



Committee: AUDIT COMMITTEE

Date: WEDNESDAY, 22 JULY 2020

Time: 6.10 P.M.

PLEASE NOTE

THIS WILL BE A 'VIRTUAL MEETING', A LINK TO WHICH WILL BE AVAILABLE ON LANCASTER CITY COUNCIL'S WEBSITE AT LEAST 24HRS BEFORE THE MEETING.

A G E N D A

1. Apologies for Absence

2. Appointment of Vice-Chair

To appoint a Vice-Chair for the 2020/21 municipal year (the Vice-Chair must not be a member of Cabinet or Overview and Scrutiny).

3. Minutes

Minutes of meeting held on 19th February 2020 (previously circulated).

4. Items of Urgent Business authorised by the Chair

5. Declarations of Interest

To receive declarations by Councillors of interests in respect of items on this Agenda.

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

Whilst not a legal requirement, in accordance with Council Procedure Rule 9 and in the interests of clarity and transparency, Councillors should declare any disclosable pecuniary interests which they have already declared in the Register, at this point in the meeting.

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

6. Review of Internal Audit Effectiveness (includes Local Government Application Note) (Pages 3 - 66)

Report of the Internal Audit and Assurance Manager

7. **Internal Audit Annual Report 2019/20** (Pages 67 - 80)
Report of the Internal Audit and Assurance Manager
8. **Counter Fraud Annual Report** (Pages 81 - 85)
Report of the Corporate Fraud Manager
9. **Annual Governance Statement 2019/20** (Pages 86 - 100)
Report of the Internal Audit and Assurance Manager
10. **Proposed Accounting Policies and Critical Judgements used in the Preparation of the Statement of Accounts 2019/20** (Pages 101 - 122)
Report of the Chief Finance Officer

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

Councillors Paul Stubbins (Chair), Stephie Barber, Abbott Bryning, Geoff Knight, Oliver Robinson, Anne Whitehead and David Whitworth

(ii) Substitute Membership

Councillors Jason Firth (Substitute), Jake Goodwin (Substitute), Stewart Scothern (Substitute), Katie Whearty (Substitute), David Whitaker (Substitute) and Joanna Young (Substitute)

(iii) Queries regarding this Agenda

Please contact Eric Marsden, Democratic Services - email emarsden@lancaster.gov.uk.

(iv) Changes to Membership, substitutions or apologies

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

KIERAN KEANE,
CHIEF EXECUTIVE,
TOWN HALL,
DALTON SQUARE,
LANCASTER, LA1 1PJ

Published on 14th July 2020.

AUDIT COMMITTEE**Review of Internal Audit Effectiveness****22 June 2020****Report of the Internal Audit and Assurance Manager****PURPOSE OF REPORT**

To inform the Committee of the requirement for the authority to undertake an annual review of the effectiveness of the system of Internal Audit and to report the results of this review.

This report is public

RECOMMENDATIONS

- 1. That Committee is asked to consider the results of the July 2020 review of the effectiveness of Internal Audit detailed in Appendix A.**

1.0 Introduction

- 1.1 The Accounts and Audit Regulations 2015 requires the relevant body, at least once a year, to conduct a review of the effectiveness of its system of internal audit. The purpose behind this is to ensure that the opinion in the annual audit report issued by the Internal Audit and Assurance Manager can be relied upon as a key source of evidence in the Annual Governance Statement.
- 1.2 From the 1 April 2013 Public Sector Internal Audit Standards (PSIAS) replaced the Code of Practice for Internal Audit in Local Government. In Local Government these standards are mandatory for all principal local authorities subject to the Accounts and Audit Regulations 2015. The PSIAS were re-issued in March 2017 with minor amendments.
- 1.3 To accompany the PSIAS an 'application note' has been produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) to give guidance on applying the standards. However, the application note is no longer simply guidance but constitutes 'proper practices' alongside the PSIAS and it includes a checklist for measuring the performance of Internal Audit against the standards as part of the quality assurance and improvement programme. The application note was re-issued in February 2019 with minor amendments.
- 1.4 The PSIAS state that an external assessment must be conducted at least every five years by a qualified, independent assessor or assessment team from outside the organisation. External assessment can be in the form of a full external assessment, or a self-assessment with independent external validation. A decision was made by the majority of the Lancashire Districts to continue with the annual self-assessment completed by the CAE and for that annual self-assessment to be independently verified via peer review. Lancaster's peer review took place in March 2018 and was submitted to the Audit Committee in May 2018 to consider the recommendations made by the

peer review assessment team. Until the next round of peer reviews in 2023 the Internal Audit and Assurance Manager will continue to carry out annual self-assessments.

2.0 Proposal Details

2.1 The Internal Audit and Assurance manager has assessed the effectiveness of the internal audit service using the recommended checklist contained with CIPFA’s Local Government Application Note. This has been subsequently scrutinised by the Financial Services Manager (Section 151 Officer).

2.2 There were no actions that required attention therefore full compliance has been achieved. The results of this review are attached at Appendix A. The partial non-compliance in relation to risk management will be documented in more detail in the Annual Governance Statement minor issues action plan and will be subsequently monitored by the Executive Team and Internal Audit.

3.0 Details of consultation

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

4.0 Options and options analysis (including risk assessment)

4.1 No alternative options were identified. The need to carry out an annual review of the effectiveness of internal audit is a statutory requirement.

5.0 Conclusion

5.1 The Internal Audit and Assurance Manager has assessed the effectiveness of the internal audit service using the recommended checklist contained within CIPFA’s Local Government Application Note. This has subsequently been scrutinised by the Financial Services Manager (Section 151 Officer).

5.2 Although overall compliance has been achieved, there are a number of partial non-conformances in relation to risk management. These will be documented in more detail in the Annual Governance Statement minor issues action plan and will be subsequently monitored by the Executive Team and Internal Audit.

5.3 The results of the review are attached at Appendix A.

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

This report has no direct impact on these areas.

FINANCIAL IMPLICATIONS

None arising directly from this report.

SECTION 151 OFFICER’S COMMENTS

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

LEGAL IMPLICATIONS

None arising directly from this report.

MONITORING OFFICER’S COMMENTS

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

BACKGROUND PAPERS

Contact Officer: Joanne Billington

Public Sector Internal Audit Standards –
Applying the IIA International Standards to the
UK Public Sector

CIPFA – Local Government Application Note
for the United Kingdom Public Sector Internal
Audit Standards

Telephone: 01524 582028

E-mail: jbillington@lancaster.gov.uk

Ref:

Questions to consider			Evidence / comments
1 Mission of Internal Audit			
Based on your review of conformance with other requirements of the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN), does the internal audit activity aspire to accomplish the Mission of Internal Audit as set out in the PSIAS?			The mission of Internal Audit is clearly documented in the Audit Charter. This is reviewed annually by the Audit Committee.
<i>To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.</i>			
CONFORMS ✓	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
2 Definition of Internal Auditing			
Based on your review of conformance with other requirements of the PSIAS and LGAN, is the internal audit activity independent and objective?			An Audit Charter is in place that sets out Internal Audit's independence. This is also documented in the Internal Auditor and Assurance Managers (IAAM) and Principal Auditor's job descriptions. As internal audit is currently responsible for the council's risk management and insurance arrangements, the council will use independent auditors (Lancashire County Council) to provide independent assurance that controls are adequate and effective if required. Audit are required from time to time to get involved / give advice on new systems / new controls etc. Due to the size of the team, it may be that the same auditor will then have to perform the audit. The auditor is, however mindful of their independence and has the option to call in Lancashire County Council or Wyre Council (owing to a shared CIA arrangement) if necessary. It is a requirement of both IIA and CIPFA for its members to be both independent and objective. Objectivity is one of the four fundamental principles listed in the Internal Audit Charter / Code of Ethics. All reports are reviewed by the IAAM (CAE) prior to issue to ensure that
CONFORMS ✓	PARTIAL	NOT CONFORMING	

			the auditor has remained objective and that an overall balanced view is given.
Based on your review of conformance with other requirements of the PSIAS and LGAN, does the internal audit activity use a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the organisation?			There is a standard methodology in place for determining the ranking of opinions and rankings of findings / recommendations in audit reports. RISK / Control matrices are used to identify key areas prior to the start of each audit.
CONFORMS ✓	PARTIAL	NOT CONFORMING	The council has recently approved a risk management policy which will be reviewed annually. The internal audit team use standardised working papers and audit report templates.

Questions to consider	Evidence / comments
3 Core Principles	
The Core Principles, taken as a whole, articulate internal audit effectiveness, and provide a basis for considering whether the review of conformance with the attribute standards and performance standards reflects full conformance, partial conformance or non-conformance with the PSIAS and the Local Government Application Note. In making this assessment, the assessor should have regard to positive evidence of conformance or non-conformance and the lack of evidence of non-conformance where positive evidence is difficult to obtain.	
Where there are instances of partial conformance or non-conformance in particular areas, you may need to make a judgment having regard to materiality and other factors in order to form a view on whether the internal audit activity conforms with a particular Core Principle. Any such judgments should be highlighted and explained.	
Demonstrates integrity.	Auditors are bound by their ethical standards both in the internal audit Charter / Code of Ethics and with their own professional bodies, i.e. CIPFA / IIA.
Having regard to your review of conformance with the Code of Ethics (Integrity, Seven Principles of Public Life), do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by demonstrating integrity?	Elements such as these are a requirement of the role and, as such, are

CONFORMS ✓	PARTIAL	NOT CONFORMING	<p>referred to in job descriptions and are reviewed quarterly via the council's performance appraisal process.</p> <p>Auditors are required to complete an annual declaration of interests.</p> <p>Auditors are bound by their professional and ethical standards and the Code of Ethics within the Internal Audit Charter.</p> <p>In addition to being bound by professional and ethical standards and the Code of Ethics within the Internal Audit Charter, internal audit also complies with the council's Employee Code of Conduct Policy.</p>
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Questions to consider	Evidence / comments
<p>Demonstrates competence and due professional care.</p> <p>Having regard to your review of conformance with the Code of Ethics (Competence, Confidentiality, Seven Principles of Public Life) and any other evidence from the review of conformance with Standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by demonstrating competence and due professional care?</p> <p>CONFORMS ✓ PARTIAL NOT CONFORMING</p>	<p>Elements such as these are a requirement of the role are reviewed regularly via 1-1's with the IAAM.</p> <p>Auditors complete and regularly update their Continual Professional Development (CPD) records.</p> <p>The Quality Assurance and Improvement Programme; internal assessments ensure auditors can demonstrate competence.</p>
<p>Is objective and free from undue influence (independent).</p> <p>Having regard to your review of conformance with the Code of Ethics (Objectivity, Seven Principles of Public Life) and any other evidence from the review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by being objective and free from undue influence (independent)?</p> <p>CONFORMS ✓ PARTIAL NOT CONFORMING</p>	<p>Elements such as these are a requirement of the role and, as such, are referred to in job descriptions and are reviewed regularly.</p> <p>Auditors are required to complete an annual declaration of interests.</p> <p>Staff are aware of the requirement to declare any gifts and hospitality.</p>
<p>Aligns with the strategies, objectives, and risks of the organisation.</p> <p>Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by being aligned with the strategies, objectives, and risks of the organisation?</p> <p>CONFORMS ✓ PARTIAL NOT CONFORMING</p>	<p>Following the approval of the Council's Corporate Plan a review of the strategic risk register is carried out to ensure that the key risks of the organisation are identified and addressed through the annual audit plan, which if delivered, will assist the council in delivering its overall plan.</p>
<p>Is appropriately positioned and adequately resourced.</p> <p>Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by being appropriately positioned and adequately resourced?</p> <p>CONFORMS ✓ PARTIAL NOT CONFORMING</p>	<p>The Internal Audit Team reports directly to the Financial Services Manager (Section 151 Officer) who attends the Executive Team meetings.</p> <p>Whilst the Internal Audit Team is very small; assurance mapping and a fully risk based audit plan means that the team is adequately resourced to deliver the audit plan and deliver an annual audit opinion.</p>
<p>Demonstrates quality and continuous improvement.</p>	<p>A Quality Assurance and Improvement Programme is in place which is</p>

Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by demonstrating quality and continuous improvement?			submitted to the Audit Committee annually. It includes a number of internal and external assessments which ensures that internal audit activity can demonstrate quality and continuous improvement.
CONFORMS ✓	PARTIAL	NOT CONFORMING	
Communicates effectively.			The Internal Audit Charter sets out how Internal Audit communicates its activity.
Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by communicating effectively?			
CONFORMS ✓	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
Provides risk-based assurance.			<p>The Internal Audit Plan is formulated following a risk-based assessment of the audit universe.</p> <p>At the start of each audit assignment, a full risk assessment is completed by the auditor which identifies and documents the audit areas, key risks and expected controls.</p>
Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by providing risk-based assurance, based on adequate risk assessment?			
CONFORMS ✓	PARTIAL	NOT CONFORMING	
Is insightful, proactive, and future-focused.			<p>The Internal Audit Team liaises with all Corporate Directors, Service Managers and External Audit prior to pulling together the annual audit plan.</p> <p>A number of 'horizon scanning' documents are used to ensure that full coverage is obtained.</p> <p>The implementation of a strategic risk register has assisted this year in ensuring the audit environment is covered.</p>
Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by being insightful, proactive, and future-focused?			
CONFORMS ✓	PARTIAL	NOT CONFORMING	
Promotes organisational improvement.			<p>All internal audit reports are published on the Council's Intranet.</p> <p>Six monthly progress reports are issued to the Audit Committee. In addition, the Internal Audit Annual Report documents the work and achievements of the team during the year.</p>
Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by promoting organisational improvement?			
CONFORMS ✓	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
4 Code of Ethics			
Integrity			

<p>Based on your review of conformance with other requirements of the PSIAS and LGAN, do you consider that internal auditors display integrity by:</p> <ul style="list-style-type: none"> ■ Performing their work with honesty, diligence and responsibility? ■ Observing the law and making disclosures expected by the law and the profession? ■ Not knowingly partaking in any illegal activity nor engaging in acts that are discreditable to the profession of internal auditing or to the organisation? ■ Respecting and contributing to the legitimate and ethical objectives of the organisation? 			<p>Auditors are bound by their ethical standards both in the internal audit Charter / Code of Ethics and with their own professional bodies, i.e. CIPFA / IIA.</p> <p>Elements such as these are a requirement of the role and, as such, are referred to in job descriptions and are reviewed regularly via performance appraisals and regular 1-1's.</p> <p>Auditors are required to complete an annual declaration of interests.</p> <p>Auditors are bound by their professional and ethical standards and the Code of Ethics within the Internal Audit Charter.</p> <p>In addition to being bound by professional and ethical standards and the Code of Ethics within the Internal Audit Charter, internal audit also complies with the council's Employee Code of Conduct Policy.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	
<p>Objectivity</p> <p>Based on your review of conformance with other requirements of the PSIAS and LGAN, do you consider that internal auditors display objectivity by:</p> <ul style="list-style-type: none"> ■ Not taking part in any activity or relationship that may impair or be presumed to impair their unbiased assessment? ■ Not accepting anything that may impair or be presumed to impair their professional judgement? ■ Disclosing all material facts known to them that, if not disclosed, may distort the reporting of activities under review? 			<p>Compliance with Audit Charter / Code of Ethics</p> <p>Completion of annual declarations of interests.</p> <p>Audit are required from time to time to get involved / give advice on new systems / new controls etc. Owing to the size of the team, it may be that the same auditor will then have to perform the audit. The auditor is, however mindful of their independence and has the option to call in Lancashire County Council if necessary. In addition, the Council is also currently joint working with Wyre Council, therefore there is also an option to use audit staff from that authority if required.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
<p>Confidentiality</p> <p>Based on your review of conformance with other requirements of the PSIAS and LGAN, do you consider that internal auditors display due respect and care by:</p> <ul style="list-style-type: none"> ■ Acting prudently when using information acquired in the course of their duties and protecting that information? ■ Not using information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation? 			<p>Compliance with Audit Charter / Code of Conduct and Public Sector Internal Audit Standards.</p> <p>The Audit review process undertaken by the IAAM (CAE) includes a review of the information used for testing and how it was processed.</p> <p>Compliance with audit retention schedules.</p> <p>Understanding of the Data Protection Act 2018 and the enshrined GDPR.</p> <p>Compliance to the Audit Charter / Code of Ethics and the auditor's own professional standards.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	
<p>Competency</p> <p>Based on your review of conformance with other requirements of the PSIAS and LGAN, do you consider that internal auditors display competence by:</p> <ul style="list-style-type: none"> ■ Only carrying out services for which they have the necessary knowledge, skills and experience? ■ Performing services in accordance with the PSIAS? ■ Continually improving their proficiency and effectiveness and quality of their services, for example through CPD schemes? 			<p>The Principal Auditor is currently working towards becoming professionally qualified to PIIA standard and therefore has the experience and skills to carry out the required audits.</p> <p>The Principal Auditor has been supplied with a copy of Audit Charter / Code of Ethics and the PSIAS and performance is regularly assessed.</p> <p>Work related objectives are agreed in advance at the start of the year and reviewed regularly as part of the performance appraisal process and regular 1-1's.</p> <p>Audit staff are encouraged to maintain records of continuing professional development to satisfy their professional membership requirements.</p> <p>Regular attendance at the audit weekend school.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	

Seven Principles of Public Life			A copy of the Internal Audit Charter and the Code of Ethics which refers to the Seven Principles of Public Life, has been provided to all Internal Audit staff.
Based on your review of conformance with other requirements of the PSIAS and LGAN, do you consider that internal auditors, whether consciously or through conformance with organisational procedures and norms, have due regard to the Committee on Standards of Public Life's <i>Seven Principles of Public Life</i> ?			
CONFORMS ✓	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
Standards			
5 Attribute Standards			
5.1 1000 Purpose, Authority and Responsibility			
The questions in this section seek to confirm that the purpose, authority and responsibility of the internal audit activity have been properly defined consistent with the PSIAS, formally approved in an internal audit charter and periodically reviewed.			
Does the internal audit charter conform with the PSIAS by including a formal definition of: <ul style="list-style-type: none"> ■ the purpose ■ the authority, and ■ the responsibility of the internal audit activity consistent with the Public Sector Internal Audit Standards (PSIAS)?			The Audit Charter includes a definition in accordance with the PSIAS.
CONFORMS ✓	PARTIAL	NOT CONFORMING	

Questions to consider	Evidence / comments	
<p>Does the internal audit charter conform with the PSIAS by clearly and appropriately defining the terms 'board' and 'senior management' for the purposes of the internal audit activity?</p> <p>Note that it is expected that the audit committee will fulfil the role of the board in the majority of instances.</p>	<p>The Audit Charter defines the 'board' as the Audit Committee and 'Senior Management' as the Chief Executive and Executive Team.</p>	
CONFORMS ✓	PARTIAL	NOT CONFORMING
<p>Does the internal audit charter also:</p> <ul style="list-style-type: none"> ■ Set out the internal audit activity's position within the organisation? ■ Establish the chief audit executive's (CAE) functional reporting relationship with the board? ■ Establish the accountability, reporting line and relationship between the CAE and those to whom the CAE may report administratively? Where applicable, this will need to encompass shared service or external providers of internal audit, and the role of the contract manager. ■ Establish the responsibility of the board and also the role of the statutory officers (such as the CFO, the monitoring officer and the head of paid service) with regards to internal audit? ■ Establish internal audit's right of access to all records, assets, personnel and premises and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities? ■ Define the scope of internal audit activities? ■ Recognise that internal audit's remit extends to the entire control environment of the organisation? ■ Establish the organisational independence of internal audit? ■ Cover the arrangements for appropriate resourcing? ■ Define the role of internal audit in any fraud-related work? 	<p>See Audit Charter</p> <p>Since May 2017, the IAAM has provided assurance in the CIA role for Lancaster City Council. A service level agreement has been entered into and is currently on a 12 month rolling contract.</p> <p>The service level agreement between Lancaster City Council and Wyre contains a job description which defines the nature of assurance services provided.</p>	

- Set out the existing arrangements within the organisation’s anti- fraud and anti- corruption policies, requiring the CAE to be notified of all suspected or detected fraud, corruption or impropriety?
- Include arrangements for avoiding conflicts of interest if internal audit or the CAE undertakes non-audit activities?
- Define the nature of assurance services provided to the organisation, as well as assurances provided to parties external to the organisation?
- Define the nature of consulting services?
- Recognise the mandatory nature of the PSIAS?

CONFORMS ✓

PARTIAL

NOT CONFORMING

Questions to consider	Evidence / comments	
Does the CAE periodically review the internal audit charter and present it to senior management and the board for approval?	An annual review is undertaken.	
CONFORMS ✓	PARTIAL	NOT CONFORMING
5.2 1100 Independence and Objectivity		
The questions in this section seek to confirm that the internal audit activity is independent and internal auditors are objective in performing their work.		
Does the CAE have direct and unrestricted access to senior management and the board?	The IAAM (CAE) reports directly to the Executive Team and attends all the Audit Committee meetings to present reports. There is also an annual opportunity for the CAE to have a periodic private discussion with the Audit Committee.	
Does the CAE have free and unfettered access to, as well as communicate effectively with, the chief executive or equivalent and the chair of the audit committee?	Access rights and reporting lines are documented in the Audit Charter. The Chairman of the Audit Committee attends regular pre-meeting briefings.	
CONFORMS ✓	PARTIAL	NOT CONFORMING
Does the CAE attend audit committee meetings?	See minutes of Audit Committee indicating attendees and contribution.	
Does the CAE contribute to audit committee agendas?		
CONFORMS ✓	PARTIAL	NOT CONFORMING
Are threats to objectivity identified and managed at the following levels:	Audit staff complete a declaration of interests annually. The option exists for audit work to be commissioned from Lancashire County Council and Wyre Council if there is a threat to objectivity.	
■ Individual auditor?	The IAAM (CAE) will consider any threats to objectivity at the start of each audit.	
■ Engagement?		
■ Functional?		
■ Organisation?		
CONFORMS ✓	PARTIAL	NOT CONFORMING
1110 Organisational Independence		

<p>This subsection seeks to confirm that reporting and management arrangements been put in place that preserve the CAE's independence and objectivity.</p> <p>This is of particular importance when the CAE is line-managed by another officer of the authority.</p>			
<p>Does the CAE report to an organisational level equal or higher to the corporate management team?</p>			<p>The CAE reports directly to the Financial Services Manager Corporate (Section 151 Officer) who attends the Executive Team meetings.</p>
<p>Does the CAE report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities?</p>			
<p>CONFORMS ✓</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>	

Questions to consider	Evidence / comments			
<p>Does the CAE's position in the management structure:</p> <ul style="list-style-type: none"> ■ Provide the CAE with sufficient status to ensure that audit plans, reports and action plans are discussed effectively with the board? ■ Ensure that he or she is sufficiently senior and independent to be able to provide credibly constructive challenge to senior management? 	<p>The audit work programme includes an opportunity for the CAE to meet with the Audit Committee in private.</p> <p>The IAAM is one of a number of Service Managers who together with the three Directors and the Deputy Director form the Council's Executive Team.</p>			
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%; text-align: center;">CONFORMS ✓</td> <td style="width: 33%; text-align: center;">PARTIAL</td> <td style="width: 33%; text-align: center;">NOT CONFORMING</td> </tr> </table>	CONFORMS ✓	PARTIAL	NOT CONFORMING	
CONFORMS ✓	PARTIAL	NOT CONFORMING		
<p>Does the CAE confirm to the board, at least annually, that the internal audit activity is organisationally independent?</p>	<p>Documented in the Audit Charter which is presented to the Audit Committee annually.</p>			
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%; text-align: center;">CONFORMS ✓</td> <td style="width: 33%; text-align: center;">PARTIAL</td> <td style="width: 33%; text-align: center;">NOT CONFORMING</td> </tr> </table>	CONFORMS ✓	PARTIAL	NOT CONFORMING	
CONFORMS ✓	PARTIAL	NOT CONFORMING		
<p>Is the organisational independence of internal audit realised by functional reporting by the CAE to the board?</p>	<p>The Audit Committee annually approves the Internal Audit Charter and the risk based plan at the start of the year.</p>			
<p>The 'Interpretation' to PSIAS 1110 provides examples of factors which may indicate that the CAE reports functionally to the Board, which include where the board:</p> <ul style="list-style-type: none"> ■ approves the internal audit charter ■ approves the risk-based audit plan ■ approves the internal audit budget and resource plan ■ receives communications from the CAE on the activity's performance (in relation to the plan, for example) ■ approves decisions relating to the appointment and removal of the CAE ■ approves the remuneration of the CAE ■ seeks reassurance from management and the CAE as to whether there are any inappropriate scope or resource limitations. 	<p>The Audit Committee receives six monthly updates on risk management and progress on completion of the audit plan.</p> <p>The appointment / dismissal of the CAE is not reflected in the council's Constitution as an elected member responsibility and falls to the Financial Services Manager (Section 151 Officer) who is responsible for maintaining an adequate internal audit function. Any decision, however, would be presented to the Audit Committee for noting.</p> <p>The Audit Committee work programme allows an opportunity for a private discussion with the External Auditor which would allow them to comment on the performance of the IAAM, if appropriate.</p> <p>The Audit Committee work programme allows an opportunity for a private discussion with the External Auditor which would allow them to comment on the performance of the IAAM, if appropriate.</p>			

The Public Sector Interpretation to PSIAS 1110 notes that board approval of CAE remuneration does not generally happen in the UK public sector, and that the underlying principle is therefore that the independence of the CAE must be safeguarded by ensuring that their remuneration or performance assessment is not inappropriately influenced by those subject to audit.

EQA assessors should therefore consider whether adequate steps are taken to safeguard the independence of the CAE by ensuring that remuneration or performance assessment is not inappropriately influenced by those subject to audit. This might for example reflect some involvement of the chief executive in the performance assessment process or feedback from the audit committee chair.

CONFORMS ✓	PARTIAL	NOT CONFORMING
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1111 Direct Interaction with the Board

Does the CAE communicate and interact directly with the board?

CONFORMS ✓	PARTIAL	NOT CONFORMING
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The Audit Committee have the opportunity to question IAAM and the Financial Services Manager (Section 151 Officer) at the meeting when the audit plan is presented, and progress reports are provided.

The Financial Services Manager (Section 151 Officer), who attends Executive Team meetings on a regular has regular 1-2-1's with the IAAM (CAE) to ensure that she is fulfilling the terms of conditions of the SLA that is in place between Lancaster City Council and Wyre Council for a shared CIA.

The IAAM (CAE) attends a pre-audit meeting with the Chairman of the Audit Committee and also attends all Audit Committee Meetings.

Questions to consider			Evidence / comments
1112 Chief Audit Executive Roles Beyond Internal Auditing			
Where the CAE has roles or responsibilities that fall outside of internal auditing, are adequate safeguards in place to limit impairments to independence or objectivity?			The IAAM has operational responsibility for risk management. External Assurance will be sought in respect of this services operating effectively.
Does the board periodically review these safeguards?			
CONFORMS ✓	PARTIAL	NOT CONFORMING	This arrangement is reported to the Audit Committee annually in the Annual Audit Report.
1120 Individual Objectivity			
Do internal auditors have an impartial, unbiased attitude?			Feedback questions sent after each audit are used to monitor the auditor's approach.
CONFORMS ✓	PARTIAL	NOT CONFORMING	
Do internal auditors avoid any conflict of interest, whether apparent or actual?			Auditors will complete an annual declaration of interests. Compliance with the Internal Audit Charter / Code of Ethics. Audit Staff are aware that they need to report any suspected conflicts of interest if they arise during an audit review. There have been no conflicts of interest recorded to date.
CONFORMS ✓	PARTIAL	NOT CONFORMING	
1130 Impairment to Independence or Objectivity			
If there has been any real or apparent impairment of independence or objectivity, has this been disclosed to appropriate parties (depending on the nature of the impairment and the relationship between the CAE and senior management/the board as set out in the internal audit charter)?			The IAAM has operational responsibility for risk management. External Assurance will be sought in respect of this services operating effectively.
CONFORMS N/A	PARTIAL N/A	NOT CONFORMING N/A	
Does review indicate that work allocations have operated so that internal auditors have not assessed specific operations for which they have been responsible within the previous year?			N/A
CONFORMS N/A	PARTIAL N/A	NOT CONFORMING N/A	

If there have been any assurance engagements in areas over which the CAE also has operational responsibility, have these engagements been overseen by someone outside of the internal audit activity?			N/A
CONFORMS ✓	PARTIAL	NOT CONFORMING	
Is the risk of over-familiarity or complacency managed effectively: for example by rotating assignments for ongoing assurance engagements and other audit responsibilities periodically within the internal audit team?			Owing to the size of the audit team this is not achievable. However the use of Lancashire County Council and the potential to use Wyre Council allows the rotation of audits where appropriate.
CONFORMS ✓	PARTIAL	NOT CONFORMING	
Have internal auditors declared interests in accordance with organisational requirements?			The Internal Audit Team Audit all complete an annual declaration of interests.
CONFORMS ✓	PARTIAL	NOT CONFORMING	Staff are provided with the Internal Audit Charter / Code of Ethics. Both documents are also on the intranet.
Where any internal auditor has accepted any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties (other than as may be allowed by the organisation's own policies), has this been declared and investigated fully?			There have been no declarations of gifts and hospitality received in 2020/21. Audit staff are reminded annually of the council's procedures in respect of receiving gifts and hospitality.
CONFORMS ✓	PARTIAL	NOT CONFORMING	

Questions to consider	Evidence / comments			
Does review indicate that no instances have been identified where an internal auditor has used information obtained during the course of duties for personal gain?	There have been no instances where an auditor has used information obtained during the course of duties for personal gain.			
<table border="1"> <tr> <td data-bbox="116 403 369 432">CONFORMS ✓</td> <td data-bbox="369 403 651 432">PARTIAL</td> <td data-bbox="651 403 1167 432">NOT CONFORMING</td> </tr> </table>	CONFORMS ✓	PARTIAL	NOT CONFORMING	
CONFORMS ✓	PARTIAL	NOT CONFORMING		
Have internal auditors disclosed all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice, subject to any confidentiality agreements?	See declaration of interest.			
<table border="1"> <tr> <td data-bbox="116 603 369 632">CONFORMS ✓</td> <td data-bbox="369 603 651 632">PARTIAL</td> <td data-bbox="651 603 1167 632">NOT CONFORMING</td> </tr> </table>	CONFORMS ✓	PARTIAL	NOT CONFORMING	
CONFORMS ✓	PARTIAL	NOT CONFORMING		
If there has been any real or apparent impairment of independence or objectivity relating to a proposed consulting services engagement, was this disclosed to the engagement client before the engagement was accepted?	The council's Internal Audit Team do not undertake any consultancy work.			
<table border="1"> <tr> <td data-bbox="116 842 369 871">CONFORMS N/A</td> <td data-bbox="369 842 651 871">PARTIAL N/A</td> <td data-bbox="651 842 1167 871">NOT CONFORMING N/A</td> </tr> </table>	CONFORMS N/A	PARTIAL N/A	NOT CONFORMING N/A	
CONFORMS N/A	PARTIAL N/A	NOT CONFORMING N/A		
Where there have been significant additional consulting services agreed during the year that were not already included in the audit plan, was approval sought from the board before the engagement was accepted?	The council's Internal Audit Team does not undertake any consultancy work. However the IAAM (CAE) has been providing cover for the CAE role at Lancaster City Council since May 2017. This is currently on a 12 month rolling contract which amounts to approximately 55 days per year.			
<table border="1"> <tr> <td data-bbox="116 1082 369 1110">CONFORMS N/A</td> <td data-bbox="369 1082 651 1110">PARTIA N/A</td> <td data-bbox="651 1082 1167 1110">NOT CONFORMING N/A</td> </tr> </table>	CONFORMS N/A	PARTIA N/A	NOT CONFORMING N/A	
CONFORMS N/A	PARTIA N/A	NOT CONFORMING N/A		
5.3 1200 Proficiency and Due Professional Care				
This section seeks to confirm that engagements are performed with proficiency and due professional care, having regard to the skills and qualifications of the CAE and their staff, and how they exercise their capability in practice.				
1210 Proficiency				
Does the CAE hold a professional qualification, such as CMIIA/CCAB or equivalent?	The IAAM (CAE) is a fully Certified Chartered Auditor (CIA). She also holds a Qualification in Internal Audit Leadership (QIAL).			

Is the CAE suitably experienced?			The IAAM (CAE) has 20 years' experience in internal audit including County Council, 2 District Councils, experience in auditing the Police and Fire Authority, schools and residential establishments.
CONFORMS ✓	PARTIAL	NOT CONFORMING	
Is the CAE responsible for recruiting appropriate internal audit staff, in accordance with the organisation's human resources processes?			Recruitment and selection is undertaken in accordance with HR policies and practices. Last updated in 2019 as part of the JE review.
Does the CAE ensure that up-to-date job descriptions exist that reflect roles and responsibilities and that person specifications define the required qualifications, competencies, skills, experience and personal attributes?			
CONFORMS ✓	PARTIAL	NOT CONFORMING	
Having regard to the answers to the other questions in this section and other matters, does the internal audit activity collectively possess or obtain the skills, knowledge and other competencies required to perform its responsibilities?			The IAAM will ensure audit staff have the relevant qualifications and experience to ensure they can carry out their responsibilities. The IAAM (CAE) and Principal Auditor have the necessary qualifications and skill set to carry out any audit work. However, if a piece of work was to be carried out that would require a specialist auditor skill set, an external audit organisation would be contacted.
Where the internal audit activity does not possess the skills, knowledge and other competencies required to perform its responsibilities, does the CAE obtain competent advice and assistance?			
CONFORMS ✓	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
Do internal auditors have sufficient knowledge to evaluate the risk of fraud and anti-fraud arrangements in the organisation?			The use of TIS online and CIPFA control matrices help assist in evaluating the risk of fraud. The knowledge and expertise of the in-house Corporate Enquiry Team is available if required. The IAAM has attended an external course in respect of conducting internal investigations.
CONFORMS ✓	PARTIAL	NOT CONFORMING	
Do internal auditors have sufficient knowledge of key information technology risks and controls?			The council can use the expertise of Lancashire County Council auditors where appropriate.
CONFORMS ✓	PARTIAL	NOT CONFORMING	
Do internal auditors have sufficient knowledge of the appropriate computer-assisted audit techniques that are available to them to perform their work, including data analysis techniques?			Although the Internal Audit function do not have any CAAT software, arrangements are in place to utilise Lancashire County CAAT software if the need arises. In addition, in-house training and development has been undertaken to ensure that staff have sufficient competence in using available technology, e.g. Excel to assist in conducting their audits - house training
CONFORMS ✓	PARTIAL	NOT CONFORMING	
1220 Due Professional Care			
<p>Do internal auditors exercise due professional care by considering the:</p> <ul style="list-style-type: none"> ■ Extent of work needed to achieve the engagement's objectives? ■ Relative complexity, materiality or significance of matters to which assurance procedures are applied? ■ Adequacy and effectiveness of governance, risk management and control processes? ■ Probability of significant errors, fraud, or non-compliance? ■ Cost of assurance in relation to potential benefits? <p>In doing the above, internal auditors must also consider how technology-based audit and other data analysis techniques can provide assurance.</p>			<p>The Principal Auditor will discuss and agree the scope, objectives and risks at the start of each audit with the client.</p> <p>The audit plan considers time, cost, complexity and the assurances it requires from each audit.</p> <p>Guidance, information and advice is available to the auditor when designing tests to ensure adequacy and effectiveness of governance, risk management and control.</p> <p>CIPFA risk matrices and the TIS online subscription are frequently used to ensure all risk areas are considered and subsequent controls have been identified. Audit staff have access to several CIPFA publications which assist with the consideration of audit, governance and risk. Namely; CIPFA – Delivering Good Governance in Local Government; and the PSIAS – Local Government; Application Note for the UK Public Sector.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	

			<p>At the start of the audit, the auditor will have an initial meeting with the auditee to discuss potential risks. If any further risks, fraud etc. are highlighted during the audit, the scope would be amended to include the work required. The auditor will also be alert to any non-compliance issues raised by officers.</p> <p>All work is risk based. If additional work is required, the Principal Auditor will agree this with IAAM (CAE) subject to a cost/benefit analysis being undertaken.</p> <p>Consideration will be given to what methods of data analysis / techniques should / could be used at the start of each audit to obtain the necessary assurances.</p>
<p>Do internal auditors exercise due professional care during a consulting engagement by considering the:</p> <ul style="list-style-type: none"> ■ Needs and expectations of clients, including the nature, timing and communication of engagement results? ■ Relative complexity and extent of work needed to achieve the engagement's objectives? ■ Cost of the consulting engagement in relation to potential benefits? 			<p>There are no such engagements undertaken presently.</p>
CONFORMS N/A	PARTIAL N/A	NOT CONFORMING N/A	
<p>1230 Continuing Professional Development</p>			
<p>Has the CAE defined the skills and competencies for each level of auditor?</p> <p>And</p> <p>Does the CAE periodically assess individual auditors against the predetermined skills and competencies?</p>			<p>The council establishment has one level of auditor at Grade 4 with the support of IAAM (CAE). A further resource (up to 50 days) was outsourced to Lancashire County Council in 2019/20 to assist with the delivery of the audit plan.</p> <p>Each audit report is reviewed by the IAAM (CAE) to ensure the audit has been conducted in accordance with professional standards and requirements of any auditing publications.</p> <p>The skills and competencies of the Principal Auditor are annually reviewed as part of the council's performance appraisal scheme. It is</p>

			understood that all Lancashire County Council auditors also have performance appraisals where their skills and competencies are assessed.
CONFORMS ✓	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
<p><i>Do internal auditors undertake a programme of continuing professional development?</i></p> <p><i>And</i></p> <p><i>Do internal auditors maintain a record of their professional development and training activities?</i></p>			<p>Both the IAAM (CAE) and the Principal Auditor undertake CPD in accordance with their professional qualification requirements.</p> <p>HR maintains a list of all courses that have been attended by Audit staff.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	
5.4 1300 Quality Assurance and Improvement Programme			
<p><i>The questions in this section seek to confirm that the CAE has developed and maintained a Quality Assurance and Improvement Programme (QAIP) through which conformance with the PSIAS can be and is properly assessed.</i></p>			
<p><i>Has the CAE developed a QAIP that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated?</i></p> <p><i>Does the QAIP assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement?</i></p> <p><i>Does the CAE maintain the QAIP?</i></p> <p><i>Are any statutory requirements for review of the internal audit activity satisfied?</i></p>			<p>The QAIP includes both internal; and external assessments.</p> <p>The internal assessments include:</p> <ul style="list-style-type: none"> • An annual self-assessment of the effectiveness of the audit service using the PSIAS; • Feedback on the Head of Governance (CAE) is sought annually prior to their performance appraisal; • 6 monthly monitoring of the internal audit activity to the Audit Committee; and • Day-to-day monitoring of compliance with the Definition of Internal Auditing and the Code of Ethics documented within the Sections Audit Charter and also in the PSIAS.
CONFORMS ✓	PARTIAL	NOT CONFORMING	<p>External assessments include:</p> <ul style="list-style-type: none"> • A 5 yearly independent assessment of compliance to the PSIAS; • Annual review of the council's Annual Governance Statement as part of the Financial Accounts audit; • Regular attendance at the Audit Committee with the opportunity to meet in private with the Committee; and

			<ul style="list-style-type: none"> External Auditors and Audit Committee Members reviewing and challenging internal audit reports. <p>All aspects of the programme are routinely monitored. The review is conducted by IAAM (CAE) and scrutinised by the Financial Services Manager (S151 Officer).</p>
1310 Requirements of the Quality Assurance and Improvement Programme			
<i>Does the QAIP include both internal and external assessments?</i>			<p>A self-assessment is performed annually. In addition, an external review of the effectiveness of the internal audit function is carried out every 5 years, in accordance with the requirements of the PISIAS. Lancaster’s review took place in March 2018. The next peer review will take place in February 2023.</p> <p>The External Auditor will also review the work of the internal audit service as part of the work they complete in respect of the ISA 260 – Report to those charged with Governance.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	
1311 Internal Assessments			
<i>Does the CAE ensure that audit work is allocated to staff with the appropriate skills, experience and competence?</i>			<p>Whilst this is limited due to the size of the audit team, Lancashire County Council or another external resources would be bought in if required.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	
<i>Do internal assessments include ongoing monitoring of the internal audit activity, such as:</i> <ul style="list-style-type: none"> Routine quality monitoring processes? Periodic assessments for evaluating conformance with the PISIAS? 			<p>All audit work is subject to a full review before the report is published. This includes a full review of working papers, evidence found, testing completed and validity of recommendations.</p> <p>An annual review using the checklist within the Local Government Application Note is undertaken. This is subject to an external assessment every 5 years.</p> <p>An annual review using the checklist within the Local Government Application Note is undertaken. This is subject to an external assessment every 5 years.</p> <p>Lancaster’s review took place in March 2018 with the next review due in February 2023.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
<p>Does ongoing performance monitoring contribute to quality improvement through the effective use of performance targets?</p> <ul style="list-style-type: none"> ■ Is there a set of comprehensive targets which between them encompass all significant internal audit activities? ■ Are the performance targets developed in consultation with appropriate parties and included in any service level agreement? ■ Does the CAE measure, monitor and report on progress against these targets? ■ Does ongoing performance monitoring include obtaining stakeholder feedback? 			<p>The Principal Auditor is set targets / objectives annually as part of the performance appraisal scheme. Performance against these targets/objectives is monitored regularly.</p> <p>The audit plan is monitored day-to-day and the Audit Committee receives six monthly updates on completion of the audit plan.</p> <p>Reporting timescales are published in the Audit Charter.</p> <p>In addition, ad-hoc benchmarking is conducted with the other Lancashire Internal Audit services. The use of external providers (Lancashire County Council / Wyre Council) also assists with benchmarking the quality of internal audit reports.</p> <p>Agreed performance targets would be documented in service level agreements if applicable.</p> <p>An email requesting feedback on how the audit was conducted, whether it met expectations, and whether it was of value etc is sent to the client at the end of each audit review. Any areas of concern are followed up by the IAAM (CAE).</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	
<p>Are the periodic self-assessments or assessments carried out by people external to the internal audit activity undertaken by those with a sufficient knowledge of internal audit practices?</p> <p>Sufficiency would require knowledge of the PSIAS and the wider guidance available such as the Local Government Application Note and/or IIA practice advisories, etc.</p>			<p>The periodic self-assessment is undertaken by the IAAM (CAE) and reviewed by the Financial Services Manager (Section 151 Officer).</p> <p>In order to comply with PSIAS and the Local Government Application Note; an external assessment must be carried out once every 5 years. Lancaster's assessment took place in March 2018. The next review is due to be completed in February 2023.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	
<p>Does the periodic assessment include a review of the activity against the risk-based plan and the achievement of its aims and objectives?</p>			<p>Previous peer reviews used the checklist recommended in CIPFA's Code of Practice. The assessment also included a review of the annual internal audit report which documents the achievement of the audit plan and its wider aims and objectives documented in the Audit Charter.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	

1312 External Assessments

Has an external assessment been carried out, or is one planned to be carried out, at least once every five years?
 Has the CAE discussed the alternative approaches to external assessment with the board?
 This should reflect the relative costs of the different approaches, the potential advantages of an external viewpoint, and whether there are factors which might be considered to warrant a demonstrably independent assessment.

The last external assessment was completed in March 2018 and the next one is scheduled for February 2023.
 The proposal from the Lancashire District Chief Auditors group which has been agreed by Audit Committee is to continue with the self-assessment and use peer reviews to obtain the independent external validation.
 The annual self-assessment is carried out by IAAM (CAE), scrutinised by the Financial Services Manager (Section 151 Officer) and presented to the Audit Committee. Lancaster’s first external assessment was in March 2018. The External Auditor at the time (KPMG) received the self-assessment as part of the Audit Committee agenda and therefore had the opportunity to challenge the content.
 The Audit Committee agree that an external self-assessment will be carried out as above and presented to the Audit Committee and that every 5 years the review will be independently validated by a peer review. A memorandum of understanding (MoU) and templates are in place which will be used for all external assessments. The report template allows for the assessment team to state their qualifications and independence.

CONFORMS ✓

PARTIAL

NOT CONFORMING

Questions to consider			Evidence / comments
<p>Has the CAE properly discussed the qualifications and independence of the assessor or assessment team with the board?</p> <p>In doing this, the CAE should consider whether the assessor or assessment team has demonstrated its competence in both the professional practice of internal auditing <i>and</i> the external assessment process. Competence can be demonstrated through both experience and theoretical learning. Experience of similar organisations or sectors is more valuable than less relevant experience. In the case of an assessment team, not all members need to have all the competencies – it is the team as a whole that is qualified.</p> <p>If the capability of the assessor or assessment team is not immediately obvious, the CAE should document how they used professional judgement to decide whether this is sufficient to carry out the external assessment.</p> <p>If the assessor or assessment team has any real or apparent conflicts of interest with the organisation, this should be clearly explained to the board, and safeguards should be put in place to minimise the effect of this on the conduct of the external assessment.</p> <p>Conflict of interest may include, but is not limited to, being a part of or under the control of the organisation to which the internal audit activity belongs.</p>			<p>The qualifications and independence of the assessment team will be documented in the final report. The peer review team will ensure that that the assessment team do not have any real or apparent conflicts of interest with the organisation prior to the work commencing.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	
<p>Has the CAE agreed the scope of the external assessment with an appropriate sponsor, such as the chair of the audit committee, the CFO or the chief executive?</p> <p>The CAE should also agree this scope with the external assessor or assessment team.</p>			<p>These requirements form the basis of the ‘Memorandum of Understanding’.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	
<p><i>1320 Reporting on the Quality Assurance and Improvement Programme</i></p>			

<p>Has the CAE reported the results of the QAIP to senior management and the board?</p> <hr/> <p>Note that:</p> <ul style="list-style-type: none"> ■ the results of both external and periodic internal assessment must be communicated upon completion ■ the results of ongoing monitoring must be communicated at least annually ■ the results must include the assessor's or assessment team's evaluation with regards to the degree of the internal audit activity's conformance with the PSIAS. 	<p>The Internal Audit Annual Report reports the results of the QAIP to Audit Committee. The results of the internal assessment of the internal audit function are scrutinised by the Financial Services Manager (Section 151 Officer) and presented to the Audit Committee.</p> <p>The internal assessment is reported to Audit Committee annually in May and any external assessments will be reported to the Audit Committee following the issue of any report.</p> <p>Both the Internal Audit Annual Report and the Internal Audit Charter refer to the QAIP and its ongoing monitoring. Conformance with PSIAS is documented.</p>	
<p>CONFORMS ✓</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>

Questions to consider			Evidence / comments
Has the CAE included the results of the QAIP and progress against any improvement plans in the annual report?			The QAIP is reported in the annual report. No gaps have been highlighted following the assessment of the internal audit service that need reporting in the internal audit annual report or the Annual Governance Statement for 2020/21.
CONFORMS ✓	PARTIAL	NOT CONFORMING	
1321 Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing'			
Has the CAE stated that the internal audit activity conforms with the PSIAS only if the results of the QAIP support this?			The self-assessment is reviewed by the Financial Services Manager (Section 151 Officer) and reported to the Audit Committee.
CONFORMS ✓	PARTIAL	NOT CONFORMING	
1322 Disclosure of Non-conformance			
Has the CAE reported any instances of non-conformance with the PSIAS to the board?			There are no instances of non-conformance with the PSIAS.
CONFORMS N/A	PARTIAL N/A	NOT CONFORMING N/A	
If appropriate, has the CAE considered including any significant deviations from the PSIAS in the governance statement and has this been evidenced?			There are no significant deviations that require reporting in the AGS.
CONFORMS N/A	PARTIAL N/A	NOT CONFORMING N/A	

Questions to consider			Evidence / comments
6 Performance Standards			
6.1 2000 Managing the Internal Audit Activity			
The questions in this section seek to confirm that the internal audit activity's work achieves the purposes and responsibility of the activity, as set out in the internal audit charter, and that the internal audit activity adds value to the organisation and its stakeholders by:			

<ul style="list-style-type: none"> ■ providing objective and relevant assurance ■ contributing to the effectiveness and efficiency of the governance, risk management and internal control processes. 			
2010 Planning			
<p>Has the CAE determined the priorities of the internal audit activity in a risk-based plan and are these priorities consistent with the organisation's goals?</p> <p>Does the risk-based plan take into account the requirement to produce an annual internal audit opinion?</p> <p>Does the risk-based plan incorporate or is it linked to a strategic or high-level statement of:</p> <ul style="list-style-type: none"> ■ How the internal audit service will be delivered? ■ How the internal audit service will be developed in accordance with the internal audit charter? ■ How the internal audit service links to organisational objectives and priorities? 			<p>The audit plan is formulated following discussions with Senior Managers, consideration of the Council's corporate plan and ambitions.</p> <p>The audit plan is formulated taking into consideration the areas on which the IAAM (CAE) is required to provide assurance in the annual audit report.</p> <p>The audit plan considers the council's strategic risk registers, business plan, priority projects / objectives and also any emerging threats, opportunities for fraud etc.</p> <p>Documented in the Audit Charter / Code of Ethics.</p> <p>Development of the Internal Audit Service will be identified as part of this self-assessment and also at the 5 year external assessment.</p> <p>Progress on meeting these improvements is monitored through the performance appraisal system.</p> <p>The audit plan is formulated after reviewing the council's business plan which lists the key objectives and actions for the organisation as a whole.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
<p>Does the risk-based plan set out how internal audit's work will identify and address local and national issues and risks?</p> <p>In developing the risk-based plan, has the CAE taken into account the organisation's risk management framework and relative risk maturity of the organisation?</p> <p>If such a risk management framework does not exist, has the CAE used their judgement of risks after input from senior management and the board and evidenced this? N/A</p>			<p>Local and national risks are identified through the following;</p> <ul style="list-style-type: none"> • Strategic risk discussions • Networking and attendance at group auditor meetings; • Meetings with the External Auditor; and • Reading and research. <p>The Audit Committee are given the opportunity to comment on the work in the plan and discuss emerging risks either locally or nationally.</p> <p>The audit brief for each audit will identify and address individual risks, be it locally or nationally. The brief for each audit are published on the council's intranet.</p> <p>Both strategic and operational risks are considered when developing the audit plan.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	
<p>Does the risk-based plan set out the:</p> <ul style="list-style-type: none"> ■ Audit work to be carried out? ■ Respective priorities of those pieces of audit work? ■ Estimated resources needed for the work? <p>Does the risk-based plan differentiate between audit and other types of work?</p> <p>Is the risk-based plan sufficiently flexible to reflect the changing risks and priorities of the organisation?</p>			<p>The audit plan lists the nature of the audit work.</p> <p>The plan itself does not list the priority of the work to be completed. However at the start of the year the audits will be prioritised and a start date will be agreed between the IAAM (CAE), Principal Auditor and the Service Manager.</p> <p>The audit plan is separated into sections, i.e. IT audits, financial systems work, routine monitoring, operational audits, business plan work and other areas of work including risk management, counter fraud and information governance.</p> <p>A contingency / investigation resource is set aside. The plan is regularly monitored and flexed if required.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	
<p>Does the CAE review the plan on a regular basis and has he or she adjusted the plan when necessary in response to changes in the organisation's business, risks, operations, programmes, systems and controls?</p>			<p>The plan is flexible. If any new risks emerge during the year or new systems are implemented the contingency will be used initially. If this resource has already been used it may be that some work on the audit plan may slip to the following year. Any changes or deviation from the audit plan will be reported to the audit committee.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	
<p>Is the internal audit activity's plan of engagements based on a documented risk assessment?</p>			<p>The process that is undertaken to formulate the audit plan is an annual risk assessment.</p>

Is the risk assessment used to develop the plan of engagements undertaken at least annually?			The risk assessment is completed annually and reviewed half yearly.
CONFORMS ✓	PARTIAL	NOT CONFORMING	
<p>In developing the risk-based plan, has the CAE also given sufficient consideration to:</p> <ul style="list-style-type: none"> ■ Any declarations of interest (for the avoidance for conflicts of interest)? ■ The requirement to use specialists, e.g. IT or contract and procurement auditors? ■ Allowing contingency time to undertake ad hoc reviews or fraud investigations as necessary? ■ The time required to carry out the audit planning process effectively as well as regular reporting to and attendance of the board, the development of the annual report and the CAE opinion? 			<p>Audit staff complete an annual declaration of interest. There have been no conflicts of interest recorded in 2020/21.</p> <p>The Principal Auditor has the necessary qualifications and skill set to carry out any audit. However if a piece of work was to be carried out that would require a specialist auditor skill set, an external audit organisation would be contacted.</p> <p>A contingency / investigation resource is set aside.</p> <p>Time to plan each audit is factored into the number of days allocated for each piece of work. Attendance at Audit Committee, development of the annual report and other IAAM (CAE) activities is listed separately on the audit plan.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
<p>In developing the risk-based plan, has the CAE consulted with senior management and the board to obtain an understanding of the organisation's strategies, key business objectives, associated risks and risk management processes?</p> <p>Does the CAE identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinion and any other conclusions?</p>			<p>Senior Management input is requested when drafting the audit plan. It is then submitted to the Audit Committee and which point their input is also requested.</p> <p>The annual audit report is scrutinised by the Financial Services Manager (Section 151 Officer) and is also presented to the Audit Committee for consideration. The document would be amended accordingly, recognising comments made, recommendations, changes etc.</p> <p>In regard to audit report opinions, the overall opinions are based on the findings of each audit, which are graded using a set framework. Auditees can challenge the audit opinion and provide reasons in support of why they think the opinion should be changed. This will be done at the draft stage of the reporting process.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	
<p>Does the CAE take into consideration any proposed consulting engagement's potential to improve the management of risks, to add value and to improve the organisation's operations before accepting them?</p> <p>Are consulting engagements that have been accepted included in the risk-based plan?</p>			<p>It is hoped that shared good practice will take place between the two organisations (Lancaster and Wyre) in relation to risk management, internal control and information governance.</p> <p>The risk based plan has been amended to make provision for the days that Lancashire County Council will spend on site at Lancaster City Council.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	
<i>2020 Communication and Approval</i>			
<p>Has the CAE communicated the internal audit activity's plans and resource requirements to senior management and the board for review and approval?</p> <p>Has the CAE communicated any significant interim changes to the plan and/or resource requirements to senior management and the board for review and approval, where such changes have arisen?</p>			<p>Members of the Executive Team and Senior Managers are involved in the production of the annual audit plan. The draft audit plan is submitted to the Audit Committee in Feb / March for approval.</p> <p>A six monthly update is provided for the Audit Committee which includes any deviations from the audit plan.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	
<p>Has the CAE communicated the impact of any resource limitations to senior management and the board?</p>			<p>Resource limitations would be reported to Executive Team and the Audit Committee where appropriate as part of the update report.</p>

CONFORMS ✓	PARTIAL	NOT CONFORMING	
<i>2030 Resource Management</i>			
Does the risk-based plan explain how internal audit's resource requirements have been assessed?			<p>The internal audit resource requirements are documented in the Audit Charter. The Audit Committee are only presented with the audit plan showing the total number of audit days committed. They are aware of the size of the audit section and have the opportunity to challenge the plan if they feel there is insufficient coverage.</p> <p>The External Auditors have not indicated they are uncomfortable with the internal audit resources available.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	
Has the CAE planned the deployment of resources, especially the timing of engagements, in conjunction with management to minimise disruption to the functions being audited, subject to the requirement to obtain sufficient assurance?			<p>The Auditor will agree the timing of engagements with relevant Service Managers to ensure that it is convenient prior to the start of each audit.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	

Questions to consider	Evidence / comments
<p>If the CAE believes that the level of agreed resources will impact adversely on the provision of the internal audit opinion, has he or she brought these consequences to the attention of the board?</p> <p>This may include an imbalance between the work plan and resource availability and/or other significant matters that jeopardise the delivery of the plan or require it to be changed.</p>	<p>There is an opportunity for the IAAM (CAE) to comment on sufficiency of resources where appropriate; although it is considered that the resource available is currently enough to deliver the audit plan. The team is small; however, this is supported by the SLA with Wyre Council and the use of Lancashire County Council to provide further days if required.</p>
<p>CONFORMS ✓ PARTIAL NOT CONFORMING</p>	
2040 Policies and Procedures	
<p>Has the CAE developed and put into place policies and procedures to guide the internal audit activity?</p> <p>Examples include maintaining an audit manual and/or using electronic management systems to guide staff in performing their duties in a manner that conforms to the PSIAS</p> <p>Are the policies and procedures regularly reviewed and updated to reflect changes in working practices and standards?</p>	<p>Standardised working papers and a reporting format has been developed. The council's intranet is used to store key documents that guide audit activity i.e. Audit Charter / Code of Ethics, Risk Management Policy and other CIPFA guidance. The Principal Auditor has been issued with the PSIAS and CIPFA's Application Note.</p> <p>Internal audit policies and procedures are reviewed annually to ensure conformity to PSIAS.</p>
<p>CONFORMS ✓ PARTIAL NOT CONFORMING</p>	
2050 Coordination	
<p>Does the risk-based plan include an adequately developed approach to using other sources of assurance and any work that may be required to place reliance upon those sources?</p> <p>The CAE should generally share information and coordinate activities with other internal and external providers of assurance and consulting services. They may also carry out an assurance mapping exercise, or make use of assurance mapping carried out by other assurance providers.</p>	<p>Other streams of assurance such as external inspections are considered, e.g. RIPA, Taxi Licencing, Food Safety and Local Government Ombudsman.</p> <p>Basic assurance mapping has been carried out by the Principal Auditor to identify sources of assurance which is documented on a spreadsheet and regularly updated.</p> <p>Regular meetings are held with External Audit to update them on the work currently being carried out by internal audit.</p>

They should also meet regularly with the nominated external audit representative to consult on and coordinate their respective audit plans.

Where key organisational risks relate to work undertaken through partnerships, the auditor may be able to take assurance from work undertaken by others, or by obtaining assurance directly.

Both internal and external audit plans are shared and communicated publicly at Audit Committee.

Regular meetings are held with the External Auditor and the Financial Services Manager (S151 Officer) to discuss the progress made in implementing the audit plan.

CONFORMS ✓	PARTIAL	NOT CONFORMING
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Questions to consider			Evidence / comments
<i>2060 Reporting to Senior Management and the Board</i>			
<p>Does the CAE report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan?</p> <p>Does the periodic reporting also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board?</p> <p>Is the frequency and content of such reporting determined in discussion with senior management and the board and are they dependent on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board?</p>			<p>The IAAM (CAE) will update the Financial Services Manager (Section 151 Officer) on a regular basis.</p> <p>Six monthly audit and risk management update reports are submitted to the Audit Committee.</p> <p>The Audit Chairman and the External Auditor will receive verbal updates on any frauds / whistleblowing cases.</p> <p>The Audit Committee receives internal audit's Audit Charter / Code of Ethics annually which covers its purpose, authority and responsibility.</p> <p>Significant risk exposures are currently being documented via the strategic risk registers. Governance issues are considered along with the annual agreement of the AGS.</p> <p>Gifts and hospitality registers are also reviewed by Audit Committee and the Monitoring Officer.</p> <p>An agreed work programme is in place documenting when reports are submitted to Audit Committee.</p> <p>Where actions are considered to be important or urgent, more regular update reports are requested by Audit Committee and the relevant officer is invited to attend committee.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	
<i>2070 External Service Provider and Organisational Responsibility for Internal Auditing</i>			
<p>Where an external internal audit service provider acts as the internal audit activity, does that provider ensure that the organisation is aware that the responsibility for maintaining and effective internal audit activity remains with the organisation?</p>			<p>This would be documented in any service level agreement.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	

6.2 2100 Nature of Work		
<p>The questions in this section seek to confirm that the internal audit activity evaluates and contributes to the improvement of the organisation's governance, risk management and internal control processes using a systematic and disciplined approach.</p>		
2110 Governance		
<p>Does the internal audit activity assess and make appropriate recommendations to improve the organisation's governance processes for:</p> <ul style="list-style-type: none"> ■ Making strategic and operational decisions? ■ Overseeing risk management and control? ■ Promoting appropriate ethics and values within the organisation? ■ Ensuring effective organisational performance management and accountability? ■ Communicating risk and control information to appropriate areas of the organisation? ■ Coordinating the activities of and communicating information among the board, external and internal auditors and management? 		
<p>CONFORMS ✓</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>
<p>The audit plan is formulated to ensure it contributes to the improvement of the organisation's governance, risk management and internal control processes. Audit reviews will cover the governance and the key risks of the service as well as the key controls.</p> <p>An ethical governance survey was conducted in 2018 to promote positive behaviours and values and identify gaps in knowledge and understanding. An equivalent survey for members was due to be issued early in 2020/21 but has been delayed by the pandemic.</p> <p>Managers are held accountable for actions in audit reports and findings from previous audit reports are followed up by the audit team.</p> <p>Performance management is scheduled in the audit plan biennially.</p> <p>Audit reports are issued to the staff responsible for the area being audited.</p> <p>The Audit Committee and the Executive Team receive regular updates on risk management.</p> <p>A governance assurance meeting is carried out prior to the completion of the Annual Governance Statement. This is attended by key officers of the council. However it should be noted that owing to the COVID-19 pandemic, alternative methods will be used to pull together the AGS for 2019/20.</p> <p>All audit reports are issued to clients and published on the Intranet and available for all staff / members to view.</p> <p>External Auditor communication is presented to Audit Committee.</p> <p>Regular updates are presented to council on the work of Audit Committee.</p> <p>Governance issues will be reviewed as part of the audit as are risk management, health and safety and performance management.</p>		

Questions to consider	Evidence / comments		
<p>Has the internal audit activity evaluated the design, implementation and effectiveness of the organisation’s ethics-related objectives, programmes and activities? This is an area where the CAE may be able to use other sources of assurance.</p>	<p>The ethical governance survey completed in 2018 tested knowledge and understanding of key policies and procedures and helped identify any gaps allowing targeted future training.</p>		
CONFORMS ✓	PARTIAL	NOT CONFORMING	
<p>Has the internal audit activity assessed whether the organisation’s information technology governance supports the organisation’s strategies and objectives? This is an area where the CAE may be able to use other sources of assurance.</p>	<p>There is a set number of days in the audit plan to cover IT governance if required.</p>		
CONFORMS ✓	PARTIAL	NOT CONFORMING	
2120 Risk Management			
<p>Has the internal audit activity evaluated the effectiveness of the organisation’s risk management processes by determining that:</p> <ul style="list-style-type: none"> ■ Organisational objectives support and align with the organisation’s mission? ■ Significant risks are identified and assessed? ■ Appropriate risk responses are selected that align risks with the organisation’s risk appetite? ■ Relevant risk information is captured and communicated in a timely manner across the organisation, thus enabling the staff, management and the board to carry out their responsibilities? 	<p>Documented in the Council Plan – However these have bit been evaluated by Internal Audit.</p> <p>The Council’s Corporate Plan has been used to identify and assess significant strategic risks. The council is in the process of pulling together mitigating action plans. However operational risks have yet to be documented.</p> <p>The Council has recently approved its Risk Management Policy and purchases risk Management software (GRACE).</p> <p>Risk Management has been identified in both the Internal Audit Annual Report and the 2019/20 AGS of an area requiring attention, therefore no specific actions have been documented here.</p>		
CONFORMS	PARTIAL ✓	NOT CONFORMING	
<p>Has the internal audit activity evaluated the risks relating to the organisation’s governance, operations and information systems regarding the:</p> <ul style="list-style-type: none"> ■ Achievement of the organisation’s strategic objectives? ■ Reliability and integrity of financial and operational information? 	<p>The audit plan has identified a number of pieces of work which will involve evaluating the risks of key strategic projects.</p> <p>Financial and operational information is tested for reliability and integrity as part of individual audits.</p> <p>If assurance work has been completed, the effectiveness and efficiency will be reported on accordingly in final report and in the annual audit</p>		

<ul style="list-style-type: none"> ■ Effectiveness and efficiency of operations and programmes? ■ Safeguarding of assets? ■ Compliance with laws, regulations, policies, procedures and contracts? 			<p>report.</p> <p>The safeguarding of council assets is considered as part of individual audits.</p> <p>Compliance with law, regulations, polices and procedures is considered as part of each audit.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	
<p>Has the internal audit activity evaluated the potential for fraud and also how the organisation itself manages fraud risk?</p> <p>CIPFA has issued a <i>Code of Practice on Managing the Risk of Fraud and Corruption</i>, and strongly recommends that it is used as the basis for assessment of how an authority manages its fraud risk.</p>			<p>The council takes part in the NFI process.</p> <p>The IAAM (CAE) regularly tests compliance to the council’s counter fraud polices.</p> <p>Information concerning potential fraudulent activity is shared (National reports and Lancashire Audit Group).</p> <p>The Corporate Enquiry Team will focus on investigating corporate fraud including fraudulent claims for council tax support, falsely claimed council tax and business rate discounts and exemptions and council tax and business rate avoidance.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
<p>Do internal auditors address risk during consulting engagements consistently with the objectives of the engagement?</p> <p>Are internal auditors alert to other significant risks when undertaking consulting engagements?</p> <p>Do internal auditors incorporate knowledge of risks gained from consulting engagements into their evaluation of the organisation's risk management processes?</p>			<p>There are no such engagements undertaken presently.</p>
CONFORMS N/A	PARTIAL N/A	NOT CONFORMING N/A	
<p>Do internal auditors successfully avoid managing risks themselves, which would in effect lead to taking on management responsibility, when assisting management in establishing or improving risk management processes?</p>			<p>The Internal Audit Team facilitate the audit process, identify risk areas and make recommendations to mitigate risks etc within audit reports. Appropriate officers will be made responsible for ensuring that's risks identified are managed during the year.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	
2130 Control			
<p>Has the internal audit activity evaluated the adequacy and effectiveness of controls in the organisation's governance, operations and information systems regarding the:</p> <ul style="list-style-type: none"> ■ Achievement of the organisation's strategic objectives? ■ Reliability and integrity of financial and operational information? ■ Effectiveness and efficiency of operations and programmes? ■ Safeguarding of assets? ■ Compliance with laws, regulations, policies, procedures and contracts? 			<p>These areas are covered as part of the audit planning process.</p> <p>Audits of key financial systems are conducted every 2/3 years unless there are any major changes to controls.</p> <p>Strategic objectives / projects are risk managed at Service Manager level.</p> <p>Feedback from the Insurance Officer is used to evaluate adequacy of the safeguarding of council assets.</p> <p>Compliance with laws, regulation, policies, procedures and contracts are considered in each audit review.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	
<p>Do internal auditors utilise knowledge of controls gained during consulting engagements when evaluating the organisation's control processes?</p>			<p>There are no such engagements undertaken presently.</p>
CONFORMS N/A	PARTIAL N/A	NOT CONFORMING N/A	

6.3 2200 Engagement Planning

Do internal auditors develop and document a plan for each engagement?

Does the engagement plan include the engagements:

- Objectives?
- Scope?
- Timing?
- Resource allocations?

An audit brief is developed and agreed for each audit review.
Each of these criteria are documented in the audit brief.

CONFORMS ✓

PARTIAL

NOT CONFORMING

Questions to consider			Evidence / comments
<p>Do internal auditors consider the following in planning an engagement, and is this documented:</p> <ul style="list-style-type: none"> ■ The objectives of the activity being reviewed? ■ The means by which the activity controls its performance? ■ The significant risks to the activity being audited? ■ The activity's resources? ■ The activity's operations? ■ The means by which the potential impact of risk is kept to an acceptable level? ■ The adequacy and effectiveness of the activity's governance, risk management and control processes compared to a relevant framework or model? ■ The opportunities for making significant improvements to the activity's governance, risk management and control processes? 			<p>Each of these criteria are either documented in the audit brief or the lead schedules.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	
<p>Where an engagement plan has been drawn up for an audit to a party outside of the organisation, have the internal auditors established a written understanding with that party about the following:</p> <ul style="list-style-type: none"> ■ Objectives? ■ Scope? ■ The respective responsibilities and other expectations of the internal auditors and the outside party (including restrictions on distribution of the results of the engagement and access to engagement records)? 			<p>There are no audits performed for parties outside of the organisation.</p>
CONFORMS N/A	PARTIAL N/A	NOT CONFORMING N/A	

For consulting engagements, have internal auditors established an understanding with the engagement clients about the following:

- Objectives?
- Scope?
- The respective responsibilities of the internal auditors and the client and other client expectations?

For significant consulting engagements, has this understanding been documented?

There are no such engagements undertaken presently.

CONFORMS N/A	PARTIAL N/A	NOT CONFORMING N/A
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Questions to consider	Evidence / comments			
2210 Engagement Objectives				
<p>Have objectives been agreed for each engagement?</p> <p>Have internal auditors carried out a preliminary risk assessment of the activity under review?</p> <p>Do the engagement objectives reflect the results of the preliminary risk assessment that has been carried out?</p> <p>Have internal auditors considered the probability of the following when developing the engagement objectives:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Significant errors? <input type="checkbox"/> Fraud? <input type="checkbox"/> Non-compliance? <input type="checkbox"/> Any other risks? 	<p>Documented in the audit brief.</p> <p>This is completed whilst formulating the audit brief. Auditors will review previous audits, risk registers and other intelligence before undertaking each review. Risk profiles may also be used to assist in identifying further key risks.</p> <p>The audit brief document identifies the core risk and the objective.</p> <p>The preliminary risk assessment will ensure each of these are covered.</p>			
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%; text-align: center;">CONFORMS ✓</td> <td style="width: 33%; text-align: center;">PARTIAL</td> <td style="width: 33%; text-align: center;">NOT CONFORMING</td> </tr> </table>	CONFORMS ✓	PARTIAL	NOT CONFORMING	
CONFORMS ✓	PARTIAL	NOT CONFORMING		
<p>Have internal auditors ascertained whether management and/or the board have established adequate criteria to evaluate and determine whether organisational objectives and goals have been accomplished?</p> <p>If the criteria has been deemed adequate, have the internal auditors used the criteria in their evaluation of governance, risk management and controls?</p>	<p>The audit briefs are shared with Audit Committee members allowing such an evaluation to be undertaken when the audit report is published.</p> <p>A control matrix is used to evidence that all risks identified have been tested and that adequate controls are in place.</p>			
<p>If the criteria has been deemed inadequate, have the internal auditors worked with management and/or the board to develop appropriate evaluation criteria?</p> <p>If the value for money criteria has been referred to, has the use of all the organisation's main types of resources been considered, including money, people and assets?</p>	<p>There are no instances where the criteria have been deemed inadequate.</p> <p>The 'value for money' aspect of any service / control is considered during each review.</p> <p>If there has been any work on VFM this will be documented within the report.</p>			

CONFORMS ✓	PARTIAL	NOT CONFORMING	
<p>Do the objectives set for consulting engagements address governance, risk management and control processes as agreed with the client?</p> <p>Are the objectives set for consulting engagements consistent with the organisation's own values, strategies and objectives?</p>			<p>The job description of the IAAM (CIA) sets out the requirement of the role; in particular around governance, risk management and internal control.</p> <p>In addition, the job description refers to compliance with the PSIAS which both organisations comply with.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	
<i>2220 Engagement Scope</i>			
<p>Is the scope that is established for each engagement generally sufficient to satisfy the engagement's objectives?</p> <p>Does the scope for each engagement include consideration of relevant systems, records, personnel and physical properties?</p> <p>Does this consideration include areas under the control of outside parties, where appropriate?</p>			<p>Agreed at the start of the audit. If during the audit the scope has to be extended to ensure the objectives of the audit are met, this is agreed with the Head of Governance (CAE) as it is likely to have resource implications.</p> <p>The audit brief document identifies the systems, records, premises and personnel the auditor will require assess to.</p> <p>Yes</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
<p>Where significant consulting opportunities have arisen during an assurance engagement, was a specific written understanding as to the objectives, scope, respective responsibilities and other expectations drawn up?</p> <p>Where significant consulting opportunities have arisen during an assurance engagement, were the results of the subsequent engagement communicated in accordance with the relevant consulting standards?</p>			There have been no such consulting opportunities that have arisen during an assurance engagement.
CONFORMS N/A	PARTIAL N/A	NOT CONFORMING N/A	
<p>For each consulting engagement, was the scope of the engagement generally sufficient to address any agreed-upon objectives?</p> <p>If the internal auditors developed any reservations about the scope of a consulting engagement while undertaking that engagement, did they discuss those reservations with the client and therefore determine whether or not to continue with the engagement?</p> <p>During consulting engagements, did internal auditors address the controls that are consistent with the objectives of those engagements?</p> <p>During consulting engagements, were internal auditors alert to any significant control issues?</p>			There are no such engagements undertaken presently.
CONFORMS N/A	PARTIAL N/A	NOT CONFORMING N/A	
2230 Engagement Resource Allocation			
<p>Have internal auditors decided upon the appropriate and sufficient level of resources required to achieve the objectives of each engagement based on:</p> <p>a) The nature and complexity of the individual engagement?</p> <p>b) Any time constraints?</p> <p>c) The resources available?</p>			This is agreed when formulating the annual audit plan. The IAAM (CAE) is notified of any changes to the nature of the work, time constraints and resources available once the audit brief has been agreed.
CONFORMS ✓	PARTIAL	NOT CONFORMING	

2240 Engagement Work Programme		
<p>Have internal auditors developed and documented work programmes that achieve the engagement objectives?</p> <p>Do the engagement work programmes include procedures for:</p> <ul style="list-style-type: none"> ■ Identifying information? ■ Analysing information? ■ Evaluating information? ■ Documenting information? <p>Were work programmes approved prior to implementation for each engagement?</p> <p>Were any adjustments required to work programmes approved promptly?</p>		
<p>The auditor will plan the work required to meet the objectives of the audit. Standard templates are in place for this purpose.</p> <p>The detailed analysis and testing schedules will document the objective, the information required, the testing completed, the finding and the overall conclusions and recommendations.</p> <p>After the Audit Committee have approved the annual audit plan for the forthcoming year, the Auditor will agree the work programme for each quarter with the IAAM.</p> <p>Occasionally, work programmes are adjusted to take into consideration urgent work or investigations.</p>		
CONFORMS ✓	PARTIAL	NOT CONFORMING

Questions to consider	Evidence / comments			
6.4 2300 Performing the Engagement				
The questions in this section seek to confirm that internal auditors analyse, evaluate and document sufficient, reliable, relevant and useful information to support engagement results and conclusions.				
<i>2310 Identifying Information</i>				
<p>Do internal auditors generally identify (sufficient, reliable, relevant and useful) information which supports engagement results and conclusions?</p> <p>Sufficient information is factual, adequate and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organisation meet its goals.</p>	<p>Checks are made during a full audit review by the IAAM (CAE) that the objectives of the audit have been achieved and that there is sufficient evidence to support any findings, conclusions and the overall opinion.</p> <p>Review notes are provided to the Auditor after each review if further work is required or certain areas require clarification.</p> <p>Review notes will show if further information is required to support findings or if evidence is not relevant or reliable.</p>			
<table border="1"> <tr> <td data-bbox="194 903 443 954">CONFORMS ✓</td> <td data-bbox="443 903 725 954">PARTIAL</td> <td data-bbox="725 903 1167 954">NOT CONFORMING</td> </tr> </table>	CONFORMS ✓	PARTIAL	NOT CONFORMING	
CONFORMS ✓	PARTIAL	NOT CONFORMING		
<i>2320 Analysis and Evaluation</i>				
Have internal auditors generally based their conclusions and engagement results on appropriate analyses and evaluations?	Confirmed by the IAAM (CAE) for each audit performed by the Auditor.			
<table border="1"> <tr> <td data-bbox="194 1098 443 1155">CONFORMS ✓</td> <td data-bbox="443 1098 725 1155">PARTIAL</td> <td data-bbox="725 1098 1167 1155">NOT CONFORMING</td> </tr> </table>	CONFORMS ✓	PARTIAL	NOT CONFORMING	
CONFORMS ✓	PARTIAL	NOT CONFORMING		
<p>Have internal auditors generally remained alert to the possibility of the following when performing their individual audits, and has this been documented:</p> <ul style="list-style-type: none"> ■ Intentional wrongdoing? ■ Errors and omissions? ■ Poor value for money? ■ Failure to comply with management policy? ■ Conflicts of interest? 	<p>The key risks around these areas are identified at the start of the audit.</p> <p>The Principal Auditor is experienced in the areas she is required to audit throughout the council and remains alert to any weaknesses / control failings.</p> <p>Documented in standardised working papers.</p>			

CONFORMS ✓	PARTIAL	NOT CONFORMING
2330 Documenting Information		
<p>Have internal auditors documented the relevant information required to support engagement conclusions and results?</p> <p>Are working papers sufficiently complete and detailed to enable another experienced internal auditor with no previous connection with the audit to ascertain what work was performed, to re-perform it if necessary and to support the conclusions reached?</p>		<p>Standardised reports are used to document conclusions and findings along with a management action plan.</p> <p>A file review is conducted by the IAAM (CAE) to ensure working papers are referenced correctly and the file contains sufficient evidence to support any findings and the overall opinion.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING

Questions to consider	Evidence / comments		
<p>Does the CAE control access to engagement records?</p> <p>Has the CAE obtained the approval of senior management and/or legal counsel as appropriate before releasing such records to external parties?</p> <p>Has the CAE developed and implemented retention requirements for all types of engagement records?</p>	<p>Access rights are documented in the Audit Charter. The audit reports state that the working papers can be viewed on request.</p> <p>Audit files have not been released to external parties other than the council's External Auditor.</p> <p>Information Asset Registers document the required retention periods for all audit records.</p>		
CONFORMS ✓	PARTIAL	NOT CONFORMING	
<p>Are the retention requirements for engagement records consistent with the organisation's own guidelines as well as any relevant regulatory or other requirements?</p>	<p>Retention periods are consistent with organisational and regulatory guidelines. At present audit files are retained for 7 years (6 plus current) in accordance with the Government Classification Scheme.</p>		
2340 Engagement Supervision			
<p>Are all engagements properly supervised to ensure that objectives are achieved, quality is assured and that staff are developed?</p> <p>Is appropriate evidence of supervision documented and retained for each engagement?</p>	<p>File reviews, feedback and performance appraisals are used to ensure that training or development issues are highlighted.</p> <p>File reviews and performance appraisal documents are retained evidencing supervision.</p>		
CONFORMS ✓	PARTIAL	NOT CONFORMING	
6.5 2400 Communicating Results			
<p>The questions in this section seek to confirm that internal auditors communicate the results of engagements in an appropriate way.</p>			
2410 Criteria for Communicating			
<p>Do the communications of engagement results include the following:</p> <ul style="list-style-type: none"> ■ The engagement's objectives? ■ The scope of the engagement? ■ Applicable conclusions? ■ Recommendations and action plans, if appropriate? 	<p>Audit reports are issued as appropriate to Directors, Heads of Service, key operational staff with the Audit Committee and the External Auditor reviewing all audit reports.</p> <p>A standardised report format is used ensuring that each of the criteria is communicated.</p>		
CONFORMS ✓	PARTIAL	NOT CONFORMING	

Do internal auditors generally discuss the contents of the draft final reports with the appropriate levels of management to confirm factual accuracy, seek comments and confirm the agreed management actions?			A closure meeting is arranged with the relevant officers to agree factual accuracy, findings and agree actions.
CONFORMS ✓	PARTIAL	NOT CONFORMING	
<p>If recommendations and an action plan have been included, are recommendations prioritised according to risk?</p> <p>If recommendations and an action plan have been included, does the communication also state agreements already reached with management, together with appropriate timescales?</p> <p>If there are any areas of disagreement between the internal auditor and management, which cannot be resolved by discussion, are these recorded in the action plan and the residual risk highlighted?</p>			<p>Lancaster recommendations are given a priority risk rating of 1 to 3. Level 1 recommendations require immediate action and level 3 recommendations have no set timescales and include suggestions for improvements / efficiencies in service delivery.</p> <p>Lancashire County Council recommendations are prioritised as Extreme, High, Medium or Low and appropriate timescales can be agreed with the auditor.</p> <p>The action plan identifies the management response and timescales for action.</p> <p>The management response would only identify areas of disagreement where appropriate.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
<p>Subject to confidentiality requirements and other limitations on reporting, do communications disclose all material facts known to them in their audit reports which, if not disclosed, could distort their reports or conceal unlawful practice?</p> <p>When an opinion or conclusion is issued, are the expectations of senior management, the board and other stakeholders taken into account?</p>			<p>Evidence is disclosed in support of the audit conclusion subject to confidentiality requirements.</p> <p>The internal auditor's opinion and conclusions are clearly visible. Closure meetings are held with clients and audit reports are scrutinised by the Financial Services Manager (Section 151 Officer) and reported to the Audit Committee.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	
<p>Opinions should be supported by sufficient, reliable, relevant and useful information (in line with responses to questions for PSIAS 2300).</p> <p>Where appropriate, do engagement communications acknowledge satisfactory performance of the activity in question?</p>			<p>Confirmed by the IAAM (CAE) who reviews all audit files.</p> <p>Satisfactory performance would be reflected in the overall conclusion issued.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	
<p>When engagement results have been released to parties outside of the organisation, does the communication include limitations on the distribution and use of the results?</p>			<p>The engagement results are not released to parties outside of the organisation other than the council's External Auditors.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	
<p>Where the CAE has been required to provide assurance to other partnership organisations, or arm's length bodies such as trading companies, have the risks of doing so been managed effectively, having regard to the CAE's primary responsibility to the management of the organisation for which they are engaged to provide internal audit services?</p>			<p>Internal Audit have not been asked to provide assurance to any partnership organisations.</p>
CONFORMS N/A	PARTIAL N/A	NOT CONFORMING N/A	
<p>2420 Quality of Communications</p>			
<p>Are internal audit communications generally accurate, objective, clear, concise, constructive, complete and timely?</p>			<p>All documents are reviewed by the IAAM (CAE). Review notes are provided to correct any work that does not meet quality standards.</p> <p>Closure meetings are also used to agree factual accuracy of the report and findings.</p> <p>Feedback is used to ensure auditees are happy with how the audit</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	

			<p>was conducted.</p> <p>The client is provided with an opportunity to challenge whether they consider the report to be constructive as part of the closure meeting and again by attending Audit Committee if appropriate.</p> <p>The timeliness of reports is monitored and reported to Audit Committee.</p>
2421 Errors and Omissions			
<p>If a final communication has contained a significant error or omission, did the CAE communicate the corrected information to all parties who received the original communication?</p>			<p>The closure meeting is designed to identify and resolve any significant errors or omissions; however the report would be re-issued where necessary.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	
2430 Use of 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing'			
<p>Do internal auditors report that engagements are 'conducted in conformance with the PSIAS' only if the results of the QAIP support such a statement?</p>			<p>Reported as part of the Annual Internal Audit Report.</p>
CONFORMS ✓	PARTIAL	NOT CONFORMING	

Questions to consider	Evidence / comments
<p>2431 Engagement Disclosure of Non-conformance</p> <p>Where any non-conformance with the PSIAS has impacted on a specific engagement, do the communication of the results disclose the following:</p> <ul style="list-style-type: none"> ■ The principle or rule of conduct of the <i>Code of Ethics or Standard(s)</i> with which full conformance was not achieved? ■ The reason(s) for non-conformance? ■ The impact of non-conformance on the engagement and the engagement results? <p>CONFORMS N/A PARTIAL N/A NOT CONFORMING N/A</p>	<p>No specific engagements have been impacted on by non-compliance with the PSIAS.</p>
<p>2440 Disseminating Results</p> <p>Has the CAE determined the circulation of audit reports within the organisation, bearing in mind confidentiality and legislative requirements?</p> <p>CONFORMS ✓ PARTIAL NOT CONFORMING</p>	<p>Reporting arrangements are documented within the Audit Charter.</p>
<p>Has the CAE communicated engagement results to all appropriate parties?</p> <p>CONFORMS ✓ PARTIAL NOT CONFORMING</p>	<p>Audit reports are issued as appropriate to Directors, Heads of Service and key operational staff with the Audit Committee and the External Auditor receiving all audit reports. The Audit Working Papers also have a pre-populated distribution list.</p>
<p>Before releasing engagement results to parties outside the organisation, did the CAE:</p> <ul style="list-style-type: none"> ■ Assess the potential risk to the organisation? ■ Consult with senior management and/or legal counsel as appropriate? ■ Control dissemination by restricting the use of the results? <p>CONFORMS N/A PARTIAL N/A NOT CONFORMING N/A</p>	<p>Engagement results have not been released to parties outside the organisation other than the council's External Auditors.</p>

Where any significant governance, risk management and control issues were identified during consulting engagements, were these communicated to senior management and the board?	There are no such engagements undertaken presently.	
CONFORMS N/A	PARTIAL N/A	NOT CONFORMING N/A

Questions to consider	Evidence / comments			
2450 Overall Opinion				
<p>Has the CAE delivered an annual internal audit opinion?</p> <p>Does the annual internal audit opinion conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control?</p> <p>Does the annual internal audit opinion take into account the expectations of senior management, the board and other stakeholders?</p> <p>Is the annual internal audit opinion supported by sufficient, reliable, relevant and useful information (having regard to the answers to questions on PSIAS 2300)?</p>	<p>Presented annually to the Audit Committee.</p> <p>The annual audit report is scrutinised by the Financial Services Manager (Section 151 Officer) and presented to Audit Committee for consideration.</p> <p>See report presented to Audit Committee in July 2020</p>			
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%;">CONFORMS ✓</td> <td style="width: 33%;">PARTIAL</td> <td style="width: 33%;">NOT CONFORMING</td> </tr> </table>	CONFORMS ✓	PARTIAL	NOT CONFORMING	
CONFORMS ✓	PARTIAL	NOT CONFORMING		
<p>Does the communication identify the following:</p> <ul style="list-style-type: none"> ■ The scope of the opinion, including the time period to which the opinion relates? ■ Any scope limitations? ■ The consideration of all related projects including the reliance on other assurance providers? ■ The risk or control framework or other criteria used as a basis for the overall opinion? <p>Where a qualified or unfavourable annual internal audit opinion is given, are the reasons for that opinion stated?</p> <p>Has the CAE delivered an annual report that can be used by the organisation to inform its governance statement?</p>	<p>All areas documented in the Annual Audit report.</p> <p>In providing an overall opinion on the council’s system of internal control, it should be noted that assurance can never be absolute. Internal audit can only provide reasonable assurance that there are no major weaknesses in the areas reviewed.</p> <p>Where a qualified or unfavourable opinion was given this would be fully explained in the annual audit report.</p> <p>See annual governance statement and section entitled ‘review of effectiveness’.</p>			
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%;">CONFORMS ✓</td> <td style="width: 33%;">PARTIAL</td> <td style="width: 33%;">NOT CONFORMING</td> </tr> </table>	CONFORMS ✓	PARTIAL	NOT CONFORMING	
CONFORMS ✓	PARTIAL	NOT CONFORMING		

Does the annual report incorporate the following:

- The annual internal audit opinion?
- A summary of the work that supports the opinion?
- A disclosure of any qualifications to the opinion?
- The reasons for any qualifications to the opinion?
- A disclosure of any impairments or restriction in scope?
- A comparison of work actually carried out with the work planned?
- A statement on conformance with the PSIAS?
- The results of the QAIP?
- Progress against any improvement plans resulting from the QAIP?
- A summary of the performance of the internal audit activity against its performance measures and targets?
- Any other issues that the CAE judges is relevant to the preparation of the governance statement?

See annual audit report considered by the Audit Committee.

Internal review feedback forms are referred to along with a comparison of the work actually carried out compared to that planned.

CONFORMS ✓

PARTIAL

NOT CONFORMING

Questions to consider	Evidence / comments	
6.6 2500 Monitoring Progress		
<p>The questions in this section seek to confirm that a system is in place to monitor effectiveness of audit communications results to management, including appropriate follow up when no action is taken by management.</p> <p>Has the CAE established a process to monitor and follow up management actions to ensure that agreed actions have been effectively implemented or that senior management have accepted the risk of not taking action?</p>		
<p>Where issues have arisen during the follow-up process (for example, where agreed actions have not been implemented), has the CAE considered revising the internal audit opinion?</p> <p>Do the results of monitoring management actions inform the risk- based planning of future audit work?</p>	<p>Whilst no significant issues have arisen during 2020/21, up-to-date action plans would be provided with new actions required / dates etc. The audit opinion would be changed if necessary.</p> <p>If there has been little progress made in implementing recommendations, it is highly likely that the audit will feature on the next year's audit plan.</p>	
CONFORMS ✓	PARTIAL	NOT CONFORMING
Does the internal audit activity monitor the results of consulting engagements as agreed with the client?	There are no such engagements undertaken presently.	
CONFORMS N/A	PARTIAL N/A	NOT CONFORMING N/A
6.7 2600 Communicating the Acceptance of Risks		
<p>This section considers the arrangements which apply if the CAE has concluded that management has accepted a level of risk that may be unacceptable to the organisation.</p> <p>Situations of this kind are expected to be rare. PSIAS 2600 sets out communication requirements for the CAE. It is not the responsibility of the CAE to resolve the risk.</p>		
If the CAE has concluded that management has accepted a level of risk that may be unacceptable to the organisation, has he or she discussed the matter with senior management?	<p>The IAAM (CAE) has not concluded this to date but would refer the matter to the Financial Services Manager (Section 151 Officer).</p> <p>The IAAM (CAE) has not concluded this to date but would if</p>	

<p>If, after discussion with senior management, the CAE continues to conclude that the level of risk may be unacceptable to the organisation, has he or she communicated the situation to the board?</p>	<p>appropriate refer the matter to the Audit Committee.</p>	
<p>CONFORMS ✓</p>	<p>PARTIAL</p>	<p>NOT CONFORMING</p>

AUDIT COMMITTEE**Internal Audit Annual Report 2019-20****22 July 2020****Report of the Internal Audit and Assurance Manager****PURPOSE OF REPORT**

To consider the Internal Audit Annual report for 2019/20.

This report is public

RECOMMENDATIONS

1. **That the Internal Audit and Assurance Manager's (IAAM) Internal Audit Annual Report for 2019/20 be considered by the Committee as a key source of assurance which will be reported in the Annual Governance Statement (AGS), which is to be approved by the Committee later in the agenda.**

1.0 Introduction

1.1 The Internal Audit Annual Report is produced in order to meet the requirements of the Public Sector Internal Audit Standards and to assist in meeting the Accounts and Audit Regulations 2015. The report provides details of audit coverage and of the work carried out by the section and contains the IAAM opinion of the overall level of control in operation.

1.2 The Audit Committee's role in relation to reviewing the work carried out includes formal consideration of summaries of work done, key findings, issues of concern and actions in hand as a result of audit work. A key part of the role is receiving and reviewing regular reports from the IAAM in order to reach an overall opinion on the internal control environment and the quality of internal audit coverage. The Audit Committee has a clear role in relation to the authority's internal audit function and this involves:

- Formally approving, but not directing, the overall strategy to ensure that it meets the council's overall strategic direction;
- Agreeing the annual audit plan (paying attention to whether there is sufficient and appropriate coverage); and
- Monitoring progress against the plan and assessing whether adequate skills and resources are available to provide an effective audit function.

2.0 Proposal Details

2.1 The Internal Audit Annual Report attached at Appendix A seeks to demonstrate that effective leadership of audit and governance are in place across the organisation and that the necessary arrangements are in place to maintain a sound system of internal control.

3.0 Details of consultation

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

4.0 Options and options analysis (including risk assessment)

4.1 The proposal is that the Committee considers the IAAM's Internal Audit Annual Report as a contribution to the overall assessment of the internal control environment, the risk management framework and the AGS.

4.2 No alternative options are identified.

5.0 Conclusion

5.1 The work of internal audit seeks to provide assurance to the Council as to the appropriateness and effectiveness of its internal control, risk management and corporate governance arrangements. During the 2019/20 financial year, internal audit's work has gained the necessary assurances to be able to state the council has in place satisfactory controls to be able to maintain an adequate and effective internal control environment. However it should be noted that the IAAM has stated that risk management should be reported in the Council's AGS for the year 2019/20 as an area still requiring attention owing to further work on embedding risk management still needing to be completed. At the time of reporting, there is uncertainty what resources will be available in the immediate future to dedicate to embedding risk management given both the IAAM and the Principal Auditor have been redeployed to other areas of work to assist with the pandemic.

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

This report has no direct impact on these areas.

FINANCIAL IMPLICATIONS

None arising directly from this report.

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

None arising directly from this report.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

Internal Audit Plan 2019/20

Contact Officer: Joanne Billington

Telephone: 01524 582028

E-mail: jbillington@lancaster.gov.uk

Ref:

INTERNAL AUDIT ANNUAL REPORT 2019/20

The Internal Audit and Assurance Section is responsible to the Head of Financial Services (S151 Officer) for carrying out a continuous examination of the accounting, financial and other operations of the council in accordance with Section 151 of the Local Government Act 1972 and the Accounts and Audit Regulations 2015. The latter states that **“A relevant authority must ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives, ensures that the financial and operational management of the authority is effective and includes effective arrangements for the management of risk”**.

Members of the Audit Committee should note that copies of internal audit reports are published on the council's intranet. Access to the supporting files is available to members of the Audit Committee on request.

Lancaster City Council continues to be represented on the Lancashire District Council's Audit Group and we continue to participate in the National Fraud Initiative data sharing exercise.





Internal Audit continues to provide the council with the necessary assurance about its various activities and associated systems, as outlined in the council's Internal Audit Strategy and Audit Charter. In addition, the audit service has recently completed a self-assessment of effectiveness of internal audit. Details of this self-assessment can be found later in this report.

The 2019/20 audit plan consisted of 325 days. Normally, 100% of the audit plan is completed by the in-house team with reviews being carried out by the Internal Audit and Assurance Manager to ensure that quality and standards are maintained. However, following a restructure of the internal team in 2018, several pieces of work were completed by Lancashire County Council and Merseyside Internal Audit Service as agreed by the Audit Committee in February 2020. Details of the work they have completed can be found in the table below.

Internal feedback forms are distributed after each audit review as part of Internal Audits Quality Assurance Improvement Programme.




Audit Work Performed in 2019 / 2020

Summarised below are the reviews that have been performed and reports issued in 2019/20. Final reports are published in full on the Council's Intranet site.

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

2018/19 Audit Plan Work rolled forward and completed in 2019/20





TITLE	STATUS	Level of Assurance	Summary
Financial Planning & Medium Term Financial Statement (MTFS)	Final Report Issued July 2020	Substantial ✓	This piece of work was completed by Lancashire County Council
Recovery of Legal Fees and Court Costs	Fieldwork in progress		Testing was started in quarter four, however, owing to the Covid-19 pandemic, this piece of work was put on hold due to the auditor being re-deployed to Business Support.
Council Housing Assets	Fieldwork in progress		This piece of work was due to be completed jointly with Lancashire County Council. A start-up meeting took place in quarter four, however, owing to the Covid-19 pandemic, this piece of work was put on hold due to the auditor being re-deployed to Business Support.
Economic Development / Regeneration Strategy	N/A	N/A	This piece of work has been rolled to the 2021/22 audit plan to allow the strategy to be developed and finalised.
Insurance	Final Report Issued October 2019	Limited ⚠	This piece of work was followed up in June 2020 – see below
VAT	Draft Report Issued July 2020	Substantial ✓	
Green Waste	N/A	N/A	The Director of Communities and the Environment has stated that this piece of work is no longer required.
Pre-Employment Checks	Final Report Issued August 2019	Substantial ✓	This piece of work was completed by Fylde Borough Council following the departure of the previous Principal Auditor.




Asbestos Management – Council Housing	Final Report Issued May 2019	Limited 	This piece of work was completed by Fylde Borough Council following the departure of the previous Principal Auditor and was due to be followed up in November 2019, however due to limited resources, this follow-up is still outstanding.
2019/20 Audit Plan Work			
TITLE	STATUS	Level of Assurance	Summary
Local Authority Trading Company (LATC's) – Trade Waste & Salt Ayre	N/A	N/A	No assurance work has been completed during the year in respect of LATC's as they are still in their infancy. LATC's will be kept under review going forward and work will commence as and when required.
Procure to Pay – (project assurance work)	No report Issued	Limited 	<p>The Principal Auditor has been attending fortnightly meetings and is involved in monitoring the performance data for this project. The group has recently focused on ensuring the segregation of duties and authorisation of levels are correct. Owing to the departure of the Exchequer Services Manager and the Covid-19 pandemic, this project has come to a halt. The Principal Auditor will continue monitoring the project once normal business resumes.</p> <p>For the purpose of this annual audit report, an opinion of 'limited' has been given on the basis that the project is still in its infancy and more development and testing is required before the P2P system is implemented.</p>
Payroll Budget / E Budgeting – (project assurance work)	No Report Issued	Substantial 	<p>The Principal Auditor attended several workshops and meetings during 2019/20 and gave continual advice and guidance throughout the process of the development. The new Payroll / E budgeting module is ready for use, however it was not ready in time for the 2020/21 budget setting process therefore no testing was completed. Further assurance will be given once the new module is used to assist in the budget setting cycle and has been included in the 2020/21 audit plan.</p> <p>For the purpose of this annual audit report, an opinion of 'substantial' has been given on the development and design of the module.</p>

Overtime (holiday pay on overtime)	N/A	N/A	The Section 151 Officer / Exchequer Services Manager has stated that this piece of work is no longer required.
Fixed Asset Register	Fieldwork in progress		This piece work is being completed by Lancashire Cuntly Council, however owing to the Covid-19 pandemic, fieldwork has been delayed. The work will be completed as soon as normal business resumes.
Property Investment Strategy	No Report Issued	Substantial ✓	<p>The Principal Auditor attended two capital strategy group meetings in September and November 2019 to see how the due diligence process worked and to give assurance on the process. Whilst the due diligence process is considered robust and fit for purpose, the first acquisition as at the 3 March 2020 had yet to be made, therefore it was decided to review any acquisitions as part of the 2020/21 audit plan.</p> <p>For the purpose of this annual audit report, an opinion of ‘substantial’ has been given in respect of the controls in place for the due-diligence checks to be completed prior to any acquisitions.</p>
Planning - Education Contributions	No Report Issued	Substantial ✓	<p>This piece of work was requested by the previous Monitoring Officer following concerns with Lancashire County Council’s methodology for calculating planning educations contributions. Whilst the Principal Auditor did not identify any concerns and was happy that the sample of the Council’s calculations were in line with Lancashire County Council’s methodology it is understood that a consultation is in the process of being completed, therefore may be subject to change.</p> <p>For the purpose of this annual audit report, an opinion of ‘substantial’ has been given in respect of the methodically is to calculations planning education contributions.</p>
Vehicle Maintenance Unit	Report Issued August 2019	Limited ⚠	This piece of work was followed up in February 2020 – see below
Dog Warden - Enforcement	N/A	N/A	This piece of work is no longer required given the scope of the audit in respect of Dog Seizure and Kennelling Service.
Council Tax - Occupation	Briefing Note Issued	Substantial ✓	

Validation (Preston)			
Council Tax - Occupation Validation (Lancaster)	Briefing Note Issued	Substantial ✓	
Housing Benefits - E forms (Lancaster)	N/A	N/A	This piece work was due to be completed in quarter four, however owing to other work commitments in the Housing Benefit Section and then more recently the Covid-19 pandemic, this piece of has been delayed. The work will be completed as soon as normal business resumes.
Data Protection – Policy and Process Review	Draft Report Issued May 2020	Limited ⚠	This piece of work was completed by Merseyside Internal Audit Service. This piece of work will be followed up on an on-going basis given the number of recommendations and the time required to implement.

Follow-up work completed / due in 2019/20			
TITLE	STATUS	Level of Assurance	Summary
White Lund Nursery Income Management	Follow-up Report Issued August 2019	Substantial ✓	
Learning and Development	Follow-up Report Issued August 2019	Substantial ✓	
Procurement & Contract Management	To be completed	N/A	The original procurement audit was completed in September 2018 as part of the 2018/19 audit plan and an overall limited assurance was given. This was due to be followed-up in April 2019 but was delayed awaiting the publication of the national procurement strategy so that the council could refresh its own procurement strategy. This strategy has since been produced, however is

			yet to go to Full Council for approval. Once approved a post audit review will be completed.
Dog Seizure and Kennelling Service	Follow-up Report Issued February 2020	Limited 	The original report was issued in November 2018. It was subsequently followed-up in February 2020 with a further review date agreed of July 2020.
Asset Management	N/A	N/A	This piece of work was first completed in December 2017 and received a limited assurance opinion. It was subsequently followed-up in December 2018 and August 2019 and remained at limited. Due to the lack of progress made, it was agreed that the development and delivery of the asset management plan would be monitored and reviewed through the council's strategic risk register. However, it should be noted that owing to the Covid-19 pandemic, work on risk management has been put on hold.
Vehicle Maintenance Unit	Follow-up Report Issued February 2020	Substantial 	
Fees and Charges – Legal Services	Follow-up Report Issued February 2020	Substantial 	
Insurance	Follow-up Report Issued July 2020	Limited 	<p>This piece of work was first reported in November 2019 and received a limited assurance opinion. It was subsequently followed up in June 2020 and although good progress has been made to implement the majority of the action plan, it is disappointing to report that the insurance claims database that was required to be developed and continually maintained, is still insufficient.</p> <p>Following examination of the spreadsheet dated 4 June, it was identified that some of the data was recorded in the incorrect fields and several dates were either incorrect or missing. It also appeared from the data that a number of claims had not been progressed since they were first logged; for example a claim logged on the 30 January 2020 does not show any updates as to the status of this claim. There is a concern that if this spreadsheet is to be used to generate reports in its current format, reporting would not only be inaccurate but would not assist the Insurance Officer or anyone else having to provide cover in her absence.</p>

			The issues arising will be discussed with the Insurance Officer and a further follow-up review will be carried out in September 2020.
Payroll	To be completed	Limited 	The original report was issued in August 2019 with a subsequent follow-up review due in May 2020, however owing to the Covid-19 pandemic and the retirement of the Exchequer Services Manager this follow-up has been delayed. There are several officers who will be required to assist with this work who have been re-deployed elsewhere. This will be re-visited once normal business has been resumed.
Creditors	N/A	Limited 	This original report was issued in May 2019 and was given a limited assurance opinion. However, all recommendations in the action plan were to be addressed as part of the Procure to Pay project. Given that this project is still on-going these actions are still outstanding, therefore the assurance provided remains at limited.
Asbestos Management – Council Housing	To be completed	Limited 	The original report was issued in May 2019 with a subsequent follow-up review due in November 2019 however due to limited resources, this follow-up is still outstanding.

Other audit work undertaken:

Investigations

There have been no internal investigations carried out by Internal Audit or the Corporate Enquiry Team during 2019/20.

Corporate Enquiry Team

The Council has a duty to protect public funds and has a shared Corporate Fraud Team with Preston and Fylde Councils. The team is called the Corporate Enquiry Team and its role is to investigate allegations of fraud against the Council, undertake pro-active investigations in high risk areas, act as single point of contact between the Council and the Department for Work and Pensions fraud team and to participate in multi-agency working to prevent and detect crime with partner agencies. A detailed report of the outcomes will be reported to the Audit Committee and is attached later in this agenda.

Information governance – judgement of security and use of business assets

The Council's Information Governance (IG) Team continue to work on compliance with the General Data Protection Regulations which came into force on the 25 May 2018. Following a data breach in January 2017 the Council commissioned an external company; Baker Lomax Services (BLS) to undertake a review of the council's policy and procedures. An extensive action plan was formulated which highlighted 185 actions over twelve different areas that required attention. Whilst a considerable amount of work has been completed, the team have struggled to keep on top of implementing the action plan with having to respond to numerous requests for assistance with essential project work across the council, in addition to a significant amount of resources on the management of the Council's Freedom of information Requests. Following discussions with Information Governance Manager (Data protection Officer), it was agreed that a piece of audit work would be scheduled as part of the 2019/20 audit plan to obtain an updated position statement on progress made in implementing the action plan from BLS. Merseyside Internal Audit Service, who specialise in data protection work where commissioned to carry out the audit on behalf of internal Audit. Whilst the original work was completed during the 2019/20 audit year, owing to the Covid-19 pandemic, the results of this piece of work have only just been received and a final report has yet to be published. The draft report, which included 48 recommendations (0:critical, 14:high, 33:medium and 1:low) recognised that significant work has been made in some areas, however there was still a number of areas that required immediate attention, therefore only 'limited' assurance has been provided.

Counter Fraud and Corruption Policies

The Council has a number of counter fraud policies in place across the organisation, namely, Raising Concerns Policy, Anti-Fraud, Corruption and Bribery Policy, Anti-Money Laundering Policy and the Sanction Policy. Following the preparation of the

2018/19 Annual Governance Statement it was identified that all the counter fraud polices were out of date and had not been reviewed for some time. It was also identified that the ownership and responsibility for these polices sat in several places, e.g. Human Resources, Legal Services, Internal Audit and Assurance and the Corporate Fraud Team. To ensure these policies are independently and consistently applied and reviewed and approved on a regular basis, a decision was made to move all the polices to the control of the council's Corporate Fraud Team, with the exception of the Anti-Money Laundering Policy, which was moved to the Finance Team, owing to the council's Money Laundering Reporting Officer being the Council's Section 151 Officer. This policy will be reviewed later in the year and submitted to the Audit Committee for approval. All the remaining policies have now been refreshed and approved by the Audit Committee in November 2019.

An ethical governance survey was completed by the Internal Audit Team in 2018 to test staff knowledge and understanding of the Council's key counter fraud policies. Any gaps in knowledge and understanding have been addressed in the Annual Governance Statement action plan for 2019/20.

Effectiveness of Internal Audit Review

In accordance with the Accounts and Audit Regulations 2015, paragraph 6 (1) requires the relevant body, each financial year to conduct a review of the effectiveness of its system of internal audit. The review recognises the important role that internal audit play in the assurance process and the need to continually ensure that it remains effective. The last annual self-assessment completed in July 2020 by the Internal Audit and Assurance Manager and ratified by the Head of Finance (Section 151 Officer) identified no issues that required following-up or reporting in the 2019/20 Annual Governance Statement.

In addition, in order to comply with the PSIAS an external assessment must be conducted at least once every five years by a qualified independent assessor or assessment team from outside the organisation. External assessments can be in the form of a full external assessment, or a self-assessment in-house with independent external validation. It was agreed by the Lancashire District Chief Auditors group and validated by the Audit Committee, that peer reviews would be used to obtain the independent external validation. Lancaster City Council's assessment was completed in March 2018. The report was presented to the Audit Committee on the 23 May 2018. Only 4 points for consideration were identified, all of which have been considered and implemented where appropriate. The next peer review is scheduled for February 2023.

Quality Assurance Improvement Programme

In accordance with the PSIAS, the Chief Internal Auditor (Internal Audit and Assurance Manager) must develop and maintain a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity. The QAIP must include both internal, and external assessments.

The internal assessments include the following:

- An annual self-assessment of the effectiveness of the audit service using the PSIAS; and
- Day-to-day monitoring of compliance with the Definition of Internal Auditing and the Code of Ethics documented within the section's Audit Charter and also in the PSIAS.

External assessments include:

- A 5 yearly independent assessment of compliance to the PSIAS;
- An annual review of the Council's Annual Governance Statement which accompanies the Statement of Accounts;
- Regular attendance at the Audit Committee by the Council's External Auditor with the opportunity to meet in private with the Committee; and
- The External Auditors and the Audit Committee review and challenge all internal audit reports.

Compliance to the Public Sector International Audit Standards (PSIAS)

In April 2014, the International Standard setters developed a comprehensive set of standards (PSIAS) that are expected to be in place within any effective audit organisation. The PSIAS replaced CIPFA's 'Code of Practice for Internal Audit in Local Government'. The PSIAS requires that areas of non-compliance with the PSIAS Definition of Internal Auditing and the Code of Ethics are reported in the Annual Audit report and that significant deviation requires inclusion in the Council's Annual Governance Statement. It should be noted that following the external validation in March 2018 and the self-assessment in July 2020, there are no significant deviations to report in the 2019/20 Annual Governance Statement.

Risk Management

Significant work was completed during 2019/20 to strengthen the council's risk management processes across the organisation. A Risk Management Policy was approved by the Audit Committee in November 2019 and a Strategic Risk Register was populated. In February 2020, the Council procured and implemented risk management software (GRACE) to assist with the administration of both strategic and operational risks. Whilst good progress was made in populating the system with the strategic risks, which involved scoring and action planning, both the Principal Auditor and the Internal Audit and Assurance Manager have been redeployed to work in other areas following the Covid-19 pandemic, therefore the development of the system and the monitoring of the existing strategic risks has been put on hold.

Once normal business resumes, the next steps will be to roll out the Risk Management Policy, deliver corporate risk management training, shortly followed by the implementation of operational risks registers.

Internal Control System

In accordance with the Accounts and Audit Regulations 2015, Internal Audit is required to form an opinion on the adequacy and effectiveness of the council's internal control environment, which includes consideration of any significant risk or governance issues and control failures that have been identified throughout the year.

In providing an overall opinion on the council's system of internal control, it should be noted that assurance can never be absolute. Internal Audit can only provide reasonable assurance that there are no major weaknesses in the areas reviewed. In arriving at an opinion, consideration is given to;

- The findings from the audit work undertaken during the year;
- The amount of audit work undertaken in the year compared with work planned;
- The results of follow up action in respect of audit work;
- Whether or not any significant recommendations have not been accepted by management and the consequent risks; and
- The issues identified in the Annual Governance Statement.

Internal Audit and Assurance Managers overall opinion on the council's internal control environment, risk management and governance arrangements

Whilst there are a number of audits that have still to be finalised owing to the delays caused by the Covid-19 pandemic, it is in my opinion, that of the work completed, in respect of council's internal control environment, the council has satisfactory controls in place to be able to maintain an adequate and effective internal control environment. There are several areas where a 'limited assurance' opinion has been given and, in these instances, mitigating action plans have been agreed, and follow-up reviews have been scheduled. Once the actions have been addressed it should result in substantial assurance being provided.

In relation to risk management, as detailed above, whilst significant progress was being made at the start of the year with the development and approval of a Risk Management Policy, the procurement and implementation of risk management software and the production of a strategic risk register; unfortunately progress in embedding risk management has now been delayed and it is unknown at this current time, what resources will be available going forward to dedicate to risk management given both the Internal Audit and Assurance Manager and the Principal Auditor have been redeployed during the Covid-10 pandemic. Therefore, it is in my opinion, that risk management should be reported in the Council's AGS for the year 2019/20 as an area still requiring attention.

AUDIT COMMITTEE**Counter Fraud – Annual Report 2019/20****22nd July 2020****Report of the Corporate Fraud Manager****PURPOSE OF REPORT**

To inform the Committee of the extent and outcome of counter fraud work during the 2019/20 financial year.

This report is public

RECOMMENDATIONS

1. That the report be noted.

1.0 Introduction

1.1 Local Authorities have a statutory duty under section 151 of the Local Government Finance Act 1972 to make arrangements for the proper administration of their financial affairs. As responsibility for Housing Benefit fraud investigation passed to the Department for Work and Pensions on 1st June 2015, the Council made a decision to form a Corporate Fraud Team, shared between Preston, Lancaster and Fylde Councils. There is a duty to have effective controls and procedures in place to prevent, detect and investigate fraud and error in Council Tax Support, Council Tax and Business Rates. The Corporate Fraud, or Corporate Enquiry Team (CET) as it is also known, also works in partnership with the Housing Department and Social Housing providers to investigate tenancy fraud.

1.2 This report details performance and counter fraud activity undertaken by the Fraud Team/Corporate Enquiry Team during 2019/20 in this specialist area of work.

2.0 Background Information

2.1 Early in 2015, the Council supported a bid by Preston City Council for funding from the Department for Communities and Local Government (DCLG) to set up a shared Corporate Enquiry Team, with the partners being Preston City Council, Lancaster City Council and Fylde Borough Council. The bid was successful and £125,750 was awarded towards the cost. This team effectively replaced the former Benefit Fraud Team hosted by Preston City Council, with six staff from the share service transferred to the Department for Work and Pensions (“DWP”) on 1st June 2015.

2.2 At the same time, the Corporate Enquiry Team was established and consists of six staff, including a Manager, one full time Investigator, two part time investigators and two Administrative Officers. The staff continue to be employed by Preston City Council

and resources are shared between the three authorities, giving Lancaster full time equivalent staff (FTE) of Manager (0.4 fte), Investigator (1.0 fte) and Administrative Officer (1.0 fte).

- 2.3 The objectives of the Corporate Enquiry Team are to:-
- Protect public funds
 - Undertake fraud prevention measures
 - Detect and stop fraud
 - Increase fraud awareness
 - Implement sanctions in accordance with Council prosecution policies
 - Ensure that investigations comply with the regulatory environment
 - Recover properties from fraudsters to enable re-housing of those identified as most in need of social housing
 - Encourage a strong culture of good performance in relation to cost
 - Promote the principles of fairness, equality of opportunity, social inclusion and poverty reduction through service provision
 - Embrace partnership working to enable the delivery of an excellent service, whilst achieving savings based on economies of scale, reductions in duplication and financial savings to the authority
- 2.4 The Corporate Enquiry Team strives to prevent and detect as much Council Tax Support fraud as possible, working with outside agencies such as the Department for Work and Pensions, HM Revenues & Customs, Police and Immigration when appropriate. The team has signed up to joint working with the DWP on cases involving Council Tax Support and national benefits. The project commenced on 29th April 2019.
- 2.5 The team acts as Single Point of Contact (SPOC) for providing information on Housing Benefit investigations to DWP.
- 2.6 The team has an excellent working relationship with Lancashire Police, participating in Operation GENGA, a multi agency project to help tackle serious and organised crime. This demonstrates our commitment to tackle fraud on a larger scale and other related crimes in partnership with external agencies
- 2.7 The team has an excellent working relationship with Lancashire Police and acts as SPOC for Police Data Protection Act requests.
- 2.8 The Corporate Enquiry Team are active members of the National Anti-Fraud Network (NAFN). NAFN's key services include:
- Acquiring data legally, efficiently and effectively from a wide range of information providers;
 - Acting as the hub for the collection, collation and circulation of intelligence alerts;
 - Providing best practice examples of process, forms and procedures.
- 2.9 The team are also members of the Chartered Institute of Public Finance and Accountancy (CIPFA) Counter Fraud Centre in order to share best practice and receive information on new counter fraud initiatives. They work closely with other Lancashire and Greater Manchester Local Authorities, meeting regularly to discuss common problems and best practice.

3.0 Performance

3.1 Performance data is detailed as below:

	Year	Target	Achieved
Overpayments	2019/20	£110,000	£147,477.51

Financial Source	Overpayments	Weekly Savings
Council Tax Support	£25,317.09	£278.54
Council Tax Benefit	£3,361.61	£0.00
Housing Benefit	£67,919.42	£655.34
Council Tax	£37,944.96	£842.99
Business Rates	£12,934.43	£104.98
Totals	£147,477.51	£1,881.85 (X52 = £97,856.20)

- 3.2 From 1st April 2019 to 31st March 2020 the Corporate Enquiry Team identified overpayments of £147,477.51
- 3.3 From 1st April 2017 the team has introduced an additional methodology to identify counter fraud performance. When a claim for an allowance, discount, reduction or exemption ends or reduces as a result of an intervention by the Corporate Enquiry Team the value of the intervention is not just the amount of any overpayment that has occurred. It is recognised that there is also a “future” saving made by preventing further incorrect payments being made. In these cases the weekly amount of reduced entitlement to an allowance, discount, reduction or exemption that is applied following fraud intervention should be multiplied by 52. It is reasonable to believe that the award would have continued unchanged for an average of a full year had no intervention taken place. This was agreed as an appropriate performance measure by the Lancashire and Greater Manchester Fraud Investigators Group. The weekly figure identified for Lancaster City Council is £1,881.85, multiplied by 52 gives total “future” savings for 2019/20 of £97,856.20.
- 3.4 The team worked with Lancaster City Council Housing Department to recover three council housing properties during the course of the year, with an additional future saving of £54,000.00 based on a temporary accommodation cost saving of £18,000.00 per property per year.
- 3.5 The Corporate Enquiry Team has participated in the annual National Fraud Initiative (NFI) data matching exercise, including investigating Council Tax data matches where single person discount is in place, but more than one adult is listed on the electoral register for the property.

- 3.6 The team now review 100% of all “right to buy” applications for Council Housing properties made to the Council.
- 3.7 A management checking regime is in place, structured to monitor performance and compliance with legislation. This process includes:-
- 1-2-1’s with staff to discuss the officer’s full caseload, giving advice and direction, identifying any inactive cases, together with any training needs;
 - A review of all “Interviews Under Caution” before prosecution is considered;
 - A full management check on all sanction cases; and regular checks are undertaken of fraud officer’s pocket notebooks.
- 3.8 Surveillance is only authorised in appropriate cases where considered necessary and proportionate, in line with the Regulation of Investigatory Powers Act (RIPA). No surveillance took place during 2019/20. From 10th June 2019 the legislation governing surveillance changes to the Investigatory Powers Act (IPA).
- 3.9 Covid19 had a significant impact on the teams operations, from February 2020 all formal action was suspended. The team was unable to undertake formal interviews under caution, visit members of the public (witnesses, suspects etc) or pursue criminal proceedings due to the pandemic. The team has assisted Business Rates with the administration of business rate grants.
- 3.10 Covid19 saw a new area of fraud for the team to investigate with the introduction of the Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund on the 17th March 2020. Investigations in this regard are both pre and post payment.

4 Details of Consultation

- 4.1 No specific consultation has been undertaken in compiling this report.

5 Options and Options Analysis (including risk assessment)

- 5.1 None – the report is for noting.

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

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

FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report. However, the Corporate Enquiry Team has generated savings for the Council from their Corporate Fraud Shared Service work, and delivers value for money.

SECTION 151 OFFICER’S COMMENTS

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

LEGAL IMPLICATIONS	
None arising from this report	
MONITORING OFFICER'S COMMENTS	
The Monitoring Officer has been consulted and has no further comments.	
BACKGROUND PAPERS	Contact Officer: Haley Garstang Telephone: 01772 906388 E-mail: h.garstang@preston.gov.uk Ref:

AUDIT COMMITTEE**Annual Governance Statement 2019/20****22 July 2020****Report of the Internal Audit and Assurance Manager****PURPOSE OF REPORT**

To approve the draft Annual Governance Statement (AGS) for 2019/20 for inclusion in the Annual Statement of Accounts following a review of the Council's governance arrangements.

This report is public

RECOMMENDATIONS

- (1) **To approve the draft Annual Governance Statement (AGS) for 2019/20 and be recommended for adoption and for signing by the Chief Executive and the Leader of the Council.**

1.0 Introduction

- 1.1 The AGS is a valuable means of communication. It enables an authority to explain to the community, service users, taxpayers and other stakeholders its governance arrangements and how the controls it has in place manage risks of failure in delivering its outcomes.
- 1.2 In accordance with the Accounts and Audit Regulations 2015 the Council is required to prepare an AGS, which is published alongside the Statement of Accounts.
- 1.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) jointly issued a Framework and guidance in relation to the AGS; 'Delivering Good Governance in Local Government'. The guidance urges local authorities to prepare a governance statement in order to report publicly on the extent to which they comply with their own code of governance on an annual basis, including how they have monitored effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The process of preparing the governance statement should itself add value to the corporate governance and internal control framework of an organisation.
- 1.4 The Framework recognises that effective governance is achieved through seven core principles;
- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;**
 - B. Ensuring openness and comprehensive stakeholder engagement;**
 - C. Defining outcomes in terms of sustainable economic, social, and environmental benefits;**
 - D. Determining the interventions necessary to optimise the achievement of the intended outcomes;**

- E. **Developing the entity’s capacity, including the capability of its leadership and the individuals within it;**
- F. **Managing risks and performance through robust internal control and strong public financial management; and**
- G. **Implementing good practices in transparency, reporting, and audit to deliver effective accountability.**

2.0 Proposal Details

- 2.1 The draft AGS for 2019/20 is attached at Appendix A. Owing to the Covid-19 pandemic, the usual formulation of this document was unable to take place. However Microsoft Teams’ was used to ensure all key officers were given the opportunity to provide information and key evidence to support how the organisation has complied with the principles set out in paragraph 1.4 above during the year.
- 2.2 The timescale to produce the AGS coincides with that for the approval of the audited financial accounts. The AGS must be approved at a meeting of the Council or delegated committee, in this case, the Audit Committee.
- 2.3 The leader of the Council and the Chief Executive will be asked to sign the AGS certifying that they are aware of the governance issues within the Authority and of the measures that are needed to mitigate them.

3.0 Details of consultation

- 3.1 Members of the Executive Team and other key officers across the council have had the opportunity to participate in the formulation of this document. In addition, Service Managers have completed assurance mapping statements to support the AGS.

4.0 Options and options analysis (including risk assessment)

- 4.1 As the production of a draft AGS is a legislative requirement, no alternative options are identified.

5.0 Conclusion

- 5.1 The draft AGS and the results of the review reflect the developments and issues impacting the Council’s governance arrangements during the last twelve months. Addressing the significant issues identified in the statement will help ensure the Council maintains and improves its standards of governance in the future.

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

The report has no direct impact on the above issues.

FINANCIAL IMPLICATIONS

None arising directly from this report.

OTHER RESOURCE IMPLICATIONS, SUCH AS HUMAN Resources, Information Service, Property, Open Spaces:

None arising directly from this report.

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has been consulted and their comments have been incorporated.

LEGAL IMPLICATIONS

The Head of Legal Services has been consulted and their comments have been incorporated.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and their comments have been incorporated.

BACKGROUND PAPERS

n/a

Contact Officer: Joanne Billington
Telephone: 01524 582028
E-mail: jbillington@lancaster.gov.uk
Ref:

Annual Governance Statement

2019/20

1.0 INTRODUCTION

1.1 Local authorities are statutorily required to review their governance arrangements at least once a year. Preparation and publication of an Annual Governance Statement in accordance with the CIPFA / Solace Delivering Good Governance in Local Government Framework (2016) (the Framework) fulfils this requirement. The Framework requires local authorities to be responsible for ensuring that:

- their business is conducted in accordance with all relevant laws and regulations;
- public money is safeguarded and properly accounted for; and
- resources are used economically, efficiently and effectively to achieve agreed priorities which benefit local people.

1.2 The Framework also expects that local authorities will put in place proper arrangements for the governance of their affairs which facilitate the effective exercise of functions and ensure that the responsibilities set out above are being met. Key elements of the Council's governance framework are summarised below.

The Council, Cabinet and Leader

- Provide leadership, develop strategy and set policy
- Engage with and support the Council's diverse communities and distinctive neighbourhoods to thrive and succeed

Management Team and Statutory Officers

- The Head of Paid Service is the Chief Executive who is responsible for all Council staff and leading an effective corporate management team of Chief Officers to deliver the strategies within the policy framework set by Elected Members
- The Council's Section 151 Officer is responsible for safeguarding the Council's financial position and ensuring value for money
- The Head of Legal Services is the Council's Monitoring Officer, who is responsible for ensuring legality and promoting high standards of public conduct

Decision making

- Meetings are held in public
- Agendas, minutes and decisions are recorded on the Council's website

Scrutiny and Review

- The Overview and Scrutiny Committee reviews Council policy and can scrutinise and challenge decisions
- The Budget and Performance panel reviews operational and financial performance
- The Audit Committee reviews internal control, fraud, risk management and governance

2.0 HOW WE COMPLY WITH THE CIPFA / SOLACE FRAMEWORK

2.1 Set out below is how the Council has complied with the seven core principles set out in the CIPFA / SOLACE framework during 2019/20.

PRINCIPLE A

Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

- A Code of Conduct for both members and staff is in place
- The Council has a 'values and behaviours framework' in place
- Members values and behaviours are encompassed in the members Code of Conduct
- A register of interest policy is in place for both staff and members
- Council meeting minutes show any declarations made and declarations at meetings are also viewable on each Councillor's record on the website
- An electronic Gifts and Hospitality register is in place for both staff and Members
- There is a Standards Committee in place
- Effective counter fraud policies are in place and are monitored and reviewed annually by the Corporate Enquiry Team to ensure they are applied consistently
- A comprehensive review of the Council's Constitution was completed in 2019
- The Council has a 'Raising Concerns' Policy in place which sits with the Council's Monitoring Officer
- Annual Performance Appraisals take place
- A two stage corporate complaints procedure is in place
- Guidance procedures for external funding and accountable bodies are documented within the Financial Regulations
- The Council's 'Statement of Business Ethics' communicates commitment to ethical values to external suppliers
- The Procurement strategy has been revised to reflect Council priorities which is awaiting Council approval

- There are policies and procedures in place for dealing with unacceptable behaviours for both officers and Members
- All allegations concerning breaches of the code of conduct by members are investigated by the Monitoring Officer
- The Council has an agreed overview and scrutiny work programme
- The Council complies with CIPFA's Role of the Chief Financial Officer and the role of the Head of Audit in Local Government
- The Constitution includes terms of references, defines decision making powers and describes roles and functions
- Up-to-date job descriptions are in place for key roles, i.e. Chief Executive, Section 151 officer and the Monitoring Officer
- Training is provided for regulatory committees on a regular basis.
- Legal and financial advice is given in advance of decision making
- Compliance with specific legislation, law or guidance is documented in decision making documents
- The Council strives to comply with published advice and guidance on the publicity restrictions during the pre-election period (purdah)
- Limits of lawful activity are recognised by the ultra vires doctrine

PRINCIPLE B

Ensuring openness and comprehensive stakeholder engagement

- The Council Plan (Ambitions document/emerging priorities) is published to all staff, elected members, partners and the community
- An annual 'Narrative Report' is published and accompanies the Statement of Accounts
- The Section 151 Officer publishes annual accounts within statutory deadlines to the community to report on the organisation's activities, achievements and its financial position and performance
- The Council is compliant with the Local Government Transparency Code 2015
- An Overview and Scrutiny and Budget and Performance Panel report is published annually
- The Council publishes all key decisions on its website
- A Freedom of Information publication scheme is in place
- Standardised report pro-formas for decision making are in place and a published timetable of reporting deadlines for committees is published on-line
- The Council is committed to ensuring that appropriate consultation and engagement takes place e.g. Canal corridor development
- The Council publishes all current and closed consultations on its website
- Customer feedback forms are in place in key outlets e.g. Salt-Ayre Leisure Centre
- The Council has a Consultation Strategy 2018 – 2022 and an annual consultation plan
- Participative democracy (People's jury) is being used to inform the Council's strategy for dealing with climate change

- Cabinet has a portfolio holder assigned to overseeing the Council's approach to community engagement
- The Council has a community connector team whose role is to engage and connect with partners, communities and elected members
- Key partnerships are reviewed as and when required through the audit plan
- Internal Audit are invited to sit on project working groups to ensure key risks are identified and mitigated where possible
- The Council has several communication guidance documents in place e.g. the Intranet Policy and the Plain English and Style Guide
- The Council complies with publication dates for reports and the 'forthcoming decisions list (forward plan)
- An up-to-date stakeholder database is in place
- Robust arrangements are in place for both the shared service arrangements with Revenue and Benefits and the Corporate Enquiry Team
- The Budget and Performance Panel was fully consulted in relation to the Council's budget
- The Council's vision, strategic plans, priorities and targets are developed in consultations with the local community and other key stakeholders
- In 2018 the Council completed a resident's survey to monitor satisfaction in the local area and the Council's website includes a 'have your say section'.
- A Landlord Forum and a Council Housing Tenants forums are in place to encourage public participation

PRINCIPLE C

Defining outcomes in terms of sustainable, economic, social and environmental benefits

- The Council Plan (Ambitions document/Emerging priorities) 2018-22 was approved by Full Council in July 2018 and contains a clear statement of the council's vision
- Corporate key performance indicators (currently under review in line with new emerging priorities) are reported quarterly to Cabinet and the Budget and Performance Panel
- A 'Narrative Report' is published within the Statement of Accounts to reflect the Council's key achievements
- There are effective arrangements in place to deal with failure in service delivery via the Council's corporate complaints procedure
- The Medium-Term Financial Plan, Revenues Estimates and Capital Programme are designed to deliver the strategic priorities
- The Council has a capital programme of works
- The Council has an approved Capital Investment Strategy
- Individual capital projects are equality impact assessed
- All key decisions are required to consider fair access to services

- The development and delivery of the local plan has been subject to external consultation
- Procedures are in place to address conflicting interests e.g. the call-in procedure
- The Council has declared a climate change emergency and has committed to becoming net carbon zero by 2030. A strategy has been developed to deliver on this
- Formal decisions take into the account the environmental impact

PRINCIPLE D

Determining the interventions necessary to optimise the achievement of the intended outcomes

- Effective mechanisms are in place for documenting evidence for decisions and recording the criteria, rationale and consideration on which decisions are based
- Limits of lawful activity are recognised by the ultra vires doctrine and managers strive to use their powers under the council's scheme of delegation to the full benefit of the community
- Proper, professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making
- Member and Officer briefings take place for more complex areas of decision making e.g. Canal Quarter, Eden Project and the Local Plan
- The Council's Plan and priorities document is refreshed annually and reviewed by the Cabinet with the advice of Council's Executive Team
- The Council considers public surveys, demographic information and public health reports when developing the Council Plan
- The MTFs, Revenue Estimates and Capital Programme are soundly configured to meet the requirements of the Council Plan and Ambitions document and are published annually. They are key documents for forecasting budget requirements and planning ahead
- The MTFs sets out the framework for corporately managing the Council's resources in the years ahead and an efficiency programme compliments the MTFs ensuring sustainability going forward
- Corporate Key Performance Indicators are in place and are reported quarterly to Cabinet and the Budget and Performance Panel
- A 'Narrative Report' is published within the Statement of Accounts to reflect the Council's key achievements
- The Statement of Accounts which include the Annual Governance Statement is reported to the Audit Committee
- Budgeting guidance and protocols are in place and reviewed annually by the Audit Committee
- Both Capital and Revenue bids considered 'social value'

PRINCIPLE E

Developing the entity's capacity, including the capability of its leadership and the individuals within it

- The Council is member of APSE and regularly benchmarks several key Council services e.g. Street Cleansing, Council Housing, Internal Audit, Waste Management, Pest Control and Leisure
- The Council has received both blue and green flag status for its clean beaches and parks and open spaces
- The Council has been successful in securing numerous Local Government achievement awards during 2019/20 in relation to effective service delivery e.g. Leisure, Pest Control, Home Improvement Agency, Management of AONB
- The Chief Executive and Section 151 Officer regular attend Lancashire Leaders and Lancashire Chief Finance Officer meetings
- The Chief Executive is responsible and accountable to the Authority for all aspects of operational management and has regular meetings/1-1's with the Leader, Cabinet and the Senior Leadership Team.
- In March 2020 a cross-party group was formed to provide information and seek advice regarding Covid related activities
- The Section 151 Officer is 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
- There is an established pay and grading structure in place for employees. This has been recently reviewed and agreed by the Council
- There is a clearly defined management structure and a scheme of delegation to officers, which is underpinned by the Members' Code of Conduct and a Protocol for Officer and Member relations
- All new members receive a full corporate induction, ongoing support and role-specific training
- The Authority ensures that statutory officers have the skills, resources and support necessary to effectively perform their roles
- An induction programme is provided for all new staff and Members
- All staff have attended mandatory 'Our Values training' to ensure the Council delivers top quality services
- Human Resources Business Partners work with Service Managers to ensure adequate succession planning takes place
- Staff have had an annual performance appraisal which is linked to corporate and service priorities
- The Council has several policies and incentives to support the Health and Wellbeing agenda e.g. Agile Working, Absence Management, discounted gym membership and the Cycle to Work Scheme.

PRINCIPLE F

Managing risks and performance through robust internal control and strong financial management

- The Council refreshed its Risk Management Policy in 2019 and procured risk management software to assist with the administration of strategic and operational risk
- Information asset registers and privacy notices are now in place for most the council's service areas and are reviewed by Internal Audit as part of individual service reviews
- The Council has an Overview and Scrutiny Committee and a Budget and Performance Panel which have been set clear roles and responsibilities
- Agreed Key Performance Indicators are reported quarterly to Cabinet and the Budget and Performance Panel and a 'Narrative Report' is published within the Statement of Accounts. These are being reviewed to ensure alignment with key priorities
- There are effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based
- There is a calendar of dates for submitting, publishing and distributing timely reports to the Council's committees
- An effective Internal Audit Service is resourced and maintained, and all Audit reviews are conducted under the Auditing Practices Board Guidelines and in line with Public Sector Internal Audit Standards (PSIAS)
- In accordance with the Accounts and Audit Regulations 2015, an annual assessment of the Council's systems of internal audit is carried out each year using the PSIAS and the checklist provided in the Local Government Application Note published by CIPFA. A recent PSIAS peer review resulted in a full compliance opinion being given
- The Head of Internal Audit and Assurance has developed a Quality Assurance Improvement Programme to ensure the continual improvement of the Internal Audit Service
- An Audit Committee is in place, which is independent of the Executive and the Overview and Scrutiny function
- The Head of Internal Audit and Assurance is a certified and chartered auditor (CIA, CMIIA) and also holds a Qualification in Internal Audit Leadership (QIAL)
- The implementation of internal audit report recommendations is monitored by the Head of Internal Audit and Assurance and the Audit Committee
- The Council has several counter-fraud policies in place which assist against fighting fraud and corruption
- The Council has a Money Laundering Policy in place which is reviewed by the Audit Committee and has recently appointed a new 'Money Laundering Reporting Officer'

- The Council's Annual Governance Statement is prepared in compliance with CIPFA's 'delivering good governance in Local Government
- The Council uses an on-line e-learning portal to promote the General Data Protection Regulations (GDPR) and information security and is mandatory for all new starters
- The Council has a designated Data Protection Officer and continues to work towards ensuring it is fully compliant with GDPR. A recent DP Audit has provided a detailed action plan of areas for improvement.
- Secure arrangements are in place for the transfer of sensitive data (SFTP and encryption tools available within Office 365)
- The Council has both a records management policy and a confidential waste policy in place
- Key performance data is reviewed for accuracy by Internal Audit as part of individual service reviews
- The Revenue and Benefit software has been upgraded to re-inforce GDPR principles and automate a deletion process
- Those making decisions are provided with information that is fit for purpose, relevant, timely and gives clear explanations of technical and financial issues and their implications
- Budget monitoring reports are issued to budget holders on a regular basis
- Registers of interests are maintained for both officers and elected Members
- The External Auditors issued an unqualified value for money conclusion for the 2019/20 financial year

PRINCIPLE G

Implementing good practices in transparency, reporting, and audit to deliver effective accountability

- The Council is compliant with the Local Government Transparency Code 2015
- A 'Narrative Report' is published within the Statement of Accounts to reflect the Council's key achievements
- The Council's website is comprehensive, accurate and user friendly
- The Council has an on-line Planning Application Policy
- Annual presentations are delivered for elected Members concerning the Council's finances as part of the production of the Revenue Estimates, the Capital Programme and the update of the MTFS
- The Council published a Funding the Future Strategy
- The Annual Governance Statement is collated by Internal Audit and is supported by relevant officers. An action plan is monitored by the Executive Team and the Audit Committee
- An effective internal audit function is resourced and maintained enabling them to deliver an annual internal audit opinion
- The Council ensures that all audit recommendations are subject to a follow-up audit ensuring that recommendations are acted upon

- The Council complies with both the Public Sector Internal Audit Standards and CIPFA's Statement on the role of the Head of Audit (2010)
- In accordance with the Audit and Account Regulations 2015, an annual assessment of the effectiveness of the internal audit function is completed annually
- The Audit Committee work programme provides the opportunity for the Head of Internal Audit and Assurance to have a private and confidential discussion with the Audit Committee Members
- The council has a RIPA Policy in place and officers who use social media to carry out surveillance have received relevant training
- Key partnerships are periodically reviewed through the Internal Audit Plan
- Arrangements for accountability and prevention of corruption when working with suppliers and partners are documented within the Council's Contract Procedure Rules

3.0 REVIEW OF EFFECTIVENESS

3.1 The Council uses a number of ways to review and assess the effectiveness of its governance arrangements. These are set out below:

Assurance from Internal and External Audit

Internal Audit Assurance

One of the key assurances the Council receives is the Internal Audit Annual Report. In this report, the Internal Audit and Assurance Manager gives an opinion on the Council's internal control, risk management and governance framework.

The 2019/20 Internal Audit Annual Report stated that whilst there are a number of audits that have still to be finalised owing to the delays caused by the Covid-19 pandemic the council has satisfactory controls in place to be able to maintain an adequate and effective internal control environment. It was reported that there were several areas where a 'limited assurance' opinion was given, however mitigating action plans and follow-up reviews have been scheduled and once the actions have been addressed it should result in substantial assurance being provided in those areas.

As in 2018/19, this year's report also referred to the concerns around risk management again. Whilst recognising that significant progress has been made during 2019 with the development and approval of a Risk Management Policy, the procurement and implementation of risk management software and the production of a strategic risk register; it was noted that owing to the Covid-19 pandemic, embedding risk management will now be further delayed. The report also stated that it is unknown what resources will be available going forward to dedicate to risk management given both the Internal Audit and Assurance Manager and the Principal Auditor have been redeployed during the Covid-10 pandemic.

External Audit Assurance

The Council's external auditor provides assurance on the accuracy of the year-end Statement of Accounts and the overall adequacy of arrangements for securing and improving value for money. In the most recent external audit report issued by Deloitte in March 2019, the auditor issued an unqualified opinion on the Council's financial statements for 2018/19 and reported the Council's Annual Governance Statement complied with the guidance issued by CIPFA / SOLACE ('Delivering Good Governance in Local Government') published in April 2016. In addition, they concluded that the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

The external auditors did however make several observations as a result of their 2018/19 audit work with significant issues raised regarding property valuations and deficiencies in the financial reporting and close process. The Authority plan to address weaknesses and ensure continuous improvement is in place going forward.

A review of key performance indicators

The Council uses a number of key outcome indicators to assess the quality of governance arrangements. Performance in 2019/20 is set out in the table below.

Indicator	Performance in 2018/19
Formal reports issued by the Section 151 Officer or Monitoring Officer	No formal reports have been issued by the Section 151 Officer or the Monitoring Officer.
Number of data incidents reported to the Data Protection Officer (DPO)	16 incidents were reported to the DPO in 2019/20
Number of Data Breaches reported to the Information Commissioner's Office (ICO)	Of the 16 incidents reported to the DPA, only one incident was reported to the ICO
Outcomes from Standards Committee or Monitoring Officer investigations	3 breaches of the code of conduct were reported to the Standards Committee in 2019/20
Proven frauds carried out by councillors or members of staff	There have been no proven frauds carried out by councillors or members of staff in 2019/20
Objections received from local electors	There have been no objections to registrations received from local electors in 2019/20
Local Government Ombudsman (LGO) referrals upheld	No referrals have been upheld by the LGO or the Housing Ombudsman in 2019/20

4.0 CONCLUSION AND SIGNIFICANT GOVERNANCE ISSUES

- 4.1 Risk management and information governance were both raised in 2017/18 and 2018/19 as being significant governance issues, and whilst progress has been made over the last two years, both areas still require a significant amount of work.
- 4.2 As reported in 2018/19, there are a number of good examples across the organisation where it can be evidenced that robust risk management has been applied to its decision making process, however it is still felt that further work is still required to strengthen the reporting and documentation of this. Work completed in 2019 has included, the development and approval of a Risk Management Policy, the procurement and implementation of risk management software and the production of a strategic risk register. The next steps would have included the roll out of the policy and corporate risk management training, followed by the production of operational risk registers. However, owing to the Covid-19 pandemic it is not known what resources will be available going forward to dedicate to embedding risk management.
- 4.3 The Council works to ensure it complies with the General Data Protection Regulations which came into force on the 25 May 2018. Following a data breach in January 2017 the Council commissioned an external company; Baker Lomax Services (BLS) to undertake a review of the council's policy and procedures. An extensive action plan was formulated and since this time the Information Governance (IG) Team have struggled to keep on top of implementing the action plan with having to respond to numerous requests for assistance with essential project work across the council, in addition to a significant amount of resources on the management of the Council's Freedom of information Requests. Following discussions with the IG Manager (Data Protection Officer), it was agreed that Merseyside Internal Audit Service, who specialise in data protection work would carry out an audit to document the progress made and give an independent opinion of where the council was in relation to GDPR compliance. Whilst the original work was completed during the 2019/20, owing to the Covid-19 pandemic, the draft report has only just been received. The draft report recognised that significant work has been made in some areas, however there was still a number of areas that required immediate attention, therefore only 'limited' assurance has been provided.

5.0 MINOR GOVERNANCE ISSUES

- 5.1 Several minor governance issues have been identified during the production of this Annual Governance Statement and following a review of the minor issues raised in the 2018/19 AGS. These have been documented in an action plan which will be monitored by Internal Audit and reported to the Executive Team on a quarterly basis and the Audit Committee as part of the six-monthly progress report.

6.0 REVIEWING AND REPORTING ARRANGMENTS

- 6.1 The CIPFA/SOLACE guidance recommends that authorities should undertake annual reviews of their governance arrangements to ensure continuing compliance with best practice as set out in the framework.
- 6.2 Owing to the Covid-19 pandemic and key staff being redeployed to work in other areas, the Annual Governance Statement for 2019/20 has not been pulled together in the usual way. However, all key officers, who have the most appropriate knowledge, expertise and levels of seniority have had the opportunity to provide information and key evidence to support how the organisation has complied with the principles set out in guidance.
- 6.3 As well as demonstrating how the Council is meeting each of the principles, it is also an opportunity to identify any issues or gaps that could lead to a weaker governance structure.
- 6.4 The AGS is submitted for consideration by the Leader and Chief Executive who then sign to certify they are aware of the governance issues within the Council and of the measures that are required to improve the controls around the Council's governance framework.

7.0 CERTIFICATION

As the Leader of the Council, I am aware of the governance issues within this Authority and of the measures that are needed to improve the control environment. Overall, my assessment of the control environment as at 31st March 2020 is satisfactory.

Councillor Erica Lewis

Leader of Lancaster City Council

As the Chief Executive of the Council, I am aware of the governance issues within this Authority and of the measures that are needed to improve the control environment. Overall, my assessment of the control environment as at 31st March 2020 is satisfactory.

Kieran Keane

Chief Executive of Lancaster City Council

AUDIT COMMITTEE

22 July 2020

**Proposed Accounting Policies and Critical Judgements used
in the Preparation of the Statement of Accounts 2019/20****Report of Chief Finance Officer****PURPOSE OF REPORT**

This report seeks approval from Members in respect of the changes to the Council's Accounting Policies for the 2019/20 financial year.

This report is public

RECOMMENDATIONS

It is recommended that the Audit Committee:

1. **approves the accounting policies, as set out in Appendix 1, incorporating the identified changes.**
2. **notes the critical judgements made by management when producing the Statement of Accounts.**

1.0 Introduction

- 1.1 This report presents the significant accounting policies that will be used in the preparation of the 2019/20 Statement of Accounts and summarises the changes from 2018/19 that have been introduced as a result of amendments to the Code of Practice on Local Authority Accounting 2019/20 (the Code) or as part of the Council's annual review process. They should contain only policies that are relevant to the circumstances of the Council and address material transactions. They should be subject to annual review and agreement by those charged with governance
- 1.2 The report also explains the requirement to disclose the critical judgements made by management when producing the Statement of Accounts.

2.0 Accounting Policies

- 2.1 The Council's accounting policies are the specific principles, conventions, rules and practices that are applied in the production and presentation of the annual Statement of Accounts. These policies must be disclosed as a note to the annual accounts, and a copy of the policies can be found at Appendix 1. There have been no changes from the policies used to prepare the 2018/19 Statement of Accounts.
- 2.2 International Financial Reporting Standards (IFRS) 16 Leasing, as per the 2019/20 Code of Practice was due to be introduced for Local Government from 1 April 2020. However, due to Covid-19 the implementation has been deferred until 2021/22. More detail on this is provided in section 4 of this report.

3.0 Critical Judgements

- 3.1 In line with IFRS and the Code, the Council is required to disclose those judgements that management have made in the process of applying the Council's accounting policies that have the most significant effect on the amounts recognised in the financial statements. These are shown at Appendix 2.
- 3.2 Critical Judgements include, which school's property, plant and equipment and Private Finance Initiative (PFI) schemes should be included on the Council's balance sheet, which entities fall within the Council's group boundary, the properties that should be classified as investment property and the election of the Council's airport investment.
- 3.3 The Critical Judgement relating to the Council's upfront payment of its Lancashire County Council pension contributions has been updated to reflect the final year of the existing upfront payment period and the intention to prepay the contribution for the 2020/21 – 2022/23 triennial period.

4.0 International Financial Reporting Standard (IFRS) 16

- 4.1 IFRS 16 was meant to have been introduced for Local Authorities from 1 April 2020 which means that the annual accounts for 2020/21 should have been the first set of accounts produced in accordance with this standard. The Code of Practice on Local Authority Accounting requires the Council to disclose as a note in the 2019/20 accounts, information relating to the impact of an accounting change required by a new standard that has been issued but not yet adopted by the 2019/20 Code.
- 4.2 However, due to Covid-19 and the additional pressure Local Authorities are facing in these unprecedented times, on 20 March 2020, the Financial Reporting Advisory Board (FRAB), announced the deferral of International Financial Reporting Standard 16 (IFRS 16) implementation to 2021/22

5.0 Details of Consultation

- 5.1 Consultation has taken place with the Councils External Auditors, Deloitte LLP

6.0 Options and Options Analysis (including risk assessment)

- 6.1 The options that Audit Committee Members might consider in relation to the contents of this report are:

- a) not to approve any of the accounting policies or note the critical judgements.
- b) not to approve some of the accounting policies or note the critical judgements.
- c) to approve all the accounting policies and note the critical judgements

- 6.2 Officer Preferred Option
The preferred option is option C at paragraph 6.1.

7.0 Conclusion

- 7.1 Revisions have been made to the Council's accounting policies for 2019/20 to reflect the new accounting standards and the Council's material transactions

8.0 Appendices

- 8.1 Appendix 1 – Proposed Accounting Policies 2019/20
Appendix 2 – Proposed Critical Judgements 2019/20

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

Not Applicable

FINANCIAL IMPLICATIONS

None directly arising from this report

SECTION 151 OFFICER'S COMMENTS

Failure to complete the Statement of Accounts in line with the CIPFA Code of Practice may result in an adverse opinion from the Council's external auditors

LEGAL IMPLICATIONS

S21 (1) of the Local Government Finance Act 2003 (the Act) provides that the Secretary of State by regulation may make provision about accounting practices to be followed by a local authority. The Secretary of State may also, pursuant to subsection (1A) of the Act issue guidance about the accounting practices to be followed by a local authority. Lancaster City

Council, pursuant to s21 (1B) must have regard to any guidance issued under subsection (1A).

Pursuant to s 21 (2) of the Act, where legislation to which s21 of the Act applies references 'proper practices', in relation to local authority accounts, this means the accounting practices which the local authority is required to follow by virtue of an any enactment or which are contained in a code of practice or other document which is identified for the purposes of s21 by regulations made by the Secretary of State.

The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom is a code of practice identified by regulations made by the Secretary of State (Regulation 31 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003).

This report and the Accounting policies referred to meet the Council's obligation to comply with the Code of Practice

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no comments to make on this report.

BACKGROUND PAPERS

Contact Officer: Paul Thompson (Chief Finance Officer)

Telephone: 01524 582603

Email: pthompson@lancaster.gov.uk

Ref:

1. ACCOUNTING POLICIES

1.1 Basis of Preparation

The Statement of Accounts summarises the council's transactions for the 2019/20 financial year and its position on 31 March 2020. The accounts of the council have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), taking account of the supplementary guidance notes issued by CIPFA on the application of the Code to local authorities, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The accounts have been prepared on a going concern basis, under the assumption that the Council will continue in existence for the foreseeable future.

Unless otherwise stated the convention used in this document is to round to amounts to the nearest thousand pounds. All totals are the rounded totals of unrounded figures and, therefore, may not be the strict sums of the figures presented in the text or tables. Throughout the Statements all credit balances are shown with parentheses e.g. (£1,234).

1.2 Revenue Recognition and Accruals of Income and Expenditure

Revenue is defined as income arising as a result of the Council's normal operating activities and where income arises from contracts with service recipients it is recognised when or as the Council has satisfied a performance obligation by transferring a promised good or service to the service recipient.

Revenue is measured as the amount of the transaction price which is allocated to that performance obligation. Where the Council is acting as an agent of another organisation the amounts collected for that organisation are excluded from revenue.

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Interest receivable on investments is accounted for as income based on the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income has been recognised but cash has not been received, a debtor for the relevant amount is recorded in the balance sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or

- determined by the contract.
- Where expenditure has been recognised but cash has not been paid, a creditor for the relevant amount is recorded in the Balance Sheet.

1.2 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature or are available for recall in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. This category includes cash on call and 3 months or less term deposit and instant access money market funds.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the council's cash management.

1.3 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of the transactions, other events and conditions on the council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

1.4 Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible fixed assets attributable to the service.

The council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement which is calculated on a prudent basis in accordance with statutory guidance. This contribution is known as the minimum revenue provision (MRP). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the MRP, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

1.5 Council Tax and Non-Domestic Rates

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute

to maintain a separate fund (the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the council's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the council's share of the year end balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable payments), the asset is written down and a charge made to the Collection Fund. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

1.6 Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end, as employees can carry this forward into the next financial year. The accrual is made at the salary rate applicable in the following accounting year, being the period in which the employee takes the benefit.

The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the council to the Pension Fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the Pension Fund and pensioners and any such amounts payable but unpaid at the year-end.

The Local Government Pension Scheme

Generally, employees of the council are members of the Local Government Pension Scheme, which is administered on our behalf by Lancashire County Council. It is accounted for as a defined benefits scheme.

Defined benefit scheme - the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

The liabilities of the Lancashire Pension Fund attributable to the council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projections of projected earnings for current employees.

The liabilities of the Lancashire County Pension Fund attributable to the council are included in the balance sheet on an actuarial basis using the projected unit method. Liabilities are discounted to their value at current prices using a discount rate.

The assets of Lancashire Pension Fund attributable to the council are included in the Balance Sheet at their fair value:

Quoted securities	Current bid price
Unquoted securities	Professional estimate
Unitised securities	Current bid price
Property	Market value

The change in the net pension's liability is analysed into the following components:

Component	Description	Treatment
Service Costs		
Current service costs	Measures the future service cost to the employer estimated to have been generated in the year.	Charged to the comprehensive income and expenditure statement to the services for which employees worked.
Past service costs	The increase in liabilities as a result of a current year scheme amendment or curtailment whose effect relates to years of service earned in earlier years.	Charged to comprehensive income and expenditure statement as part of non-distributed costs.
Interest costs	The expected increase in the present value of liabilities as members of the plan are one year closer to receiving their pension. The provisions made at present value in previous years for their retirement costs need to be uplifted by a year's discount to keep pace with current values.	Charged to the financing and investment income and expenditure line of the comprehensive income and expenditure statement.
Re-measurements		
Return on plan assets	This is a measure of the return on the investment assets held	Charged to the pensions reserve as other

	by the plan for the year.	comprehensive income and expenditure.
Actuarial gains and losses	These arise where actual events have not coincided with the actuarial assumptions made for the last valuations or the actuarial assumptions have been changed.	Charged to the pensions reserve as other comprehensive income and expenditure.
Contributions		
Contributions paid to the pension fund	Cash paid as employer's contributions to the pension fund in settlement of liabilities.	These are not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the council to the Pension Fund or directly to the pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove notional debits and credits for retirement benefits and replace them with debits for the cash paid to the Pension Fund and pensioners on any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits that are earned by employees.

Discretionary Benefits

The council also has restricted powers to make discretionary awards or retirement benefits in the event of early retirement. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

1.7 Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

1.8 Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured by fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid.

The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- Amortised cost.
- Fair value through other comprehensive income (FVOCI), and.
- Fair value through profit or loss (FVPL).

The Council's business model is to hold investments to collect contractual cash flows i.e. payments of interest and principal. Most of the Council's financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the balance sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost.

Annual credits to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the

instrument. For most of the financial assets held by the council, this means that the amount presented in the balance sheet is the outstanding principal receivable plus accrued interest and interest credited to the comprehensive income and expenditure statement is the amount receivable for the year in the loan agreement.

There is no recognition of gains or losses on fair value until reclassification or derecognition of the asset.

Financial assets measured at fair value through other comprehensive income (FVOCI)

The council also holds investments with the objective of collecting contractual cash flows and selling assets in order to meet long term investments requirements while ensuring the council is not subject to a high degree of credit risk. These assets are measured at FVOCI.

Annual credits to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

For these financial assets held by the council, this means that the amount presented in the balance sheet is the fair value of the financial instrument and the interest credited to the comprehensive income and expenditure statement is the amount receivable for the year in the loan agreement.

The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices – the market price.
- Other instruments with fixed and determinable payments –discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Any changes in the fair value of the assets are charged to other comprehensive income and expenditure in the comprehensive income and expenditure statement and balanced by an entry in the financial instrument's revaluation reserve.

Any gains or losses that arise on the derecognition of the asset are credited or debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement, along with any accumulated gains or losses previously recognised in the financial instruments revaluation reserve.

Financial assets measured at fair value through profit of loss (FVPL)

Financial assets that are measured at FVPL are recognised on the balance sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value.

Fair value gains and losses are recognised in the surplus or deficit on the provision of services as they arise.

The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices – the market price.
- Other instruments with fixed and determinable payments - discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Expected credit loss model

The council recognises expected credit losses on its financial assets held at amortised cost or FVOCI (subject to materiality) either on a 12-month or lifetime basis.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed based on 12-month expected losses.

Lifetime losses are recognised for trade receivables (debtors) held by the council.

1.10 Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third-party contributions and donations are recognised as due to the authority when there is reasonable assurance that:

- The council will comply with the conditions attached to the payments, and
- The grants or contributions will be received.

Amounts recognised as due to the council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or the future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants or contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

1.11 Business Improvement Districts

Business Improvement District (BID) schemes apply to Lancaster City Centre and Morecambe Town Centre. The Scheme is funded by a BID levy paid by non-domestic ratepayers. The council collects the levy in respect of the BID and pays this across to Lancaster BID Ltd and Morecambe BID Ltd CIC as managing bodies for the Scheme.

1.12 Heritage Assets

Heritage assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture. The collection has an indeterminate life and is subject to appropriate conservation measures, therefore, depreciation is not charged on heritage assets.

The valuation of the council's heritage assets has included a degree of estimation. With respect to the museum's collection, those assets considered to have a value of £10,000 or over have been identified and valued as separate items. The rest of the collection involves a large quantity of small value items for which it is not considered to be economic to value each item separately. Therefore, a sample of items was valued by the museums staff. The resulting value was then used to give an estimated value of the whole collection. It is considered that the result provides a fair reflection of the value of the council's holding.

The council has a detailed acquisitions and disposal policy, further information on which can be obtained from the council. Disposals will not be made with the principal aim of generating funds. It is considered that the collection has a long-term purpose and, therefore, there is a strong presumption against disposal. If any items are thought to be appropriate for rationalisation, the Museums Association Code of Practice for the review of collections is followed. This is a lengthy process that allows for efforts to find an alternative home/location for an item before any consideration of final disposal is made.

1.13 Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the council.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the council's goods or services (which is the case in practice).

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the council can be determined by reference to an active market. In practice, no intangible asset held by the council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are

therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment.

1.14 Inventories and Long-term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is shown in the accounts at the latest replacement cost net of provision for obsolescence / reduction in value, as an estimation of the net realisable value.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

1.15 Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement dated. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

1.16 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and building elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of the specific assets.

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases are recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the council are added to the carrying amount of the asset. Premiums

paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred. Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down for lease liability, and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

The council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairments losses are therefore substituted by revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease; even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Council as Lessor

Finance Leases

Where the council grants a finance lease over a property or item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carry value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premium received), and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the

payment of rentals in future financial years, this is posted out of the General Fund balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid on the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

1.17 Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the council's arrangements for accountability and financial performance.

1.18 Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for the administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant or Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Componentisation

Where a property, plant and equipment asset have major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price.
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Assets that are being constructed by the council will initially be recognised at cost. The council does not capitalise borrowing costs incurred whilst assets are under construction.

The costs of assets acquired other than by purchase are deemed to be its fair value unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the council.

Donated assets are measured initially by fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement unless the donation has been made conditionally. Until the conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement basis:

Category	Measurement Basis
Infrastructure and community assets	Depreciated historical cost
Dwellings	Current value, determined using the basis of existing use value for social housing (EUV-SH)
Council offices	Current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV), except for a few offices that are situated close to the council's housing properties, where there is no market for office accommodation, and that are measured at depreciated replacement cost which is used as an estimate of current value
Surplus assets	Fair value – highest and best
All other assets	Existing use value

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets that have short useful lives or low values (or both), depreciated historic cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly (but as a minimum every three years) to ensure that their carrying amount is not materially different from their current value at the year-end. Increases in valuation are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Increases in valuations are matched by credits to the revaluation reserve to recognise unrealised gains, unless the gain reverses a loss previously charged to a service. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure

Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 01 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Valuations are undertaken internally by Lancaster City Council's Property Service department in accordance with the methodologies and basis for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors (RICS).

1.19 Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of an asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

- Where impairment losses are identified, they are accounted for by:
- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

1.20 Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the allocation of their depreciable amounts over the time of their useful lives.

Depreciation is calculated on the following basis:

Category	Method and period over which assets depreciated
Land	Not depreciated
Council Dwellings	Straight-line allocation on a componentised bases over the useful life of the property as estimated by the Valuer; (5 - 80 years)
Other buildings	Straight-line allocation on a componentised bases over the useful life of the property as estimated by the Valuer; (5 - 40 years)

Vehicles, plant and equipment	Straight-line allocation over 10 to 15 years depending on the type of asset;
Infrastructure	Straight-line allocation over 10 to 40 years depending on the type of asset.
Community Assets	Not depreciated
Assets under construction	Not depreciated
Assets held for sale	Not depreciated
Heritage assets	Not depreciated

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on the historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continual use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of:

- Their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale.
- Their recoverable amount at the date of the decision not to sell.

Assets that are abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant or Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under the separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund

Balance in the Movement in Reserves Statement.

1.21 Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

1.22 Reserves

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement.

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus and Deficit on the Provision

of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the council. These reserves are explained in the relevant notes.

1.23 Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset is charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

1.24 Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

2.0 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1 the council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

Local Government Funding

There is still a high degree of uncertainty about future levels of funding for local government, the full impact of the revisions to the Business Rate Retention scheme is unknown and also the impact of the decision to leave the European Union remains unclear. However, the council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the council might be impaired as a result of a need to close facilities and reduce levels of service provision.

Pension Prepayment

The Council is liable to make contributions towards the cost of post-employment benefits. For the 3-year period 2017/18 – 2019/20, the Council agreed with the Lancashire County Pension Fund that the employer contributions payable to the Local Government Pension Scheme (LGPS) could be paid as a single up-front payment.

Subsequently, in April 2017 the Council paid £8.915M based on an estimated pensionable payroll of £17.8M per annum in order to make a budget saving. In line with the Council's accounting policies, in 2017/18 the amounts relating to 2018/19 and 2019/20 were offset against the pension liability on the balance sheet. These amounts were then reflected in the pension reserve in the years to which they related.

As 2019/20 was the final year of the up-front payment period, all amounts have now been reflected in the pension reserve which is aligned to the pension liability. For further details see note 29 Defined Benefit Pension Schemes.

For the 3-year period 2020/21 – 2022/23, the Council has again agreed with the Lancashire County Pension Fund that the employer contributions payable to the Local Government Pension Scheme (LGPS) can be paid as a single up-front payment. The payment and associated transactions will be accounted for in the same way as the 2017/18 – 2019/20 payment.

Property Plant & Equipment

The Council's non-current assets within its general fund are valued on the balance sheet in accordance with the statement of asset valuation principles and guidance notes issued by the Royal Institute of Chartered Surveyors. The council carries out a rolling programme that ensures all Plant, Property and Equipment required to be measured at fair value is revalued within a three-year cycle. All assets reviewed had a valuation date of 1 April 2019. Any material changes after the valuation date have been accounted for.

Council Dwellings

The Council's Housing Stock is valued on the balance sheet at Existing Use Value for Social Housing (EUV-SH) as defined by the Royal Institution of Chartered Surveyors (RICS) Valuation – Professional Standards January 2014. Council dwellings are formally revalued every 5 years in accordance with MHCLG's the "Beacon Principal" with desktop reviews in the intervening years.

Investment Properties

The Council has reviewed all assets in accordance with the accounting policy for

investment properties confirming they are being held for rental income or for capital appreciation. Properties have been assessed using these criteria, which is subject to interpretation to determine if there is an operational reason for holding the property, such as regeneration.

Provisions

The Council has made judgements about the likelihood of pending liabilities and whether a provision should be made or whether there is a contingent liability. This includes appeals against the rateable value of business properties and legal claims that may result in the payment of compensation or other settlement. The judgements are based on the degree of certainty around the results of pending cases, experience in previous years or in other local authorities.