



Committee: AUDIT COMMITTEE
Date: WEDNESDAY, 23 MARCH 2022
Venue: MORECAMBE TOWN HALL
Time: 6.10 P.M.

A G E N D A

1. **Apologies for Absence**

2. **Minutes**

Minutes of meeting held on 24th November 2021 (previously circulated).

3. **Items of Urgent Business authorised by the Chair**

4. **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.

5. **Audit Committee Terms of Reference 2022/23** (Pages 4 - 8)

Report of the Head of Internal Audit.

This Report was marked 'to follow' and was published on 22nd March 2022.

6. **Internal Audit Charter** (Pages 9 - 17)

Report of the Head of Internal Audit.

This report was marked "to follow" and was published on 17th March 2022.

7. **Internal Audit Strategy and Risk Based Plan 2022/23** (Pages 18 - 20)
Report of the Head of Internal Audit.
This report was marked 'to follow' and was published on 18th March 2022.
8. **Internal Audit Monitoring** (Pages 21 - 28)
Report of the Head of Internal Audit.
This report was marked 'to follow' and was published on 17th March 2022.
9. **Review of Money Laundering Policies** (Pages 29 - 41)
Report of the Monitoring Officer.
This report was marked 'to follow' and was published on 22nd March 2022.
10. **Annual Review of the Regulation of Investigatory Powers Act 2020 (RIPA) Policy and Procedure** (Pages 42 - 67)
Report of the Information Governance Manager.
11. **Risk Management Q3 Update**
Report of the Director of Corporate Services.
Report to follow.
12. **External Audit Plan 2020/21** (Pages 68 - 104)
Report of The Chief Finance Officer.
This Report was marked 'to follow' and was published on 22nd March 2022.
13. **Statement of Accounts Update**
Report of The Chief Finance Officer.
Report to follow.
14. **Proposed Accounting Policies and Critical Judgements used in the Preparation of the Statement of Accounts 2021/22** (Pages 105 - 125)
Report of the Chief Finance Officer.

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

Councillors Paul Stubbins (Chair), Geoff Knight (Vice-Chair), Abbott Bryning, Darren Clifford, Oliver Robinson, David Whitworth and Peter Yates

(ii) Substitute Membership

Councillors Jason Firth (Substitute), Stuart Morris (Substitute), David Whitaker (Substitute), Jason Wood (Substitute) and Joanna Young (Substitute)

(iii) Queries regarding this Agenda

Please contact Sarah Moorghen, Democratic Services - email smoorghen@lancaster.gov.uk.

(iv) Changes to Membership, substitutions or apologies

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

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

Published on 15th March 2022.

AUDIT COMMITTEE

23 March 2022

Annual Review of the Audit Committee Terms of Reference

Report of Head of Internal Audit

<p>PURPOSE OF REPORT</p> <p>Annual Review of the Audit Committee’s Terms of Reference</p>
<p>This report is public</p>

RECOMMENDATIONS

(1) That the Audit Committee’s Terms of Reference be accepted and adopted and referred to Full Council for approval.

1.0 Background

1.1 Audit Committees are a key component of corporate governance. Their overall purpose being to provide those charged with governance, independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance process. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

1.2 In March 2018, CIPFA re-issued their practical guidance for Audit Committees (Audit Committees Practical Guidance for Local Authorities and Police) and provided local authorities with a suggested term of reference setting out the purpose and the core functions required.

2.0 Proposed Revisions

2.1 Since the terms of reference were last reviewed (March 2021), no further amendments have been made to the document attached at Appendix A.

3.0 Details of Consultation

3.1 None specifically regarding this report, however a recent review of the Audit Committees effectiveness confirmed that the current terms of reference conform to CIPFA’s guidance and best practice.

4.0 Options and Options Analysis (including risk assessment)

4.1 The options available are to accept the terms of reference attached at Appendix A or recommend alternative wording if necessary.

CONCLUSION OF IMPACT ASSESSMENT

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

Not applicable

FINANCIAL IMPLICATIONS

None directly arising from this report

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

None directly arising from this report

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments

BACKGROUND PAPERS

Audit Committees Practical Guidance for Local Authorities and Police 2018 Edition

Contact Officer: Jayne Wainwright

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E-mail: Jayne.Wainwright@miaa.nhs.uk

Ref:

Audit Committee Terms of Reference

SECTION 6 – AUDIT COMMITTEE

Composition: Seven Councillors in political balance. Chair appointed by Council annually.

The Chair and Vice Chair must not be a member of the Cabinet or an Overview and Scrutiny Committee.

The Committee has the right of access to all the information it considers necessary in connection with the work of the Committee and may consult directly with Internal and External Auditors.

Statement of Purpose

- 6.1 The audit committee is a key component of Lancaster City Council's corporate governance. It provides an independent high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
- 6.2 The purpose of an audit committee is to provide those charged with governance, independent assurance of the adequacy of the risk management framework and the internal control environment. It provides independent review of Lancaster City Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal and external audit, helping to ensure efficient and effective assurance arrangements are in place.

Core Functions

Governance, Risk and control

- 6.3 To review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.
- 6.4 To review the annual governance statement and consider whether it properly reflects the risk environment and supporting assurances, taking into account the head of audit's annual audit opinion.
- 6.5 To consider the reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 6.6 To consider the council's arrangements to secure value for money and review assurances and assessment on the effectiveness of these arrangements.
- 6.7 To monitor the effective development and operation of risk management in the council and monitor progress in addressing risk-related issues reported to the committee.
- 6.8 To monitor counter fraud, actions and resources and review the assessment of fraud risks and potential harm to the council from fraud and corruption.

- 6.9 To review the governance and assurance arrangements for significant partnerships or collaborations.

Internal Audit

- 6.10 To approve the internal audit charter.
- 6.11 To review proposals made in relation the appointment of external providers of internal audit services and to make recommendations on their effectiveness.
- 6.12 To approve the risk-based internal audit plan, including resource requirements and the approach to using other sources of assurances and any work required to place reliance upon those other sources.
- 6.13 To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- 6.14 To approve and periodically review safeguards to limit impairments to independence or objectivity of the internal audit team.
- 6.15 To approve significant changes to the audit plan and resource requirements.
- 6.16 To consider reports from the head of internal audit on the performance during the year. This will include an update on the implementation of agreed recommendations.
- 6.17 To consider the head of internal audit's annual report.
- 6.18 To consider a report on effectiveness of internal audit to support the Annual Governance Statement and also any external assessments of effectiveness; i.e. the quality assessment of internal audit that takes place at least once every five years in accordance with the Public Sector Internal Audit Standards.
- 6.19 To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

External Audit

- 6.20 To receive and comment upon the External Auditor's Annual Plan, considering the scope and depth of external audit work and to ensure it gives value for money.
- 6.21 To monitor the External Auditor's progress with the Annual Plan.
- 6.22 To consider the external auditors' annual letter and the report to those charged with governance.
- 6.23 To consider specific reports as agreed with the external auditor.
- 6.24 To advise and recommend on the effectiveness of relationships between internal and external audit and other inspection agencies or relevant bodies.
- 6.25 To provide free and unfettered access to the audit committee chair for the external auditors, including the opportunity for a private meeting with the committee.

- 6.26 To consider periodically (at least annually) whether the Auditors appointed to carry out the External Audit function remain independent and objective and, that their judgement in carrying out that role has not been impaired as a consequence of their participation in any non-audit reviews, services or advice provided to the Council.

Financial Reporting

- 6.27 To review the annual Statement of Accounts on behalf of full Council in accordance with the Accounts and Audit Regulations 2015.
- 6.28 To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.
- 6.29 To consider and endorse amendments to the Council's Financial Regulations and Contract Procedure Rules and, on behalf of full Council, give any instructions to the Section 151 Officer as may be appropriate.

Accountability Arrangements

- 6.30 To prepare an annual report to full Council setting out the committee's work and performance during the year in relation to the terms of reference and to refer to Council any matters it shall see fit.
- 6.31 To review any issue referred to it by the Chief Executive or any Council body.

Other core functions

- 6.32 To consider any matters referred to it by the Monitoring Officer in accordance with Overview and Scrutiny Procedure Rule 12.
- 6.33 With the Monitoring Officer to monitor and review the operation of the Constitution to ensure the aims and principles of the Constitution are given full effect.
- 6.34 To undertake the annual review of the council's use of the Regulation of Investigatory Powers Act 2000 (RIPA), ensuring compliance with the Code of Practice
- 6.35 With the exception of those parts of the Constitution, which are assigned specifically to the Council Business Committee, to consider and propose to Council any other amendments to the Constitution as necessary



Internal Audit Charter - FINAL

Lancaster City Council

Contents

- 1 Introduction & Background
- 2 Standard 1000 - Purpose, Authority and Responsibility
- 3 Standard 1100 - Independence and Objectivity
- 4 Standard 1200 - Proficiency and Due Professional Care
- 5 Standard 1300 - Quality Assurance and Improvement Programme
- 6 Standard 2000 - Managing the Internal Audit Activity
- 7 Standard 2100 - Nature of Work
- 8 Standard 2200 - Engagement Planning
- 9 Standard 2300 - Performing the Engagement
- 10 Standard 2400 - Communicating Results
- 11 Standard 2500 - Monitoring Progress
- 12 Standard 2600 - Communication the Acceptance of Risks
- 13 Definitions

1 Introduction and Background

The Internal Audit Charter is mandated through the Public Sector Internal Audit Standards (2016) and is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

This Charter is structured around the Public Sector Internal Audit Standards (2016).

Public Sector Internal Audit Standards – Attribute Standards

1000 - Purpose, Authority and Responsibility

1100 - Independence and Objectivity

1200 - Proficiency and Due Professional Care

1300 - Quality Assurance and Improvement Programme

Public Sector Internal Audit Standards – Performance Standards

2000 - Managing the Internal Audit Activity

2100 - Nature of Work

2200 - Engagement Planning

2300 - Performing the Engagement

2400 - Communicating Results

2500 - Monitoring Progress

2600 - Communicating the acceptance of risks.

MIAA confirms ongoing compliance with the Public Sector Internal Audit Standards.

2 Standard 1000 - Purpose, Authority and Responsibility

Internal auditing is “an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes¹”.

The provision of assurance services is the primary role for internal audit in the Public Sector. This role requires the internal auditor to provide an independent opinion based on an objective assessment of the framework of governance, risk management and control. The main purpose of internal audit activity within the Council is therefore to provide the Chief Executive with an objective evaluation of, and opinion on, the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The Director of Internal Audit's opinions is a key element of the

¹ The Definition of Internal Auditing Copyright © 2009 by The Institute of Internal Auditors, Inc., 247 Maitland Avenue, Altamonte Springs, Florida 32710-4201 U.S.A. Reproduced with permission.

framework of assurance that the Chief Executive needs to inform the completion of the Annual Governance Statement (AGS).

Internal audit also provides an independent and objective consultancy service which is advisory in nature, and generally performed at the specific request of the organisation. Such consultancy work is separate from but contributes to the opinion which internal audit provides on risk management control and governance. When performing consulting services, the internal auditor will maintain objectivity and not take on management responsibility.

The above functions drive MIAA's Mission Statement "To support improved public service outcomes through a world class shared service for audit, assurance, challenge and solutions".

Assurance Reviews will provide individual audit opinions to support the annual Director of Internal Audit Opinion. Formal agreement will be sought for the provision of third party assurances to other bodies in respect of the services provided by the Council.

The Internal Audit Section derives authority from the Audit and Standards Committee, the Council and statute (Section 151 Local Government Act 1972 and the Accounts and Audit Regulations 2015)

In accordance with the organisation's Standing Financial Instructions (or equivalent), Internal Auditors will (without necessarily giving prior notice) have access to all records (including those of a confidential nature) and employees of the organisation.

3 Standard 1100 - Independence and Objectivity

The internal audit activity must be independent, and internal auditors must be objective in performing their work. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the Director of Internal Audit will have direct and unrestricted access to senior management and the Audit & Standards Committee.

The Director of Internal Audit will confirm to the Audit & Standards Committee, at least annually, the organisational independence of the internal audit activity.

The Director of Internal Audit will report functionally to the Audit & Standards Committee and establish effective communication with, and have free and unfettered access to and freedom to report in his or her name to the Chief Executive and to the Chair of Audit and Standards Committee. In addition the Director of Internal Audit also has direct access to the Council's Monitoring Officer, the S151 Officer and all senior management. This will include communicating and interacting directly with the Audit and Standards Committee.

Internal audit activity will be free from interference in determining the scope of internal auditing, performing work and communicating results. Internal auditors will have an impartial, unbiased attitude and avoid any conflict of interest. Conflicts of interest may arise where an auditor provides services other than internal audit to the organisation. Steps will be taken to avoid or manage transparently and openly such conflicts of interest, so that there is no real or perceived threat or impairment to independence in performing the audit role.

All internal auditors will complete an annual declaration of interest identifying possible conflicts of interest and the actions taken to mitigate them. This process, and its outcomes, will be communicated to the Audit and Standards Committee annually through the Director of Internal Audit Opinion and Annual Report.

MIAA will also periodically review the specific audit manager assigned to the organisation to ensure that both parties are satisfied that relationships remain independent and objective.

If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

4 Standard 1200 - Proficiency and Due Professional Care

Engagements will be performed with proficiency and due professional care. Internal auditors will possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively will possess or obtain the knowledge, skills and other competencies needed to perform its responsibilities. The Director of Internal Audit is a CCAB qualified Accountant and is responsible for ensuring access to the full range of knowledge, skills, qualifications and experience to meet the requirements of the Internal Audit Standards. MIAA internal auditors will ensure Continuing Professional Development and compliance with professional standards.

Internal auditors will apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

5 Standard 1300 - Quality Assurance and Improvement Programme

The Director of Audit will develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. The quality assurance and improvement programme will include both internal and external assessments.

- Internal assessment will include;
- Ongoing monitoring of the performance of the internal audit activity; and
- Periodic self-assessments or assessment by other persons within the organisation with sufficient knowledge of internal audit practices.

External assessments will also be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organisation. The results of external quality reviews and any consequent improvement plans will to be reported to the Chief Executive and Audit and Standards Committee.

6 Standard 2000 - Managing the Internal Audit Activity

The Director of Internal Audit will develop and maintain an Internal Audit strategy designed to meet the main purpose of the internal audit activity and its service provision needs. This strategy will advocate a systematic and prioritised review, outlining the resources and skills required to meet the assurance needs of the Chief Executive, Full Council and Audit and Standards Committee.

The Director of Internal Audit will establish risk based plans to determine the priorities of the internal audit activity consistent with the organisation's goals.

The Director of Internal Audit will include in the internal audit strategy the approach to using other sources of internal and external assurance. Periodic plans will include any work associated with placing reliance upon such work.

The Director of Internal Audit will agree the strategy and periodic plans with the Chief Executive and Audit and Standards Committee.

Where the Director of Internal Audit believes that the level of agreed resources will prevent the Chief Executive being provided with an opinion on the overall adequacy and effectiveness of the

organisation's framework of governance, risk management and control, the consequences will be brought to the attention of the Audit and Standards Committee.

The Director of Internal Audit will agree arrangements for interim reporting to the Chief Executive and Audit and Standards Committee in the course of the year and produce an annual report that incorporates his opinion.

The Director of Internal Audit will provide to the Chief Executive an opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control, timed to support the Annual Governance Statement.

7 Standard 2100 - Nature of Work

The internal audit activity will evaluate and contribute to the improvement of governance, risk management and control processes, using a systematic and disciplined approach.

The Director of Internal Audit will liaise on a regular basis with the nominated Corporate Fraud Manager (CFM) for the organisation to identify any potential risk of fraud and ensure that any potential or actual frauds identified through internal audit activity are referred to the CFM for investigation.

The Director of Internal Audit will also liaise with the organisation's external auditors and other review bodies to facilitate the effective co-ordination of audit resources and assurances.

8 Standard 2200 - Engagement Planning

The Director of Internal Audit will establish a risk based Internal Audit Plan in conjunction with the client and with the agreement of the Audit and Standards Committee. The plan will set out the priorities for Internal Audit activity, consistent with the organisations goals and objectives.

Internal auditors will develop and document a terms of reference for each engagement, including the engagement's objectives, scope, timing and resource allocations, based on an evaluation of the nature and complexity of each engagement, time constraints and available resources. A work plan will be developed and documented that achieves the engagement objectives.

Internal audit will meet regularly with the external auditor to consult on audit plans and discuss matters of mutual interest.

9 Standard 2300 - Performing the Engagement

Internal audit will identify, analyse, evaluate and document sufficient information to achieve the engagement's objectives. Internal auditors will base conclusions and engagement results on appropriate analyses and evaluations. Internal auditors will document relevant information to support the conclusions and engagement results.

Engagements will be properly supervised to ensure objectives are achieved, quality is assured and staff are developed.

10 Standard 2400 - Communicating Results

Internal auditors will communicate the engagement results with appropriate parties, including the engagement's objectives and scope, as well as applicable conclusions, recommendations and action plans

Working with the organisation, the Director of Internal Audit will ensure that communications are accurate, objective, clear, concise, constructive, complete and timely.

The Director of Internal Audit will deliver an annual internal audit opinion and report that can be used by the organisation to inform its Annual Governance Statement.

The annual internal audit opinion will conclude on the overall adequacy and effectiveness of the organisations framework of governance, risk management and control.

The annual report will incorporate;

- The opinion;
- A summary of the work that supports the opinion; and
- A statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

11 Standard 2500 - Monitoring Progress

The Director of Internal Audit will establish and maintain a follow-up process to monitor that management actions have been effectively implemented or that senior management has accepted the risk of not taking action. This will be operated to support the organisation in ensuring the implementation of actions, and reporting progress to the Audit and Standards Committee.

12 Standard 2600 - Communication the Acceptance of Risks

When the Director of Internal Audit believes that senior management has accepted a level of residual risk that may be unacceptable to the organisation, the Director of Internal Audit will discuss the matter with senior management. If the decision regarding residual risk is not resolved, the Director of Internal Audit will report the matter to the Audit and Standards Committee for resolution

Code of Ethics

MIAA will operate within the definition of Internal Auditing and ensure that the Code of Ethics (Institute of Internal Auditors, 2009) underpins the internal audit services provided to the organisation.

INTEGRITY	OBJECTIVITY
<ul style="list-style-type: none"> • Honesty, diligence & responsibility • Legal & professional disclosure • Contribution to legitimate & ethical objectives 	<ul style="list-style-type: none"> • Unbiased assessment • Relationships • Not subject to undue influence • Conflict of interest disclosure
CONFIDENTIALITY	COMPETENCY
<ul style="list-style-type: none"> • Prudence in use & protection of Information • Not use information for personal gain or contrary to legal requirements 	<ul style="list-style-type: none"> • Knowledge, skills and experience • Compliance with standards and professional practice • Continuous improvement

13 Definitions

Full Council	The Governing Body of the organisation with overall responsibility for governance.
Chief Executive	Officer responsible and accountable for funds entrusted to the organisation.
Audit and Standards Committee	A sub-committee of the Full Council with overall responsibility for overseeing the establishment of an effective system of integrated governance, risk management and control across the organisation's activities.
Director of Internal Audit	Acts as the Chief Audit Executive as the independent corporate executive with overall responsibility for internal audit.
Senior Management	The overall lead director agreed by the organisation for each audit engagement.

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Audit Manager

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Internal Audit Plan on a Page

For Lancaster City Council, this is the planning approach we will adopt:

Planning Approach

- Risk Assessment of the external environment, system and organisation (including the Strategic Risk Register).
- Engagement of Audit and Standards Committee, Executive Directors and management to refresh and confirm the plan.
- Use of MIAA's client risk database to inform planning.
- Coverage of Critical Business Systems to support organisation's objectives through the strategic internal audit plan.
- Provision of sufficient resources and expertise.
- Compliance with Public Sector Internal Audit Standards (PSIAS).

Your Plan

The outcome of your risk assessment is summarised below:

Organisational Reviews Provision of assurances across core and risk based reviews

- Risk Management
- Key Financial Controls
- Budgeting
- IT Resilience / Cyber
- Project and Contract Management
- Assurance Mapping
- Climate Change / Carbon Neutral Work
- Recruitment
- Council resilience /Emergency Preparedness
- Apprenticeships / Succession Planning
- Council Time Recording Systems
- CCTV Compliance
- Externally Managed Events

Follow Up and Contingency
Planning, Reporting & Audit Committee
Year End Opinion

Outcomes

Head of
Internal Audit
Opinion to
inform the
AGS

Assignment
assurance
levels

Recommendations,
advice, and guidance
to enhance the
control environment

Insights through
briefings, thought
leadership events
and benchmarking.

Operational Internal Audit Plan 22/23

Review & Scope	Strategic Risk / Rationale	Planned Delivery	Executive Lead
Governance & Democratic Services			
Risk Management – Core Controls: To provide assurance that core risk management controls have established and maintained.	HOIA Opinion Requirement/ PSIAS requirement	TBA	Director of Corporate Services
Assurance Mapping: An assurance mapping exercise will be performed with each council services to identify sources of assurance received.	Compliance with CIPFA'S Delivering Good Governance Framework	TBA	
Finance, Performance & Sustainability			
Key Financial Controls: To provide assurance that the most significant key controls are appropriately designed and operating effectively in practice. In addition, to ensure that the financial position of the organisation is being reported appropriately during the financial year.	Core Assurance	TBA	Chief Finance Officer
Budgetary Controls: To evaluate the systems and processes the organisation has in place for Budgetary Control and the monitoring of financial performance.	Funding Cuts / Strategic Risk	TBA	Chief Finance Officer
Climate Change/Carbon Neutral Work: Recognising the councils commitment to achieving carbon neutral status by 2030 and the increasing corporate projects the review will look to provide assurance around the projects and the on-going sustainability agenda.	Corporate Plan / Strategic Risk register		
Service Delivery & Business Support			
Project / Contract Management: Previous reviews in this area provided Limited assurance so the review will be to re-assess the governance and controls in place for overall project / contract management with sample testing of specific project.	Operational Risk	TBA	Chief Finance Officer
Externally Managed Events: To evaluate the design and operating effectiveness of the arrangements in place for events managed by third parties on Council property and land.	Operational Risk	TBA	

Review & Scope	Strategic Risk / Rationale	Planned Delivery	Executive Lead
<p>Council Resilience: To review the arrangements the council has in place to fully restore services after the COVID-19 pandemic. This will include reviewing the Councils emergency response plan and individual services business continuity arrangements and checking if lesson learned have been incorporated into the same to further strengthen processes going forward should they be required</p> <p>CCTV Compliance: To assess whether the Council is compliant with the latest Surveillance Camera Code of Practice. In addition the work is also needed to ensure Research / City centre data collection is conducted in line with guidance.</p>	<p>Operational Risk / Strategic Risk</p> <p>Operational Risk (mandatory)</p>	<p>TBA</p> <p>TBA</p>	<p>Director of Communities & Environment</p>
People			
<p>Council Time Recording Systems: To review the systems and processes in place for the capturing and recording of annual leave, flexi and sickness absence across Council services to ensure consistency and compliance with policy.</p> <p>Apprentices / Succession Planning: To evaluate the systems and processes the organisation has in place for Apprenticeships and overall succession planning.</p> <p>Recruitment: The overall objective of this review is to identify and evaluate the controls in place at the Council to manage staff recruitment.</p>	<p>Operational Risk</p> <p>Strategic Risk</p> <p>Operational / Strategic Risk</p>	<p>TBA</p> <p>TBA</p> <p>TBA</p>	<p>Director of Corporate Services</p>
Information and Technology			
<p>IT Resilience/ Cyber: To assess the effectiveness of the Council's IT Resilience.</p>	<p>ICT Strategic Risk</p>	<p>TBA</p>	<p>Director of Corporate Services</p>
Follow up & Contingency			
<p>Follow up and Contingency</p>	<p>PSIAS requirement</p>	<p>Q1 - Q4</p>	
Planning & Reporting			
<p>Planning, Management, Reporting & Meetings, HOIAO</p>	<p>PSIAS requirement</p>	<p>Q1 - Q4</p>	

The Internal Audit Risk assessment and plan will be reviewed on an ongoing basis throughout the year and any requests for change discussed and approved via the Audit Committee. A formal 6 month review of the plan will also take place.

Internal Audit Progress Report Audit Committee (March 2022)

Lancaster City Council

Contents

1 Introduction

2 Key Messages for Audit Committee Attention

Appendix A: Contract Performance

Appendix B: Performance Indicators

Appendix C: Assurance Definitions and Risk Classifications

Your Team

Name	Role	Contact Details
Louise Cobain	Engagement Lead	Louise.Cobain@miaa.nhs.uk 07795 564916
Jayne Wainwright	Engagement Manager	Jayne.wainwright@miaa.nhs.uk 07500 782 951

Limitations

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regards to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

Responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor

relied upon to identify all circumstances of fraud or irregularity. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Reports prepared by MIAA are prepared for your sole use and no responsibility is taken by MIAA or the auditors to any director or officer in their individual capacity. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose and a person who is not a party to the agreement for the provision of Internal Audit and shall not have any rights under the Contracts (Rights of Third Parties) Act 1999.

Public Sector Internal Audit Standards

Our work was completed in accordance with Public Sector Internal Audit Standards.

1 Introduction

This report provides an update to the Audit Committee in respect of progress made against the Internal Audit Plan for 2021/22 and brings to your attention matters relevant to your responsibilities as members of the Audit Committee.

This progress report provides a summary of Internal Audit activity and complies with the requirements of the Public Sector Internal Audit Standards.

Comprehensive reports detailing findings, recommendations and agreed actions are provided to the organisation, and are available to Committee Members on request. In addition, a consolidated follow up position is reported on a periodic basis to the Audit Committee.

This progress report covers the period up to March 2022.

2 Executive Summary

There has been the focus on the following areas:

2021/22 Audit Reviews	<p>MIAA commenced as the Internal Audit provider in November 2021 and as agreed, review delivery will span through to Q1.</p> <p>The reviews below are currently in progress:</p> <p>Risk Management</p> <p>Appendix A provides an overview of the delivery of your Head of Internal Audit Opinion for 2021/22.</p> <p>Appendix B provides information on Internal Audit performance.</p>
Follow Up	<p>We are currently working on the follow-up of previous recommendations made and further detail will be included within the next progress report to Audit Committee.</p>
Audit Plan Changes	<p>Audit Committee approval will be requested for any amendments to the original plan and highlighted separately below to facilitate the monitoring process.</p> <p>As at March 2022 there have been amendments to the agreed internal audit plan.</p>
Insights	<p>Collaborative Masterclass Events</p> <ul style="list-style-type: none"> • Outlook for the public sector (31st March 2022)

Appendix A: Contract Performance

The Public Sector Internal Audit Standards (PSIAS) state that ‘The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.’

Below sets out the overview of delivery for your Head of Internal Audit Opinion for 2021/22:

HOIA Opinion Area	Status	Assurance Level
Risk Management		
Risk Management	WIP	
Risk Based Assurances		
Main Accounting System	Scheduled	
P2P Systems Assurance	Scheduled	
Treasury Management	Scheduled	
Collection of Income & Reconciliations	Scheduled	
Housing Benefit	Scheduled	
Property Investment Strategy / Capital Schemes	Scheduled	
Council Tax	Scheduled	
NNDR	Scheduled	
Grants	Scheduled	
Efficiency Programme Delivery	Scheduled	
Effectiveness of HR Arrangements	Scheduled	
Conflicts of Interest & Gifts and Hospitality	Scheduled	
Information Governance	Scheduled	
Follow Up		
<ul style="list-style-type: none"> Procurement & Contract Management Data Protection 	WIP	

HOIA Opinion Area	Status	Assurance Level
<ul style="list-style-type: none"> Insurance Legal Fees, Charges & Debt Recovery 		
Management		
Head of Internal Audit Opinion/Annual Report/Annual Governance Statement	Ongoing	N/A
Planning and Management		
Reporting and Meetings		
Contingency		

If due to circumstances beyond our control we are unable to achieve sufficient depth or coverage, we may need to caveat opinions and explain the impact of this and what will be done to retrieve the position in future.

Appendix B: Performance Indicators

The primary measure of your internal auditor's performance is the outputs deriving from work undertaken. The following provides performance indicator information to support the Committee in assessing the performance of Internal Audit.

Element	Reporting Regularity	Status	Summary
Delivery of the Head of Internal Audit Opinion (Progress against Plan)	Each Audit Committee	Green	There is ongoing engagement and communications regarding delivery of key reviews to support the Head of Internal Audit Opinion.
Issue a Client Satisfaction Questionnaire following completion of every audit.	Ongoing	Green	Link to questionnaire included within each audit report.
Qualified Staff	Annual	Green	MIAA have a highly qualified and diverse workforce which includes 75% qualified staff.
Quality	Annual	Green	MIAA operate systems to ISO Quality Standards. The External Quality Assessment, undertaken by CIPFA, provides assurance of MIAA's compliance with the Public Sector Internal Audit Standards. MIAA conforms with the Public Sector Internal Audit Code of Ethics.

Appendix C: Assurance Definitions and Risk Classifications

Level of Assurance	Description
High	There is a strong system of internal control which has been effectively designed to meet the system objectives, and that controls are consistently applied in all areas reviewed.
Substantial	There is a good system of internal control designed to meet the system objectives, and that controls are generally being applied consistently.
Moderate	There is an adequate system of internal control, however, in some areas weaknesses in design and/or inconsistent application of controls puts the achievement of some aspects of the system objectives at risk.
Limited	There is a compromised system of internal control as weaknesses in the design and/or inconsistent application of controls puts the achievement of the system objectives at risk.
No	There is an inadequate system of internal control as weaknesses in control, and/or consistent non-compliance with controls could/has resulted in failure to achieve the system objectives.
Risk Rating	Assessment Rationale
Critical	Control weakness that could have a significant impact upon, not only the system, function, or process objectives but also the achievement of the organisation's objectives in relation to: <ul style="list-style-type: none"> the efficient and effective use of resources the safeguarding of assets the preparation of reliable financial and operational information compliance with laws and regulations.
High	Control weakness that has or could have a significant impact upon the achievement of key system, function, or process objectives. This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall organisation objectives.
Medium	Control weakness that: <ul style="list-style-type: none"> has a low impact on the achievement of the key system, function, or process objectives. has exposed the system, function, or process to a key risk, however the likelihood of this risk occurring is low.
Low	Control weakness that does not impact upon the achievement of key system, function, or process objectives; however, implementation of the recommendation would improve overall control.

AUDIT COMMITTEE**23 March 2022****Review of Money Laundering Policies****Report of Money Laundering Reporting Officer****PURPOSE OF REPORT**

To seeks Member's approval for a proposed policy dealing with the council's exposure and responsibilities in relation to money laundering activity and the proceeds of crime.

This report is public

RECOMMENDATIONS

It is recommended that the Audit Committee:

1. That the proposed Anti-Money Laundering Policy attached as Appendix A is approved.

1.0 INTRODUCTION

- 1.1 In recent years, there have been significant changes to the legislation concerning money laundering. The Proceeds of Crime Act 2002, the Terrorism Act 2000 and the The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 place obligations on all individuals, including employees and elected members, and on the council to establish internal procedures to prevent the use of its services for money laundering.
- 1.2 Whilst the Chief Finance Officer was formally identified as the Council's Money Laundering Reporting Officer (MLRO) in 2021, a formal review and refresh of the policy has not been undertaken for several years.

2.0 REPORT

- 2.1 The draft Anti-Money Laundering Policy attached at Appendix A has been developed from best practice guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Policy describes:-
 - what money laundering is;
 - the obligations of the Council;
 - disclosure procedures;
 - the role of the MLRO in disclosures;
 - reporting standards and related procedures; and
 - policy review arrangements
- 2.2 A detailed Anti-Money Laundering Guidance Note is being produced in support of the policy. It is proposed to use this document as the basis for providing appropriate levels of training and guidance to relevant employees and elected members. This will range from providing general awareness information to the majority of employees and elected members to more in-depth and targeted training for employees whose duties involve

services and activities where the risk of money laundering activity is highest, for example property transactions, income handling and financial services generally.

2.3 The policy has been refreshed to reflect current legislation and best practice guidance and has not resulted in significant changes or required amendment to the Financial regulations & Procedures.

3.0 DETAILS OF CONSULTATION

3.1 Service Heads whose areas of responsibility involve the potential for money laundering activity have been consulted on both the Anti-Money Laundering Policy and Guidance Notes.

4.0 OPTIONS AND OPTIONS ANALYSIS

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

- a) To approve the draft policy as submitted, or with any amendments suggested by the Committee
- b) Not to approve the policy.

4.2 Options analysis, based on associated risks and opportunities is set out in the following table:

Risk/ Opportunity	Option A – Approve Policy	Option B – Do Not Approve
Failure of the council to meet statutory requirements in identifying and responding to money-laundering activity	Adoption of the policy defines, in accordance with proper practice, the council’s responsibilities and how it will respond	Without a formal policy statement, the council’s response is likely to be inconsistent; statutory requirements may not be met
Failure of individuals to meet statutory expectations	The policy and guidance provide the framework for ensuring that individuals are aware of their own responsibilities	Individuals are unlikely to be aware of their personal responsibilities
Risk of financial loss to the council from a money laundering offence	The policy is aimed at establishing risk-sensitive procedures within the council. Risks will be more fully understood and managed	Exposure to the risk of financial loss is likely to be poorly understood and managed

4.2 The preferred option is option a at paragraph 4.1.

5.0 CONCLUSION

5.1 Legislative changes in recent years and the publication by CIPFA of professional guidance on money laundering and financial crime present an opportunity for the Council to strengthen its commitment to combat crime. Approval of the proposed Anti-Money Laundering Policy and Guidance Note provide the framework for this commitment to be implemented and fulfilled.

APPENDICES

Appendix A – Anti-Money Laundering Policy

CONCLUSION OF IMPACT ASSESSMENT

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

Not Applicable

FINANCIAL IMPLICATIONS

None directly arising from this report

SECTION 151 OFFICER'S COMMENTS

The s151 Officer has authored this report under his responsibilities as the Council's Money Laundering Reporting Officer

LEGAL IMPLICATIONS

It is appropriate in pursuance of its statutory requirements for the council to establish a money laundering policy. Legal Services have been consulted upon the proposed policy and are satisfied that it supports the council's obligations under the legislation.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

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Ref:

Anti-Money Laundering Policy and Procedures

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1. Introduction
2. Scope of the Policy
3. Definition of Money Laundering
4. Requirements of the Money Laundering Legislation
5. The Money Laundering Reporting Officer (MLRO)
6. Customer Due Diligence & Client Identification Procedures
7. Reporting Procedure for Suspicions of Money Laundering
8. Procedure following the Report of Suspected Money Laundering
9. Consideration of the disclosure by the MLRO
10. Training
11. Conclusion
12. Review

ANTI-MONEY LAUNDERING POLICY

1. Introduction

- 1.1 The risks to the Council of contravening money laundering legislation remain relatively low and some aspects of the legal and regulatory requirements do not apply to public authorities. However, it is recognised that the Council is not completely immune from the risks surrounding money laundering. The purpose of the Anti-Money Laundering Policy is to clearly demonstrate that the Council embraces the underlying principles of money laundering legislation and is taking reasonable steps to minimise the likelihood of such activities occurring, by developing a suitable framework of arrangements to safeguard itself against action of this nature, whilst making satisfactory provisions to achieve compliance to legal and regulatory requirements, where appropriate.
- 1.2 The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (the 2017 Money Laundering Regulations) provide numerous and prescriptive requirements with regards to risk assessments, policies and procedures and customer due diligence checks, amongst other things, all of which are designed to minimise the risk of businesses inadvertently or otherwise becoming involved in money laundering or terrorist financing.
- 1.3 Whilst local authorities are not bound by the requirements of the 2017 Money Laundering Regulations), even when undertaking regulated activities within the meaning of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001, it is a prudent and responsible practice for local authorities to comply with the underlying spirit of the legislation and to have in place appropriate and proportionate anti-money laundering safeguards.
- 1.4 Whilst local authorities do not strictly fall within the scope of the 2017 Money Laundering Regulations, they are bound by the Proceeds of Crime Act 2002(as amended) and the Terrorism Act 2006, both of which place a number of duties and responsibilities on local authorities and employees and members of the same, in order that they do not find themselves subject to criminal prosecution.
- 1.5 Lancaster City Council is committed to the highest possible standards of conduct and has, therefore, put in place appropriate and proportionate anti-money laundering safeguards and reporting arrangements. This policy seeks to address both the underlying spirit of the 2017 regulations whilst ensuring

responsibilities under the Proceeds of Crime Act 2002 and Terrorism Act 2006 are clear.

2 Scope of the Policy

- 2.1 This Policy applies to all employees whether permanent or temporary, and Members of the Council. Its aims to prevent criminal activity through money laundering and to enable employees and Members to respond to a concern that they have in the course of their dealings for the Council. It is extremely important that all members and employees are familiar with their legal responsibilities and are vigilant at all times. Serious criminal sanctions may be imposed for breaches of the legislation. The key requirement on employees is to promptly report any suspected money laundering activity to the Money Laundering Reporting Officer (MLRO).
- 2.2 Failure by any employee to comply with the procedures set out in this Policy may lead to disciplinary action being taken against them. Any disciplinary action will be dealt with in accordance with the Council's Disciplinary Policy and Procedure.

3. Definition of Money Laundering

3.1 Money laundering is a term designed to cover a number of offences. These offences relate to the improper handling of funds that are the proceeds of criminal acts, or terrorist acts, so that they appear to come from a legitimate source. It relates to both the activities of organised crime but also to those who benefit financially from dishonest activities such as receiving stolen goods. The Proceeds of Crime act 2002(as amended), creates a range of criminal offences arising from dealing with proceeds of crime. The four main offences that may be committed under money laundering legislation are:

- Concealing, disguising, converting, transferring or removing criminal property from anywhere within the UK.
- Entering into or becoming concerned in an arrangement which a person knows, or suspects facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person.
- Acquiring, using or possessing criminal property*.
- Entering into or being concerned in an arrangement which facilitates the retention or control by, or on behalf of, another person of terrorist property** by concealment, removal, transfer or in any other way.

It is also an offence to attempt, conspire or incite to commit any of the above offences and to aid, abet, consul or procure them commission of any of the above offences.

*Criminal property is something which constitutes a person's benefit from criminal conduct or represents such benefit; it is not limited to money and there is no minimum amount.

**Terrorist Property includes money or other property likely to be used for terrorism, proceeds of terrorist acts, and proceeds of acts carried out for the purposes of terrorism.

There are also two 'third party' offences:

- Failing to disclose information relating to money laundering offences (in respect of both criminal property and terrorist property) where there are reasonable grounds for knowledge or suspicion; and,
- Tipping off or informing someone who is or is suspected of being involved in money laundering activities, in such a way as to reduce the likelihood of or prejudice an investigation.

It is important to note that whilst the disclosure obligations and tipping off offences in relation to criminal property will not always strictly apply to local authorities, all individuals and business' have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from terrorism, proceeds of acts carried out for the purposes of terrorism or finance likely to be used for terrorism, where that information has come to them in the course of their business or employment.

3.2 Provided the Council does not undertake activities regulated under the Financial Services and Markets Act 2000, the offences of failure to disclose and tipping off do not apply. However, the Council and its employees and Members remain subject to the remainder of the offences and the full provisions of the Terrorism Act 2000(as amended).

3.3 The Money laundering offences cited above carry a prison sentence of up to 14 years. A defence is available if it can be shown that any knowledge or suspicion of money laundering was reported to the National Crime Agency (NCA) and as a result that any resultant transaction was put on hold until consent to proceed was given

4. Requirements of the Money Laundering Legislation

4.1 The main requirements of the legislation are:

- Appoint a Money Laundering Reporting Officer (MLRO)
- Implement a procedure to enable the reporting of suspicions of money laundering.
- Maintain client identification procedures in certain circumstances.
- Maintain record keeping procedures, and
- Train relevant staff.

5. The Money Laundering Reporting Officer (MLRO)

- 5.1 The Council's MLRO is the Head of Financial Services (Section 151 Officer), and can be contacted as follows:

Paul Thompson
Head of Financial Services
(Section 151 Officer)
Town Hall, Dalton Square
Lancaster, LA1 1PJ

Telephone 01524 582603
Email: pthompson@lancaster.gov.uk

- 5.2 In the absence of the MLRO, contact the Deputy MLRO.

Andrew Kipling
Principal Accountant
Address as above

Telephone: 01524 582143
Email: akipling@lancaster.gov.uk

6. Customer Due Diligence & Client Identification Procedures

- 6.1 The Council does undertake activities that may be considered under the Money Laundering Regulations, to be regulated, however it does not undertake these activities by way of business, and therefore would not normally be expected to undertake due diligence in respect of any clients to whom it provides these services.
- 6.2 However, it is good practice that wherever the Council does enter into such activities with a third party then due diligence checks should be actioned before the establishment of a relationship/transaction with the third party.
- 6.3 Undertaking customer due diligence checks can take a number of forms. Consideration should be given to taking one or more of the following, where applicable:
- Confirming the identity of the client via documentation, data or information obtained from a reliable and independent source, e.g. passport, and/or position within an organisation, where appropriate.
 - Obtaining confirmation from Companies House as to the registration details of the Company and details of the Company business.
 - Seeking electronic verification, e.g. performing credit checks.
 - Obtaining confirmation to regulated industries bodies (e.g. in the case of accountants, checking to CCAB certified bodies).
 - Requesting copies of financial statements.

- Requesting details of interests and beneficial ownerships – with reference to the latter this is any individual who holds more than 25% of the shares, voting rights or interest in a company, partnership or trust.
 - Obtaining information on the purpose and intended nature of the business relationship.
- 6.4 Examples of other available internal information that may be considered relevant are:
- Reviewing other transaction patterns and volumes.
 - The length of any business relationship involved.
 - The number of any one-off transactions and linked one-off transactions.
 - Any identification evidence held.
- 6.5 Satisfactory evidence of identity of the client/third party must be obtained upon taking instructions or as soon as practicable thereafter.
- 6.6 For inter departmental transactions, documentation must be retained that constitutes evidence that the client identification procedure has been followed. For dealings with external clients, evidence will be in the form of written instructions on the organisation's letterhead at the outset of the matter. If it is a new client then further evidence may be necessary (see examples above). In either case the documentation that constitutes evidence of compliance with the client identification procedure should be clearly marked on the client's records.
- 6.7 Any checks undertaken should remain proportionate to the risks of the individual business and the relationship. Additional checking may need to be performed if the person is not physically present to be identified. Details of such checks should be recorded and retained for a minimum of 6 years.
- 6.8 If satisfactory evidence of identity is not obtained at the outset of the matter, then the business relationship or transaction **CANNOT PROCEED**.
- 6.9 All personal data collected must be kept in compliance with the Data Protection Act.

7. Reporting Procedure for Suspicions of Money Laundering

- 7.1 Where a member of staff knows or suspects that money is being laundered or is concerned about their involvement in such activity, this must be disclosed to the MLRO or Deputy. This disclosure should be within hours of it coming to the attention of the member of staff as opposed to days or weeks later. A member of staff who fails to make such a disclosure may be liable to prosecution.

7.2 The report to the MLRO should be made using the pro-formas which are located on the Councils Intranet. The report must include as much detail as possible including:

- Full details of the people involved
- Full details of the nature of their/your involvement.
- The types of money laundering activity involved
- The dates of such activities
- Whether the transactions have happened, are ongoing or are imminent
- Where they took place
- How they were undertaken
- The (likely) amount of money/assets involved
- Why, exactly, you are suspicious.

7.3 Even if you have not reported the matter to the MLRO, if you know or suspect that such a disclosure has been made and you mention it to someone else, this could amount to a tipping off offence. Be very careful what you say and to whom, in these circumstances. Any person found guilty of tipping off or prejudicing an investigation offence is liable to imprisonment (maximum five years), a fine or both.

8. Procedure following the Report of Suspected Money Laundering

8.1 Once a report has been made to the MLRO the member of staff must comply with the following:

- The member of staff will need to follow any directions given by the MLRO or by the NCA. This may include continuing with the transaction in order to avoid raising suspicion that the laundering has been detected.
- The member of staff will cooperate with the MLRO and NCA during any subsequent investigation.
- The Member of staff must not make any further enquiries or investigate the matter themselves, as there may be a danger that the investigation by NCA could be compromised by alerting those engaged in the money laundering.
- The member of staff should not voice any suspicions to persons suspected of money laundering, as this may constitute the criminal offence of "Tipping Off"; and
- The member of staff shall not make any reference on a client file to a report having been made to the MLRO. Under Data Protection legislation a client may exercise their right to see their file and therefore would see any note of the report thereby 'tipping them off'.

9. Consideration of the Disclosure by the Money Laundering Reporting Officer

- 9.1 Upon receipt of a disclosure report, the MLRO must note the date of receipt on his section of the report and acknowledge receipt of it. He should also advise you of the timescale within which he expects to respond to you.
- 9.2 The MLRO will consider the report and any other available internal information he thinks relevant, for example:
- Reviewing other transaction patterns and volumes
 - The length of any business relationship involved
 - The number of any one-off transactions and linked one-off transactions
 - Any identification evidence held.
- 9.3 The MLRO will undertake such other reasonable inquiries he thinks appropriate in order to ensure that all available information is taken into account in deciding whether a report to the NCA is required (such enquiries being made in such a way as to avoid any appearance of tipping off those involved). The MLRO may also need to discuss the report with you.
- 9.4 Once the MLRO has evaluated the disclosure report and any other relevant information, he must make a timely determination as to whether:
- There is actual or suspected money laundering taking place; or
 - There are reasonable grounds to know or suspect that is the case; and
 - Whether he needs to seek consent from the NCA for a particular transaction to proceed.
- 9.5 Where the MLRO does so conclude, then he must disclose the matter as soon as practicable to the NCA on their standard report form and in the prescribed manner, unless he has a reasonable excuse for non-disclosure to the NCA. Guidance is available at <https://www.nationalcrimeagency.gov.uk>
- 9.6 Where the MLRO suspects money laundering but has a reasonable excuse for non-disclosure, then he must note the report accordingly, he can then immediately give his consent for any ongoing or imminent transactions to proceed.
- 9.7 Where consent is required from the NCA for a transaction to proceed, then the transaction(s) in question must not be undertaken or completed until the NCA has specifically given consent, or there is deemed consent through the expiration of the relevant time limits without objection from the NCA.

- 9.8 Where the MLRO concludes that there are no reasonable grounds to suspect money laundering then he shall mark the report accordingly and give his consent for any ongoing or imminent transaction(s) to proceed.
- 9.9 All disclosure reports referred to the MLRO and reports made by him to the NCA must be retained by the MLRO in a confidential file kept for that purpose, for a minimum of six years.
- 9.10 The MLRO commits a criminal offence if he knows or suspects, or has reasonable grounds to do so, through a disclosure being made to him, that another person is engaged in money laundering and he does not disclose this as soon as practicable to the NCA.

9. Training

- 9.1 Officers considered likely to be exposed to suspicious situations, will be made aware of these by their senior officer and provided with appropriate training.
- 9.2 Additionally, all employees and Members will be familiarised with the legal and regulatory requirements relating to money laundering and how they affect both the Council and themselves.
- 9.3 Notwithstanding the paragraphs above, it is the duty of officers and Members to report all suspicious transactions whether they have received their training or not.

10. Conclusion

- 10.1 Given a local authority's legal position with regard to the legislative requirements governing money laundering, the Council believes that this Policy represents a proportionate response to the level of risk it faces of money laundering offences.

11. Review

This policy will be reviewed annually.

AUDIT COMMITTEE**Annual Review of the Regulation of Investigatory Powers Act 2020 (RIPA) Policy and Procedure****23 March 2022****Report of the Information Governance Manager****PURPOSE OF REPORT**

- To update the committee on the current state of the RIPA policy and Procedure
- To review the authorities use of RIPA since it was last considered in Audit Committee in November 2020

This report is public.**RECOMMENDATIONS**

- (1) **Members asked to note that there are no changes proposed to the RIPA policy this year but that this policy will remain under annual review to ensure its fitness for purpose in line with the recommendations made by the Investigatory Powers Commissioner's Office (IPCO).**
- (2) **Members are asked to note that we have had one RIPA Authorisation and subsequent cancellation in December 2020.**

1.0 Introduction

- 1.1 Local authorities can undertake surveillance and access communications data under the framework of the Regulation of Investigatory Powers Act 2000. The rules set high standards for all public authorities that use these powers to undertake a range of enforcement functions to ensure they can keep the public safe and bring criminals to justice, whilst protecting individuals' rights to privacy.
- 1.2 The RIPA policy was last reviewed and approved by the audit committee on 25 November 2020.

- 1.3 The Council has had one RIPA Surveillance authorisation in December of 2020. This is the first and only authorisation that the Council has had since 2014.

2.0 Proposal Details

- 2.1 The Code of Practice requires a number of best working practices to be adopted by all public authorities, including:
- An annual review of the authority's use of RIPA to ensure that it is being used consistently and in accordance with the Council's policy; and
 - An annual review of the policy ensuring that it remains fit for purpose
- 2.2 In 2017 the IPCO took over the inspection and oversight functions on the application RIPA, which was previously carried out by the Surveillance Commissioner's Office.
- 2.3 The IPCO have stated that they will continue to ensure Local Authorities are complying with RIPA by conducting a programme of inspections. As a generality, their aim is to inspect each authority once every three years but have also introduced remote desktop inspections for authorities that have significantly reduced or stopped using their powers under RIPA and when there are no apparent significant compliance concerns.
- 2.4 Lancaster City Council had a remote desktop inspection by the IPCO in July 2020.
- 2.5 The recommendations in that 2020 report which are outside of the policy amendments, i.e. training of officers engaged in investigatory areas and training of the new Director of Corporate Services in their role as Authorising Officer, have been actioned to an extent but as yet the Director of Corporate Services has not undertaken a RIPA Authorising Officer training (these training sessions are not available often). This should be remedied in the coming year if training is available.
- 2.6 Following a review of the policy, there was seen to be no need for the RIPA policy to be updated from its current format. This will be reviewed again next year.

3.0 Details of Consultation

- 3.1 The Monitoring Officer, Legal Services and Corporate Fraud have been consulted in compiling this report.

4.0 Options and Options Analysis (including risk assessment)

- 4.1 There are no other options available. It is necessary to carry out a regular review and update of the RIPA policy to ensure it supports the council's officers and protects the rights of the public when carrying out surveillance.
- 4.2 The Director of Corporate Services should attend a RIPA Authorising Officer training if one is available.

5.0 Conclusion

- 5.1 Currently the policy remains compliant with the law and will be reviewed again next year.

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

Not Applicable

LEGAL IMPLICATIONS

There are no legal implications stemming from this report.

FINANCIAL IMPLICATIONS

None directly arising from this report. Training for staff to ensure that they are kept up to date with appropriate practice and revisions to RIPA will be allocated from existing budgets.

SECTION 151 OFFICER'S COMMENTS

The s151 Officer has been consulted and has no comments to make

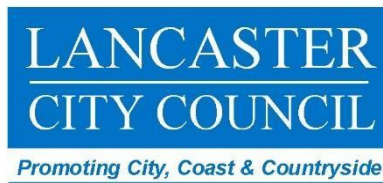
DEPUTY MONITORING OFFICER'S COMMENTS

The Deputy Monitoring Officer has been consulted on this report and has nothing further to add.

BACKGROUND PAPERS

None

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THE REGULATION OF INVESTIGATORY POWERS ACT (RIPA) POLICY AND PROCEDURE

Document Control

Approved by:	Audit Committee	Date:	25/11/2020
Document location:			
Document owner:	Information Governance		
Review period:	2 Years		
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Revision History

Version	Date	Reviewed By	Amendment Details
V 1.0	28/11/2018	Audit Committee	Approval of final draft
V2.0	27/11/2019	Audit Committee	Social Media Use and guidance approved
V3.0	25/11/2020	Audit Committee	Update of guidance wording

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1 Purpose

The purpose of this policy is to:

- explain the provisions of the Regulation of Investigatory Powers Act 2000 (RIPA);
- provide guidance and give advice to those Services undertaking covert surveillance; and
- ensure full compliance with RIPA and a Council-wide consistent approach to its interpretation and application.

2 Introduction

RIPA came into force on 25th September 2000 to regulate covert investigations by a number of bodies, including local authorities. It was introduced to ensure that individuals' rights are protected while also ensuring that law enforcement and security agencies have the powers they need to do their job effectively.

Lancaster City Council is therefore included within the 2000 Act framework with regard to the authorisation of both Directed Surveillance and the use of Covert Human Intelligence Sources (CHIS)

In summary RIPA requires that when a Council undertakes "directed surveillance" or uses a "covert human intelligence source" these activities must only be authorised by an officer with delegated powers when the relevant criteria are satisfied. In addition, amendments contained in the Protection of Freedoms Act 2012, which took effect on the 1st November 2012, mean that local authority authorisations, and renewals of authorisations under RIPA, can only take effect once an order approving the authorization (or renewal) has been granted by a Justice of the Peace (district judge or lay magistrate) (JP).

Authorisation for both types of surveillance may be granted only where it is believed that the authorisation is necessary, and the authorised surveillance is proportionate to that which is sought to be achieved:

An authorisation may be granted only where the Authorising Officer believes that the authorisation is necessary in the circumstances of the particular case:

"For the purpose of preventing and detecting crime and disorder"

However, amendments which took effect on the 1st November 2012 mean that a local authority may only authorise use of directed surveillance under RIPA to prevent or detect criminal offences that are either punishable, whether on summary conviction or indictment, by a maximum term of at least 6 months' imprisonment or are related to the underage sale of alcohol and tobacco. Local authorities cannot authorise directed surveillance for the purpose of preventing disorder unless this involves a criminal offence punishable by a maximum term of at least 6 months' imprisonment. These amendments are referred to as "the crime threshold".

The background to RIPA is the Human Rights Act 1998, which imposes a legal duty on public authorities to act compatibly with the European Convention on Human Rights (ECHR). Article 8(1) of the ECHR gives a right to respect for private and family life, the home and correspondence. However, this is qualified by Article 8(2) which provides that there shall be no interference by a public authority with the exercise of this right except such as is in accordance with the law and is necessary in a democratic society in the interests of national

security, public safety or the economic well-being of the country, for the prevention of disorder or crime, for the protection of health or morals, or for the protection of the rights and freedoms of others. RIPA was enacted so as to incorporate the provisions of Article 8(2) in English law, and to establish a means by which a public authority may interfere with privacy rights in accordance with the law. The objective is to give protection to the Council and any officer involved in an investigation. The scheme of RIPA is to state that an authorisation for covert surveillance shall be lawful for all purposes, but that such an authorisation may only be granted if the authorising officer believes that what is proposed is necessary and proportionate.

If the authorisation procedures introduced by RIPA are followed, they afford protection to the Council and to investigating officers in respect of challenges to the admissibility of evidence, claims under the Human Rights Act 1998, and complaints to the Local Government Ombudsman or the Investigatory Powers Tribunal.

The Act is supported by statutory Codes of Practice, the most recent versions of which were published in 2018 and are available on the [here](#). These are the 'Covert Surveillance and Property Interference' Code of Practice and the 'Covert Human Intelligence Sources' (CHIS) Code of Practice. RIPA requires the Council to have regard to the provisions of the Codes which are admissible as evidence in criminal and civil proceedings and must be taken into account by any court or tribunal. However, amendments which took effect on the 1st November 2012 mean that a local authority may only authorise use of directed surveillance under RIPA to prevent or detect criminal offences that are either punishable, whether on summary conviction or indictment, by a maximum term of at least 6 months' imprisonment or are related to the underage sale of alcohol and tobacco. Local authorities cannot authorise directed surveillance for the purpose of preventing disorder unless this involves a criminal offence punishable by a maximum term of at least 6 months' imprisonment. These amendments are referred to as "the crime threshold".

3 Investigatory Powers Commissioner's Office

In May 2001 an Inspectorate was formed within the Office of Surveillance Commissioners (OSC) to keep under review the exercise and performance of the powers and duties conferred or imposed by RIPA. This Office was replaced in October 2017 and is now called the Investigatory Powers Commissioner's Office (IPCO) and is led by the Investigatory Powers Commissioner. The most recent Procedures and Guidance document was issued by the Investigatory Powers Commissioner in August 2018, and is available on the Council's intranet.

RIPA requires public authorities to disclose or provide to the Investigatory Powers Commissioner all such documents and information as he may require for the purpose of enabling him to carry out his functions.

4 Statement of Intent

The Council's policy and practice in respect of RIPA is to comply fully with the law and strike a fair and proportionate balance between the need to carry out covert surveillance in the public interest and the protection of an individual's fundamental right to privacy. The Council acknowledges that this policy is very much a living document and will be reviewed and updated in line with the best guidance and advice current at the time.

5 Part 1: An explanation of the Key Provisions of RIPA

5.1 What is meant by 'surveillance'?

'Surveillance' includes:

- a) monitoring, observing or listening to persons, their movements, their conversations or their other activities or communication;
- b) recording anything monitored, observed or listened to in the course of surveillance; and
- c) surveillance by or with the assistance of a surveillance device.

5.2 When is surveillance “covert”?

According to RIPA, surveillance is covert if, and only if, it is carried out in a manner that is calculated to ensure that persons who are subject to the surveillance are unaware that it is or may be taking place. If activities are open and not hidden from the subjects of an investigation, the 2000 Act framework does not apply.

5.3 What is ‘directed surveillance’ or when is surveillance ‘directed’?

Surveillance is directed if it is ‘covert’ but not ‘intrusive’ (see below) and is undertaken:

- a) for the purposes of a specific investigation or a specific operation;
- b) in such a manner as is likely to result in the obtaining of private information about a person (whether or not that person is specifically identified for the purposes of the investigation or operation); and
- c) otherwise than by way of an immediate response to events or circumstances the nature of which is such that it would not be reasonably practicable for an authorisation to be sought for the carrying out of the surveillance.

Essentially, therefore, directed surveillance is any:

- (1) pre-planned surveillance activity;
- (2) undertaken covertly;
- (3) for the purposes of a specific investigation;
- (4) in such a way that is likely to result in obtaining private information about a person.

5.4 Is it for the purposes of a specific investigation or operation?

For example, are CCTV cameras which are readily visible to anyone walking around a Council car park covered?

The answer is no if their usage is to monitor the general activities of what is happening in the car park. If that usage changes at any time the 2000 Act may apply.

For example, if the CCTV cameras are targeting a particular known individual, and are being used in monitoring his activities, that has turned into a specific operation which will require authorisation.

5.5 Is it in such a manner that it is likely to result in the obtaining of private information about a person?

5.5.1 ‘Private Information’

In relation to a person, includes any information relating to his private or family life. Private information should be taken generally to include any aspect of a person’s private or personal relationship with others, including family and professional or business relationships. Whilst a person may have a reduced expectation of privacy when in a public place, covert surveillance of that person’s activities in public may still result in the obtaining of private information. This

is likely to be the case where that person has a reasonable expectation of privacy even though acting in public and where a record is being made by a public authority of that person's activities for future consideration.

If it is likely that observations will not result in the obtaining of private information about a person, then it is outside the 2000 Act framework. However, the use of "test purchasers" may involve the use of covert human intelligence sources see section 10.7

5.5.2 'Immediate response....'

According to the Covert Surveillance and Property Interference Code of Practice, "covert surveillance that is likely to reveal private information about a person but is carried out by way of an immediate response to events such that it is not reasonably practicable to obtain an authorisation under the 2000 Act would not require a directed surveillance authorisation." For example, a police officer would not require an authorisation to conceal himself and observe a suspicious person that he came across in the course of a patrol.

However, if as a result of an immediate response, a specific investigation subsequently takes place, that brings it within the 2000 Act framework.

5.6 What is meant by 'intrusive surveillance' or when is surveillance 'intrusive'?

Surveillance becomes intrusive if the covert surveillance:

- a) is carried out in relation to anything taking place on any 'residential premises' or in any 'private vehicle'; or a "place for legal consultation; and
- b) involves the presence of an individual on the premises or in the vehicle or is carried out by means of a surveillance device; or
- c) is carried out by means of a surveillance device in relation to anything taking place on any residential premises or in any private vehicle but is carried out without that device being present on the premises or in the vehicle, and the device is such that it **consistently provides information of the same quality and detail** as might be expected to be obtained from a device actually present on the premises or in the vehicle.

The definition of surveillance as intrusive relates to the location of the surveillance, and not to other consideration of the nature of the information that is expected to be obtained. Officers of the Council are unlikely to have access to any "place of legal consultation" but should seek advice from Legal Services on the detailed definition.

5.6.1 'Residential premises'

Is defined to include any premises that is for the time being occupied or used by any person, however temporarily, for residential purposes or otherwise as living accommodation. For example, the definition includes hotel rooms. It, however, does not include so much of any premises as constitutes any common area to which a person is allowed access in connection with his use or occupation of any accommodation. For example, a hotel lounge.

5.6.2 'Private vehicle'

Means any vehicle which is used primarily for private purposes, for example, for family, leisure or domestic purposes. It therefore does not include taxis i.e. private hire or hackney carriage vehicles.

5.7 Why is it important to distinguish between directed and intrusive surveillance?

It is imperative that officers understand the limits of directed surveillance or, put another way, recognise when directed surveillance becomes intrusive surveillance because **RIPA does not permit local authorities to undertake intrusive surveillance in any circumstances.**

5.8 What is a 'covert human intelligence source' (CHIS)?

According to RIPA a person is a CHIS if:

- a) he **establishes or maintains a personal or other relationship** with a person for the **covert purpose** of facilitating the doing of anything falling within paragraph b) or c).
- b) he covertly uses such a relationship to **obtain information** or provide access to any information to another person; or
- c) he covertly discloses information obtained by the use of such a relationship or as a consequence of the existence of such a relationship.

A CHIS is effectively an inside informant or undercover officer, someone who develops or maintains their relationship with the surveillance target, having the covert purpose of obtaining or accessing information for the investigator.

A **purpose is covert**, in relation to the establishment or maintenance of a personal or other relationship, if and only if the relationship is conducted in a manner that is calculated to ensure that one of the parties to the relationship is unaware of the purpose.

It is not clear whether '**information**' is restricted to private information in line with directed surveillance. The inference is there, but it is not clear. If in doubt, the Council's policy is to obtain an authorisation.

RIPA also makes reference to the use of a CHIS which refers to inducing, asking or assisting a person to engage in the conduct of a CHIS, or to obtain information by means of the conduct of such a CHIS.

5.9 Use of Social Networking in investigations

Officers often use the internet and social networking sites for the purposes of research and carrying out checks on the subjects of an investigation. Care must be taken to ensure that officers do not stray into a surveillance situation.

It should not be assumed that all monitoring of open social media sites are automatically immune from the need for an authorisation of some sort. Use of open media, in circumstances where there is a reasonable expectation of privacy, is likely to require an authorisation, particularly if the monitoring is intensive or for a prolonged period of time i.e. more than a week. The creation of fake or anonymous websites for investigation purposes is likely to

require an authorisation. Entry on to chat rooms or closed groups for investigatory purposes is also likely to require authorisation unless the officer's identity is made clear from the outset.

Use of a 3rd party's identity requires both an authorisation and express written permission from that person. Whilst overt working in this way might avert the need for a surveillance authorisation officers should be aware that a CHIS situation could inadvertently arise.

It is expected that social media sites will generate significant amounts of sensitive information.

Sensitive material that is not relevant to an investigation should be disposed of quickly and safely. Any interaction between an investigator and the public via social media could inadvertently give rise to a CHIS situation. Investigators should generally avoid interaction whilst monitoring social media sites and take advice should any uncertainty arise. The use of the internet and social media may require an authorisation in the following circumstances:

- (a). Any communications which are made with 3rd parties for the purpose of gathering evidence or intelligence about an offence in circumstances where the third party is not aware that the officer is working for the Council.
- (b) Accessing private pages of social media for the purpose of gathering evidence or intelligence about an offence or other matter subject to potential litigation.
- (c). Any communications between an officer and a 3rd party for the purpose of using that person to gather evidence or intelligence about a suspect.
- (d). Intensive monitoring of a suspect using social media over a sustained period of time particularly when this is used in connection with other methods of investigation.
- (e). The creation of a false personae or use of a third-party identity for investigation purposes.
- (f). Any direct interaction in any forum – open or closed – in which an officer seeks to elicit information, when they are not explicit about their real identity.

Repeated entry to social media sites and copying material for the purpose of an investigation is likely to engage RIPA. As a rule of thumb access to Facebook and other social media sites should be made via the Council's Facebook account as opposed to a private account. If there is any doubt the officer who is conducting this activity is advised to seek legal advice.

Please see **Appendix 2** for the process which is to be followed in relation to the use of social media.

The OSC (now IPCO) issued the following guidance: -

- Whilst it is the responsibility of an individual to set privacy settings to protect unsolicited access to private information and even though data may be deemed published and no longer under the control of the author, it is unwise to regard it as "open source" or publicly available; the author has a reasonable expectation of privacy if access controls are applied. In some cases, data may be deemed private communication still in transmission (instant message for example). Where privacy settings are available but not applied the data may be considered open source and an authorisation is not usually required.
- Providing there is no warrant authorising interception in accordance with section 48 (4) of the 2000 Act, if it is necessary and proportionate for a public authority to breach covertly access controls, the minimum requirement is an authorisation for directed surveillance. An

authorisation for the use and conduct of a CHIS is necessary if a relationship is established or maintained by a member of a public authority or by a person acting on its behalf (i.e. the activity is more than the mere reading of the site's content).

- It is not unlawful for a member of a public authority to set up a false identity, but it is inadvisable for a member of a public authority to do so for a covert purpose without authorisation. Using photographs of other persons without their permission to support the false identity potentially infringes other laws.
- A member of a public authority should not adopt the identity of a person known, or likely to be known, to the subject of interest or users of the site without authorisation, and without the consent of the person whose identity is used, and without considering the protection of that person. The consent must be explicit (i.e. the person from whom consent is sought must agree (preferably in writing) what is and is not to be done).

6 Part 2: General Authorisation Requirements

6.1 The authorisation requirements

RIPA requires that prior authorisation is obtained by all local authorities using directed surveillance and CHIS techniques.

The authorising officer must give authorisations in writing and a separate authorisation is required for each investigation. Any authorisation must also be approved by an order from a JP. The application form for such approval is available on the Council's intranet, but advice should be sought from Legal Services on making an application for judicial approval.

Whilst according to RIPA, a single authorisation may combine two or more different authorisations (for example, directed surveillance and CHIS), the provisions applicable in the case of each of the authorisations must be considered separately. Because combining authorisations may cause confusion, officers must use separate forms for different authorisations.

The purpose of the authorisation is to comply with the Human Rights Act 1998 by providing lawful authority to carry out surveillance. This is why an authorisation must be obtained where the surveillance is likely to interfere with a person's Article 8 rights to privacy by obtaining private information about that person, whether or not that person is the subject of the investigation or operation. If the surveillance is then actually carried out in accordance with the authorisation, it will be less open to challenge.

6.2 Who can authorize the use of covert surveillance?

To give effect to RIPA, The Director of Corporate Services has been designated to authorise the use of directed surveillance and CHIS techniques in respect of external investigations and to sanction the use of such covert surveillance in respect of internal officer/Member investigations. This designation can be directly delegated to the Monitoring Officer Any RIPA authorisation must be approved by an order from a JP. The JP will be provided with a copy of the authorisation, and with a partially completed judicial application/order form, which is available on the Council's intranet. Advice should be sought from Legal Services, who will contact the court to arrange the hearing date for the application.

It should also be noted that in accordance with the relevant Regulations, the designation of

the Director of Corporate Services to sanction the use of RIPA regulated covert surveillance extends upwards to the Chief Executive.

Ideally, the Authorising Officer should not be responsible for authorising their own activities i.e. those operations/investigations in which they are directly involved. However, the Codes of Practice recognize that this may sometimes be unavoidable, especially in the case of small organisations, or where it is necessary to act urgently.

6.3 Justification for covert surveillance

In order to use covert surveillance (both directed surveillance and a CHIS) lawfully the person granting the authorisation (i.e. the authorising officer) will have to demonstrate that the surveillance is both 'necessary' and 'proportionate' to meet the objective of the prevention or detection of crime or of prevention of disorder. The JP must also be satisfied that the use of the technique is necessary and proportionate.

6.3.1 The 'necessity' test

RIPA first requires that the authorising officer must be satisfied that the authorisation is necessary, in the circumstances of the particular case, for the prevention and detection of crime, or prevention of disorder. This is the only statutory ground on which local authorities are now able to carry out directed surveillance and use a CHIS. For the purposes of the authorisation of directed surveillance, the crime threshold referred to in paragraph 4 above must be met. Covert surveillance cannot be "necessary" unless, in that particular case, there is no reasonably available overt method of discovering the desired information.

6.3.2 The 'proportionality' test

Then, if the activities are necessary, the authorising officer must be satisfied that they are proportionate to what is sought to be achieved by carrying them out. This involves balancing the intrusiveness of the activity on the target and others who might be affected by it against the need for the activity in operational terms. The activity will not be proportionate if it is **excessive** in the circumstances of the case or if the information which is sought could reasonably be obtained by other less intrusive means. All such activity should be carefully managed to meet the objective in question and must not be arbitrary or unfair.

6.4 CHIS – additional requirements

In addition, there are further criteria in relation to CHIS authorisations. Namely, that specific arrangements exist to ensure that, amongst other things, the source is independently managed and supervised, that records are kept of the use made of the source, that the source's identity is protected from those who do not need to know it, and that arrangements also exist to satisfy such other requirements as may be imposed by an Order made by the Secretary of State.

RIPA provides that an authorising officer must not grant an authorisation for the use or conduct of a source unless he believes that arrangements exist that satisfy these requirements. In this regard, the particular attention of authorising officers is drawn to paragraph 6.13 of the CHIS Code of Practice concerning the security and welfare of a CHIS and the need to carry out a **risk assessment**.

The Regulation of Investigatory Powers (Source Records) Regulations 2000 (SI No. 2725) details the particulars that must be included in the records relating to each CHIS. The authorising officer should comment on all these aspects in his "comments" box, as he may

have to justify the fact that he has taken account of these requirements and made an appropriate provision to comply.

6.5 Collateral Intrusion

Before authorising surveillance, the authorising officer should also take into account the risk of intrusion into the privacy of persons other than those who are directly the subjects of the investigation or operation (particularly when considering the proportionality of the surveillance). This is referred to as collateral inclusion, and the following should be considered:

- I. measures should be taken, wherever practicable, to avoid or minimise unnecessary intrusion into the privacy of those not directly connected with the investigation or operation;
- II. an application for an authorisation should include an assessment of the risk of any collateral intrusion and the authorising officer should take this into account, when considering the proportionality of the surveillance;
- III. those carrying out the surveillance should inform the authorising officer if the investigation or operation unexpectedly interferes with the privacy of individuals who are not covered by the authorisation; and
- IV. when the original authorisation may not be sufficient, consideration should be given to whether the authorisation needs to be amended and re-authorised or a new authorisation is required.

6.6 Local community sensitivities

Any person applying for or granting an authorisation will also need to be aware of what the Codes of Practice refer to as “any particular sensitivities in the local community” where the surveillance is taking place or of similar activities being undertaken by other public authorities which could impact on the deployment of surveillance.

7 Part 3: Directed Surveillance Authorisation Requirements

7.1 Applications for directed surveillance authorisation

Applications for authorisation to carry out directed surveillance must be made in **writing** using the **standard Application Form** and judicial approval form available on the Council’s intranet.

7.2 Duration of directed surveillance authorisations

A written authorisation granted by an authorising officer, and approved by a JP, will cease to have effect (unless renewed) at the end of a period of **three months** beginning with the day on which it took effect.

7.3 Reviews of directed surveillance authorisations

Regular reviews of authorisations should be undertaken to assess the need for the surveillance to continue. Particular attention is drawn to the need to review authorisations frequently where the surveillance provides access to ‘**confidential information**’ (see below) or involves collateral intrusion.

Authorisations must be reviewed by the authorising officer therefore **at least monthly** using the **standard Review Form** available on the Council's intranet to ensure that they remain in force only for so long as it is necessary.

7.4 Renewals of directed surveillance authorisations

If at any time before an authorisation would cease to have effect, the authorising officer considers it necessary for the authorisation to continue for the purpose for which it was given, he may renew it in writing for **a further period of three months** using the **standard Renewal Form** available on the Council's intranet. The same conditions attach to a renewal of surveillance as to the original authorisation. An order from a JP is required for a renewal in the same way as for an authorisation.

A renewal takes effect at the time at which, or day on which the authorisation would have ceased to have effect but for the renewal. An application for renewal should not be made until **10 working days** before the authorisation period is drawing to an end. However, where renewals are timetabled to fall outside of court hours, for example during a holiday period, care must be taken to ensure that the renewal is completed ahead of the deadline.

Any person who would be entitled to grant a new authorisation can renew an authorisation, but an order from a JP is also required. Authorisations may be renewed more than once, provided they continue to meet the criteria for authorisation.

7.5 Cancellation of directed surveillance authorisations

The authorising officer who granted or last renewed the authorisation **must** cancel it using the **standard Cancellation Form** available on the Council's intranet if he is satisfied that the directed surveillance no longer meets the criteria upon which it was authorised. Authorisations should not be allowed to simply expire.

Where the authorising officer is no longer available, this duty will fall on the person who has taken over the role of authorising officer or the person who is acting as authorising officer (**see the Regulation of Investigatory Powers (Cancellation of Authorisations) Order 2000; SI No: 2794**).

If the authorising officer is on sick or annual leave or is otherwise unable to cancel the authorisation for good reason, any other officer designated to grant authorisations may cancel the authorisation.

7.6 Ceasing of surveillance activity

As soon as the decision is taken that directed surveillance should be discontinued, the instruction must be given to those involved to stop all surveillance of the subject(s). The date and time when such an instruction was given should be recorded in the notification of cancellation where relevant (see standard cancellation form).

7.7 Urgent Cases

A JP may consider an authorisation out of working hours in exceptional cases. This must be arranged through the court, and two completed judicial application/order forms must be provided so that one can be retained by the JP.

7.8 Confidential Information

RIPA does not provide any special protection for 'confidential information'.

The Codes of Practice, however, do provide additional safeguards for such information. Confidential information consists of matters subject to legal privilege; confidential personal information (information relating to the physical or mental health or spiritual counselling of a person who can be identified from it) or confidential constituent information (relating to communications between a Member of Parliament and a constituent in respect of constituency matters) or confidential journalistic material (material acquired or created for the purposes of journalism and held subject to an undertaking to hold it in confidence). Further details about these categories of confidential information are set out in the Codes themselves, and advice can be obtained from Legal Services.

Special care should be taken if there is a likelihood of acquiring any confidential information. Such authorisations should only be granted in exceptional and compelling circumstances with full regard to the proportionality issues such surveillance raises.

In accordance with the provisions of the Code, in cases where through the use of the surveillance it is likely that confidential information will be acquired, the use of surveillance must be authorised by the Chief Executive.

If, exceptionally, any Council investigation is likely to result in the acquisition of confidential material, officers are required to obtain the prior approval of Legal Services before applying for an authorisation.

If confidential material is acquired during the course of an investigation, the following general principles apply:

- confidential material should not be retained or copied unless it is necessary for a lawful purpose;
- confidential material should be disseminated only where an officer (having sought advice from the Legal Services Manager) is satisfied that it is necessary for a lawful purpose;
- the retention or dissemination of such information should be accompanied by a clear warning of its confidential nature. It should be safeguarded by taking reasonable steps to ensure that there is no possibility of it becoming available, or its content being known, to any person whose possession of it might prejudice any criminal or civil proceedings related to the information; and confidential material should be destroyed as soon as it is no longer necessary to retain it for a specified purpose.

8 Part 4: CHIS Authorisation Requirements

Generally speaking, the authorisation requirements for directed surveillance also apply to a CHIS authorisation. There are, however, some variations, and the crime threshold as set out in paragraph 4 does not apply to a CHIS authorisation.

8.1 Duration of CHIS authorisations

A written CHIS authorisation granted by an authorising officer and approved by a JP, will cease to have effect (unless renewed) at the end of a period of **twelve months** beginning with the day on which it took effect.

8.2 Renewal of CHIS Authorisations

An authorising officer may renew a CHIS authorisation in writing **for a further period of twelve months**. This is subject to approval from a JP.

The same conditions attach to a renewal of surveillance as to the original authorisation. However, before renewing an authorisation for the use or conduct of a CHIS, officers are required to carry out a review of the use made of that source, the tasks given to that source and the information so obtained.

8.3 CHIS Forms

Standard **CHIS Application; Review; Renewal, and Cancellation Forms**, and the **Judicial Approval form** are available on the Council's intranet. Officers are required to use these forms in the appropriate circumstances.

8.4 Vulnerable Adults

In accordance with the CHIS Code of Practice, a '**vulnerable person**' should only be authorised to act as a CHIS in the most exceptional circumstances and must be authorised by the **Chief Executive**. Legal advice should always be sought. A 'vulnerable individual' is a person who is or may be in need of community care services by reason of mental or other disability, age or illness and who is or may be unable to take care of himself, or unable to protect himself against significant harm or exploitation.

8.5 Juvenile Sources

Special safeguards also apply to the use or conduct of juvenile sources; that is sources under the age of 18 years. Legal advice should always be sought. On no occasion should the use or conduct of a CHIS under 16 years of age be authorised to give information against his parents or any person who has parental responsibility for him. In other cases, authorisations should not be granted unless the special provisions contained within **The Regulation of Investigatory Powers (Juveniles) Order 2000 (SI No. 2793)** are satisfied. Authorisations for juvenile sources must be authorised by the **Chief Executive** the duration of such an authorisation is **one month only** instead of the usual twelve months.

9 Part 5: Other Authorisation Requirements

The Codes of Practice provide that a centrally retrievable record of all authorisations should be held by each public authority and regularly updated whenever an authorisation is granted, reviewed, renewed or cancelled. The record should be made available to the relevant Commissioner or an Inspector from the Investigatory Powers Commissioner's Office (IPCO), upon request. These records will be retained for a period of at least three years from the ending of the authorisation and will comprise of the information prescribed in the Codes.

The Council will also maintain a record of specified documentation relating to authorisations as further required by the Codes.

To give effect to these requirements The Authorising Officer is required to e-mail all completed RIPA forms to the Monitoring Officer within two working days of the grant; review; renewal; or cancellation of the authorisation so that the Council's central recording and monitoring systems can be kept up to date.

The Authorising Officer should however ensure that original RIPA forms are kept on the investigation case file and stored securely.

In addition, the Monitoring Officer will report periodically to Audit Committee with the register of authorisations to enable them to be satisfied that RIPA authorisation requirements are being complied with.

9.1 Retention and destruction of the product of surveillance

Where the product of surveillance could be relevant to pending or future criminal or civil proceedings, it should be retained in accordance with established disclosure requirements for a suitable period, commensurate to any subsequent review.

The Codes of Practice draw particular attention to the requirements of the code of practice issued under the **Criminal Procedure and Investigations Act 1996**. This requires that material which is obtained in the course of a criminal investigation and which may be relevant to the investigation must be recorded and retained.

Where material is obtained by surveillance, which is **wholly unrelated** to a criminal or other investigation or to any person who is the subject of the investigation, and there is no reason to believe it will be relevant to future civil or criminal proceedings, it should be **destroyed immediately**. Consideration of whether or not unrelated material should be destroyed is the responsibility of the authorising officer.

There is nothing in RIPA which prevents material obtained from properly authorised surveillance from being used in other investigations. Each Service must ensure that arrangements are in place for the handling, storage and destruction of material obtained through the use of covert surveillance. Authorising officers must ensure compliance with the appropriate data protection requirements relating to the handling and storage of material.

9.2 Acting on behalf of another

In cases where one agency is acting on behalf of another, it is usually for the tasking agency to obtain or provide the authorisation. For example, where surveillance is carried out by the Police with the use of the Council's CCTV systems, an authorisation must be obtained by the Police.

10 Part 6: Practical Application of RPIA

10.1 Who is affected by RIPA?

As the Council has already recognised in respect of the application of the **Human Rights Act 1998**, RIPA will impact on the enforcement activities of all the Council's regulatory Services, but, in the case of authorisations for directed surveillance, the crime threshold referred to in paragraph 4 must be met. This means that directed surveillance will no longer be able to be used in some investigations where it was previously authorised, e.g. dog fouling. However, this does not mean that it will not be possible to investigate these matters with a view to stopping offending behaviour. Routine patrols, observation at trouble "hotspots", immediate response to events and overt use of CCTV are all techniques which do not require RIPA authorisation.

A public authority may only engage RIPA when in performance of its "core functions" in contrast to the "ordinary functions" which are undertaken by all authorities (e.g. employment and contractual matters). Accordingly, the disciplining of an employee is not a core function, although related criminal investigations may be.

10.2 'General observation vs. 'systematic surveillance'

According to the Covert Surveillance Code of Practice "General observation duties of many law enforcement officers, and other public authorities do not require authorisation under the 2000 Act". For example, police officers will be on patrol to prevent and detect crime, maintain public safety and prevent disorder or trading standards or HM Customs and Excise officers might covertly observe and then visit a shop as part of their enforcement function to verify the supply or level of supply of goods or services that may be liable to a restriction or tax. Such observation may involve the use of equipment to merely reinforce normal sensory perception, such as binoculars, or the use of cameras, where this does not involve systematic surveillance of an individual.

The clear view expressed therefore is that usually low-level activity such as general observation will not be regulated under the provisions of RIPA provided it does not involve the systematic surveillance of an individual. That said, the determination of what constitutes 'general observation' on the one hand and 'systematic surveillance' on the other is a question of fact, the determination of which is not always straightforward and depends on the particular circumstances of an individual case.

In practice, the issue will turn on whether the covert surveillance is likely to result in obtaining any information in relation to a person's private or family life, whether or not that person is the target of the investigation or operation. If in doubt you are strongly recommended to obtain an authorisation.

10.3 'Covert' vs. 'overt' surveillance

In accordance with the Council's usual practice, wherever possible and appropriate Services should give advance warning of their intention to carry out surveillance. This is because the provisions of RIPA regulate the use of covert surveillance only. In some cases, a written warning may itself serve to prevent the wrongdoing complained of.

However, in order to properly put a person on notice that he is or may be the subject of surveillance, the notification letter must be couched in sufficiently precise terms so that he knows what **form** the surveillance will take (i.e. record of noise; photographs etc.). In fact, in line with directed surveillance requirements, notification letters should state **how long** the surveillance is likely to last (which should not be longer than three months); the necessity for the surveillance should be **reviewed at least monthly**; if it is necessary to continue the surveillance beyond the initial specified period a **renewal letter** should be sent to the 'noisy' neighbour, for example, and he should be informed when the surveillance has ceased.

It is also important to instruct the investigating officer not to exceed the limits of the 'surveillance' he has been asked to carry out.

Whilst it is accepted that the definition of 'covert' set out in RIPA could be interpreted very broadly, it is suggested that whether the surveillance activity is covert or not depends on the investigator's intention and conduct. If there is some element of **secrecy** or **concealment** the activity is likely to be covert.

Wherever possible or appropriate, officers should be **open; obvious and overt**.

10.4 CCTV

Overt CCTV systems used for general purposes are not usually regulated by RIPA (but CCTV in general is regulated by the Data Protection Act 2018, the GDPR 2016/679 and the CCTV

Code of Practice issued by the Information Commissioner' If, however, CCTV systems are used to **track individuals** or **specific locations** and the surveillance is **pre-planned** (i.e. not an immediate response to events or circumstances which by their very nature, could not have been foreseen) a **directed surveillance** authorisation must be obtained.

10.5 Recognising a CHIS

The provisions of RIPA are not intended to apply in circumstances where members of the public volunteer information to the police or other authorities, as part of their normal civic duties, or to contact numbers set up to receive information (such as Crime stoppers, Customs Confidential, the Anti-Terrorist Hotline, or the Security Service Public Telephone Number). Members of the public acting in this way would not generally be regarded as sources.

However, when an informant gives repeat information about a suspect or about a family, and it becomes apparent that the informant may be obtaining the information in the course of a family or neighbourhood relationship, this probably means that the informant is a CHIS, to whom a duty of care is owed if the information is then used, even though he or she has not been tasked by the authority to obtain information on its behalf.

The use of professional witnesses to obtain information and evidence is clearly covered.

10.6 “... establishing or maintaining a personal or other relationship.....”

Whilst the meaning of “...establishing or maintaining a personal or other relationship...” is not clear and is open to interpretation, it is suggested that there has to be some measure of **intimacy** beyond the ordinary conversation. Only if an officer, for example, establishes some measure of **trust and confidence** with the person who is the subject of the surveillance will he be establishing or maintaining a personal or other relationship.

Usually a simple enquiry or a request for general information (i.e. a request for information which would be supplied to any member of the public who enquired) not obtained under false pretences is not likely to be regulated by RIPA.

10.7 Simple test purchase transactions

Whether or not test purchase transactions are regulated by RIPA depends on the circumstances and in particular the conduct of the person carrying out the surveillance. Usually simple covert test purchase transactions carried out under existing statutory powers where the officer involved does not establish a personal or other relationship will not require a CHIS authorisation.

Officers should, however, be wary of the law on ‘**entrapment**’. Whereas officers can in appropriate circumstances, present a seller or supplier, for example, an opportunity which he could act upon, officers cannot ‘incite’ the commission of an offence i.e. encourage, persuade or pressurise someone to commit an offence.

10.8 Use of DAT recorders

If it is appropriate to do so, Environmental Health officers, and to a much lesser extent Council Housing officers, use a recorder to monitor noise levels (usually at residential premises) following noise nuisance complaints. Whilst the recorder is installed by officers, the complainant decides when to switch the recorder on and off.

The covert recording of suspected noise nuisance where the intention is only to record excessive noise levels from adjoining premises, and the recording device is calibrated to record only excessive noise levels, may not require an authorisation, as the perpetrator would normally be regarded as having forfeited any claim to privacy.

That said, a Digital Audio Tape (DAT) recorder is a sophisticated piece of monitoring equipment and if used covertly may constitute directed surveillance. In general, a letter is sent to the person who is to be the subject of the surveillance, and this should mean that subsequent surveillance is overt, and an authorisation will not as a matter of course be required. However, if there is any doubt as to whether surveillance is covert, e.g. if any longer than a few weeks has passed since the alleged perpetrator was informed that monitoring might be carried out, and if it is likely that private information will be obtained, then an authorisation should be sought.

10.9 RIPA forms

It is imperative that RIPA forms are completed in full whenever RIPA regulated surveillance activity is planned. The information given must be specific and detailed; must relate to the particular facts of an individual case (i.e. avoid standard wording if at all possible) and must demonstrate that a proper risk assessment has been carried out. Both those who apply for an authorisation and the Authorising Officer should refer to this policy and to the relevant Code of Practice in completing the relevant form,

10.10 Role of Authoring Officers

The Authorising Officer is required to ask themselves: "Have I got sufficient information to make an informed decision as to whether or not to authorise surveillance activity on the particular facts of this case?" and must recognise that RIPA imposes new and important obligations on those Services affected by RIPA

Authorising officers must be satisfied that there are adequate checks in place to ensure that the surveillance carried out is in line with what has been authorised. Such monitoring should be properly documented as well as the decision-making process in general.

Officers are strongly recommended to read this policy in conjunction with the Covert Surveillance and CHIS Codes of Practice which provide supplementary guidance.

If the surveillance is not properly authorised, the protection offered by RIPA will be lost.

10.11 How to access RIPA documents?

RIPA itself; explanatory notes to RIPA, the Covert Surveillance and CHIS Codes of Practice; RIPA statutory instruments and other RIPA documents are available on the Home Office website: <https://www.gov.uk/government/collections/ripa-codes>

Relevant RIPA documents as well as this policy and the Council's standard forms have also been posted on the Council's intranet.

11 Training and awareness

It is the policy of the Council to provide adequate training for all its employees so that they are aware of the RIPA provisions and know when certain activities are required to be authorised. Authorising Officers will be trained in the proper use of their powers as with investigating officers The Council seeks to ensure that all staff likely to be engaged in surveillance work and

the use of CHIS understand the regulatory framework and know which officers are authorised Investigating Officers and the Authorising Officer

Training and refresher training shall be provided on a regular basis.

Appendix 1:

Directed surveillance forms

Application for the authorisation of directed surveillance:

<http://intranet.lancaster.gov.uk/GetAsset.aspx?id=fAA0ADkAOAAzAHwAfABGAGEAbABzAGUafAB8ADAAfAA1>

Review of directed surveillance authorisation:

<http://intranet.lancaster.gov.uk/GetAsset.aspx?id=fAAyADQANQAYAHwAfABGAGEAbABzAGUafAB8ADAAfAA1>

Renewal of directed surveillance authorisation:

<http://intranet.lancaster.gov.uk/GetAsset.aspx?id=fAAyADQANQAZAHwAfABGAGEAbABzAGUafAB8ADAAfAA1>

Cancellation of a directed surveillance authorisation:

<http://intranet.lancaster.gov.uk/GetAsset.aspx?id=fAAyADQANQA0AHwAfABGAGEAbABzAGUafAB8ADAAfAA1>

CHIS (Covert Human Intelligence Source) forms

Application for authorisation of use or conduct of a CHIS:

<http://intranet.lancaster.gov.uk/GetAsset.aspx?id=fAA0ADkAOAA0AHwAfABGAGEAbABzAGUafAB8ADAAfAA1>

Review of a CHIS authorisation:

<http://intranet.lancaster.gov.uk/GetAsset.aspx?id=fAAyADQANgAwAHwAfABGAGEAbABzAGUAFAB8ADAAfAA1>

Renewal of a CHIS authorisation:

<http://intranet.lancaster.gov.uk/GetAsset.aspx?id=fAAyADQANgAxAHwAfABGAGEAbABzAGUAFAB8ADAAfAA1>

Cancellation of a CHIS authorisation:

<http://intranet.lancaster.gov.uk/GetAsset.aspx?id=fAAyADQANgAyAHwAfABGAGEAbABzAGUAFAB8ADAAfAA1>

Judicial Approval Form

<http://intranet.lancaster.gov.uk/GetAsset.aspx?id=fAA0ADAAOQA5AHwAfABGAGEAbABzAGUAFAB8ADAAfAA1>

Appendix 2:

PROCESS TO BE FOLLOWED WHEN CONSIDERING USING SOCIAL NETWORKING SITES IN INVESTIGATIONS OR TO GATHER EVIDENCE.

Where an officer considers it necessary to view a social networking site to investigate an allegation or to gather information the following process is to be followed:

1. Officers must not use their own personal or private account when accessing social networking sites for investigations/evidence gathering, only Council accounts should be used.
2. Officers may access the main page of an individual's profile to take an initial view as to whether there is any substance to the allegation of the matter being investigated and is unlikely to interfere with a person's reasonably held expectation of privacy and therefore is not likely to require a directed surveillance authorisation.
3. Officers are required to keep a log recording when social networking sites are viewed for investigations/evidence gathering. Each viewing of a company or individual's social networking site must be recorded on the log. This is to enable the Council to monitor the use of these sites for investigations/evidence gathering and use this information to review policies and guidance. See attached excel template below.
4. If it is considered that there is a need to monitor a company's or individual's social networking site, for example by systematically collecting and recording information about a particular person or group, then the officer must refer the matter to their Head of Service for consideration as to whether a RIPA authorisation from the Magistrates Court may be required. If officers are in any doubt as to whether an authorisation is required, they should seek advice

from the Information Governance Manager or Authorising Officer (Director for Corporate Services), before continuing to access a social networking site.

5. If the offence being investigated falls under RIPA, a formal RIPA application must be completed, authorised by the Council's Authorising Officer and then approved by a Magistrate.

6. If the offence being investigated falls outside RIPA, a 'Non-RIPA' form must be completed and forwarded to the Authorising Officer.

7. Officers also need to be aware that any evidence captured as part of a criminal investigation will need to comply with the relevant legislation (The Police and Criminal Evidence Act 1984, Criminal Procedure Rules 2018 and the Criminal Procedure and Investigations Act 1996) and advice should be sought from the Council's Legal Services Manager.

8. A copy of all forms should be forwarded to the Council's Information Governance Manager so that a central record of RIPA requests and Authorisations can be kept.



Social Media Access
Log v1.0.xlsx

AUDIT COMMITTEE**External Audit – Lancaster City Council Audit Plan 2020/21****Report of Chief Finance Officer****23 March 2022****PURPOSE OF REPORT**

The report sets out the External Auditors plan for the audit of the Statement of Accounts 2020/21

This report is public

RECOMMENDATION

It is recommended that the Audit Committee:

1. **Notes the Lancaster City Council Audit Plan for 2020/21, as presented, and raise any issues, clarifications, and questions with the external auditor.**

1.0 INTRODUCTION

- 1.1 External Audit provides assurance as to the effectiveness of the council's accounting and financial management arrangements and through these supports the council in its work to deliver its priorities and objectives.
- 1.2 The Audit Committee has a key role to ensure control and risk management arrangements are effective and this report is made consistent with that responsibility.

2.0 THE AUDIT PLAN

- 2.1 Appendix A to this report sets out the Lancaster City Council Audit Plan provided by the Council's external auditors, Deloitte, for the year ending 31 March 2021.
- 2.2 The auditors are required to perform the audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office.
- 2.3 Plan sets out a number of areas for the Committee's consideration, including the approach to the audit, the concept of materiality, risks, value for money, key dates and fee.
- 2.4 Representatives of Deloitte will introduce and explain the documents in the Appendices at the Committee meeting and will be able to answer any questions that Members may have on their contents

3.0 DETAILS OF CONSULTATION

- 3.1 The reports have been discussed with finance officers of the Council

4.0 OPTIONS AND OPTIONS ANALYSIS

- 4.1 Not applicable the Plan is for noting and so no further options are presented

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

Not Applicable

FINANCIAL IMPLICATIONS

The fee for the audit is set by Public Sector Audit Appointments at £44,959 and has been included in the 2020/21 budget.

SECTION 151 OFFICER'S COMMENTS

External audit is a statutory function required by the Local Audit and Accountability Act 2014. The fee for the audit is set by the Public Sector Audit Appointments at £44,959 and as noted with the plan this does not include any additional work incurred by the Auditors in addressing the objections to the Statement of Accounts

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

Appendix 1 – External Audit – Lancaster City Council Audit Plan 2020/21

Contact Officer: Paul Thompson
 (Chief Finance Officer)

Telephone: 01524 582603

Email: pthompson@lancaster.gov.uk

Ref:



Planning report to the Audit Committee for the year ending 31 March 2021

Issued on 15 March 2022 for the meeting on 23 March 2022

Deloitte Confidential: Government and Public Services- For Approved External Use Only

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Director introduction

The key messages in this report:

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our planning report to the Audit Committee for the 2021 audit. I would like to draw your attention to the key messages of this paper:

COVID 19	The Local Government accounts timetable has been delayed in 2021 due to the impact of COVID – 19. The Council’s draft accounts were submitted in line with the revised 31 August date however owing to delays in respect of the 2019/20 financial statements, and as reported at previous Committee meetings, we were not able to complete the audit by the revised deadline of 30 November. We are working proactively with management in respect of the 2021 audit. The implementation of IFRS 16 has also been delayed into the 21/22 Code due to COVID-19.
Scope of Our Work	<p>Our audit work will be carried out in accordance with the requirements of the Code of Audit Practice (‘the Audit Code’) and supporting guidance published by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General.</p> <p>The Audit Code sets the overall scope of the audit which includes an audit of the accounts of the Council and work to satisfy ourselves that the Council has made proper arrangements to secure Value for Money (VfM) in its use of resources. There have not been any changes to the Audit Code itself and therefore the scope of our work is broadly similar to the scope of work set in the prior year.</p> <p>Our responsibilities as auditor, and the responsibilities of the Council are set out in “PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies” published by Public Sector Audit Appointments Limited.</p>
Regulatory change	Our audit is carried out under the Code of Audit Practice issued by the National Audit Office (NAO). We will update Management and the Committee with sector and technical updates as they arise.
Value for Money	The National Audit Office’s 2020 Code of Audit Practice revises the scope of the required work of the auditor on bodies’ arrangements to secure value for money, moving away from a binary conclusion on arrangements in the audit report to a narrative commentary in a new “Auditor’s Annual Report” (which replaces the Annual Audit Letter). The new requirements in this area are discussed further on page 18.

Director introduction

The key messages in this report (continued):

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

<p>Areas of focus in our work on the accounts</p>	<p>We summarise below the areas of significant risk we have identified to date.</p> <ul style="list-style-type: none"> • Valuation of properties – there is significant judgement over the inputs to the valuation. We note that in financial year 2019/20, the Royal Institute of Chartered Surveyors issued guidance that COVID-19 introduced a material uncertainty over the valuations completed for years ending 31 March 2020. Consequently an emphasis of matter paragraph will be included within our audit opinion in respect of the 2019/20 valuations. For the year ending 31 March 2021, there is a risk over inputs, for example gross internal areas, selection of indices and identification of relevant market data, due to the ongoing COVID-19 disruption. • Revenue Recognition – Classification of COVID-19 Grants is considered a significant judgement. Due to the ongoing pressures of COVID-19, the Council has received a large sum of grant funding. This funding can be in the form of principal or agent, whereby the classification has an effect on its accounting treatment and subsequent recognition as income within the year-end accounts. Due to its subjectivity and large increase in 2020/21, this is deemed a significant risk area. • Management override of controls – auditing standards presume there is a risk that the accounts may be fraudulently misstated by management overriding controls. Key areas of focus are: bias in the preparation of accounting estimates; inappropriate journal entries; and transactions which have no economic substance.
<p>Audit quality</p>	<p>Audit quality is our number one priority. Our plan is compiled in conjunction with management and we are committed to delivering a high quality audit.</p>

Paul Hewitson
Lead Audit Director

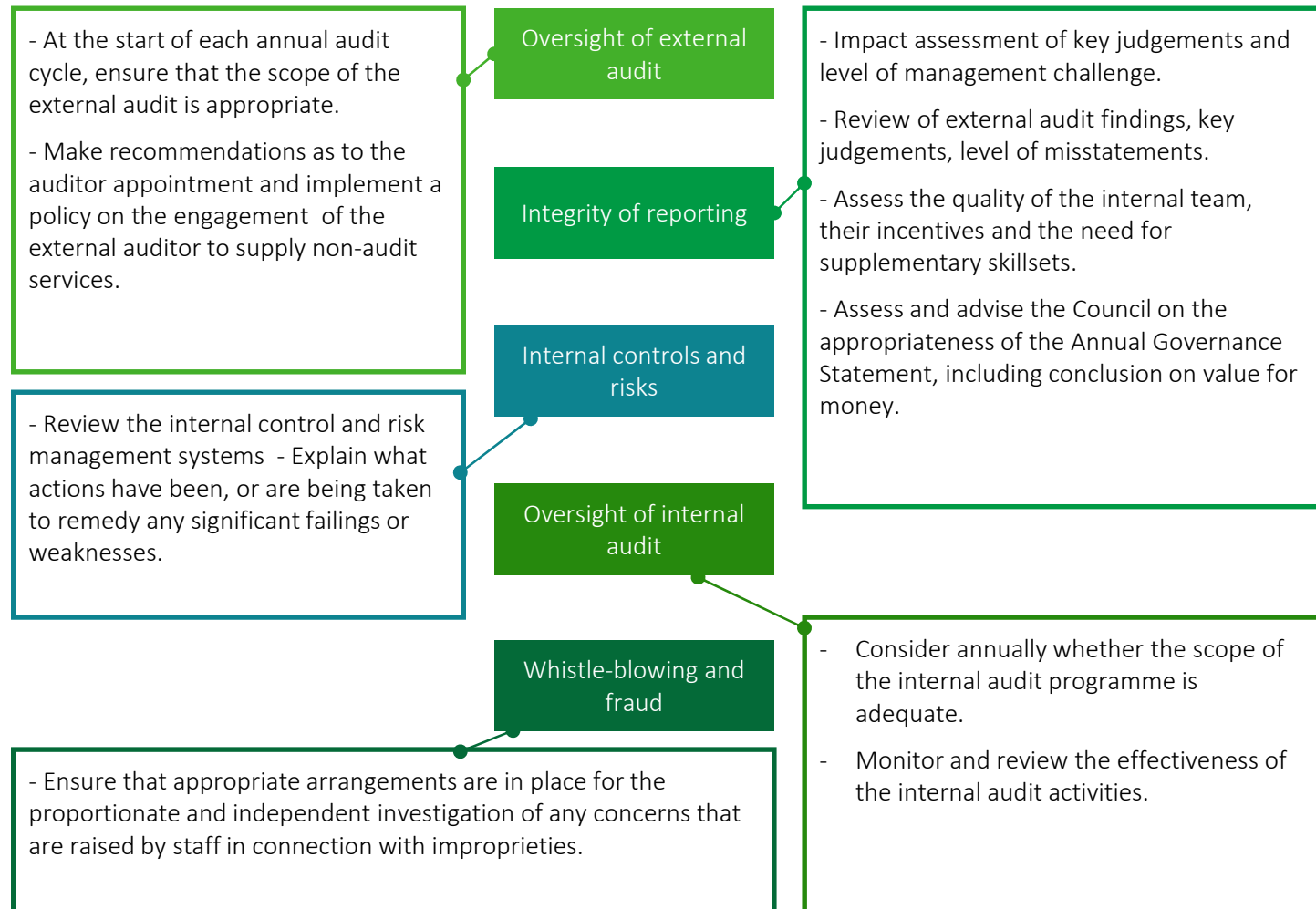
Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit Committee?

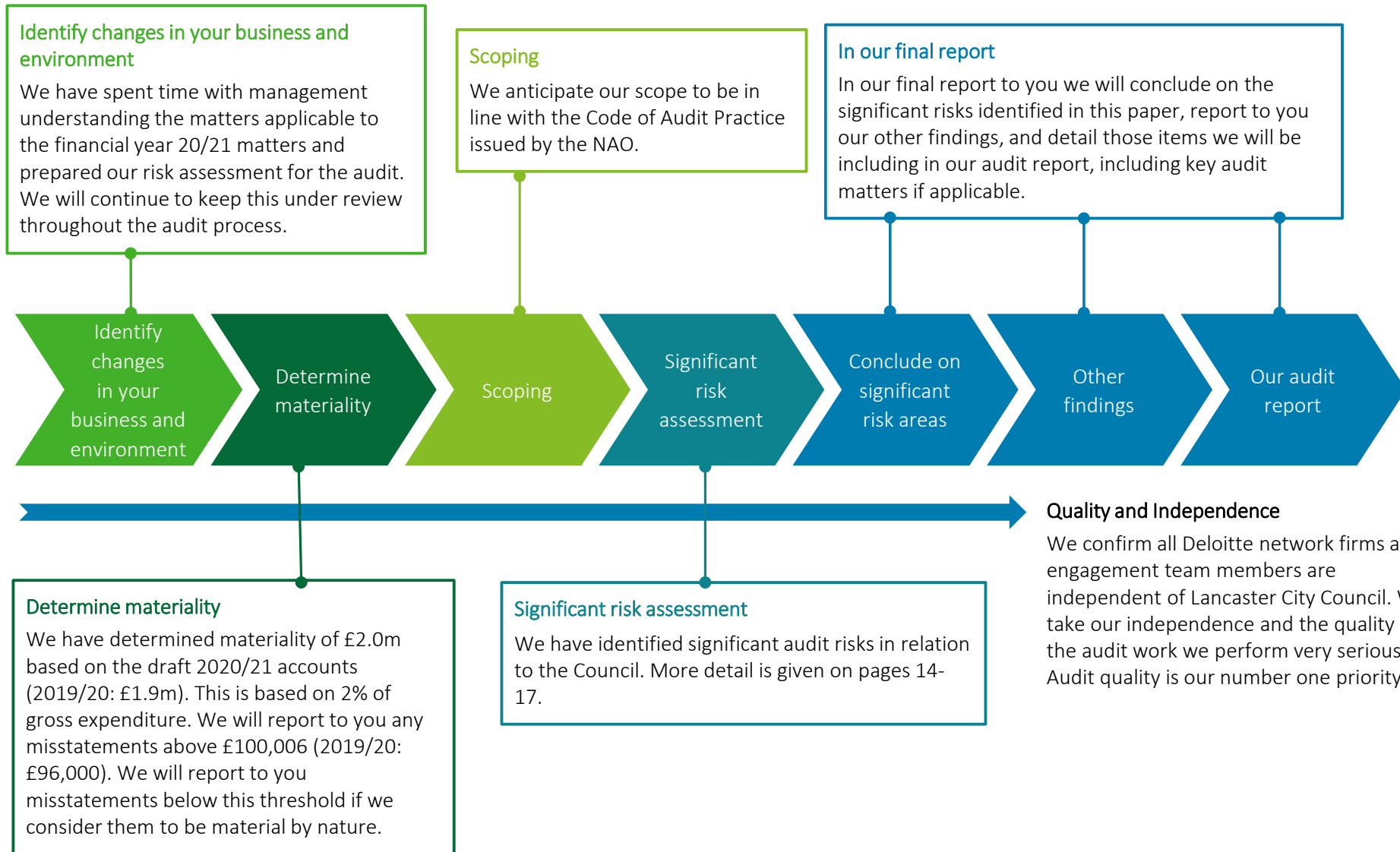


As a result of regulatory change in recent years, the role of the Audit Committee has significantly expanded. We set out here a summary of the core areas of Audit Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit Committee in fulfilling its remit.



Our audit explained

We tailor our audit to your business and your strategy



Scope of work and approach

We have four key areas of responsibility under the Audit Code

Financial statements

We will conduct our audit in accordance with the Code of Audit Practice and supporting guidance issued by the National Audit Office (“NAO”) and International Standards on Auditing (UK) (“ISA (UK)”) as adopted by the UK Auditing Practices Board (“APB”).

The Council will prepare its accounts under the Code of Practice on Local Authority Accounting (“the Code”) issued by CIPFA and LASAAC.

We report on whether the financial statements:

- Give a true and fair view of the financial position and income and expenditure; and
- Are prepared in line with the Code of Practice on Local Authority Accounting (“the Code”).

Opinion on other matters

We are required to report on whether other information published with the audited financial statements is consistent with the financial statements.

Other information includes information included in the Statement of Accounts, in particular the Narrative Report. It also includes the Annual Governance Statement which the Council is required to publish alongside the Statement of Accounts.

In reading the information given with financial statements, we take into account our knowledge of the Council, including that gained through work in relation to the Council’s arrangements for securing value for money through economy, efficiency and effectiveness in its use of resources.

Whole of Government Accounts

The National Audit Office have yet to issue the 2020/21 guidance in respect of the Whole of Government Accounts. As soon as the guidance is issued we will liaise with management surrounding any work that is required and also report in our final report to the Audit Committee any work that was required.

Value for Money conclusion

We are required to satisfy ourselves that the Council has made proper arrangements for securing financial resilience and economy, efficiency and effectiveness in its use of resources.

Further detail is included on page 18 in respect of the new arrangements for the current period.

Our responsibilities as auditor, and the responsibilities of the Council, are set out in “PSAA Statement of Responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies” published by PSAA.

Scope of work and approach

Our approach

Liaison with internal audit

The Auditing Standards Board's version of ISA (UK and Ireland) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

We will review their reports and meet with them to discuss their work. We will discuss the work plan for internal audit, and where they have identified specific material deficiencies in the control environment we consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we can work together with internal audit to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the Council's staff.

Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I").

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We recommend the Council complete the Code checklist during drafting of their financial statements.

Value for Money and other reporting

The Code of Audit Practice requires us to report by exception in our audit report any matters that we identify that indicate the Council has not made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

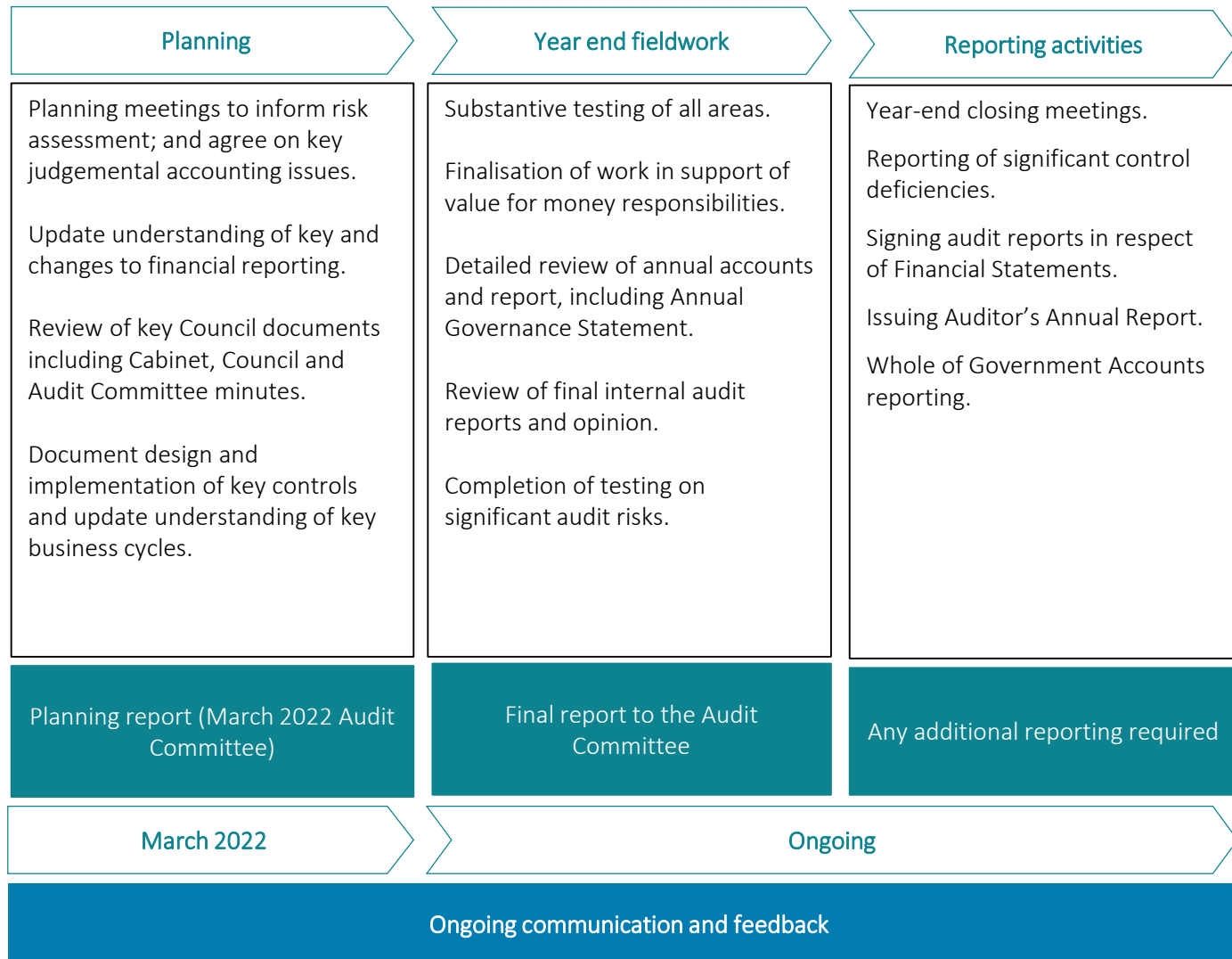
Public Auditor

Under the terms of the local audit and accountability act and in accordance with AGN04 we have certain other duties including, where necessary reporting in the public interest. We are not currently aware of circumstances that would lead us to exercise the powers afforded to the appointed auditor under the act.

Continuous communication and reporting

Planned timing of the audit

As the audit plan is executed throughout the year, the results will be analyzed continuously, and conclusions (preliminary and otherwise) will be drawn. The following sets out the expected timing of our reporting to and communication with you.



Materiality

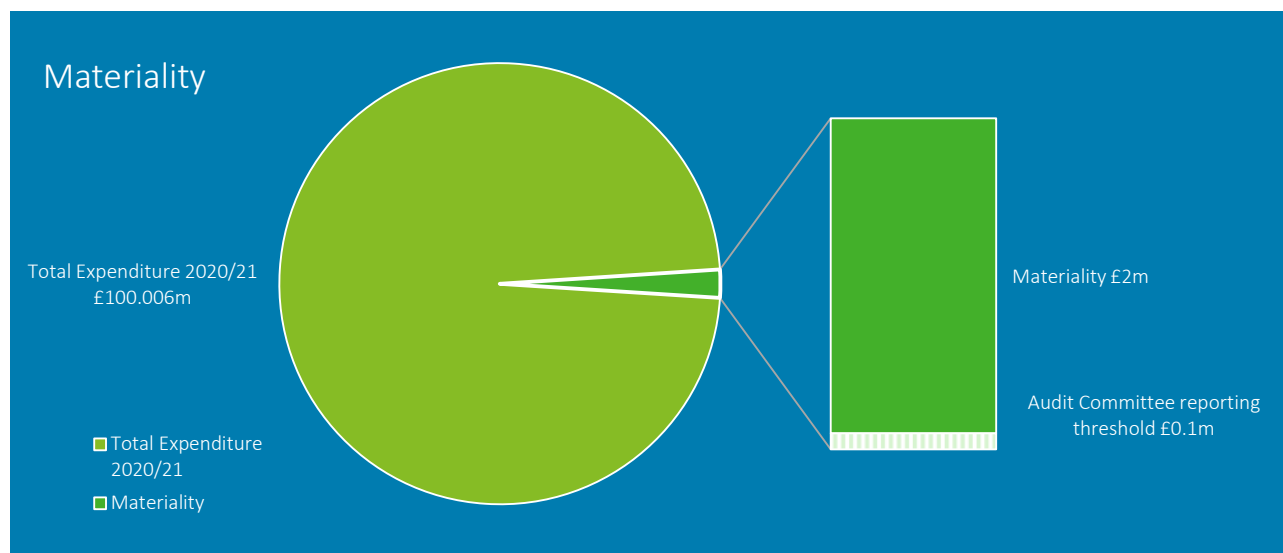
Our approach to materiality

Basis of our materiality benchmark

- The audit director has determined materiality as £2.0m (2019/20: £1.9m), based on professional judgement, the requirement of auditing standards and the financial measures most relevant to users of the financial statements.
- We have used 2% of Total Expenditure excluding expenditure on Taxation and Non-Specific Grant Expenditure based on the 2020/21 draft accounts as the benchmark for determining materiality.

Reporting to those charged with governance

- We will report to you all misstatements found in excess of £100,006 (2019/20: £96,000).
- We will report to you misstatements below this threshold if we consider them to be material by nature.



Although materiality is the judgement of the audit director, the Audit Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

COVID-19 pandemic and its impact on our audit

Requirements	<p>CIPFA has issued guidance highlighting the importance of considering the impact of COVID-19 in preparation of the financial statements, including communicating risks and governance impacts in narrative reporting. This is consistent with the Financial Reporting Council’s guidance to organisations on the importance of communicating the impact of COVID-19 and related uncertainties, including their impact on resilience and going concern assessments.</p> <p>Entity-specific explanations of the current and expected effects of COVID-19 and the Council’s plans to mitigate those effects should be included in the narrative reporting (including where relevant the Annual Governance Statement), including in the discussion on Principal Risks and Uncertainties impacting an organisation.</p> <p>As well as the effects upon reserves, financial performance and financial position, examples of areas highlighted by CIPFA include the impact on service provision, changes to the workforce and how they are deployed, impacts upon the supply chain, cash flow management, and plans for recovery. Risks highlighted include those relating to subsidiaries and investments, capital programmes, and resilience of the community including partner organisations and charities.</p>
Actions	<p>We therefore expect a thorough assessment of the current and potential future effects of the COVID-19 pandemic including:</p> <ul style="list-style-type: none"> • A detailed analysis across the Council’s operations, including on its income streams, supply chains and cost base, and the consequent impacts on financial position and reserves; • The economic scenario or scenarios assumed in making forecasts and on the sensitivities arising should other potential scenarios materialise (including different funding scenarios); and • The effect of events after the reporting date, including the nature of non-adjusting events and an estimate of their financial effect, where possible.

Impact on the Council	Impact on annual report and financial statements	Impact on our audit
<p>We will consider the key impacts on the business such as:</p> <ul style="list-style-type: none"> • Interruptions to service provision • Supply chain disruptions • Unavailability of personnel • Reductions in income • The closure of facilities and premises 	<p>We have considered the impact of the outbreak on the annual report and financial statements, discussed further on the next slide including:</p> <ul style="list-style-type: none"> • Narrative reporting • Property valuation • Impairment of non-current assets • Impact on pension fund investment measurement and impairment • Allowance for expected credit losses • Going concern assessment • Events after the reporting period and relevant disclosures 	<p>We have considered the impact on the audit including:</p> <ul style="list-style-type: none"> • Resource planning • Timetable of the audit • Impact on our risk assessment • Logistics including meetings with entity personnel

COVID-19 pandemic and its impact on our audit (continued)

Narrative and other reporting issues	<p>The following areas will need to be considered by local authorities as having being impacted on by the COVID-19 pandemic.</p> <ul style="list-style-type: none"> • Narrative reporting as well as the usual reporting requirements will need to cover the effects of the pandemic on services, operations, performance, strategic direction, resources and financial sustainability. • Reporting judgements and estimation uncertainty, the Council will need to report the impact on material transactions including decisions made on the measurements of assets and liabilities
Property valuation and impairment of non current assets	<p>The Royal Institute of Chartered Surveyors issued a practice alert in March 2020, as a result of which valuers have identified a material valuation uncertainty at 31 March 2020 for most types of property valuation, resulting in disclosure in financial statements and “emphasis of matter” paragraphs in audit reports. By September 2020, RICS considered that there was no longer material uncertainty over valuations from that date, and therefore valuations at 31 March 2021 are not expected to be affected by material valuation uncertainties.</p> <p>The Council needs to consider its approach to the measurement of property, plant and equipment (PPE). Where property held at current value is based on market valuations the Council should consider with their valuers the impact that COVID-19 has had on current value. The Council will also need to consider whether there are any indications of impairment of assets requiring adjustment at 31 March 2021.</p>
Impact on pension fund investment measurement	<p>As a result of the COVID-19 pandemic pension fund investments have been subject to volatility. It is important to engage early with custodians and fund managers to not only gather information for year-end measurements but to also understand any estimation techniques and any changes to those techniques that may be needed to measure the financial instruments. Where such volatility exists it may mean that the inputs used in the fair value measurement may change and may require a change of measurement technique, and consideration of the level of uncertainty in valuations where there is significantly more estimation.</p>
Expected credit losses	<p>Since 31 March 2020, there has been a significant downturn in economic activity, with many businesses and individuals significantly impacted. The Council will need to consider the provision for credit losses for receivables, including for expected credit losses for assets accounted for under IFRS 9.</p>
Events after the reporting period	<p>The economic environment and impact of the pandemic continues to be highly uncertain. The Council will need to consider the events after the Reporting Period and whether these events will be adjusting or non-adjusting and make decisions on a transaction by transaction basis. The nature of the COVID-19 pandemic will mean that the Council will need to continue to review and update these assessments up to the date the accounts are authorised for issue.</p>

Significant risks

Our risk assessment process

We consider a number of factors when deciding on the significant audit risks. These factors include:

- the significant risks and uncertainties previously reported in the annual report and financial statements;
- the IAS 1 critical accounting estimates previously reported in the annual report and financial statements;
- our assessment of materiality; and
- the changes that have occurred in the business and the environment it operates in since the last annual report and financial statements.

Principal risk and uncertainties highlighted in the Annual Governance Statement

- Risk management and information governance
- Changes in Internal Audit provision

IAS 1 Critical accounting estimates (note 4)

- Property Valuations
- Property, plant and equipment depreciation
- Pension liabilities
- Fair Value Measurement
- Provision for NNDR Appeals
- Provision for debtors
- Impact of Brexit on asset values and pension liability

Changes in your business and environment













- Ongoing impact of COVID 19
- County Plan
- Mainway
- Bailrigg Garden Village
- Expansion of the Investment Portfolio

The next page summarises the significant risks that we will focus on during our audit.


We note however that some of the items included within note 4 of the accounts may not meet the definition as set out in IAS 1 and we invite management to critically consider this disclosure. We further suggest that management consider whether the impact of COVID-19 be included in this disclosure.


Significant risks


Significant risk dashboard

Risk	Material	Fraud risk	Planned approach to controls	Level of management judgement	Management paper expected	Slide no.
Classification of COVID-19 Grants			D+I			13
Property Valuations			D+I			14
Management Override of Controls			D+I			15

D+I: Assessing the design and implementation of key controls

 Low level of management judgement

 Moderate level of management judgement

 High level of management judgement

Significant risks (continued)

Risk 1 – Classification of COVID-19 Grants

Risk identified

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

We have assessed the income streams of the Council, the complexity of the recognition principles and the extent of any estimates used, and concluded that, with the exception of the funding received in 2020/21 in response to the COVID-19 pandemic, there is no significant risk of fraud.

During 2020/21, the Council has received additional funding in relation to COVID-19 costs. In addition, there are a number of business support schemes designed to help eligible businesses during the COVID-19 pandemic that are being administered by Councils on behalf of the Government.

We have pinpointed the significant risk in relation to the classification of whether the COVID-19 grants are 'Agent' or 'Principal'.

Our response

We will perform the following:

- Assess the design and implementation of the control in relation to the determination of whether a COVID-19 grant is 'Agent' or 'Principal';
 - Test a sample of COVID-19 grants to confirm that they have been appropriately classified; and
 - Test the agency arrangement disclosures to confirm, where it is concluded that the Council is acting as agent, that:
 - Transactions have been excluded from the Comprehensive Income and Expenditure Statement;
 - The Balance Sheet reflects the debtor or creditor position at 31 March 2021 in respect of cash collected or expenditure incurred on behalf of the principal; and
 - The net cash position at 31 March 2021 is included in the financing activities in the Cash Flow Statement.
-

Significant risks (continued)

Risk 2 – Property Valuation

Risk identified

The Council held £239.0m of property assets at 31 March 2020 which, as set out in the draft financial statements increased to £248.5m as at 31 March 2021. Included within this increase are net adjustments due to valuations of £12.8m. In addition the Council hold £33.2m of investment properties which decreased by £1.6m due to revaluations in the year.

The Audit Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a three year cycle. As a result of this, however, individual assets may not be revalued for two years.

Furthermore the Council completed the valuation as at the 1 April 2020. Any changes to factors used in the valuation process could materially affect the value of the Council's assets as at year-end.

The level of judgement required in arriving at asset valuations leads us to conclude that there is a risk that that the value of property assets, including investment property, may be materially misstated.

Our response

- We will test the design and implementation of key controls in place around the property valuation, and how the Council assures itself that there are no material impairments or changes in value for the assets not covered by the annual valuation;
 - Where valuations of assets or classes of assets have occurred in the year we will, on a sample basis, review the methodology employed and the reliability of the valuer;
 - We will use our valuation specialists, Deloitte Real Estate, to support our review and challenge the appropriateness of the Council's assumptions and judgements on its assets values;
 - We will test a sample of revalued assets and re-perform the calculation assessing whether the movement has been recorded through the correct line of the accounts; and
 - Using appropriate indices we will evaluate whether assets not revalued are stated at a value materially different to their fair value.
-

Significant risks (continued)

Risk 3 – Management override of controls

Risk identified

In accordance with ISA 240 (UK and Ireland) management override of controls is a significant risk for all entities. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions.

The key judgements in the financial statements include those which we have selected to be the significant audit risks, (classification of COVID-19 grants and the Council's property valuations) and any one-off and unusual transactions where management could show bias. These are inherently the areas in which management has the potential to use their judgement to influence the financial statements.

Our response

In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk:

- We will test the design and implementation of key controls in place around journal entries and management judgements;
 - We will risk assess journals and select items for detailed testing. The journal entries will be selected using computer-assisted profiling based on areas which we consider to be of increased interest;
 - We will test the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting;
 - We will review accounting estimates and judgements for biases that could result in material misstatements due to fraud; and
 - We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the Council, or that otherwise appear to be unusual, given our understanding of the entity and its environment.
-

Value for Money

We are required to consider the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources. Under the revised requirements of the Code of Audit Practice 2020 and related Auditor Guidance Note 03, we are required to:

- Perform work to understand the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources against each of the three reporting criteria;
 - Financial sustainability: How the body plans and manages its resources to ensure it can continue to deliver its services;
 - Governance: How the body ensures that it makes informed decisions and properly manages its risks; and
 - Improving economy, efficiency and effectiveness: How the body uses information about its costs and performance to improve the way it manages and delivers its services.
- Undertake a risk assessment to identify whether there are any risks of significant weaknesses in arrangements;
- If any risks of significant weaknesses are identified, perform procedures to determine whether there is in fact a significant weakness in arrangements, and if so to make recommendations for improvement;
- Issue a narrative commentary in the Auditor's Annual Report (which replaces the Annual Audit Letter), setting out the work undertaken in respect of the reporting criteria and our findings, including any explanation needed in respect of judgements or local context for findings. If significant weaknesses are identified, the weaknesses and recommendations will be included in the reporting, together with follow-up of previous recommendations and whether they have been implemented. Where relevant, we may include reporting on any other matters arising we consider relevant to VfM arrangements, which might include emerging risks or issues.
- Where significant weaknesses are identified, report this by exception within our financial statement audit opinion.

The Annual Auditor's Report is required to be produced within three months of signing the financial statements. We expect to focus on understanding the Council's arrangements in response to the financial pressures from COVID-19 in 2020/21, and the Council's longer term planning for financial sustainability.

Revisions to auditing standards coming into effect

ISA (UK) 570 – Going concern

The Financial Reporting Council (FRC) issued a revised going concern standard in September 2019, that takes effect for periods commencing on or after 15 December 2019. For Local Government bodies, this will be March 2021 year ends and later.

The revision was made in response to recent enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.

We have summarised below the key areas of change in the standard – however, the Public Audit Forum consulted on changes to Practice Note 10, which has resulted in the reflection of public sector considerations in the approach to going concern, and so the ultimate impact of ISA (UK) 570 changes will be affected by this.

The key changes affect:

- Risk assessment procedures and related activities, increasing consideration of the entity's business model, operations and financing;
- The auditor's evaluation of management's assessment of the going concern assumption (which therefore requires a clearly documented assessment);
- Enhanced professional scepticism requirements, including around the evaluation of the sufficiency and appropriateness of audit evidence;
- Considering the appropriateness of disclosures; and
- Reporting in enhanced audit reports.

“The revised standard means UK auditors will follow significantly stronger requirements than those required by current international standards.”

FRC's press release, 30 September 2019

Revisions to auditing standards coming into effect (continued)

ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures

Since 2015, the International Auditing and Assurance Standards Board (IAASB) has sought to identify audit issues relating to accounting estimates for financial institutions and other entities. Initially, this focused on the impact of IFRS 9 *Financial Instruments*, because it would fundamentally change the way that banks and other entities account for loan assets and other credit exposures.

However, the IAASB concluded that most, if not all, issues identified for expected credit losses would be equally relevant when auditing other complex accounting estimates. Accordingly, a holistic revision of ISA 540 was undertaken and the new standard takes effect for periods commencing on or after 1 January 2020. For Local Government bodies, this will be March 2021 year ends and later.

We summarise on the next few slides how this will impact our audit.

“There is a clear need to update ISA 540 to support better quality audits of increasingly complex accounting estimates”

FRC letter to the IAASB, July 2017

Area of change	Impact on our audit	Impact on the Council
Area of oversight and governance relating to estimates	In connection with our planning work to understand the entity and its environment, including internal control, we will specifically inquire regarding management’s processes, and the oversight and governance of those processes relating to accounting estimates.	You will need to consider the adequacy of your processes and controls over estimates, and documentation thereof.

Revisions to auditing standards coming into effect (continued)

ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures

Area of change	Impact on our audit	Impact on the Council
Identification of inherent risk factors; separate assessment of inherent risk and control risk Objectives-based work effort requirements	Recognising a spectrum of inherent risk, we will assess risks of material misstatement in estimates with reference not only to estimation uncertainty, but also complexity, subjectivity or other inherent risk factors, and the interrelationship among them. We will specifically assess control risk relating to estimates, which may require us to evaluate the design and determine implementation of an increased number of internal controls. Our subsequent audit procedures will be responsive to this assessment, and designed to obtain evidence around the methods, significant assumptions, data and (where applicable) the selection of a point estimate and related disclosures about estimation uncertainty.	You will need to provide clear documented rationale for (a) the selection and application of the method, assumptions and data in making the accounting estimate, including any changes in the current year, and controls relating to those aspects; and/or (b) the selection of a point estimate and related disclosures for inclusion in the financial statements.
Enhanced “stand back” requirement, to evaluate the audit evidence obtained	We will specifically design our procedures, to enhance our application of professional scepticism, so that they are not biased towards finding corroborative evidence; our overall evaluation of the evidence obtained will weigh both corroborative and contradictory evidence.	You should expect more challenge of the evidence provided in support of accounting estimates, use of external data sources and your consideration of contradictory evidence.

Revisions to auditing standards coming into effect (continued)

ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures

Area of change	Impact on our audit	Impact on the Council
Enhanced requirements about whether disclosures are “reasonable”	The extant ISA 540 required us to evaluate whether disclosures were “adequate”. The change to “reasonable” will involve greater consideration of the overall meaning conveyed through disclosures. For example, where estimation uncertainty associated with an estimate is multiple times materiality, we will consider whether the disclosures appropriately convey the high degree of estimation uncertainty and the range of possible outcomes.	You should expect more challenge on disclosures relating to estimates, particularly for where you have selected a point estimate from a range and those with high estimation uncertainty.
New requirements when communicating with those charged with governance	In accordance with ISA (UK) 260 and ISA (UK) 265, our communications from the audit have included significant qualitative aspects of your accounting practices and significant deficiencies in internal control. With the revised ISA (UK) 540, these communications will specifically include matters regarding accounting estimates and take into account whether the reasons for our risk assessment relate to estimation uncertainty, or the effects of complexity, subjectivity or other inherent risk factors.	You should expect increased reporting in relation to accounting estimates.

Areas where we consider the impact to be greatest:

The key area impacted will be in respect of property valuations.

Use of Auditor Powers under Local Audit and Accountability Act

Objections to the financial statements

We are in receipt of an objection to the draft financial statements raised by an elector. This objection was communicated to the Authority on 10 September 2021 in which the objector raises a number of objections connected to the Luneside East Development and requests both that I consider issuing a report in the public interest and that I apply to the courts to seek that a range of issues be declared contrary to law.

Our work to date has confirmed that the objections are eligible under the terms of Auditor Guidance Note 03 and we are currently reviewing the substance of the objections. We have made enquiries of your S151 officer, Monitoring Officer and Solicitor and will make further enquiries as necessary to conclude upon these objections.

Guidance upon the process to be followed by the Appointed Auditor in respect of objections can be found in Auditor Guidance Note 04 published by the National Audit Office.

Under the PSAA contract for audit services the cost of responding to objections is not included within the scale fee and, accordingly, there will be additional audit fees arising in connection with responding to these further objections. As the scale of work required, and therefore the associated costs, becomes clearer we will share this information with your Section 151 officer.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes our audit plan, including key audit judgements and the planned scope.

Use of this report

This report has been prepared for the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

We welcome the opportunity to discuss our report with you and receive your feedback.

What we don't report

As you will be aware, our audit is not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

We will update you if there are any significant changes to the audit plan.

Deloitte LLP

Leeds | March 2022

Fraud responsibilities and representations

Responsibilities explained



Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.



Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified the risk of fraud in expenditure and management override of controls as key audit risks for your organisation.



Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will request the following to be stated in the representation letter signed on behalf of the Council:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- [We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
 - (i) management;
 - (ii) employees who have significant roles in internal control; or
 - (iii) others where the fraud could have a material effect on the financial statements.]
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Fraud responsibilities and representations

Inquiries

We will make the following inquiries regarding fraud:



Management:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.



Internal audit

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.



Those charged with governance

- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity.

Appendices

Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation

We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2021 in our final report to the Audit Committee.

Fees

Our audit fees are set out on the following page. There are no non-audit fees.

Non-audit services

In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Council's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Relationships

We have no other relationships with the Council, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.

Fees

The professional fees expected to be charged by Deloitte in the period from 1 April 2019 to 31 March 2021 are as follows:

	2020/21	2019/20
	£	£
Financial statement audit including Whole of Government and procedures in respect of Value for Money assessment *	44,959	44,959
Total audit	44,959	44,959
Total fees	44,959	44,959

* In line with PSAA correspondence that scale fees should be negotiated by individual s151 officers based on the individual circumstances of each body. There will be additional fees in 2020/21 in respect of the new Value for Money standard. Both 2019/20 and 2020/21 will also include additional fees in respect of work carried out in relation to objections received to the accounts.

Our approach to quality

AQR team report and findings

Executing high quality audits remains our number one priority. We are committed to our critical public interest role and continue to embed our culture of quality and excellence into all of our people. This includes using new technology and tools to continue to transform our audit approach.

In July 2021 the Financial Reporting Council (“FRC”) issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review (“AQR”) team for the 2020/21 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm wide quality control systems, a key aspect of evaluating our audit quality.

In that context, overall FRC inspection results, showing an improvement since last year from 76% to 79% of all inspections assessed as good or needing limited improvement, reflect the progress we are making. The overall profile of our ICAEW inspections and our internal inspection programme also show a similar overall improvement since last year.

The results for the inspections of FTSE 350 entities fell short of our overall scores, reflecting specific findings on those particular audits rather than issues pervasive across other audits. Our objective continues to be for all of our audits to be assessed as good or needing limited improvement and we know we still have work to do in order to meet this standard.

We agree with and accept the FRC’s findings on the individual inspections. The FRC has recognised improvements following the actions and programmes for previous years and we welcome the good practice points raised, including in respect of impairment and revenue where individual findings continue to occur.

Overall, we are pleased that there have been no significant findings over our firm wide processes and controls over the last three inspection cycles in the areas subject to rotational review by the FRC. However, we are continually enhancing our processes and controls across our business and such changes will directly or indirectly affect audit quality.

All the AQR public reports are available on its website.

<https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports>

Our approach to quality (continued)

AQR team report and findings

The AQR's 2020/21 Audit Quality Inspection Report on Deloitte LLP

"We reviewed 19 individual audits this year and assessed 15 (79%) as requiring no more than limited improvements. Of the 11 FTSE 350 audits we reviewed this year, we assessed eight (73%) as achieving this standard".

"Our key findings related primarily to the need to:

- Improve the evaluation and challenge of management's key assumptions of impairment assessments of goodwill and other assets.
- Enhance the consistency of group audit teams' oversight of component audit teams.
- Strengthen the effectiveness and consistency of the testing of revenue."

"The firm has taken steps to address the key findings in our 2019/20 public report, with actions that included increasing the extent of consultations, and enhanced learning, coaching and support programmes.

We have identified improvements, for example, in the extent of challenge of management by audit teams in respect of the estimates used for model testing. This was identified as a key finding last year.

We also identified good practice in a number of areas of the audits we reviewed (including robust procedures relating to going concern and evidence to support the challenge of management in areas of key judgement) and in the firm-wide procedures (including establishing a centre of excellence focused on credit for banking audits to encourage the consistent application of the firm's methodology and guidance)."

Our approach to quality (continued)

AQR team report and findings

Improve the evaluation and challenge of management's key assumptions of impairment assessments of goodwill and other assets

How we have addressed this area as a firm

To address this finding, we have done, or plan, the following:

- We refreshed our Impairment Centre of Excellence ("COE") to establish clear partner leadership and introduced frequent communication touchpoints to share best practice, hot topics and technical updates.
- We performed a risk focused strategic allocation of impairment specialists for a selection of December 2020 audit engagements, taking into account industry knowledge and experience. Going forward we will seek to involve the EQCR partner to determine whether the allocated specialist should have industry knowledge or whether generalist knowledge would provide an enhanced independent challenge to an industry focused engagement team.
- We will update our impairment guidance notes and consultation document to include specific risk criteria which require further discussion with a panel of specialists, including, but not limited to, where the audit team develop their own model or where cashflow forecasts extend beyond a commonly used period.
- The launch of the Digital Blueprint project management tool will assist teams in prioritising their time across all areas of the audit.
- We will hold workshops with our partners and directors to bring to life the common causes that have led to FRC findings and to ensure greater consistency in expectations in respect of the expected depth of review.
- We have introduced a new coaching program to support the development of primary reviewing skills and to identify any reviewing skills gaps which need addressing.

- To respond to the poor quality and untimely preparation of information by the company for audit, we expect, where appropriate, to increase the communication with management and those charged with governance so that there are clearer expectations in respect of the quality of information prepared for audit.
- We have updated our impairment template memo to reflect the most recent inspection findings we will develop additional training materials on hot topics and areas of regulatory focus, for example, guidance to assist in the challenge of cash flow assumptions and cost reduction initiatives.
- We also developed a new template to support teams in auditing accounting estimates in response to the requirements of ISA (UK) 540 revised 'Auditing Accounting Estimates & Related Disclosures'.

How we addressed this area in our audit

- We have considered the Council's approach to asset valuations including impairments on page 16.

Our approach to quality (continued)

AQR team report and findings

Enhance the consistency of group audit teams' oversight of component audit teams

How we have addressed this area as a firm

To address this finding, we have done, or plan, the following:

- We have appointed a partner who, together with a number of experienced directors, will lead a series of coaching workshops where we will walk through and discuss good practice examples (including those noted from external reviews) of how audit teams have undertaken group audits together with examples of where pitfalls have been identified. Those workshops will be attended by engagement teams to ensure a range of audits are covered and that those teams can also take learnings to their other group audits.
- We will also refresh our practice aid to develop a reference point for those good practice examples and learnings from the inspection cycle that will be made available to all audit practitioners. We also intend, as part of identifying good practice examples, to share templates that audit teams can use to evidence the communications held throughout the audit process with component audit teams. This will help to demonstrate the required oversight and direction performed by the group audit team by evidencing in detail the interaction / challenge / resolution of issues with component teams.

- We issued a reminder of the EQCR requirements with respect to the need to hold discussions with Key Audit Partners of material subsidiaries in our January 2021 EQCR briefing which was delivered to all EQCR reviewers.
- We have regularly communicated the FRC findings, including those on group audits to the wider audit practice during the inspection cycle through our National Accounting & Audit digest emails to ensure that audit teams who might be affected by the findings are fully briefed.

How we addressed this area in our audit

- The audit of Lancaster City Council does not involve a group team.
- We engage with the Lancashire Pension Fund auditors through our work and have conversations with them throughout the audit process.

Our approach to quality (continued)

AQR team report and findings

Strengthen the effectiveness and consistency of the testing of revenue

How we have addressed this area as a firm

To address this finding, we have done the following:

- We included a 'Substantive Analytical Review ("SAR") revenue deep dive' in our mandatory monthly professional training update in September 2020. This focused on appropriate planning, testing requirements including use of independent data sources and threshold calculations and how to avoid common pitfalls.
- Included a mandatory session on auditing revenue, which included the use of SAR within our Engagement Team Based Learning ("ETBL") coaching sessions for the 2020 programme. This focused teams on the overall approach taken in order to ensure that our teams understood transaction flows and that audit tests were designed appropriately.
- In late 2020 we updated the guidance given to consulted parties about how to respond to the consultations audit teams are required to undertake when using the audit regression software analysis to audit both revenue and cost of sales. This was to ensure that the consulted parties were being provided with all the relevant facts and circumstances when evaluating the appropriateness of using the software to assist us in performing substantive analytical procedures on both account balances in this way.

- We have held additional training sessions for our manager group which focused on reviewing skills with the aim of improving the quality of primary reviews undertaken. This will ensure appropriate focus is being placed on the review of areas where substantive analytical review is performed.

We also plan to do the following:

- For December 2021 year ends, we have introduced a new policy, which applies to listed and PIE entities in the UK and requires teams to identify and test the operating effectiveness of relevant controls for material revenue streams. Our main annual training ("TechEx"), includes a learning journey, comprised of various modules on internal controls, including a focus on the new policy as a hot topic, a deep dive session on revenue review controls, and a module on evaluating General IT Control deficiencies.
- The Deloitte Substantive Analytic Review Guide is also being updated to incorporate our learnings from these audit inspections.

How we addressed this area in our audit

We have reviewed our approach to testing revenue to ensure that it includes appropriate independent data sources and have also performed some substantive work.

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AUDIT COMMITTEE**23 March 2022****Proposed Accounting Policies and Critical Judgements used
in the Preparation of the Statement of Accounts 2021/22****Report of Chief Finance Officer****PURPOSE OF REPORT**

The report sets out the Council's proposed accounting policies and critical judgements to be adopted in completing the 2021/22 Statement of Accounts.

This report is public

RECOMMENDATIONS

It is recommended that the Audit Committee:

1. Approves the Council's proposed accounting policies to be adopted in completing the 2021/22 Statement of Accounts, as set out in Appendix 1
2. Notes the critical judgements made by management when producing the Statement of Accounts. as set out in Appendix 2

1.0 INTRODUCTION

- 1.1 This report presents the significant accounting policies and critical judgements that will be used in the preparation of the 2021/22 Statement of Accounts and summarises the changes from 2020/21 that have been introduced because of amendments to the Code of Practice on Local Authority Accounting 2021/22 (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. In line with best practice both should be subject to annual review and agreement by those charged with governance

2.0 ACCOUNTING POLICES

- 2.1 In preparing the statement of accounts, the Chief Finance Officer is responsible for selecting suitable accounting policies and ensuring that they are applied consistently. 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 significant changes from the policies used to prepare the 2021/22 Statement of Accounts.

3.0 INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS 16)

- 3.1 IFRS 16 was meant to have been introduced for Local Authorities from 1 April 2020 which meant that the annual accounts for 2020/21 should have been the first set of accounts produced in accordance with this standard. However, due to COVID-19 and the additional pressure Local Authorities are facing in these unprecedented times, the Financial Reporting Advisory Board (FRAB), announced the deferral of IFRS 16 implementation to 2022/23 which would have required the annual accounts for 2022/23

to be the first set of accounts produced in accordance with this standard. With a 1 April 2022 implementation date, a note advising of this change should be included in the 2021/22 accounts

- 3.2 The currently International Accounting Standard 17 Leases (IAS17) draws a distinction between finance leases, which are captured by the Council on its balance sheet, as opposed to operating leases, which are not captured. IFRS 16 removes the finance/ operating lease distinction, (subject to some exceptions). From 2022/23 the Council must recognise every lease on its balance sheet. The lease is recognised as a liability, while the subject of the lease i.e., property or equipment appears as an asset.
- 3.2 IFRS 16 is designed to improved levels of accuracy and transparency to the reporting process. In practical terms officers will need to identify and review the existing lease arrangements in the forthcoming year.
- 3.3 CIPFA has issued an exceptional consultation in February 2022 on 'emergency proposals for an update of the 2021/22 Code of Practice on Local Authority Accounting in the UK and the 2022/3 Code'. In the consultation, the proposal is to defer the implementation of IFRS 16 for a further year to 1 April 2023. Therefore, if the deferral is approved the Council's 2021/22 accounts will not disclose the impact of an accounting change required by a new standard that has been issued but not yet adopted. The Council will await the outcome of the consultation and the financial statement for 2021/22 will be amended accordingly.

4.0 CRITICAL JUDGEMENTS

- 4.1 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.
- 4.2 The appendix contains several critical judgements relating to valuations of the Councils assets and the pre-payment of its employer pension contributions for the 2020/21 – 2022/23 triennial period.

5.0 DETAILS OF CONSULTATION

- 5.1 Consultation has taken place with the Council's External Auditors, Deloitte LLP.

6.0 OPTIONS AND OPTIONS ANALYSIS

- 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 The preferred option is option C at paragraph 5.1.

7.0 CONCLUSION

- 7.1 Revisions have been made to the Council's accounting policies for 2021/22 to reflect the new accounting standards and the Council's material transactions

APPENDICES

Appendix 1 – Proposed Accounting Policies 2021/22

Appendix 2 – Critical Judgements 2021/22

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

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1. ACCOUNTING POLICIES

1.1 Basis of Preparation

The Statement of Accounts summarises the Council's transactions for the 2021/22 financial year and its position on 31 March 2022. 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. Any gains or losses that arise on the de-recognition of the asset are charged to the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

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 due to changes in fair value are charged to the financing and investment income and expenditure line in the comprehensive income and expenditure statement as they arise.

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 date. 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 the majority of 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 impairment 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)
Operational Property, Plant and Equipment	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 provided as at 1st April and 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.

1.22 Minimum Revenue Provision

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 charge to revenue towards the reduction in its overall borrowing requirement, which is calculated on a prudent basis determined in accordance with statutory guidance. This contribution is known as the minimum revenue provision (MRP).

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.

1.23 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.

1.24 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.

1.25 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.

1.26 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.

1.27 Fair Value Measurement

The Council measures some of its assets and liabilities at fair value at the end of the reporting period. Fair value is the amount that would be received to sell an asset or paid to transfer a liability at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability; or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council uses external valuers to provide a valuation of its non-financial assets and liabilities, for recognition or disclosure as appropriate, in line with the highest and best use definition within IFRS 13 Fair Value Measurement. The highest and best use of the asset or liability being valued is considered from the perspective of a market participant. Inputs to the valuation techniques in respect of the Council's fair value measurement of its assets and liabilities are categorised within the fair value hierarchy as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Unobservable inputs for the asset or liability

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:

Pension Prepayment

The Council is liable to make contributions towards the cost of post-employment benefits. For the 3-year period 2020/21 – 2022/23, 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.

In April 2020 the Council prepaid an amount of £8.459M to Lancashire County Council Pension Fund in April 2020. The prepayment covers estimated employee contributions for the period 2020/21 – 22/23 and will generate an estimated saving of £0.491M over the period based on an estimated pensionable payroll £17.95M.

In line with the Council's accounting policies. In 2020/21 the amounts relating to 2021/22 and 2022/23 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.

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.