continuous overview of such arrangements.

9.2 The Anti-Fraud and Corruption Policy provides a comprehensive framework for preventing and tackling fraudulent and corrupt acts against the authority. The approval of the Policy by the full Council demonstrates a commitment to protecting public funds and minimising losses to fraud and corruption. Having made this commitment, it is imperative that Directors and Assistant Directors Heads of Service put in place arrangements for disseminating the Policy and promoting fraud awareness, throughout their services.

November 2011
1.0 PURPOSE OF REPORT

1.1 Further to Minute AUD/053 (2011/12), this report is presented to provide an update to the Committee on actions taken since the last Committee meeting on 28 September 2011, in respect of risks identified as part of the recent review of the Annual Governance Statement.

2.0 RECOMMENDATIONS

It is recommended that the Audit Committee:-

(1) notes the actions taken to date in respect of both Action Plans; and

(2) comment as appropriate.

3.0 BACKGROUND

3.1 Governance is about doing the right things in the right way, for the right people, in a timely, open, honest and accountable manner. The Annual Governance Statement (AGS) is a legal requirement and is part of the Council’s final accounts and subsequent audit. Member involvement, by challenging the details contained in the Statement, is an essential part of the process. This is achieved through the scrutiny of the AGS and the information upon which it is based by the Audit Panel.

3.2 The Audit Panel met on 23 June and recommended two separate Action Plans should be used to monitor necessary remedial action to reduce risks they had identified.
3.3 The first Action Plan identified 8 risks deemed to be “significant” and these were included in the Annual Governance Statement itself.

3.4 The second Action Plan contained a list of less significant, but still important risks, which Members felt needed to be addressed by Managers throughout the year.

3.5 Officers have updated both Action Plans as appropriate and these are attached at Appendix 1 and 2 to this report.

4.0 PROPOSAL

4.1 It is proposed that Members note the actions taken to date and, if felt appropriate, comment where they feel that that progress is not being made.

5.0 ALTERNATIVE OPTIONS

5.1 None, as the report is recommended to be noted.

6.0 NEXT STEPS

6.1 Following this review by the Committee a further report will be presented to the next meeting.

7.0 IMPLICATIONS

7.1 Financial and Resources

7.1.1 There are no additional financial implications arising out of the recommendations detailed in this report. The actions can be met from within existing budgets.

7.2 Human Resources

7.2.1 There are no Human Resources implications.

7.3 Legal

7.3.1 There are no Legal implications.

7.4 Social, Economic and Environmental Impact

7.4.1 A sustainability impact assessment has not been carried out.

7.4.2 This proposal is considered to have a neutral impact on sustainability

8.0 RISK ASSESSMENT

<table>
<thead>
<tr>
<th>Risk</th>
<th>Consequence</th>
<th>Controls required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Failing to monitor the work required to address risks identified in the Action Plans.</td>
<td>Actions will not be taken as required and could impact on next year’s review of the Annual Governance Statement and could call into doubt the openness and transparency of the Council’s operations.</td>
<td>Regular monitoring to ensure that actions are taken in a timely and appropriate manner.</td>
</tr>
</tbody>
</table>

9.0 EQUALITY AND DIVERSITY

9.1 An equality and diversity impact assessment has not been carried out.
10.0 LINKS TO THE CORPORATE PLAN AND PERFORMANCE INDICATORS

10.1 While there is no direct link to the Corporate Plan, corporate governance is at the very heart of how the Council operates.

11.0 CONCLUSION AND EXPECTED OUTCOMES

11.1 The Committee is asked to consider the report.

APPENDICES ATTACHED TO THIS REPORT

<table>
<thead>
<tr>
<th>Appendix No.</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Action Plan – 8 significant risks as included in the AGS</td>
</tr>
<tr>
<td>2</td>
<td>Action Plan – Risks to be monitored and addressed by Managers</td>
</tr>
</tbody>
</table>

CONTACT OFFICERS

Chris Woods, Democratic Services Manager, c.woods@southlakeland.gov.uk
Tel – 01539 717440

BACKGROUND DOCUMENTS AVAILABLE

Notes from Audit Panel meeting held on 23 June 2011.

TRACKING

<table>
<thead>
<tr>
<th>Assistant Director</th>
<th>Portfolio Holder</th>
<th>Solicitor to the Council</th>
<th>CMT</th>
<th>Scrutiny Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>22/8/11</td>
<td>n/a</td>
<td>21/11/2011</td>
<td>24/11/2011</td>
<td>n/a</td>
</tr>
<tr>
<td>Executive (Cabinet)</td>
<td>Committee</td>
<td>Council</td>
<td>Section 151 Officer</td>
<td>Monitoring Officer</td>
</tr>
<tr>
<td>n/a</td>
<td>28/9/11</td>
<td>n/a</td>
<td>21/11/2011</td>
<td></td>
</tr>
<tr>
<td>Human Resource Services Manager</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>n/a</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Significant Governance Issues

**Action Plan for Improvement Following Review of Effectiveness of Governance Arrangements**

(8 in total)

<table>
<thead>
<tr>
<th>Schedule Ref No.</th>
<th>Improvement area</th>
<th>Responsible Person</th>
<th>Monitoring Person</th>
<th>Completion date</th>
<th>Score</th>
<th>Future Action Required (updated comments in blue)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>CORE PRINCIPLE 1 - FOCUSING ON THE PURPOSE OF THE AUTHORITY AND ON OUTCOMES FOR THE COMMUNITY AND CREATING AND IMPLEMENTING A VISION FOR THE LOCAL AREA</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1(iii)(a) Decide how value for money is to be measured and make sure that the authority or partnership has the information needed to review value for money and performance effectively.</td>
<td>CMT</td>
<td>Chief Exec.</td>
<td>31/3/2012</td>
<td>3</td>
<td>Deliver the sustainable Council theme, which is within the 5 Year Strategy and identifies a programme of service reviews which will deliver shared services, increase income generation and improve back office efficiencies which will deliver sustainable budgets over the next 5 years and value for money services.</td>
</tr>
<tr>
<td></td>
<td>2(iii)(d) Ensure that the organisation’s vision, strategic plans, priorities and targets are developed through robust mechanisms, and in consultation with the local community and other key.</td>
<td>Claire Gould</td>
<td>Debbie Fox</td>
<td>31/12/11</td>
<td>4</td>
<td>Need to demonstrate that consultation for budget preparation and development of LAPs are embedded in the Council’s practices through good practice, training and development.</td>
</tr>
<tr>
<td></td>
<td><strong>CORE PRINCIPLE 2 – MEMBERS AND OFFICERS WORKING TOGETHER TO ACHIEVE A COMMON PURPOSE WITH CLEARLY DEFINED FUNCTIONS AND ROLES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

133
<table>
<thead>
<tr>
<th>Schedule Ref No.</th>
<th>Improvement area</th>
<th>Responsible Person</th>
<th>Monitoring Person</th>
<th>Completion date</th>
<th>Score</th>
<th>Future Action Required (updated comments in blue)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2(iii)(g)</td>
<td>stakeholders, and that they are clearly articulated and disseminated.</td>
<td>John Dyer Claire Gould</td>
<td>Debbie Fox</td>
<td>31/12/11</td>
<td>4</td>
<td>Develop more co-ordinated approach through Parish Plans and third sector development. Restructure in CV team allowing coordinated support for LAPS. Work underway to develop the partnership web site and newsletter; this will include parish planning and issues. Complete</td>
</tr>
<tr>
<td>2(iii)(h)</td>
<td>When working in partnership, ensure that members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority.</td>
<td>John Dyer Claire Gould</td>
<td>Debbie Fox</td>
<td>31/12/11</td>
<td>4</td>
<td>Share the partnership Protocol with relevant key partnerships and other agencies and encourage its embedding. Delete no longer relevant One South Lakeland Partnership Board: Member training, one minute reads, communities &amp; partnership website</td>
</tr>
<tr>
<td>4</td>
<td>When working in partnership – Ensure that there is clarity about the legal status of the partnership; Ensure that representatives or organisations both understand and make clear to all other</td>
<td>John Dyer Claire Gould</td>
<td>Debbie Fox</td>
<td>31/12/11</td>
<td>4</td>
<td>Share the partnership Protocol with relevant key partnerships and other agencies and encourage its embedding. Delete no longer relevant One South Lakeland Board</td>
</tr>
<tr>
<td>Schedule Ref No.</td>
<td>Improvement area</td>
<td>Responsible Person</td>
<td>Monitoring Person</td>
<td>Completion date</td>
<td>Score</td>
<td>Future Action Required (updated comments in blue)</td>
</tr>
<tr>
<td>------------------</td>
<td>------------------</td>
<td>---------------------</td>
<td>-------------------</td>
<td>----------------</td>
<td>-------</td>
<td>----------------------------------------------------</td>
</tr>
<tr>
<td></td>
<td>partners the extent of their authority to bind their organisation to partner decision.</td>
<td>John Dyer</td>
<td>Debbie Fox</td>
<td>31/12/11</td>
<td>3</td>
<td>Constitution</td>
</tr>
<tr>
<td><strong>CORE PRINCIPLE 5 – DEVELOPING THE CAPACITY AND CAPABILITY OF MEMBERS AND OFFICERS TO BE EFFECTIVE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>5(ii)(e)</strong></td>
<td>Ensure that arrangements are in place for reviewing the performance of the executive as a whole and of individual members and agreeing an action which might, for example, aim to address any training or development needs.</td>
<td>John Dyer</td>
<td>Debbie Fox</td>
<td>31/12/11</td>
<td>3</td>
<td>Regular Leader interviews conducted quarterly to highlight achievements and opportunities to demonstrate that reviewing of the performance of individual members of the executive is continual. Demonstrate the successful transfer of the performance monitoring carried out by CSPG to O&amp;S</td>
</tr>
<tr>
<td><strong>5</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>5(iii)(a)</strong></td>
<td>Ensure that effective arrangements are in place designed to encourage individuals from all sections to the community to engage with, contribute to and participate in the work of the authority.</td>
<td>Claire Gould</td>
<td>Debbie Fox</td>
<td>31/12/11</td>
<td>3</td>
<td>Demonstrate that LAPs take account of local community views through different mechanisms. Raising the profile of LAPs and Parish Planning across the organisation, with training for Members and Parish reps from ACT. Actions and issues identified from parish plans and LAP plans will feed into the Corporate Planning process next year.</td>
</tr>
<tr>
<td>Schedule Ref No.</td>
<td>Improvement area</td>
<td>Responsible Person</td>
<td>Monitoring Person</td>
<td>Completion date</td>
<td>Score *</td>
<td>Future Action Required (updated comments in blue)</td>
</tr>
<tr>
<td>------------------</td>
<td>----------------------------------------------------------------------------------</td>
<td>--------------------</td>
<td>-------------------</td>
<td>----------------</td>
<td>---------</td>
<td>---------------------------------------------------</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Report to SMT in Sept for approval of a Parish development plan. Focus on young people in 2011/12.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CORE PRINCIPLE 6 – ENGAGING WITH LOCAL PEOPLE AND OTHER STAKEHOLDERS TO ENSURE ROBUST PUBLIC ACCOUNTABILITY</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| 6(i)(a)          | Make clear to themselves, all staff and the community, to whom they are accountable and for what. | Claire Gould       | Debbie Fox        | 31/12/11       | 4       | Improved stakeholders engagement during preparation of new Corporate Plan  
Re-examine techniques for consultation and engagement as part of new Community Engagement Toolkit.  
Action plan approved at SMT and being developed over the next 12 months. Moving away from Consultation to engagement and thus empowerment. All guidance is published on the web and officer support is provided to assist services in conduction engagement work.  
Local Area Partnership development  
Repeat - Same as ref no 6  
Further improvements e.g. using local radio to publicise scrutiny work |
<p>| 7                |                                                                                   |                    |                   |                |         |                                                   |</p>
<table>
<thead>
<tr>
<th>Schedule Ref No.</th>
<th>Improvement area</th>
<th>Responsible Person</th>
<th>Monitoring Person</th>
<th>Completion date</th>
<th>Score *</th>
<th>Future Action Required (updated comments in blue)</th>
</tr>
</thead>
<tbody>
<tr>
<td>6(i)(b)</td>
<td>Consider those institutional stakeholders to whom they are accountable and assess the effectiveness of the relationships and any changes required.</td>
<td>Claire Gould</td>
<td>Debbie Fox</td>
<td>31/12/11</td>
<td>3</td>
<td>Complete</td>
</tr>
</tbody>
</table>

Notes

*Score*

The ‘Score’ reflects a self assessment that Management carried out which was then reviewed by the Audit Panel.

A score of 1-4 was used, where a score of 4 indicated that it was considered that there was full compliance.

In 2010/11 there were no scores of 1-2 as all scored a 3-4 compared to 7 items scoring this lower standard in the previous year.
## MANAGERS’ ACTION PLAN – FROM AGS REVIEW 2011

<table>
<thead>
<tr>
<th>Action Plan No.</th>
<th>Sched Ref No.</th>
<th>Improvement area</th>
<th>Responsible person</th>
<th>Monitoring Person</th>
<th>Completion date</th>
<th>Score</th>
<th>Further Action Required (updating comments in blue)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1(i)(c)</td>
<td>Ensure that partnerships are underpinned by a common vision of their work that is understood and agreed by all partners</td>
<td>John Dyer</td>
<td>Claire Gould</td>
<td>31/12/2011</td>
<td>3</td>
<td>Working and enabling partners to deliver shared outcomes. Delete no longer relevant</td>
</tr>
<tr>
<td>2</td>
<td>1(iii)(b)</td>
<td>Ensure that timely, accurate and impartial financial advice and information is provided to assist in decision making and to ensure that the authority meets its policy and service objectives and provides effective stewardship of public money and value for money in its use.</td>
<td>Helen Smith</td>
<td>Shelagh McGregor</td>
<td>(ongoing) 31/3/2012</td>
<td>3</td>
<td>Ensure that the Financial Management System continues to be developed to provide fit for purpose information to aide decision making. Monthly budget monitoring reports for Portfolio Holders have been redesigned to make information clearer. Suppliers informed that invoices will not be paid without a purchase order – this will increase the use of orders and improve the quality and timeliness of commitments in budget monitoring.</td>
</tr>
<tr>
<td>Action Plan No.</td>
<td>Sched Ref No.</td>
<td>Improvement area</td>
<td>Responsible person</td>
<td>Monitoring Person</td>
<td>Completion date</td>
<td>Score</td>
<td>Further Action Required (updating comments in blue)</td>
</tr>
<tr>
<td>----------------</td>
<td>---------------</td>
<td>----------------------------------------------------------------------------------</td>
<td>--------------------</td>
<td>-------------------</td>
<td>----------------</td>
<td>-------</td>
<td>---------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>3</td>
<td>1(iii)(c)</td>
<td>Ensure that the authority maintains a prudential financial framework: keeps its commitments in balance with available resources; monitors income and expenditure levels to ensure that this balance is maintained and takes corrective action when necessary.</td>
<td>Helen Smith</td>
<td>Shelagh McGregor</td>
<td>July 2011</td>
<td>3</td>
<td>The development of more detailed reports setting out the performance of the Council funds. Q1 Corporate Financial Monitoring greatly expands on the detail of treasury management activities and variances. The MTFP projections have been updated as part of the Budget Strategy based on this more detailed monitoring. Training given to members of Resources &amp; Partnerships O&amp;S on 11 August 2011 to help understand new information.</td>
</tr>
<tr>
<td>Action Plan No.</td>
<td>Sched Ref No.</td>
<td>Improvement area</td>
<td>Responsible person</td>
<td>Monitoring Person</td>
<td>Completion date</td>
<td>Score</td>
<td>Further Action Required</td>
</tr>
<tr>
<td>----------------</td>
<td>---------------</td>
<td>------------------</td>
<td>--------------------</td>
<td>-------------------</td>
<td>-----------------</td>
<td>-------</td>
<td>------------------------</td>
</tr>
<tr>
<td>4</td>
<td>2(i)(c)</td>
<td>Ensure that the CFO reports directly to the Chief Executive and is a member of the leadership team with a status at least equivalent to other members. If different organisational arrangements are adopted, explain the reasons publicly, together with how these deliver the same impact.</td>
<td>Chief Executive</td>
<td></td>
<td>31/3/2012</td>
<td>3</td>
<td>Review the situation after the restructure of the Leadership Team which may have an impact on the positioning of the CFO</td>
</tr>
<tr>
<td>5</td>
<td>2(ii)(c)</td>
<td>Ensure that the authority’s governance arrangements allow the CFO direct access to the Chief Executive Officer and to other leadership team members.</td>
<td>Chief Executive</td>
<td></td>
<td>31/3/2012</td>
<td>3</td>
<td>Review the situation after the restructure of the Leadership Team which may have an impact on the positioning of the CFO</td>
</tr>
<tr>
<td>Action Plan No.</td>
<td>Sched Ref No.</td>
<td>Improvement area</td>
<td>Responsible person</td>
<td>Monitoring Person</td>
<td>Completion date</td>
<td>Score</td>
<td>Further Action Required (updating comments in blue)</td>
</tr>
<tr>
<td>----------------</td>
<td>---------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>---------------------</td>
<td>-------------------</td>
<td>----------------</td>
<td>-------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>6</td>
<td>2(ii)(e)</td>
<td>Make the CFO responsible to the authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective internal financial controls.</td>
<td>Chief Executive</td>
<td></td>
<td>31/3/2012</td>
<td>3</td>
<td>Constitution reviewed to reflect legislative changes and resources.</td>
</tr>
<tr>
<td>7</td>
<td>2(ii)(f)</td>
<td>Appoint a professionally qualified CFO whose core responsibilities include those set out in the Statement of the Role of the CFO in Local Government and ensure that they are properly understood throughout the authority.</td>
<td>Chief Executive</td>
<td></td>
<td>31/3/2012</td>
<td>3</td>
<td>Review the situation after the restructure of the Leadership Team which may have an impact on the positioning of the CFO</td>
</tr>
<tr>
<td>Action Plan No.</td>
<td>Sched Ref No.</td>
<td>Improvement area</td>
<td>Responsible person</td>
<td>Monitoring Person</td>
<td>Completion date</td>
<td>Score</td>
<td>Further Action Required (updating comments in blue)</td>
</tr>
<tr>
<td>----------------</td>
<td>---------------</td>
<td>------------------</td>
<td>--------------------</td>
<td>-------------------</td>
<td>----------------</td>
<td>-------</td>
<td>--------------------------------------------------</td>
</tr>
<tr>
<td>8</td>
<td>2(ii)(i)</td>
<td>Ensure that the appropriate management accounting systems, functions and controls are in place so that finances are kept under review on a regular basis. These systems, functions and controls should apply consistently to all activities including partnership arrangements, outsourcing or where the authority is acting in an enabling role.</td>
<td>Helen Smith/ Sue Hill</td>
<td>Shelagh McGregor</td>
<td>31/3/2012</td>
<td>3</td>
<td>Further work to be undertaken on improving how this is impacted by partnership arrangements. Currently the arrangements for the potential transfer of the Council's housing stock to South Lakes Housing are the main focus for development.</td>
</tr>
<tr>
<td>9</td>
<td>2(iii)(d)</td>
<td>Ensure that the organisation's vision, strategic plans, priorities and targets are developed through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated.</td>
<td>Claire Gould</td>
<td>Debbie Fox</td>
<td>3/12/11</td>
<td>3</td>
<td>Need to demonstrate that consultation for budget preparation and development of LAPs are embedded in the Council's practices through good practice, training and development. Develop more co-ordinated approach through Parish Plans and third sector development.</td>
</tr>
<tr>
<td>Action Plan No.</td>
<td>Sched Ref No.</td>
<td>Improvement area</td>
<td>Responsible person</td>
<td>Monitoring Person</td>
<td>Completion date</td>
<td>Score</td>
<td>Further Action Required (updating comments in blue)</td>
</tr>
<tr>
<td>----------------</td>
<td>---------------</td>
<td>------------------</td>
<td>--------------------</td>
<td>------------------</td>
<td>----------------</td>
<td>-------</td>
<td>--------------------------------------------------</td>
</tr>
<tr>
<td></td>
<td></td>
<td>CORE PRINCIPLE 3 – PROMOTING VALUES FOR THE AUTHORITY AND DEMONSTRATING THE VALUES OF GOOD GOVERNANCE THROUGH UPHOLDING HIGH STANDARDS OF CONDUCT AND BEHAVIOUR</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3(ii)(d)</td>
<td></td>
<td>Develop and maintain an effective Standards Committee.</td>
<td>Chris Woods</td>
<td>Debbie Storr</td>
<td>March 2012</td>
<td>3</td>
<td>Await the implications of the Localism Bill Still awaiting developments</td>
</tr>
<tr>
<td>10</td>
<td>3(ii)(f)</td>
<td>In pursuing the vision of a partnership, agree a set of values against which decision making and actions can be judged. Such values must be demonstrated by partners' behaviour both individually and collectively.</td>
<td>John Dyer Claire Gould</td>
<td>Debbie Fox</td>
<td>31/12/11</td>
<td>4</td>
<td>Share the partnership Protocol with relevant key partnerships and other agencies and encourage its embedding. Applied to the One South Lakeland Constitution Complete</td>
</tr>
<tr>
<td></td>
<td></td>
<td>CORE PRINCIPLE 4 – TAKING INFORMED AND TRANSPARENT DECISIONS WHICH ARE SUBJECT TO EFFECTIVE SCRUTINY AND MANAGING RISK</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>4(ii)(d)</td>
<td>Ensure the authority's governance arrangements allow the CFO to bring influence to bear on all material decisions.</td>
<td>Shelagh McGregor</td>
<td>Debbie Storr</td>
<td>31/3/2012</td>
<td>3</td>
<td>Demonstrate that arrangements are effective.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>CORE PRINCIPLE 5 – DEVELOPING THE CAPACITY AND CAPABILITY OF MEMBERS AND OFFICERS TO BE EFFECTIVE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Action Plan No.</td>
<td>Sched Ref No.</td>
<td>Improvement area</td>
<td>Responsible person</td>
<td>Monitoring Person</td>
<td>Completion date</td>
<td>Score</td>
<td>Further Action Required (updating comments in blue)</td>
</tr>
<tr>
<td>----------------</td>
<td>---------------</td>
<td>------------------</td>
<td>--------------------</td>
<td>-------------------</td>
<td>----------------</td>
<td>-------</td>
<td>-----------------------------------------------------</td>
</tr>
<tr>
<td>12</td>
<td>5(1)(a)</td>
<td>Provide induction programmes tailored to individual needs and opportunities for members and officers to update their knowledge on a regular basis.</td>
<td>Andrea Wilson</td>
<td>Shelagh McGregor</td>
<td>31/3/2012</td>
<td>3</td>
<td>Demonstrate that individual departmental inductions have been carried out. Corporate induction training programme is embedded.</td>
</tr>
<tr>
<td>13</td>
<td>5(i)(c)</td>
<td>Ensure the CFO has the skills, knowledge, experience and resources to perform effectively in both the financial and on financial areas of their role.</td>
<td>Chief Executive</td>
<td></td>
<td>31/3/2012</td>
<td>3</td>
<td>Demonstrate that the restructure of the Senior Management has resulted in the CFO having the skills, knowledge, experience and resources to perform effectively in both the financial and on financial areas of their role.</td>
</tr>
<tr>
<td>14</td>
<td>5(i)(d)</td>
<td>Review the scope of the CFO’s other management responsibilities to ensure financial matters are not compromised.</td>
<td>Shelagh McGregor</td>
<td>Debbie Storr</td>
<td>31/3/2012</td>
<td>3</td>
<td>Provide evidence that the CFO’s scope to carry out financial matters has not been compromised following the Senior Management Review.</td>
</tr>
<tr>
<td>Action Plan No.</td>
<td>Ref No.</td>
<td>Improvement area</td>
<td>Score</td>
<td>Completion date</td>
<td>Responsible person</td>
<td>Monitoring Person</td>
<td>Monitoring score</td>
</tr>
<tr>
<td>----------------</td>
<td>---------</td>
<td>------------------</td>
<td>-------</td>
<td>----------------</td>
<td>-------------------</td>
<td>-------------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>15</td>
<td>5(i)(e)</td>
<td>Provide the finance function with the resources, expertise and systems necessary to perform its role effectively.</td>
<td>3</td>
<td>31/3/2012</td>
<td>Shelagh McGregor</td>
<td>Debbie Storr</td>
<td>3</td>
</tr>
<tr>
<td>16</td>
<td>5(ii)(a)</td>
<td>Assess the skills required by members, officers and managers and make a commitment to develop those skills to enable roles to be carried out effectively.</td>
<td>3</td>
<td>31/3/2012</td>
<td>Shelagh McGregor</td>
<td>Andrea Wilson</td>
<td>3</td>
</tr>
<tr>
<td>17</td>
<td>5(ii)(d)</td>
<td>Develop skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed.</td>
<td>3</td>
<td>March 2011</td>
<td>Chris Woods</td>
<td>Shelagh McGregor</td>
<td>3</td>
</tr>
<tr>
<td>Action Plan No.</td>
<td>Sched Ref No.</td>
<td>Improvement area</td>
<td>Responsible person</td>
<td>Monitoring Person</td>
<td>Completion date</td>
<td>Score</td>
<td>Further Action Required (updating comments in blue)</td>
</tr>
<tr>
<td>----------------</td>
<td>---------------</td>
<td>------------------</td>
<td>--------------------</td>
<td>-------------------</td>
<td>----------------</td>
<td>-------</td>
<td>---------------------------------------------------</td>
</tr>
<tr>
<td>18</td>
<td>5(iii)(b)</td>
<td>Ensure that career structures are in place for members and officers to encourage participation and development.</td>
<td>Andrea Wilson/ Chris Woods</td>
<td>Shelagh McGregor</td>
<td>31/3/2012</td>
<td>3</td>
<td>Ensure that succession and workforce planning remains an objective within the Workforce Development Action Plan. Not possible for the Council to put in place a career structure for Members. However, development opportunities exist to expand on leadership skills for those Councillors who wish to progress their roles within the authority. E.g Leadership Academy, Chairing skills training.</td>
</tr>
</tbody>
</table>

**CORE PRINCIPLE 6 – ENGAGING WITH LOCAL PEOPLE AND OTHER STAKEHOLDERS TO ENSURE ROBUST PUBLIC ACCOUNTABILITY**
<table>
<thead>
<tr>
<th>Action Plan No.</th>
<th>Sched Ref No.</th>
<th>Improvement area</th>
<th>Responsible person</th>
<th>Monitoring Person</th>
<th>Completion date</th>
<th>Score</th>
<th>Further Action Required (updating comments in blue)</th>
</tr>
</thead>
<tbody>
<tr>
<td>19</td>
<td>6(ii)(a)</td>
<td>Ensure clear channels of communication are in place with all sections of the community and other stakeholders including monitoring arrangements and ensure that they operate effectively.</td>
<td>Claire Gould</td>
<td>Debbie Fox</td>
<td>31/12/11</td>
<td>4</td>
<td>Demonstrate that communication and engagement has improved and develop further with parish and third sector agencies to drive forward further communication. Community &amp; Partnership website developed with links to Have Your Say. Officer responsible for Parish liaison Complete</td>
</tr>
<tr>
<td>Action Plan No.</td>
<td>Sched Ref No.</td>
<td>Improvement area</td>
<td>Responsible person</td>
<td>Monitoring Person</td>
<td>Completion date</td>
<td>Score</td>
<td>Further Action Required (updating comments in blue)</td>
</tr>
<tr>
<td>----------------</td>
<td>---------------</td>
<td>------------------</td>
<td>--------------------</td>
<td>-------------------</td>
<td>----------------</td>
<td>-------</td>
<td>---------------------------------------------------</td>
</tr>
<tr>
<td>20</td>
<td>6(ii)(b)</td>
<td>Ensure that arrangements are in place to enable the authority to engage with all sections of the community effectively. These arrangements should recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands.</td>
<td>Claire Gould</td>
<td>Debbie Fox</td>
<td>31/06/12</td>
<td>4</td>
<td>Ensure different sectors of the community are identified through our equalities arrangements to engage effectively. EIA’s complete for each Service Plan and individual EIA’s completed for major projects e.g. Disabled Parking arrangements. Young Peoples Forum being established to engage and consult with. Also SLA’s in place across 3rd sector orgs to support this work</td>
</tr>
</tbody>
</table>
South Lakeland District Council

AUDIT COMMITTEE

Meeting Date: 8 December 2011
Report Author: Helen Smith, Strategic Finance Manager & Keith Jackson, Internal Audit Manager
Portfolio: Not applicable
Report from: Assistant Director (Resources) & S151 Officer
Wards affected: Not applicable
Key Decision: Not applicable
Forward Plan: Not applicable

REVIEW OF EFFECTIVENESS OF THE AUDIT COMMITTEE

1.0 PURPOSE OF REPORT

1.1 This report is presented to show the results of the annual review of the Committee’s effectiveness, carried out using principles established by CIPFA, the Chartered Institute of Public Finance and Accountancy. The review uses a questionnaire approach: its conclusion is that the Committee continues to operate effectively.

2.0 RECOMMENDATIONS

It is recommended that Audit Committee:-

(1) consider and approve the review and its conclusion that the Committee is operating effectively in all material respects.

3.0 BACKGROUND

3.1 The Committee’s work programme requires it to review its own effectiveness on an annual basis. Unlike the review of internal audit, this is not a statutory requirement but an element of best practice. The review will provide assurance for the Annual Governance Statement.

4.0 RESEARCH AND CONSULTATION

4.1 The Committee’s latest annual report, prepared in April 2011, is a useful starting point for the review but it tends to be descriptive rather than analytical and a different approach is required to test effectiveness. In this respect CIPFA has published its Practical Guidance for Local Authority Audit Committees, which includes a short self-assessment checklist for councils to measure the effectiveness of their audit committees. The publication also refers to a Housing
Corporation good practice guide on improving the effectiveness of audit committees, which again has a checklist.

4.2 In 2008, officers produced a questionnaire that combined relevant questions from the two published checklists with some further issues appropriate to this Council. Those questions remain relevant so the same questionnaire has been used to review the Committee’s recent performance against its criteria. The details have been critically appraised by the Internal Audit Manager. Although the checklist and review have been developed and carried out in-house, it is believed that they are robust enough to withstand examination, particularly as they have had the benefit of independent appraisal via Internal Audit.

4.3 The resulting completed questionnaire is attached as Appendix 1. The review concludes that the Committee can demonstrate that it has been established in accordance with best practice and that it has operated effectively during the last year. The Committee should be alert to any changes in its membership and the expertise of its Members so that it can arrange suitable training. Secondly, the Committee is expected to provide challenge to the Cabinet and across the Council: some evidence of this is available for previous years but Members should consider how this could be ensured in future.

4.4 CIPFA carried out a survey on Audit Committees in Local Government during 2011 and their results, published in August 2011, are attached at Appendix 2. This suggests most Audit Committees are working effectively in most key areas. One area highlighted is the Government plan to change the current external audit arrangements, possibly through a new role for Audit Committees. Although the public consultation period closed some time ago further proposals have not yet been published.

5.0 ALTERNATIVE OPTIONS

5.1 The Committee can challenge and alter the detail or the conclusion of the review, however it is believed that the assessment is accurate and can be evidenced.

6.0 IMPLICATIONS

6.1 Financial and Resources

6.1.1 No financial implications.

6.2 Human Resources

6.2.1 No staffing implications.

6.3 Legal

6.3.1 No legal implications.

6.4 Social, Economic and Environmental Impact

6.4.1 Has a sustainability impact assessment been carried out? No

6.4.2 This proposal is considered to have a neutral impact on sustainability.

7.0 RISK ASSESSMENT

<table>
<thead>
<tr>
<th>Risk</th>
<th>Consequence</th>
<th>Controls required</th>
</tr>
</thead>
<tbody>
<tr>
<td>The review is not carried</td>
<td>Failure to recognise any</td>
<td>A thorough review and</td>
</tr>
</tbody>
</table>
out to appropriate standards.

weaknesses in the Committee’s performance and potential adverse effect on the Use of Resources assessment.

assessment based on CIPFA guidance.

8.0 EQUALITY AND DIVERSITY
8.1 An equality and diversity impact assessment has not been carried out.

9.0 LINKS TO THE CORPORATE PLAN AND PERFORMANCE INDICATORS
9.1 Not Applicable.

10.0 CONCLUSION AND EXPECTED OUTCOMES
10.1 The review shows the Committee continues to operate effectively.

APPENDICES ATTACHED TO THIS REPORT

<table>
<thead>
<tr>
<th>Appendix No.</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Audit Committee Effectiveness Checklist 2011/12</td>
</tr>
<tr>
<td>2</td>
<td>CIPFA Survey on Audit Committees in Local Government 2011</td>
</tr>
</tbody>
</table>

CONTACT OFFICERS
Helen Smith, Strategic Finance Manager, h.smith@southlakeland.gov.uk, 01539 717217

BACKGROUND DOCUMENTS AVAILABLE
CIPFA; Audit Committees – Practical Guidance for Local Authorities
Housing Corporation: Improving the Effectiveness of Audit Committees – A Good Practice Guide

TRACKING

<table>
<thead>
<tr>
<th>Assistant Director</th>
<th>Portfolio Holder</th>
<th>Solicitor to the Council</th>
<th>CMT</th>
<th>Scrutiny Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>22/11/11</td>
<td>N/A</td>
<td>22/11/11</td>
<td>22/11/11</td>
<td>N/A</td>
</tr>
<tr>
<td>Executive (Cabinet) Committee</td>
<td>Council</td>
<td>Section 151 Officer</td>
<td>Monitoring Officer</td>
<td></td>
</tr>
<tr>
<td>N/A</td>
<td></td>
<td>22/11/11</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human Resource Services Manager</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N/A</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ISSUE</td>
<td>YES</td>
<td>NO</td>
<td>N/A</td>
<td>Comment</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td><strong>A Terms of Reference</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Have the Committee’s terms of reference been approved by full Council?</td>
<td>✓</td>
<td></td>
<td></td>
<td>Reviewed annually</td>
</tr>
<tr>
<td>2 Do the terms of reference follow the CIPFA model?</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Do they adequately and realistically define the Audit Committee’s role?</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Can the Committee access other committees and call officers to account as necessary?</td>
<td>✓</td>
<td></td>
<td></td>
<td>Also Committee reports to Council annually</td>
</tr>
<tr>
<td>5 Does it use that power to challenge the Executive/Committees?</td>
<td>✓</td>
<td></td>
<td></td>
<td>The Committee has commented critically to the Overview and Scrutiny Committees on their work programmes</td>
</tr>
<tr>
<td><strong>B Membership</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 Has the membership of the Committee been formally agreed and a quorum set?</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 Is the Chair free of Cabinet or Scrutiny functions?</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8 Are Members sufficiently independent of the other committees of the Council?</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9 Does the Committee membership have the necessary skills and experience to do its job?</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 Is the Committee satisfied that new Members understand their role and the roles of internal and external audit?</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>C Meetings</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11 Does the Committee meet regularly to a planned timetable and work schedule?</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12 Are meetings free and open without political influences being displayed and are agenda papers available to members of the public?</td>
<td>✓</td>
<td></td>
<td></td>
<td>The Committee has decided to hold evening meetings which should encourage attendance by the public.</td>
</tr>
<tr>
<td>13 Are decisions reached promptly?</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14 Are agenda papers circulated in advance of meetings to allow adequate preparation by Members?</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15 Does the Committee have the benefit of appropriate officers at its meetings?</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16 Does the Council’s Section 151 Officer or deputy attend all meetings?</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>17 Are separate meetings held with the external auditor and the internal auditor?</td>
<td>✓</td>
<td></td>
<td></td>
<td>Meetings held Jan 2010, Feb 2011 &amp; planned Dec 2011</td>
</tr>
<tr>
<td>ISSUE</td>
<td>YES</td>
<td>NO</td>
<td>N/A</td>
<td>Comment</td>
</tr>
<tr>
<td>-------</td>
<td>-----</td>
<td>----</td>
<td>-----</td>
<td>---------</td>
</tr>
<tr>
<td><strong>D</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Is induction training provided to Members?</td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Is more advanced training available as required?</td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>E</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>External Audit</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>Does the Committee input into the external audit programme?</td>
<td>√</td>
<td></td>
<td>The Committee's views are expressed to the District Auditor when considering the proposed programme</td>
</tr>
<tr>
<td>21</td>
<td>Are reports on the work of external audit and other inspection agencies presented to the Committee?</td>
<td>√</td>
<td></td>
<td>As appropriate</td>
</tr>
<tr>
<td>22</td>
<td>Does the Committee ensure that officers are acting on and monitoring action taken to implement recommendations?</td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>Does the Committee know what aspects of the Council's activities the external auditors consider to be of high risk?</td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>Is the Committee satisfied that external audit will be addressing these issues?</td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>Has the Audit Committee satisfied itself that the work of internal audit and external audit is properly co-ordinated?</td>
<td>√</td>
<td></td>
<td>The Committee has supported officers in seeking arrangements for internal audit to carry out extra grant claim work on behalf of external audit</td>
</tr>
<tr>
<td>26</td>
<td>Is the Committee aware of any significant problems in completing the external audit that resulted in over-runs or revisions to the audit plan due to deficiencies in internal control/accounting records?</td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>27</td>
<td>Is the Committee satisfied that external audit provides value for money?</td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>F</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal Audit</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28</td>
<td>Do formal terms of reference exist defining internal audit's responsibilities, objectives and reporting lines?</td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>29</td>
<td>Is the Committee satisfied that internal audit reports to the appropriate member of the senior management team and that it has the authority it needs?</td>
<td>√</td>
<td></td>
<td>Internal audit is outsourced to Furness Audit Ltd, which gives it a further degree of independence</td>
</tr>
<tr>
<td>30</td>
<td>Does the Committee approve the strategic internal audit approach and the annual plan, and ensure that they are based on a proper assessment of risks?</td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ISSUE</td>
<td>YES</td>
<td>NO</td>
<td>N/A</td>
<td>Comment</td>
</tr>
<tr>
<td>-------</td>
<td>-----</td>
<td>----</td>
<td>-----</td>
<td>---------</td>
</tr>
<tr>
<td>31</td>
<td></td>
<td></td>
<td></td>
<td>The Committee receives all individual audit reports</td>
</tr>
</tbody>
</table>
| Does the Committee regularly review the work of internal audit, including:  
  • individual audit reports with detailed prioritised recommendations  
  • follow up reports confirming that previous audit recommendations have been acted upon  
  • seeking explanations from officers for delays in implementing recommendations  
  • periodic progress reports summarising audit activity, major audit issues and comparisons to the annual plan? | √   |    |       |
| 32    |     |    |     | PIs also monitor officers’ responses to draft audit reports |
| Does the Committee use performance indicators to measure the performance of internal audit? | √   |    |       |
| 33    |     |    |     |       |
| Does the Committee ensure that officers are acting on the implementation of recommendations? | √   |    |       |
| 34    |     |    |     |       |
| • internal audit received all the co-operation they needed  
  • there was no attempt to restrict the scope of internal audit work  
  • the audit plan was not modified due to deficiencies in internal control or accounting records  
  • there were no significant disagreements with management  
  • internal audit do not have any concerns about management’s commitment to a strong control environment  
  • there is a good working relationship between internal audit and management  
  • internal audit are not being subjected to undue pressure? | √   |    |       |
| 35    |     |    |     |       |
| Is the Committee satisfied that:  
  • internal audit staff have sufficient technical knowledge, experience and skills to perform their duties to an appropriate standard  
  • the work of internal audit is properly planned, completed, supervised and reviewed?  
  • there are adequate quality assurance procedures in place  
  • internal audit reports are issued on a timely basis? | √   |    |       |
| 36    |     |    |     |       |
| Is the Internal Audit Manager’s annual report presented to the Committee? | √   |    |       |
### ASSESSMENT CHECKLIST
#### REVIEW OF THE EFFECTIVENESS OF THE AUDIT COMMITTEE

**NOVEMBER 2011**

<table>
<thead>
<tr>
<th>ISSUE</th>
<th>YES</th>
<th>NO</th>
<th>N/A</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>G Accounts</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Does the Committee provide assurance to the closure of accounts process by: • considering the impact of changing accounting requirements • reviewing and approving the accounting policies annually before preparation of the Statement • assessing the adequacy of the arrangements for the production of the Statement • considering and challenging the draft Statement before its approval?</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>37</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Does the Committee receive the comments of the external auditor on his examination of the Council's Accounts?</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>38</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Does the Committee ensure that any deficiencies highlighted by the external auditor are followed up and that robust corrective procedures are put in place?</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>39</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>H Regulatory Framework</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Does the Committee take a role in overseeing: • risk management and business continuity strategies • performance management systems • anti-fraud arrangements • whistle-blowing strategies • constitutional revisions?</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>40</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Is the Committee satisfied that sufficient assurance reporting is in place to encompass all the Council's governance responsibilities?</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>41</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Does the Committee take an active role in the review of internal control/governance arrangements?</td>
<td>✓</td>
<td></td>
<td></td>
<td>Through a panel of its Members</td>
</tr>
<tr>
<td>42</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Does it ensure that an action plan is drawn up to correct any deficiencies arising from that review and monitor progress?</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>43</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Does the Committee fulfill the statutory requirement to approve the statement resulting from that review?</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>44</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
CIPFA Better Governance Forum

CIPFA Survey on Audit Committees in Local Government 2011

A commentary from the Better Governance Forum

August 2011
Introduction

In March 2011 the CIPFA Better Governance Forum and CIPFA’s Audit Panel commissioned an online survey of heads of internal audit in local government to obtain their views on audit committees. 161 replies were received, representing a 44% response rate.

In the survey 97% of the heads of internal audit said they attended meetings of their audit committee most of the time, the highest attendance of any group of officers. This means that they are well placed to have a view on the workings of their committee.

Details of the responses to individual questions are contained in the technical appendix. This briefing aims to provide some context for the results and interpretation.

The Better Governance Forum provides a range of training and briefing services to internal auditors and audit committee members so this helps us to provide an additional commentary on the results.

What do the results tell us?

This commentary will pull out a few key threads that seem to be most relevant for the development of audit committees.

These key areas are:

- The make up of the audit committee.
- The focus of audit committee agendas
- Effectiveness
- Barriers to improvement

The make up of the audit committee

The make up of the Audit Committee is strongly influenced by the committee structure adopted by local government in different parts of the UK. Key aspects emerging from the survey were whether audit committee members were also part of scrutiny and executive committees; whether co-opted independent members are invited to sit on the committee and who chaired the committee.

Councillors on the audit committee

33% of councils have a representative of the executive on their committee. There are some territorial differences here, particularly reflecting the Scottish governance arrangements where members of the administration are represented on the committee. The table below shows the territorial differences and for England, a breakdown by council type.
Table 1: Percentage of committees containing councillors who are also members of the executive or scrutiny and other councillors

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Northern Ireland</th>
<th>Scotland</th>
<th>Wales</th>
<th>London Borough</th>
<th>Met</th>
<th>County</th>
<th>Unitary</th>
<th>District</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive, Cabinet or Administration</td>
<td>34%</td>
<td>50%</td>
<td>100%</td>
<td>0%</td>
<td>33%</td>
<td>42%</td>
<td>9%</td>
<td>16%</td>
<td>33%</td>
</tr>
<tr>
<td>Scrutiny</td>
<td>87%</td>
<td>75%</td>
<td>100%</td>
<td>80%</td>
<td>88%</td>
<td>86%</td>
<td>83%</td>
<td>88%</td>
<td>87%</td>
</tr>
</tbody>
</table>

Whilst the inclusion of scrutiny councillors on the audit committee is widespread (which would be expected as most backbench members in England are also members of Scrutiny committees), there is much greater variation on the inclusion of members of the executive. Cross membership is not recommended to be the norm by CIPFA in order to facilitate the challenge role of the committee. Where the committee had a member who was also an executive member, it was usually only one member (43% of committees containing an executive member). Scottish authorities were most likely to have multiple executive members (82%).

Chairing the audit committee

The chair of the audit committee fulfils a very important role, ensuring an independent focus on audit, risk and governance issues. The most common arrangement (44%) is for the chair not to be also a member of the executive or scrutiny committees. This result was similar across all territories and councils. 9% of councils did have a chair who was also a member of the executive / cabinet however. Although this is a small percentage, the CIPFA guidance on audit committees in local government explicitly states that the committee should not be chaired by a member of the executive. In 57% the chair is drawn from the ruling political party. The table below shows the break down by territory and council type.

Table 2: Percentage of committees chaired by a member of the ruling political party

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Northern Ireland</th>
<th>Scotland</th>
<th>Wales</th>
<th>London Borough</th>
<th>Met</th>
<th>County</th>
<th>Unitary</th>
<th>District</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ruling party chair</td>
<td>57%</td>
<td>60%</td>
<td>13%</td>
<td>40%</td>
<td>71%</td>
<td>53%</td>
<td>58%</td>
<td>56%</td>
<td>66%</td>
</tr>
</tbody>
</table>

Whatever the background or responsibilities of the chair, this individual may still prove to be an effective and independent-minded chair. There may be an issue however if the perception amongst the public or other stakeholders is that their independence is compromised by other responsibilities or affiliations.

Independent Members

The inclusion of non-elected co-opted members on the audit committee is a key part of the government’s proposals for English councils to ensure that the audit committee is independent, and seen to be independent, when considering the appointment of the external auditor. In the survey 31% of the respondents said they had at least one co-opted independent member. Of English authorities that percentage was 30%, but that masks some significant variations between authority types. The table below shows the breakdown by council type for English Authorities and territories.
Table 3: Percentage of committees with co-opted independent members

<table>
<thead>
<tr>
<th>Number of co-opted members</th>
<th>Total %</th>
<th>Northern Ireland %</th>
<th>Scotland %</th>
<th>Wales %</th>
<th>London Borough %</th>
<th>Met %</th>
<th>County %</th>
<th>Unitary %</th>
<th>District %</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>69</td>
<td>20</td>
<td>80</td>
<td>80</td>
<td>41</td>
<td>60</td>
<td>92</td>
<td>78</td>
<td>72</td>
</tr>
<tr>
<td>1</td>
<td>16</td>
<td>80</td>
<td>7</td>
<td>20</td>
<td>41</td>
<td>13</td>
<td>0</td>
<td>7</td>
<td>13</td>
</tr>
<tr>
<td>2</td>
<td>11</td>
<td>0</td>
<td>7</td>
<td>0</td>
<td>12</td>
<td>20</td>
<td>0</td>
<td>15</td>
<td>11</td>
</tr>
<tr>
<td>3-5</td>
<td>4</td>
<td>0</td>
<td>7</td>
<td>0</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Number responding</td>
<td>160</td>
<td>5</td>
<td>15</td>
<td>5</td>
<td>17</td>
<td>15</td>
<td>12</td>
<td>27</td>
<td>64</td>
</tr>
</tbody>
</table>

Whilst a majority of the London Boroughs responding to the survey had appointed a co-opted member, along with a significant percentage of the Metropolitan Boroughs, only one of the Counties had done so.

If there is a requirement to appoint independent members onto the audit committee in England then for the majority of councils this will be something they haven’t done before. If a majority of independent members is required then this will be new for all authorities.

Welsh authorities will be required to appoint an independent co-opted member from 2012/13 so this will be new for 80% of Welsh respondents.

The focus of audit committee agendas

Main areas of coverage

Not surprisingly there were a number of agenda items that most audit committees were reviewing. In addition to reports from the external auditors the committee would review:

- Internal audit plans (98%)
- Internal audit annual report (99%),
- the Annual Governance Statement (99% excluding Scottish authorities),
- strategic risk registers (77%) and
- The financial statements (73%).

Although the percentage reviewing strategic risk registers is high, it is perhaps surprising that it isn’t higher, especially when the committee is reviewing the AGS. Amongst territories and council types District Council audit committees were most likely to review strategic risk registers (88%), as opposed to English Unitary councils (67%) and Scottish Unitaries (47%). Reviewing specific areas of risk was undertaken by a lower percentage than the overall risk register, 53% overall. An important role in the governance of risk is ensuring that there is adequate challenge over the significant risks to the organisation to ensure there is robust analysis and effective management of risk in place. Whilst the responsibility for the management of risk does not lie with the audit committee, effective challenge and seeking assurance on risk forms part of their governance role.

In relation to counter-fraud work the primary focus of audit committee agendas was on reviewing reports on fraud investigations (on the agendas of 67% of councils). Other areas of proactive counter fraud work were considered by fewer committees.
Table 4: Percentage of committees reviewing fraud agenda items

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Northern Ireland</th>
<th>Scotland</th>
<th>Wales</th>
<th>London Borough</th>
<th>Met</th>
<th>County</th>
<th>Unitary</th>
<th>District</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fraud investigation reports</td>
<td>67 %</td>
<td>60 %</td>
<td>68 %</td>
<td>40 %</td>
<td>94 %</td>
<td>73 %</td>
<td>50 %</td>
<td>79 %</td>
<td>59 %</td>
</tr>
<tr>
<td>Fraud risk assessment</td>
<td>41 %</td>
<td>20 %</td>
<td>27 %</td>
<td>20 %</td>
<td>47 %</td>
<td>47 %</td>
<td>58 %</td>
<td>44 %</td>
<td>40 %</td>
</tr>
<tr>
<td>Fraud work plan</td>
<td>47 %</td>
<td>0 %</td>
<td>33 %</td>
<td>20 %</td>
<td>71 %</td>
<td>60 %</td>
<td>50 %</td>
<td>60 %</td>
<td>40 %</td>
</tr>
<tr>
<td>Data matching results</td>
<td>40 %</td>
<td>20 %</td>
<td>47 %</td>
<td>40 %</td>
<td>65 %</td>
<td>53 %</td>
<td>42 %</td>
<td>48 %</td>
<td>28 %</td>
</tr>
<tr>
<td>Number of respondents</td>
<td>161</td>
<td>5 %</td>
<td>15 %</td>
<td>5 %</td>
<td>17 %</td>
<td>15 %</td>
<td>12 %</td>
<td>27 %</td>
<td>65 %</td>
</tr>
</tbody>
</table>

There are opportunities to develop the audit committee’s understanding of the fraud risks to the organisation and to have oversight of the range of counter-fraud work being undertaken. A useful starting point would be to review the checklist for those charged with governance.

Agenda items receiving more limited coverage

The areas receiving attention from the fewest audit committees related to value for money, partnerships and pensions.

Table 5: percentage of committees including value for money, partnerships and pension governance on their agendas

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Northern Ireland</th>
<th>Scotland</th>
<th>Wales</th>
<th>London Borough</th>
<th>Met</th>
<th>County</th>
<th>Unitary</th>
<th>District</th>
</tr>
</thead>
<tbody>
<tr>
<td>VfM / use of resources reviews</td>
<td>48 %</td>
<td>40 %</td>
<td>67 %</td>
<td>0 %</td>
<td>35 %</td>
<td>47 %</td>
<td>25 %</td>
<td>59 %</td>
<td>51 %</td>
</tr>
<tr>
<td>Assurance on partnerships</td>
<td>19 %</td>
<td>20 %</td>
<td>13 %</td>
<td>0 %</td>
<td>24 %</td>
<td>27 %</td>
<td>33 %</td>
<td>15 %</td>
<td>19 %</td>
</tr>
<tr>
<td>Assurance on pension governance</td>
<td>17 %</td>
<td>0 %</td>
<td>13 %</td>
<td>0 %</td>
<td>59 %</td>
<td>13 %</td>
<td>33 %</td>
<td>15 %</td>
<td>9 %</td>
</tr>
</tbody>
</table>

Audit Committees may regard pensions as outside their responsibility, either because theirs is not the administering body for the scheme or because there is a formal pensions committee in place. When reviewing the Annual Governance Statement the audit committee should understand the robustness of the governance of the pension scheme that they belong to since pension contributions are a significant financial commitment for all councils.

Given the current financial climate it is surprising that less than half of audit committees considered value for money issues. One possible explanation is that other committees in the council were scrutinising service costs and performance and the audit committee would not wish to duplicate this role. In practice though, the role of the audit committee in relation to value for money is rather different, as it is concerned with assurance, particularly
around the arrangements to secure value for money, rather than the scrutiny of actual performance. In this area Scottish councils did have a greater focus than the other territories, with 67% examining value for money.

Assurance over the council’s partnerships was only examined by 19% of councils. Partnership governance and assurance has been a challenging area for governance practitioners in the last few years and this result seems to indicate that further development is still required.

**Effectiveness**

Assessing the effectiveness of the audit committee is not an easy task. The survey asked for opinions of the Head of Internal Audit on this subject. In some areas in regard to accountability and engagement the response was non-committal with around one third responding as ‘neither effective nor ineffective’, rising to one half in regard to partnership issues. This could reflect a lack of evidence of impact of the committee in these areas or reflect the early stage of the committee’s involvement.

Table 6: Effectiveness of the audit committee, percentage of respondents judging their organisation’s committee

<table>
<thead>
<tr>
<th>Issue</th>
<th>Very effective</th>
<th>Quite effective</th>
<th>Neither effective / ineffective</th>
<th>Quite or very ineffective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supporting the internal / external audit process</td>
<td>55</td>
<td>37</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>Following up key actions</td>
<td>30</td>
<td>50</td>
<td>16</td>
<td>4</td>
</tr>
<tr>
<td>Challenging governance risk &amp; control</td>
<td>24</td>
<td>60</td>
<td>13</td>
<td>4</td>
</tr>
<tr>
<td>Providing accountability to Full Council</td>
<td>22</td>
<td>48</td>
<td>26</td>
<td>4</td>
</tr>
<tr>
<td>Engagement with the Council</td>
<td>17</td>
<td>41</td>
<td>34</td>
<td>7</td>
</tr>
<tr>
<td>Providing accountability to the public</td>
<td>15</td>
<td>47</td>
<td>34</td>
<td>5</td>
</tr>
<tr>
<td>Promoting good governance</td>
<td>11</td>
<td>52</td>
<td>30</td>
<td>6</td>
</tr>
<tr>
<td>Assessing key strategic risks</td>
<td>7</td>
<td>55</td>
<td>30</td>
<td>7</td>
</tr>
<tr>
<td>Assuring partnership arrangements</td>
<td>3</td>
<td>23</td>
<td>47</td>
<td>28</td>
</tr>
<tr>
<td>Engagement with partners</td>
<td>3</td>
<td>21</td>
<td>49</td>
<td>28</td>
</tr>
<tr>
<td>Average all factors</td>
<td>19</td>
<td>43</td>
<td>29</td>
<td>10</td>
</tr>
</tbody>
</table>

Only in the area of partnerships were heads of internal audit very critical of their audit committee’s effectiveness.

When looking at territories and council types there were no significant differences from the trends. Whilst an audit committee may be effective in some areas but not in others, taking the results as a whole the overall conclusion would be that 19% of councils have a very effective audit committee and 43% of councils have a quite effective one. Only 10% judge their committee to be ineffective. The differences across territories and council types are
small, although it should be noted that none of the respondents from Northern Ireland judged their council’s audit committee to be ineffective on any of the issues, which is a very positive result.

The survey reflected the views of heads of internal audit rather than the audit committees themselves and it would be interesting to compare the perceptions.

### Barriers to improvement

Whilst 16% of respondents felt there were no barriers to their audit committee improving, the majority identified a number of barriers. Those areas identified as a barrier are shown in the table below.

#### Table 7: Barriers to improvement identified

<table>
<thead>
<tr>
<th>Barrier</th>
<th>Overall % identifying this as a barrier for their council</th>
<th>Territory or council type where the barrier was identified by more than 30% of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited knowledge / experience of members</td>
<td>50%</td>
<td>All except English Mets</td>
</tr>
<tr>
<td>Turnover of members</td>
<td>44%</td>
<td>Northern Ireland, English Mets, English Unitaries and English Districts</td>
</tr>
<tr>
<td>Other members do not consider it a priority</td>
<td>30%</td>
<td>London Boroughs, English Counties, English Unitaries</td>
</tr>
<tr>
<td>Members lack interest in audit</td>
<td>28%</td>
<td>London Boroughs, English Mets, English Districts</td>
</tr>
<tr>
<td>Intrusion of political interests</td>
<td>27%</td>
<td>Northern Ireland, English Unitaries</td>
</tr>
<tr>
<td>Senior Management do not consider it a priority</td>
<td>26%</td>
<td>London Boroughs, English Counties</td>
</tr>
<tr>
<td>Audit committee is not a statutory requirement</td>
<td>26%</td>
<td>London Boroughs, English Unitaries</td>
</tr>
<tr>
<td>Ineffective chair</td>
<td>23%</td>
<td>London Boroughs, English Unitaries</td>
</tr>
<tr>
<td>Lack of awareness of good practice</td>
<td>21%</td>
<td>Welsh Unitaries, London Boroughs</td>
</tr>
<tr>
<td>Lack of resources for training</td>
<td>20%</td>
<td>Welsh Unitaries</td>
</tr>
<tr>
<td>Relationship of councillors with officers</td>
<td>11%</td>
<td>None</td>
</tr>
</tbody>
</table>

Some barriers seemed to be of greater importance in some territories/ council types than others. The table shows where at least 30% of respondents identified a barrier.

Some of the barriers are beyond the control or influence of heads of internal audit, but the areas of training and sharing of good practice can be supported by internal audit. The survey also asked questions about training and development provided to audit committee members.

The survey asked ‘Has training been provided to meet identified needs?’ 53% of respondents answered ‘yes’ and 41% answered ‘in part’ so it does seem as if some training has been provided to almost every audit committee. Where there is a regular turnover of members then the need for training remains high. In addition changes and development in the role of the audit committee also creates new training needs.
Some improvements to the identification of knowledge areas and training needs could be made. The survey showed that only half of councils had fully identified the training needs and knowledge areas required from audit committee members.

Table 8: Identification of knowledge areas and training needs for audit committee members

<table>
<thead>
<tr>
<th>Have key knowledge areas been identified?</th>
<th>Total</th>
<th>Northern Ireland</th>
<th>Scotland</th>
<th>Wales</th>
<th>London Borough</th>
<th>Met</th>
<th>County</th>
<th>Unitary</th>
<th>District</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>51</td>
<td>20</td>
<td>47</td>
<td>60</td>
<td>41</td>
<td>47</td>
<td>75</td>
<td>54</td>
<td>51</td>
</tr>
<tr>
<td>In part</td>
<td>37</td>
<td>60</td>
<td>33</td>
<td>40</td>
<td>47</td>
<td>46</td>
<td>8</td>
<td>31</td>
<td>38</td>
</tr>
<tr>
<td>No</td>
<td>12</td>
<td>20</td>
<td>20</td>
<td>0</td>
<td>12</td>
<td>7</td>
<td>17</td>
<td>15</td>
<td>11</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Have training needs been identified?</th>
<th>Total</th>
<th>Northern Ireland</th>
<th>Scotland</th>
<th>Wales</th>
<th>London Borough</th>
<th>Met</th>
<th>County</th>
<th>Unitary</th>
<th>District</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>47</td>
<td>60</td>
<td>33</td>
<td>40</td>
<td>35</td>
<td>60</td>
<td>50</td>
<td>56</td>
<td>44</td>
</tr>
<tr>
<td>In part</td>
<td>42</td>
<td>40</td>
<td>47</td>
<td>40</td>
<td>53</td>
<td>33</td>
<td>50</td>
<td>30</td>
<td>45</td>
</tr>
<tr>
<td>No</td>
<td>11</td>
<td>0</td>
<td>20</td>
<td>20</td>
<td>12</td>
<td>7</td>
<td>0</td>
<td>15</td>
<td>11</td>
</tr>
</tbody>
</table>

Senior management not considering the audit committee a priority was identified as a barrier by 26% of respondents. This could also be indicated by the lack of attendance of the Chief Executive or Senior Directors at the committee. Whereas 86% of respondents said the Director of Finance attended most meetings, only 13% of Chief Executives and Senior Directors attended most meetings. In fact the number responding that senior management rarely or never attended the committee was high.

Table 9: Attendance at the audit committee by Chief Executives and senior directors

<table>
<thead>
<tr>
<th>Chief Executives</th>
<th>Total</th>
<th>Northern Ireland</th>
<th>Scotland</th>
<th>Wales</th>
<th>London Borough</th>
<th>Met</th>
<th>County</th>
<th>Unitary</th>
<th>District</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most meetings</td>
<td>13</td>
<td>80</td>
<td>27</td>
<td>0</td>
<td>6</td>
<td>20</td>
<td>0</td>
<td>0</td>
<td>14</td>
</tr>
<tr>
<td>Some meetings</td>
<td>22</td>
<td>20</td>
<td>46</td>
<td>0</td>
<td>6</td>
<td>27</td>
<td>17</td>
<td>15</td>
<td>23</td>
</tr>
<tr>
<td>Rarely</td>
<td>29</td>
<td>0</td>
<td>20</td>
<td>40</td>
<td>13</td>
<td>20</td>
<td>25</td>
<td>42</td>
<td>34</td>
</tr>
<tr>
<td>Never</td>
<td>36</td>
<td>0</td>
<td>7</td>
<td>60</td>
<td>75</td>
<td>33</td>
<td>58</td>
<td>42</td>
<td>28</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Senior Directors</th>
<th>Total</th>
<th>Northern Ireland</th>
<th>Scotland</th>
<th>Wales</th>
<th>London Borough</th>
<th>Met</th>
<th>County</th>
<th>Unitary</th>
<th>District</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most meetings</td>
<td>13</td>
<td>60</td>
<td>27</td>
<td>0</td>
<td>13</td>
<td>7</td>
<td>0</td>
<td>7</td>
<td>12</td>
</tr>
<tr>
<td>Some meetings</td>
<td>32</td>
<td>0</td>
<td>47</td>
<td>20</td>
<td>31</td>
<td>27</td>
<td>42</td>
<td>33</td>
<td>30</td>
</tr>
<tr>
<td>Rarely</td>
<td>37</td>
<td>20</td>
<td>27</td>
<td>80</td>
<td>25</td>
<td>40</td>
<td>50</td>
<td>41</td>
<td>35</td>
</tr>
<tr>
<td>Never</td>
<td>19</td>
<td>20</td>
<td>0</td>
<td>0</td>
<td>31</td>
<td>27</td>
<td>8</td>
<td>19</td>
<td>23</td>
</tr>
</tbody>
</table>

The absence of the Chief Executive from all meetings of the audit committee is surprising when the committee plays such a key role in reviewing the Annual Governance Statement that the Chief Executive has to sign each year. As can be seen from the table, London Boroughs, Welsh unitary and English County Chief Executives seem to be least likely to attend an audit committee meeting. There does seem to be a need therefore in many councils for the profile, significance and impact of the audit committee to be improved or better understood within the council itself.
Where now for audit committees?

We undertook the survey before the Government issued its consultation on the future of local public audit in England. This contained proposals for making the audit committee a statutory requirement as well as significant change to the make up of audit committees and new responsibilities for the appointment of external auditors. At present the consultation period has closed and we are awaiting the response of the government. We do not have a clear way forward at present.

What we can do is highlight areas where the survey data shows there to be significant differences between the current arrangements and the proposals contained in the consultation document. Of course the final details in the Government's Bill may not reflect their published proposals. Understanding the differences may be helpful for audit committee members and those supporting audit committees however.

New legislation affecting Welsh audit committees also received royal assent in May 2011. From 2012/13 all Welsh councils will need to have an audit committee and to appoint at least one independent member to it.

The key areas for difference between current and potential future requirements would appear to be:

- Demonstrating the independence of the chair of the committee.
- The inclusion and role of independent members.
- Demonstrating effectiveness, particularly in providing accountability to the public.

At the time of the survey few heads of internal audit were anticipating that their organisation would be making significant changes to their committee.

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Northern Ireland</th>
<th>Scotland</th>
<th>Wales</th>
<th>England</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>No change planned</td>
<td>78</td>
<td>80</td>
<td>92</td>
<td>100</td>
<td>75</td>
</tr>
</tbody>
</table>

Whilst some changes may depend on legislation, other developments such as assurances on new partnerships are within the control of the council.

Another potential area of impact on audit committees in England could result from the Localism Bill currently going through Parliament. This will allow English councils to dispense with the Standards Committees, although the council will retain a duty to promote and maintain high standards of conduct amongst its members and co-opted members. Four English councils did indicate that the option of passing standards committee responsibilities to the audit committee was being considered. Once the Localism Bill is passed, the impact, if any, on the audit committee will be better known.

Conclusions

The survey captures a snapshot of audit committees. Membership of the committees, their responsibilities and the members’ knowledge and experience are all dynamic factors. Even so the survey does highlight a number of positive developments within a relatively short period of time. 77% of the committees sampled had been in their current structure for 5 years or less and CIPFA’s guidance on audit committees in local government has only been in place since 2005.

Results to welcome from the survey are the high level of support that audit committees are providing to the audit process, both internal and external. The committee is also facilitating member involvement in and understanding of the governance framework, internal control
and risk management. CIPFA’s recommendations on the structure and responsibilities of the audit committee appear to be in place for the majority of council audit committees.

Areas for further development are around improving the effectiveness and impact of the audit committee. In particular the committee’s responsibilities in a wider range of areas than the audit process need attention. Improvements in support to audit committee members through the identification of key knowledge areas, training needs and sharing of good practice are also areas of on-going development.

For councils in England and Wales new legislation will affect audit committees. Whilst the full picture of these changes is not yet known heads of internal audit can start to highlight development areas for their committee that will place them in a better position to respond to new requirements.
Technical Appendix

CIPFA Audit Committees in UK Local Government Survey 2011

1. Introduction

1.1 The CIPFA Better Governance Forum (BGF) and the CIPFA Audit Panel commissioned CIPFA Research to undertake an online survey amongst Heads of Audit in UK Local Government. The purpose of the survey was to look at the functioning of local authority Audit Committees, and their present and future role, make-up and effectiveness.

1.2 Fieldwork took place between 8th March and 1st April 2011, with two reminders each week. A total of 161 replies were received (44%) which was an excellent response rate, considering the impact of staff reductions in local government at present.

2. Type of Audit Committee

2.1 Audit heads were asked what sort of committee fulfilled the Audit Committee function in their council. Over half (58%) said it was a stand-alone Audit Committee reporting to Full Council. A further quarter (23%) had a joint Audit and Governance Committee (or similar) reporting to Full Council. A further 6% ran a joint Audit and Scrutiny Overview Committee. Under "Other" (11%) a number of Audit Committees (with or without Governance or Scrutiny functions) reported direct to the Executive/Cabinet and not to the Full Council.

Chart 1

<table>
<thead>
<tr>
<th>Type of Audit Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stand alone (report Full Council)</td>
</tr>
<tr>
<td>Jt Audit-Governance</td>
</tr>
<tr>
<td>Jt Audit-Scrutiny</td>
</tr>
<tr>
<td>Audit SubCtee (Scrutiny)</td>
</tr>
<tr>
<td>Standards Ctee</td>
</tr>
<tr>
<td>Other</td>
</tr>
</tbody>
</table>

2.2 It should be noted that only one third of Scottish authorities (33%) possessed stand alone Audit Committees (or their equivalent). In Scotland there was a mix of arrangements including 20% which had joint Audit and Governance Committees, 13% which had joint Audit and Scrutiny Committees and 7% which had Audit Sub Committees. 27% of Scottish councils had yet other arrangements.

2.3 English Mets were far more likely to have Joint Audit and Governance committees than any other (33% compared with an average of 23%).
3. **Make-up of Audit Committees**

3.1 Nearly all Audit Committees (92%) have between 5 and 11 members, consisting of 56% who have between 5 and 7 people, and 37% who have between 8 and 11 people (figures rounded up).

3.2 In two thirds of cases (66%), members of the Executive/Cabinet do NOT sit on the Audit Committee.

3.3 In 87% of cases, Audit Committee members also sit on Scrutiny Committees (NB Most councils have between 1 and 4 Scrutiny Committees, and most back benchers sit on one of these).

3.4 In 69% of cases, Audit Committees do NOT include independent members from outside the council. In this survey 49 councils (31%) included independent members of which 30 had full voting rights. Where independent members were recruited, the role was advertised externally and appointment was made through competitive interview, by and large.

3.5 In 44% of cases, the Chair of the Audit Committee is NOT a member of the Executive/Cabinet, nor Policy Committee nor a Scrutiny committee.

3.6 In 57% of cases, the Chair of the Audit Committee is from the ruling party group. In 24% of cases, the Chair is an opposition councillor. In 14% of cases, the chair is a “non-political” Independent or Rate Payer or Residents Association councillor. In 5% of cases, the Chair will be a member of the ruling coalition, whatever the parties in power.

3.7 In 83% of cases, Audit Committees meet either 4, 5 or 6 times year – consisting of 4 times a year (35%), 5 times a year (27%) or 6 times a year (21%).

3.8 In 71% of councils, the Audit Committee structure had been in place for 2, 3, 4 or 5 years consisting of 2 years (11%), 3 years (16%), 4 years (23%) or 5 years (21%).
4. Reports considered at the Audit Committee

4.1 The most frequently mentioned internal reports considered at the Audit Committee are contained in Table 1 below;

<table>
<thead>
<tr>
<th>Report</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Audit Report</td>
<td>99</td>
</tr>
<tr>
<td>Approval of Internal Audit Plan</td>
<td>98</td>
</tr>
<tr>
<td>Review of Annual Governance Statement</td>
<td>95</td>
</tr>
<tr>
<td>Annual Review of System of Internal Audit Effectiveness</td>
<td>90</td>
</tr>
<tr>
<td>Reports on completed internal audits</td>
<td>87</td>
</tr>
<tr>
<td>Reviews of governance arrangements/action plan</td>
<td>81</td>
</tr>
<tr>
<td>Strategic risk registers</td>
<td>77</td>
</tr>
<tr>
<td>Approval of the accounts</td>
<td>75</td>
</tr>
<tr>
<td>Review of the accounts pre-approval</td>
<td>73</td>
</tr>
<tr>
<td>Assurance framework</td>
<td>71</td>
</tr>
<tr>
<td>Risk management annual report</td>
<td>69</td>
</tr>
<tr>
<td>Fraud investigation summary</td>
<td>67</td>
</tr>
<tr>
<td>Treasury management strategy pre-approval</td>
<td>57</td>
</tr>
<tr>
<td>Review of treasury risks and controls</td>
<td>55</td>
</tr>
<tr>
<td>Review of specific risk areas</td>
<td>53</td>
</tr>
<tr>
<td>Results of VfM/Use of Resources reviews</td>
<td>48</td>
</tr>
<tr>
<td>Counter fraud work plan</td>
<td>47</td>
</tr>
<tr>
<td>Counter fraud risk assessment</td>
<td>41</td>
</tr>
<tr>
<td>Results of fraud benchmarking and data matching</td>
<td>40</td>
</tr>
</tbody>
</table>

Chart 2

4.2 There were variations in Scotland, Wales and Northern Ireland. Two thirds (67%) of Scots Audit Committees (or their equivalent) consider the Review of Statement of Internal Financial Control. Only one third of Scots Audit Committees (33%) and 40% of Welsh ones approve the accounts, and only 47% of London Boroughs as well (compared to an average of 75%). Very few Irish, Scots and Welsh Audit committees considered a counter fraud risk plan or counter fraud risk assessments, and less than half of all councils generally. Only 20% of Welsh and one third of English Mets (33%) review specific risk areas (compared to an average of 53%). Only one quarter of Scots Audit Committees deal with treasury management issues (compared to a half of all councils).
4.3 In terms of other internal reports considered, some Audit Committees looked at the use of RIPA powers (data protection/disclosure), Freedom of Information requests, complaints, contract and procurement procedures, asset management issues, review of partnership policies and protocols, shared service proposals and the review of the Council Constitution. Pension issues were usually considered by the Pensions Committee. In the current economic circumstances some were focusing on financial reserves as an issue.

4.3 Four external reports were most likely to be considered at the Audit Committee namely Annual Audit letter/report (99%), External Audit Plan (98%), Annual Governance Report (89%) and Reports from Inspectorates (33%).

4.4 Other reports most likely to be considered were, Report to Full Council (53%), internal evaluation (52%) and the Annual Report (46%).

4.5 The reports most frequently discussed are in Table 2 below:

<table>
<thead>
<tr>
<th>Report</th>
<th>Every/most times %</th>
<th>Sometimes %</th>
<th>Every/most/sometimes %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal audit reports</td>
<td>81</td>
<td>19</td>
<td>100</td>
</tr>
<tr>
<td>Follow up audit recommendations</td>
<td>62</td>
<td>33</td>
<td>95</td>
</tr>
<tr>
<td>Governance matters</td>
<td>40</td>
<td>49</td>
<td>89</td>
</tr>
<tr>
<td>Review of strategic risks</td>
<td>26</td>
<td>48</td>
<td>74</td>
</tr>
<tr>
<td>Counter fraud issues</td>
<td>17</td>
<td>53</td>
<td>70</td>
</tr>
<tr>
<td>Updates on accounting policies</td>
<td>5</td>
<td>51</td>
<td>56</td>
</tr>
<tr>
<td>Value for Money delivery</td>
<td>5</td>
<td>45</td>
<td>50</td>
</tr>
</tbody>
</table>

Chart 3

5. Training needs

5.1 In 71% of cases Audit Committee members partly came from financial backgrounds, and in 6% of cases all members came from financial backgrounds.

5.2 Just over half (51%) said they had identified key knowledge areas for members, and a further 37% said they had partly done this.
5.3 Nearly half (47%) said they had mapped members training needs against key knowledge areas. A further 42% said they had partly done this.

5.4 Just over half (53%) had provided training to meet members’ needs, whilst 41% had partly done this.

6 Officer attendance at meetings

6.1 Frequency of officer attendance is indicated in Table 3 below. The Head of Audit and Chief Financial Officer are the people most likely to attend the Audit Committee, followed by External Audit.

<table>
<thead>
<tr>
<th>Officer</th>
<th>Most times %</th>
<th>Sometimes %</th>
<th>Most/sometimes %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head/Deputy Head Audit</td>
<td>97</td>
<td>3</td>
<td>100</td>
</tr>
<tr>
<td>Chief Financial Officer/Deputy CFO</td>
<td>86</td>
<td>13</td>
<td>99</td>
</tr>
<tr>
<td>External Audit</td>
<td>67</td>
<td>30</td>
<td>97</td>
</tr>
<tr>
<td>Risk manager/risk champion</td>
<td>47</td>
<td>31</td>
<td>78</td>
</tr>
<tr>
<td>Monitoring Officer/Deputy MO</td>
<td>35</td>
<td>22</td>
<td>57</td>
</tr>
<tr>
<td>Counter fraud manager</td>
<td>29</td>
<td>24</td>
<td>53</td>
</tr>
<tr>
<td>Strategic directors</td>
<td>13</td>
<td>32</td>
<td>45</td>
</tr>
<tr>
<td>Chief Executive</td>
<td>13</td>
<td>22</td>
<td>35</td>
</tr>
<tr>
<td>Senior service managers</td>
<td>8</td>
<td>49</td>
<td>57</td>
</tr>
</tbody>
</table>

Chart 4

Officer attendance at meetings (Most times)
7 Effectiveness of the Audit Committee

7.1 Quite clearly the Audit Committee is seen primarily as being most effective in supporting the internal/audit process. Some of the aspects Heads of Audit were questioned about could be said to be more integral to the scrutiny process engaged in by councils (though the Localism Bill will allow councils to reconsider the need for a separate scrutiny function). See Table 4 below.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Very effective</th>
<th>Quite effective</th>
<th>Very/quite effective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supporting the internal/external audit process</td>
<td>55</td>
<td>37</td>
<td>92</td>
</tr>
<tr>
<td>Following up key actions</td>
<td>30</td>
<td>50</td>
<td>80</td>
</tr>
<tr>
<td>Challenging governance, risk and control</td>
<td>24</td>
<td>60</td>
<td>84</td>
</tr>
<tr>
<td>Providing accountability to Full Council</td>
<td>22</td>
<td>48</td>
<td>70</td>
</tr>
<tr>
<td>Engagement with the Council</td>
<td>17</td>
<td>41</td>
<td>58</td>
</tr>
<tr>
<td>Providing accountability to the public</td>
<td>15</td>
<td>47</td>
<td>62</td>
</tr>
<tr>
<td>Promoting good governance</td>
<td>11</td>
<td>52</td>
<td>63</td>
</tr>
<tr>
<td>Assessing key strategic risks</td>
<td>7</td>
<td>55</td>
<td>62</td>
</tr>
<tr>
<td>Assuring partnership arrangements</td>
<td>3</td>
<td>23</td>
<td>26</td>
</tr>
<tr>
<td>Engagement with partners</td>
<td>3</td>
<td>21</td>
<td>26</td>
</tr>
</tbody>
</table>

Chart 5

Where Audit Committee is very effective

- Supporting internal/external audit: 55%
- Following up key actions: 30%
- Challenge governance, risk & co.: 24%
- Provide accountability to Council: 22%
- Provide accountability to public: 15%
8 Future changes to the structure and role of Audit Committees

8.1 10% of councils said they were very likely and 31% said they were quite likely to keep Standards Committees in future, making 41% in total.

8.2 Over three quarters of councils (78%) had no planned changes for their Audit Committee. In 5% of cases they were taking on the responsibility for appointment of external auditors (including 23% of English Mets and 12% of English Unitaries). In 3% of cases, councils were taking over duties from Standards Committees (including 15% of Met councils).

8.3 However, a number of councils commented that they were in the process of or would shortly be reviewing their governance arrangements. The Localism Bill will allow councils to change their committee structure in future, although only from the time of the next local elections. NB these discussions are really only starting now with few finally deciding on their new structures as yet. One commented that their council had considered the merger of Pensions and Standards with Audit and Governance but rejected this as impractical.

8.4 Just over half of councils (51%) expect the role of Audit Committees to stay the same, 43% expect them to expand whilst 1% expect them to shrink. However, 4% expected changes due to the Localism Bill and other changes affecting Local Government, which may not yet be predictable.
9 Barriers to improvement or effectiveness of Audit Committees

9.1 Table 5 below shows that the Audit Committee is not necessarily considered a priority committee amongst elected members. Regulatory committees are inevitably considered less exciting than more politically oriented committees.

<table>
<thead>
<tr>
<th>Main Barriers</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited knowledge/experience of members</td>
<td>50</td>
</tr>
<tr>
<td>Turnover of members</td>
<td>44</td>
</tr>
<tr>
<td>Other members do not consider it a priority</td>
<td>30</td>
</tr>
<tr>
<td>Members lack interest in audit</td>
<td>28</td>
</tr>
<tr>
<td>Intrusion of political interests</td>
<td>27</td>
</tr>
<tr>
<td>Senior management do not consider it a priority</td>
<td>26</td>
</tr>
<tr>
<td>The Audit Committee is not a statutory requirement</td>
<td>26</td>
</tr>
</tbody>
</table>

9.2 English Unitary councils noticeably had a number of concerns. They had a higher turnover of members (65% compared to 44% overall), other council members did not consider audit a priority (50% compared to 30% overall), the limited knowledge and experience of members (65% compared to 50% overall), audit committee not being statutory (39% compared to 26%) and intrusion of political interests (42% compared to 27%).

9.3 In London Boroughs, it was believed that the main barriers were that the Audit Committee was not statutory (53% compared to 26% overall) and that other council members did not consider it a priority (47% compared to 30% overall).

10 Demographics

Table 6 below show the breakdowns of respondents by type of authority and by region.

<table>
<thead>
<tr>
<th>Authority type</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern Ireland LA</td>
<td>3</td>
</tr>
<tr>
<td>Scottish Unitary</td>
<td>9</td>
</tr>
<tr>
<td>Welsh Unitary</td>
<td>3</td>
</tr>
<tr>
<td>London Borough</td>
<td>11</td>
</tr>
<tr>
<td>English Metropolitan</td>
<td>9</td>
</tr>
<tr>
<td>English County (with two tier districts)</td>
<td>8</td>
</tr>
<tr>
<td>English Unitary (including Unitary counties)</td>
<td>17</td>
</tr>
<tr>
<td>English District</td>
<td>40</td>
</tr>
</tbody>
</table>
11. **What would improve the effectiveness of Council’s own Audit Committee?**

- Static membership for at least 2-3-4 years to maximise knowledge, training, ability and terminating the current annual one third election process. This would lead to greater understanding and a good development of the committee.
- An experienced and skilful chair (with soft skills) helps substantially.
- Training.
- Requirement that Members will need to have some financial/inspection background.
- Willingness to challenge the content of the reports.
- Introduction of lay members with accounting/audit experience.
- Relevant membership, decision making powers and internal support.
- Higher profile with members and calling senior officers to account.
- The Committee appears to centre round internal and external audit whereas it should centre around holding the management to account.
- Attendance by senior directors, greater willingness to challenge Directors over adverse audit findings and holding them to account over implementation of audit recommendations.
- Stronger focus on risk management.
- Stop members from getting too involved in detail and focusing on minutiae.
- Greater officer engagement with the whole of the governance agenda, and therefore a strong vision of the Audit Committee’s role.
- Greater understanding of the Scrutiny Committee remit.
- It is key to have a member of the Executive on the committee in order for the committee to have access to the Executive.
- Open and frank discussion sometimes restricted because of items in political domain – may be better held in private.
- Greater formal powers/responsibilities than exist at present.
- More networking between members of other Audit Committees.
12. **Summary of findings**

- The two main models for Audit Committees were stand alone committees reporting to the Full Council (58%) and joint Audit and Governance Committees (23%).
- A typical Audit Committee consists of between 5 and 7 members, does not include members of the Executive/Cabinet, but most members will also sit on Scrutiny Committees.
- Seven out of ten Audit Committees do not include independent members, externally recruited.
- In 57% of cases, the Chair of the Audit Committee comes from the ruling party, but in 24% of cases a member of the opposition chairs.
- Most Audit Committees meet 4 to 6 times a year, and most committee structures had been in place for 2 to 5 years.
- The Audit Committee tended to consider standard audit reports, with less emphasis on things like fraud and treasury management (particularly outside England).
- Audit Committees were most likely to consider internal audit reports (81%) and follow up audit recommendations (62%) on a regular basis at each committee meeting. Governance matters were considered at most meetings by 40% of councils.
- Where possible elected members came from financial backgrounds but this did not apply to all members of the Audit Committee.
- Identification of knowledge areas and providing training for identified needs seem to be only partial.
- The officers regularly attending Audit Committee meetings seem to be mainly Heads of Audit or Chief Financial Officers (or their deputies), or external audit.
- Audit Committees were considered to be very effective at supporting the internal/audit process but not quite so effective in other areas.
- Six in ten councils will likely be removing their Standards Committees.
- However, 78% of councils said they had no planned changes for their Audit committee.
- The two main barriers to Audit Committees working effectively were limited knowledge/experience of members (50%) and turnover of members (44%) particularly in those councils that re-elected their members one third each year.
- Heads of Audit felt that audit reports should be challenged more and should be used to call senior directors to account.

**Technical Appendix report prepared by CIPFA Market Research**

Published by:

CIPFA \ THE CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY

3 Robert Street, London WC2N 6RL

020 7543 5600 \ publications@cipfa.org.uk \ www.cipfa.org.uk

© 2011 CIPFA

No responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication can be accepted by the authors or publisher.

While every care has been taken in the preparation of this publication, it may contain errors for which the publisher and authors cannot be held responsible.

Apart from any fair dealing for the purposes of research or private study, or criticism or review, as permitted under the Copyright, Designs and Patents Act, 1988, this publication may be reproduced, stored or transmitted, in any form or by any means, only with the prior permission in writing of the publishers, or in the case of reprographic reproduction in accordance with the terms of licences issued by the Copyright Licensing Agency Ltd. Enquiries concerning reproduction outside those terms should be sent to the publishers at the above mentioned address.