



Committee: AUDIT COMMITTEE
Date: WEDNESDAY, 25 MAY 2022
Venue: MORECAMBE TOWN HALL
Time: 6.10 P.M.

A G E N D A

1. **Appointment of Vice-Chair**

To appoint a Vice-Chair for the 2022/23 municipal year (the Vice-Chair must not be a member of Cabinet or Overview and Scrutiny)

2. **Apologies for Absence**

3. **Minutes**

Minutes of meeting held on 23rd March 2022 (previously circulated).

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

5. **Declarations of Interest**

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

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

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

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

6. **Internal Audit Progress Report (Pages 4 - 13)**

Report of the Internal Audit and Assurance Manager.

7. **Counter Fraud – Annual Report 2021/22** (Pages 14 - 18)
Report of the Corporate Fraud Manager.
8. **Review of the Council's Counter Fraud Policies**
Report of the Corporate Fraud Manger.
Report to follow.
9. **Audit Committee Assurances in Relation to the Financial Reporting Process** (Pages 19 - 40)
Report of the Chief Finance Officer.
This Report was marked “to follow” and was published on 23rd May 2022.
10. **Risk Management Update** (Pages 41 - 43)
Report of the Chief Finance Officer.
This Report was marked “to follow” and was published on 24th May 2022.
11. **Statement of Accounts Update** (Pages 44 - 48)
Report of the Chief Finance Officer.
This Report was marked “to follow” and was published on 23rd May 2022.
12. **Work Programme** (Pages 49 - 51)
Report of the Chief Finance Officer.
This Report was marked “to follow” and was published on 23rd May 2022.

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

Councillors Paul Stubbins (Chair), Gerry Blaikie, Abbott Bryning, Darren Clifford, Geoff Knight, Oliver Robinson and Peter Yates

(ii) Substitute Membership

Councillors Roger Cleet (Substitute), Jason Firth (Substitute), Joyce Pritchard (Substitute), David Whitaker (Substitute), John Wild (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.

MARK DAVIES,
CHIEF EXECUTIVE,
TOWN HALL,
DALTON SQUARE,
LANCASTER, LA1 1PJ

Published on 17th May 2022.

AUDIT COMMITTEE

25th May 2022

Internal Audit Progress Report**Report of Internal Audit and Assurance Manager****PURPOSE OF REPORT**

To advise Members of the latest monitoring position regarding the 2021/22 Internal Audit plan. This progress report provides a summary of Internal Audit activity and complies with the requirements of the Public Sector Internal Audit Standards.

This report is public

RECOMMENDATIONS

- (1) **That the latest monitoring position in relation to the 2021/22 audit plan be noted.**

1.0 Audit Plan monitoring

Mersey Internal Audit Agency (MIAA) were appointed as the Council Internal Auditors in October 2021 and an initial internal audit plan agreed at that time by the Audit Committee. The plan is designed to focus on mandated and core assurances.

As part of the service provision MIAA include a separate progress report to each Audit Committee detailing progress against the agreed plan and highlighting key messages for Audit Committee attention. The report provided this month covers the period March 2022 to May 2022.

- 1.1 Management Team and Service Managers continue to be consulted in delivering both the audit plan and the Annual Governance Statement action plan.

2.0 Options and Options Analysis (including risk assessment)

- 2.1 There are no other options available.

3.0 Conclusion

- 3.1 The programme of audits for the rest of the year continues to be implemented in consultation with Service Managers.

**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

Internal Audit Plan 2019/20

MIAA Internal Audit Progress Report – May 2022

Contact Officer: Jayne Wainwright

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Internal Audit Progress Report Audit Committee (May 2022)

Lancaster City Council

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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 April 2022 to May 2022.

2 Executive Summary

There has been the focus on the following areas:

<p>2021/22 Audit Reviews</p>	<p>Current Progress: MIAA commenced as the Internal Audit provider in November 2021 and as agreed, review delivery will span through to the end of Q1 22/23, resulting in the delivery of the annual opinion.</p> <p>Reviews are progressing in line with the plan and there is good engagement with council officers to ensure completion of reviews in line with the planned timescales.</p> <p>Grant Approval: Since the last Audit Committee, MIAA have provided support regarding the DEFRA Air Quality Grant submission. MIAA examined the grant submission and performed reasonableness checks to assess whether there are arrangements in place to comply with the purpose of the grant.</p> <p>Meetings: Meetings continue to be held on a regular basis with the Section 151 officer. In addition, an introduction meeting has been held with new Chief Executive.</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>
<p>Audit Plan Changes</p>	<p>The Council have previously entered into a Shared Revenues and Benefits Service Agreement under which Preston City Council will be delivering two audits (Non Domestic Rates and Housing Benefits) which had originally included in the MIAA plan for 2021/22. As such MIAA will not be undertaking these audits and the plan fee will be reduced accordingly. The reports from Preston City Council will be</p>

	utilised as third-party assurances when producing our Head of Audit Opinion.
Insights	<p>Collaborative Masterclass Events:</p> <p>How can strengths based working lead to healthier and happier communities – 7th July 2022</p> <p>https://www.miaa.nhs.uk/event/how-can-strengths-based-working-lead-to-healthier-and-happier-communities/</p> <p>Sharing a ground breaking Neighbourhood Coaching model, the session will invite attendees to solve problems in new and radical ways by reframing the problem as opportunities – building bridges between the community, health, housing and social care.</p>

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	WIP	
P2P Systems Assurance	WIP	
Treasury Management	WIP	
Collection of Income & Reconciliations	Planning	
Housing Benefit	To be delivered by Preston City Council	
Property Investment Strategy / Capital Schemes	WIP	
Council Tax	Planning	
NNDR	To be delivered by Preston City Council	
Grants	WIP	
Efficiency Programme Delivery	Planning	
Effectiveness of HR Arrangements	Phased review	
Conflicts of Interest & Gifts and Hospitality	WIP	
Information Governance	Scheduled	
Follow Up		

HOIA Opinion Area	Status	Assurance Level
<ul style="list-style-type: none"> • Procurement & Contract Management • Data Protection • Insurance • Legal Fees, Charges & Debt Recovery 	WIP	
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**Counter Fraud – Annual Report 2021/22****25th May 2022****Report of the Corporate Fraud Manager****PURPOSE OF REPORT**

To inform the Committee of the extent and outcome of counter fraud work during the 2021/22 financial year.

This report is public

RECOMMENDATIONS

1. That the report be noted.

1.0 Introduction

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

1.2 This report details performance and counter fraud activity undertaken by the Fraud Team/Corporate Enquiry Team during 2021/22 in this specialist area of work.

2.0 Background Information

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

2.2 At the same time, the Corporate Enquiry Team was established and consists of seven staff, including a Manager, one full time Investigator, one part time Investigator, one full time Compliance Officer, one full time Enforcement Officer/Investigator, two

Administrative Officers and a part time Apprentice. The staff continue to be employed by Preston City Council and resources are shared between the three authorities, giving Lancaster full time equivalent staff (FTE) of Manager (0.4 fte), Investigator (1.0 fte) and Administrative Officer (1.0 fte).

- 2.3 The objectives of the Corporate Enquiry Team are to:-
- Protect public funds
 - Undertake fraud prevention measures
 - Detect and stop fraud
 - Increase fraud awareness
 - Implement sanctions in accordance with Council prosecution policies
 - Ensure that investigations comply with the regulatory environment
 - Recover properties from fraudsters to enable re-housing of those identified as most in need of social housing
 - Encourage a strong culture of good performance in relation to cost
 - Promote the principles of fairness, equality of opportunity, social inclusion and poverty reduction through service provision
 - Embrace partnership working to enable the delivery of an excellent service, whilst achieving savings based on economies of scale, reductions in duplication and financial savings to the authority
- 2.4 The Corporate Enquiry Team strives to prevent and detect as much Council Tax Support fraud as possible, working with outside agencies such as the Department for Work and Pensions, HM Revenues & Customs, Police and Immigration when appropriate. The team has signed up to joint working with the DWP on cases involving Council Tax Support and national benefits. The project commenced on 29th April 2019 although, Covid19 has seen delays to the progression of this due to the redeployment of DWP fraud staff to other welfare benefit services.
- 2.5 The team acts as Single Point of Contact (SPOC) for providing information on Housing Benefit investigations to DWP.
- 2.6 The team has an excellent working relationship with Lancashire Police, participating in Operation GENGA, a multi agency project to help tackle serious and organised crime. This demonstrates our commitment to tackle fraud on a larger scale and other related crimes in partnership with external agencies
- 2.7 The team has an excellent working relationship with Lancashire Police and acts as SPOC for Police Data Protection Act requests.
- 2.8 The Corporate Enquiry Team are active members of the National Anti-Fraud Network (NAFN). NAFN's key services include:
- Acquiring data legally, efficiently and effectively from a wide range of information providers;
 - Acting as the hub for the collection, collation and circulation of intelligence alerts;
 - Providing best practice examples of process, forms and procedures.
- 2.9 The team are also members of the Chartered Institute of Public Finance and Accountancy (CIPFA) Counter Fraud Centre in order to share best practice and receive information on new counter fraud initiatives. They work closely with other Lancashire and Greater Manchester Local Authorities, meeting regularly to discuss common problems and best practice.

3.0 Performance

3.1 Performance data is detailed as below:

	Year	Target	Achieved
Overpayments	2021/22	£110,000	£142,006.09

Financial Source	Overpayments	Weekly Savings
Council Tax Support	£22,748.62	£270.64
Council Tax Benefit	£0.00	£0.00
Housing Benefit	£37,670.02	£717.28
Council Tax	£27,842.98	£342.82
Business Rates	£15,839.26	£234.23
Covid Business Grant	£37,905.21	£0.00
Totals	£142,006.09	£1,564.97 (X52 = £81,378.44)

3.2 From 1st April 2021 to 31st March 2022 the Corporate Enquiry Team identified overpayments of £142,006.09

3.3 From 1st April 2017 the team has introduced an additional methodology to identify counter fraud performance. When a claim for an allowance, discount, reduction or exemption ends or reduces as a result of an intervention by the Corporate Enquiry Team the value of the intervention is not just the amount of any overpayment that has occurred. It is recognised that there is also a “future” saving made by preventing further incorrect payments being made. In these cases the weekly amount of reduced entitlement to an allowance, discount, reduction or exemption that is applied following fraud intervention should be multiplied by 52. It is reasonable to believe that the award would have continued unchanged for an average of a full year had no intervention taken place. This was agreed as an appropriate performance measure by the Lancashire and Greater Manchester Fraud Investigators Group. The weekly figure identified for Lancaster City Council is £1,564.97, multiplied by 52 gives total “future” savings for 2021/22 of £81,378.44.

3.4 The team works with Lancaster City Council Housing Department in relation to alleged tenancy fraud however, there were no properties recovered during the year 2021/22 there are no savings to report based on a temporary accommodation costs.

3.5 The Corporate Enquiry Team has participated in the annual National Fraud Initiative (NFI) data matching exercise, including investigating Council Tax data matches where

single person discount is in place, but more than one adult is listed on the electoral register for the property.

- 3.6 The team review 100% of all “right to buy” applications for Council Housing properties made to the Council. During the year 2021/22 home visits recommenced following a temporary suspension due to covid.
- 3.7 A management checking regime is in place, structured to monitor performance and compliance with legislation. This process includes:-
- 1-2-1’s with staff to discuss the officer’s full caseload, giving advice and direction, identifying any inactive cases, together with any training needs;
 - A review of all “Interviews Under Caution” before prosecution is considered;
 - A full management check on all sanction cases; and regular checks are undertaken of fraud officer’s pocket notebooks.
- 3.8 Surveillance is only authorised in appropriate cases where considered necessary and proportionate, in line with the Regulation of Investigatory Powers Act (RIPA). No surveillance took place during 2021/22. From 10th June 2019 the legislation governing surveillance changes to the Investigatory Powers Act (IPA).
- 3.9 Covid19 had a significant impact on the teams operations, from February 2020 all formal action was suspended. The team was unable to undertake formal interviews under caution, visit members of the public (witnesses, suspects etc) or pursue criminal proceedings due to the pandemic. Once restrictions eased during 2021/22 there was a lack of facilities for a period of time for interviews to be undertaken however, Morecambe Town Hall has now been made available.
- 3.10 The team has assisted Business Rates with the administration of business rate grants and the processing of cabinet office Spotlight checks as part of the prepayment assurance checks.
- 3.11 Covid19 saw a new area of fraud for the team to investigate with the introduction of the Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund on the 17th March 2020 along with other Council administered grants. Investigations in this regard are both pre and post payment.

4 Details of Consultation

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

5 Options and Options Analysis (including risk assessment)

- 5.1 None – the report is for noting.

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

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

FINANCIAL IMPLICATIONS

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

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

None arising from this report

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

Contact Officer: Haley Garstang
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Ref:

AUDIT COMMITTEE**Audit Committee Assurances in Relation to the Financial Reporting Process****25 May 2022****Report of Chief Finance Officer****PURPOSE OF REPORT**

To summarise how the Audit Committee gains assurance, as 'those charged with governance', from management in order to fulfil its responsibilities in relation to the financial reporting process.

This report is public

RECOMMENDATION

The Committee is asked:

- To consider whether the responses at Appendices 1 and 2 are consistent with its understanding, and whether there are any further comments it wishes to make.

1.0 BACKGROUND

1.1 The Council's external auditor, Deloitte, is required to comply with the requirements of the International Standards on Auditing (UK) (ISA), as adopted by the UK Financial Reporting Council (FRC), in conducting the audit of the Council's financial accounts for the year ended 31 March 2022.

1.2 Under the ISA's Deloitte's have specific responsibilities to communicate with the Audit Committee on certain specific matters and, as part of the risk assessment procedures, Deloitte is required to obtain an understanding of the management processes, and the Audit Committee's oversight, of a number of the following areas in respect of the year ended 31 March 2022.

- General Enquiries of Management
- Fraud.
- Laws and Regulations.
- Related Parties; and
- Accounting Estimates

1.3 To support this work and to assist the Audit Committee as 'those charged with governance' (TCWG), to fulfil its responsibilities in relation to the financial reporting process, management has reviewed a number of documents and compiled a series of questions and responses covering both financial years 2020/21 and 2021/22. Although not exhaustive details of these are provided at **Appendices A and B**

2.0 GENERAL ENQUIRES OF MANAGEMENT

- 2.1 ISA's (UK) 300 and 315 deal with the external auditors' responsibilities to plan the audit of the financial statements and identify and assess the risks of material misstatement within them.
- 2.2 To assist in discharging these obligations the auditors make a range of detailed and general enquires
- Significant changes to the Council's control environment
 - Key events & policies
 - Accounting policies
 - Complex transactions
 - Areas of litigation or contingencies

3.0 FRAUD

- 3.1 ISA (UK) 240 covers auditors' responsibilities relating to fraud in an audit of financial statements.
- 3.2 The primary responsibility for prevention and detection of fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider a number of issues such as the potential for override of controls and inappropriate influence over the financial reporting process.
- 3.3 The External Auditors are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. This includes considering the arrangements management has put in place with regard to fraud risks including
- process for identifying and responding to risks of fraud, including any identified specific risks,
 - communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
 - communication to employees regarding business practices and ethical behaviour

4.0 LAW AND REGULATIONS

- 4.1 ISA (UK) 250 requires auditors to consider the impact of laws and regulations in an audit of the financial statements.
- 4.2 Management, with the oversight of the Audit Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements
- 4.3 As noted above auditors are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. Where the auditors become aware of information of non-compliance, or suspected non-compliance they need to gain an understanding of this and the possible effect on the financial statements

5.0 RELATED PARTIES

5.1 ISA (UK) 550 requires auditors to review the Council's procedures for identifying related party transactions and obtain an understanding of the controls that have been established to identify such transactions.

5.2 The Council is required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council.
- associates.
- joint ventures; .
- an entity that has an interest in the authority that gives it significant influence over the Council.
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

5.3 The Council is required to make a disclosure if a transaction (or series of transactions) is material on either side, i.e., if a transaction is immaterial from the other body's perspective but material from a related party viewpoint then the Council must disclose it.

6.0 ACCOUNTING ESTIMATES

6.1 ISA (UK) 540 requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates.
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates.
- How the entity's risk management process identifies and addresses risks relating to accounting estimates.
- The entity's information system as it relates to accounting estimates.
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

6.2 As part of this process auditors also need to obtain an understanding of the role of TCWG, which is particularly important where the estimates have high estimation uncertainty or require significant judgement. Specifically does the Audit Committee

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them.
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

7.0 OPTIONS AND OPTIONS ANALYSIS

7.1 The Committee could choose to accept the responses put forward by management or amend the comments as it wishes.

8.0 CONCLUSION

- 8.1 The attached Appendices set out a series of questions and responses from Management in respect of each of the above areas for consideration by the Audit Committee.
- 8.2 The responses demonstrate that the Audit Committee can gain assurance from management in order for it to fulfil its responsibilities in respect of the financial reporting process.

CONCLUSION OF IMPACT ASSESSMENT

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

The report has no direct impact on the above issues.

FINANCIAL IMPLICATIONS

None arising directly from this report.

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

None arising directly from this report.

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has authored this report in his capacity as Chief Finance Officer

LEGAL IMPLICATIONS

The Local Audit and Accountability Act 2014 (the Act) states that the accounts of a relevant authority for a financial year must be audited:

(a) in accordance with the Act and provisions made under it, and

(b) by an auditor (local auditor) appointed in accordance with the Act or provision made under it.

A local auditor must, in carrying out the auditor's functions in relation to the accounts of a relevant authority, comply with the Code of Audit Practice applicable to the authority that is for the time being in force. The current Code of Practice for UK Local Government is the Code of Audit Practice issued by the National Audit Office, which came into effect from the 2020/21 audit year. The Code adopts the International Standards on Auditing (ISAs) as issued by the FRC.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments

BACKGROUND PAPERS

N/A

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APPENDIX 1 – ENQUIRES OF MANAGEMENT

QUESTIONS & RESPONSES IN RELATION TO GENERAL ENQUIRES

	Question	Response
1	What are the key events or issues that have had a significant impact on the financial statements	Coronavirus Pandemic: <ul style="list-style-type: none"> • additional costs and loss of income to the Council caused by the pandemic has led to variations in expenditure and income across all the Council's portfolios • impact on Collection Fund accounting • impact on provision for bad debts
2	Has there been any events, or transactions that has caused a change or adoption of new accounting policies?	No changes to the accounting policies section of the Statement of Accounts document.
3	Has Management and the Audit Committee considered the appropriateness of the Councils accounting policies?	Audit Committee considers the Proposed Accounting Policies and Critical Judgements used in the Preparation of the Statement of Accounts annually.
4	Does that Council use any financial instruments including derivatives	There have been no changes to the Council's financial instruments in either 2020/21 or 2021/22, which remain simple and straightforward The Council does not use LOBO's or derivatives or other complex arrangements.
5	Are there any significant transactions outside of the normal course of Council business?	As above, additional expenditure related to the COVID pandemic, and the payment of various government grants to business and individuals Prepayment of all pension's deficit costs and employers' contributions for the next 3 year period (2020/21 – 2022/23) totalling c£8M was made in April 2020. A further top up payment £0.780M was made March 2022
6	Has there been any changes in circumstances or events that may lead to an impairment of non-current assets	The potential for impairment has been discussed with the in-house property valuer and the annual impairment review requested.

APPENDIX 1 – ENQUIRES OF MANAGEMENT

		We are only aware of one significant issue in regard to a fire at an investment property affecting 2021/22.
7	Is the Council a guarantor to any contracts	No
8	Are there any contingent liabilities and/ or any un-asserted claims that would affect the financial statements?	Although there are a number of claims against the Council these are being handled by the Council's legal team and insurers and are not expected to have an impact on the financial statements. All known contingent liabilities are disclosed within the financial statements
9	Other than our in-house solicitors are there any other solicitors used by the Council during the year? Are they working on open litigation or contingencies from prior years?	a. Brabners LLP b. Eversheds Sunderland LLP c. Berrymans Lace Mawer LLP d. Weightmans LLP e. Gateley Plc f. Greenhalgh Kerr Solicitors Eversheds Solicitors have been engaged in the collection of monies owed to the Council from prior litigation.
10	Has any of the Council's service providers reported any items of fraud, non – compliance with laws or regulations affecting the financial statements	None that we are aware of currently
11	What other advisors has the Council consulted during the year?	Anderton Gables – Project management/ advice in relation to the Mainway project Link Group – Treasury Management advisors PA Consulting - LG Reorganisation.
12	Are you aware of any instances which may have had an impact on the Councils Internal Control Environment?	The Committee will be aware that of issues in relation to the

APPENDIX 1 – ENQUIRES OF MANAGEMENT

		Council's provision of Internal Audit services as well as long standing capacity issues with Human Resources and Finance
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QUESTIONS & RESPONSES IN RELATION TO FRAUD

	Question	Response
1	<p>What is management's assessment of the risk that the financial statements may be materially misstated due to fraud</p> <p>What is the nature, extent, and frequency of such assessments?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p>	<p>Although we must recognise there has been a reduction in the overall control environment, overall, it is considered that there is a low risk that the financial statements being materially misstated due to fraud.</p> <p>There are a number of processes in place to prevent and detect fraud with the accounts.</p> <p>These include:-</p> <ul style="list-style-type: none"> • Regular monitoring and review of expenditure/ income throughout the year with the budget holders • Finance Officers check accruals for reasonableness, including review of period on transactions • Approval hierarchy/ limits in CIVICA – this is the point of authorisation for most of the spending • Approval hierarchy for journals/ virements • Internal audit review of main control areas linking through to the Annual Governance Statement • Keeping up to date with the latest guidance to ensure proper accounting rules are adhered to. <p>The Council has appropriate arrangements in place to identify and respond to the risk of fraud.</p>

APPENDIX 1 – ENQUIRES OF MANAGEMENT

		<p>These include the Anti-Fraud, Bribery and Corruption Policy (including the Fraud Response Plan), Raising Concern (Whistle blowing) Policy and a dedicated Corporate Fraud Team. These set out the Council's position regarding this area.</p> <p>There are various processes to highlight fraud risks and raise awareness, these include the circulation of fraud alerts and information received from the National Anti-Fraud Network to relevant managers and staff and the provision of eLearning packages for managers and staff covering fraud awareness, preventing bribery and corruption, and working with the Bribery Act.</p> <p>The Council has a dedicated whistle blowing phone number in place which is monitored by external staff who will follow up any calls relating to fraud allegations for appropriate investigation.</p> <p>The audit team are also informed of any potential or suspected fraud which may be brought to management's attention through other channels, such as the corporate complaints process.</p> <p>These are followed up under the whistle blowing policy where relevant. The results are reported to senior management and the Audit Committee</p> <p>The Council also participates in the National Fraud Initiative (NFI). NFI data matches are followed up to determine the reasons for the matches being identified and assess if they are the result of timing difference, fraud, or other errors.</p> <p>Directors are responsible for self-assessing the effectiveness of the control arrangements in their departments and are required to complete an Assurance Statement annually to evidence this as part of the process to support the Annual Governance Statement. These statements include specific reference to effective controls to</p>
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APPENDIX 1 – ENQUIRES OF MANAGEMENT

		prevent, detect and deter fraud, anti-fraud and corruption and confirmation that budget monitoring is carried out on a regular basis
2	What do we determine to be the classes of accounts, transactions and disclosures most at risk to fraud?	<ul style="list-style-type: none"> • Handling cash and banking • Ordering and payment for goods and services • Bank mandate fraud • Direct payments
3	Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Council as a whole or within specific departments since 1 April 2021?	None that we are aware of currently
4	<p>Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within the Council where fraud is more likely to occur?</p>	<p>The Council operates a shared Corporate Fraud Team with Preston and Fylde Councils and have identified a number of specific fraud risk areas such as Council Tax, Housing Benefit, Business Rates as well as COVID Business Grants. In addition, as noted above there are a number of areas of that are consider more susceptible to fraud.</p> <p>Audit Committee considers the Council’s control and risk management framework and processes as part of the development of its risk based plan, which is presented annually to the Audit Committee for approval, and as part of reviews of the related fundamental financial systems. Whilst areas for improvement have been identified to strengthen controls in place, with some exceptions identified regarding compliance with the controls in place, no material issues have been identified during the year</p> <p>We do not have any particular concerns that there are any specific areas that are at particular risk of fraud or any locations where fraud is more likely to occur.</p>
5	What processes does the Council have in place to identify and respond to risks of fraud?	<p>The Council has various arrangements in place to identify and respond to the risk of fraud. These include</p> <p style="text-align: center;">Anti-Fraud, Corruption and Bribery Policy</p>

APPENDIX 1 – ENQUIRES OF MANAGEMENT

		<p style="text-align: center;">Sanctions Policy and Raising Concerns Policy (Formally Whistleblowing)</p> <p>These documents set out the Council's position regarding this area. There are various processes to highlight fraud risks and raise awareness, these include the circulation of fraud alerts and information received from the National Anti-Fraud Network to relevant managers and staff and the provision of eLearning packages for managers and staff covering fraud awareness, preventing bribery and corruption, and working with the Bribery Act.</p> <p>The Council has a dedicated whistle blowing phone number in place which is monitored by external staff who will follow up any calls relating to fraud allegations and will refer matters to either Internal Audit or the Council's Corporate Fraud Team. The Council also participates in the National Fraud Initiative.</p> <p>As noted above the Council operates a shared Corporate Fraud Team with Preston and Fylde Councils and has recently engaged Mersey Internal Audit Agency (MIAA) to deliver its internal audit service.</p> <p>Directors are responsible for self-assessing the effectiveness of the control arrangements in their departments and are required to complete a Director's Assurance Statement annually to evidence this as part of the process to support the Annual Governance Statement. These statements include specific reference to effective controls to prevent, detect and deter fraud, anti-fraud and corruption and confirmation that budget monitoring is carried out on a regular basis</p>
6	How do you assess the overall control environment for the Council, including	Despite recent issues around Internal Audit the Council has a comprehensive internal control framework in place, which includes

APPENDIX 1 – ENQUIRES OF MANAGEMENT

	<p>the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control?</p> <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud</p>	<p>Financial Regulations, Contract and Procurement Procedure Rules, an Officer Scheme of Delegation, an Anti-Fraud, Corruption and Bribery Policy and resource and budget monitoring processes.</p> <p>These various documents and processes are monitored and reviewed periodically to ensure that they are up to date and fit for purpose.</p> <p>Directors are responsible for self-assessing the effectiveness of their arrangements and required to complete a Director’s Assurance Statement annually to evidence this as part of the process to support the Annual Governance Statement. Internal Audit considers these control processes as part of the development of the risk based plan and as part of reviews of the related fundamental financial systems.</p>
7	<p>Are there any areas where there is potential for misreporting</p>	<p>Unlike private sector or other Public Sector bodies such as NHS there is little or no incentive for fraudulent reporting</p> <p>Accruals and other estimation techniques, however, detailed guidance and key deadlines are sent out to budget holders for cascade down to staff in departments. Also, Finance teams work closely with budget holders to advise on recording expenditure and income in the correct accounting period</p>
8	<p>How does the Council communicate and encourage ethical behaviours and business processes of its staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>The Council has an Officer’s Code of Conduct which is used to encourage ethical behaviour in staff.</p> <p>There are also instructions relating to Registers of Personal and Business Interests and the receipt of Gifts and Hospitality. An annual email is sent to senior staff reminding them of the importance of this area and the need to complete the appropriate declarations</p> <p>Staff are expected to report any concerns that they may have regarding any potential or suspected fraud, either to their line manager or to Internal Audit</p>

APPENDIX 1 – ENQUIRES OF MANAGEMENT

		There have been no significant issues reported
9	<p>From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Those in relation to exchequer functions – making payments/collecting and recording income etc. Treasury management – dealing with borrowing and investments HR & Payroll Setting up and of payment of staff Posts responsible for procurement activity and raising and approving orders</p> <p>Controls ensuring separation of duties e.g., setting up new vendors; change of bank details; authorisation hierarchy for ordering; set-up / changes to employee details etc. Financial Procedures, Procurement and Purchasing Rules are in place setting out staff roles and responsibilities</p>
10	<p>Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>None that we are aware of currently</p> <p>Related party relationships and transactions are fully reviewed as part of the accounts closure process and all significant transactions disclosed in the notes to the accounts. Members Register of Interest reviewed for personal / business interest with which the Council has transactions. Executive Management Team each required to make a personal return in respect of their own/any family members potential interests with which the Council has transactions.</p>
11	<p>What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit and Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p>	<p>The Audit Committee receives reports from Internal Audit setting out the progress of the approved Audit Plan and the Corporate Fraud Manager on progress against business plan.</p> <p>The Committee members are able to ask questions of Officers during the year regarding the details of the counter fraud activity to clarify any of the details reported and improve their understanding of this area. The Committee also invites senior officers to provide updates on any significant areas of concern raised in the reports in respect of key or fundamental financial systems.</p>

APPENDIX 1 – ENQUIRES OF MANAGEMENT

		<p>The 2020/21 Internal Audit Annual Opinion Report presented to the Committee in July 2021, concluded that the Council has adequate systems of risk management, control and governance in place which are being applied to an adequate standard.</p> <p>The Committee also receives a Counter Fraud Annual report setting out the results of investigations carried out and counter fraud activity undertaken during the previous year.</p>
12	Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	None that we are aware of currently
13	Have any reports been made under the Bribery Act?	None that we are aware of currently

APPENDIX 1 – ENQUIRES OF MANAGEMENT

QUESTIONS & RESPONSES IN RELATION LAW AND REGULATIONS

	Question	Response
1	<p>How does management gain assurance that all relevant laws and regulations have been complied with</p>	<p>The Council's Legal and Finance departments provide advice on law and regulation on a number of areas that relate to Council's business and activities. In addition, the Procurement team also advise on laws and regulations relating to that area. There are a number of qualified legal and finance professionals with expertise in specific areas, who would provide advice support to departments.</p> <p>The Customer Service Team, Information Governance and Legal Team coordinate complaints received, and where they escalate undertake internal investigation and liaise with the LGO when referred.</p> <p>The consideration of and dealing with complaints are supported by qualified legal staff. Any legal issues that are identified from the complaints are actioned appropriately. Instruction of external legal advisers including Counsel as appropriate in complex matters. To update knowledge, qualified legal staff are required to undertake extensive training and collate CPD points-regulated by the Solicitor's Regulatory Authority.</p> <p>The Council's Constitution is regularly reviewed and updated, ensuring that relevant changes in the law are reflected and that the governance framework is legally sound.</p> <p>There have been no actual claims for judicial review issued against the Council for a number of years. However, letters before action under the Judicial review protocol were received which were responded to adequately and thereby negating the need for a claim to be made.</p>

APPENDIX 1 – ENQUIRES OF MANAGEMENT

		<p>There have been no actual claims for judicial review issued against the Council for a number of years. However, letters before action under the Judicial review protocol were received which were responded to adequately and thereby negating the need for a claim to be made.</p> <p>Staff who are members of professional bodies are bound by their codes of conduct and requirements to comply with professional standards and relevant laws and regulations</p> <p>Corporate and Departmental risk registers are in place.</p> <p>Directors are required complete and sign and an annual assurance statement as part of the process to prepare the Council's Annual Governance Statement</p> <p>The risk based audit plan would consider compliance with laws and regulations for key risk areas</p>
2	<p>What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?</p>	<p>See above, but also the Monitoring Officer and 2 Deputy Monitoring Officers ensure lawful decision-making as well as provision/ procedure to ensure legal implications are considered for all Cabinet, Council and other reports.</p> <p>The Monitoring Officer (MO) and Head of Democratic Services (Deputy MO) attend at Council with the MO now a member of Executive Board and regulatory committees to advise as appropriate.</p> <p>External Inspections would also detect non-compliance e.g. a recent RIPA desktop inspection provided positive feedback. We also have a RIPA Monitoring Group</p> <p>Training is provided to elected members and officers at all levels from the in-house legal team and externally on a wide range of</p>

APPENDIX 1 – ENQUIRES OF MANAGEMENT

		<p>subject matter relating to our statutory duties and legal compliance in specific areas.</p> <p>Regular Statutory Officers Group meeting has been set up to focus on the overall governance of the Council, assurance including better decision-making.</p>
3	Are you aware of any changes to the Council’s regulatory environment that may have a significant impact on the Council’s financial statements?	No
4	How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	Through Internal Audit reports and opinions on specific areas of business via the delivery of the risk based annual audit plan
5	Have there been any instances of non-compliance or suspected non-compliance with laws and regulation	None that we are aware of currently
6	Is there any actual or potential litigation or claims that would affect the financial statements?	There are some on-going litigation matters. They are not thought to have a material effect on the Council’s Financial Statements.
7	What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	Litigation matters are covered by the Council’s insurance policies are handled by the Authority’s claim handlers and insurance solicitors in coordination with our in-house insurance officer. Matters not covered by insurance policies are identified by officers (in accordance with relevant policies) and referred to the Council’s in-house legal department for evaluation. The Council has a designated litigation solicitor who evaluates and progresses litigation matters.
8	Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	There are no reports known of that would affect the financial statements

APPENDIX 1 – ENQUIRES OF MANAGEMENT

QUESTIONS & RESPONSES IN RELATION REALTED PARTIES

	Question	Response
1	<p>Have there been any changes in the related parties including those disclosed in the Council's financial statements? If so please summarise:</p> <ul style="list-style-type: none"> • the nature of the relationship between these related parties and the Council • whether the Council has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions 	<p>The Council established a More Homes for the Bay a Local Authority Trading Company (LATCO) however although incorporated it is yet to commence trading and does not hold any assets.</p>
2	<p>What controls are in place to identify and account for and disclose related party transactions and relationships</p>	<p>Related party relationships and transactions are fully reviewed as part of the accounts closure process and all significant transactions disclosed in the notes to the accounts.</p> <p>Members Register of Interest reviewed for personal / business interest with which the Council has transactions. Executive Management Team are each required to make a personal return in respect of their own/ any family members potential interests</p>
3	<p>What controls are in place to authorise and approve significant transactions and arrangements with related parties</p>	<p>Decision making hierarchy specified within the Council's Constitution. Significant transactions over £250K would be classed as "Key Decisions", which require reporting to/ decision making by the Executive Board and are published ahead of the decision on the Council's website</p>
4	<p>What controls are in place to authorise and approve significant transactions and arrangements with related parties</p>	<p>As above.</p>

APPENDIX 1 – ENQUIRES OF MANAGEMENT

QUESTIONS & RESPONSES IN RELATION TO ACCOUNTING ESTIMATES

	Question	Response
1	What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	<p>Those where the basis of measurement for the amount recognised in the accounts is uncertain, therefore an estimation technique is required, e.g.:</p> <ul style="list-style-type: none"> • Accruals of expenditure and income • Valuation and depreciation of property, plant and equipment assets • Fair value measurements • Assumptions made when calculating accounting provisions • The valuation of the Pensions liability
2	How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	<p>Management follows the latest professional guidance to assist in identifying issues that may impact on accounting assumptions and estimates used in preparing the statement of accounts e.g. events causing increased uncertainties. In addition issues are discussed with:</p> <ul style="list-style-type: none"> • Lancashire CFO's Group and sub-groups to compare approach; and • external audit regarding any new areas they will be focussing on <p>Assumptions/ source data is taken from historical data wherever possible amended to reflect known/ likely changes</p>
3	How do management review the outcomes of previous accounting estimates?	Comparison of actual outcomes to estimates made – review and update historical information to inform future estimates
4	Have any changes made to the estimation processes and, if so, what was the reason for these?	None however a detailed review of sundry debt and impact of restrictions due to pandemic on collectability of debt
5	How do management identify the need for and apply specialised skills or knowledge related to accounting estimates	If estimates involve specialised professional judgements and access to specific relevant data, which the Finance team do not have or have

APPENDIX 1 – ENQUIRES OF MANAGEMENT

		access to, then a relevant expert/ advisor is needed e.g. Treasury Management Advisors/ Property Valuers/ Pensions Actuaries
6	How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	For significant accounting estimates provided by the advisors above, the Finance team will review supplementary information to support the calculations provided by the advisors and discuss the methodology to ensure they understand the estimates made
7	How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	The Finance team will review movements in property valuations looking at significant movements in order to challenge the valuations carried out.
8	Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement	Possibly accounting treatment of various Covid related grants but otherwise no
9	How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Not explicitly reported to Audit & Governance Committee currently but specific disclosures are included within the Statement of Accounts

APPENDIX 2 – ACCOUNTING ESTIMATES

Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property, Plant and Equipment Valuations	The Council engages a valuation expert, who is a member of the Council's Property Team, to undertake property valuations. All valuations are undertaken by qualified valuers. Properties are valued in line with accounting standard requirements and in accordance with Royal Institute of Chartered Surveyors Guidance on the basis of a three year rolling programme.	Appropriately qualified valuer is engaged to undertake valuations.	Yes	Since valuations are compiled by an expert using recognised measurement techniques and based on professional guidance, the underlying data is considered to be reliable and the scope to use judgement and change assumptions limited.	No
Council Dwellings Valuations	As above, however, HRA assets are revalued at least every five years on a rolling programme, with desktop valuations in the intermediate years.	As Above	As Above	As Above	As Above
Investment Property Valuations	As Above, however Investment Properties are valued on an annual basis	As Above	As Above	As Above	As Above
Property, Plant and Equipment and Council Dwellings	Real Asset Management software is used to calculate and process the annual depreciation charge based on the latest property valuation Depreciation is charged on a straight	Suitably qualified officers/valuer advise the estimate of	Yes	The main assumption in the depreciation is the useful life of the asset.	No

APPENDIX 2 – ACCOUNTING ESTIMATES

Depreciation	line basis over the useful life of each specific asset.	useful life for each asset.		Property assets have their useful life estimate by our expert valuer. Other assets have their useful lives estimated by a suitably qualified officer.	
Valuation of defined benefit net pension fund liabilities	<p>The Projected Unit method of valuation is used to calculate:</p> <ul style="list-style-type: none"> • benefit obligation (liability) - the total present value of individual scheme members benefits in relation to service completed up to the date of the calculations • Service cost - the total present value of individual scheme members benefits which is attributable to service during the accounting period 	Appropriately qualified experts used to derive valuations.	Actuarial services including calculation of accounting information provided by Scheme Actuary - Mercers	<p>Detailed information to support calculations and assumptions used is provided by the Actuary based on data submitted by the employer.</p> <p>The Council has not been subject to:</p> <ul style="list-style-type: none"> • Significant outsourcing / bulk transfer of scheme members Amalgamation/ reorganisation • Significant redundancy/ restructuring programs • Average pay increases significantly in excess of assumptions adopted <p>Therefore, the only cause of uncertainty is the impact of the Covid pandemic on financial markets</p>	<p>Yes, prepayment will reduce liability from that assessed by Actuary</p> <p>Also fundamental changes in market- implied RPI due to a change in the RPI formula has impacted on Actuary's assumptions for CPI</p>
Fair value estimates	PPE, investment property and treasury investments fair values as detailed above.	Appropriately qualified experts used to derive	Fair value calculations provided by Link Group	The Council does not have any complex borrowings with high degrees of uncertainty.	No

APPENDIX 2 – ACCOUNTING ESTIMATES

	The calculations for the fair value of borrowings are provided by the Council's treasury management advisers, Link Group These are generally for disclosure notes only.	valuations		The Council employs relevant experts to identify the most appropriate valuation techniques to determine fair value – being its professional treasury advisers, Link Group	
Provisions: Business Rates Appeals	Data from VOA for both 2010 List appeals and 2017 List Check, Challenge, Appeal data	Approach discussed at LCFO's and Sub Group	No	Uncertainty due to variance in appeal decisions and significant backdating re 2010 list. Check, Challenge, appeal system has curtailed activity to some extent	No
Accruals	Creditors generated by Purchasing Module of Civica where orders receipted but not paid at 31/03/22.	Detailed guidance issued to budget holders and manual accruals reviewed by Finance team prior to input.	No	Some degree of uncertainty	No
Credit loss and impairment allowances	Consideration of age profile of arrears and other specific issues impacting on collectability of debt	The calculation is undertaken with Finance based on historic data	No	Age profile of arrears over a 5 year rolling period is considered a best estimate based on known patterns. Some degree of uncertainty remains	No

AUDIT COMMITTEE**Risk Management Progress Report****25 May 2022****Report of the Chief Finance Officer****PURPOSE OF REPORT**

To update the Audit Committee on the progress made in relation to both strategic and operational risk management.

This report is public

RECOMMENDATIONS

1. **The Audit Committee notes the progress made in relation to the Council's strategic and operational risk management arrangements.**

1.0 BACKGROUND

- 1.1 In accordance with their terms of reference the Audit Committee is charged in providing those charged with governance, independent assurance of the adequacy of the risk management framework. This involves monitoring the effective development and operation of risk management across the Council and monitoring progress in addressing risk-related issues reported to the Committee.
- 1.2 The Council continues to recognise the importance of identifying, evaluating, and managing all key and service risks that could affect the achievement of its priorities, objectives, and activities. Risk Management is fundamental to the Council's governance and contributes greatly to the successful delivery of services and the key priorities.

2.0 PROGRESS TO DATE

- 2.1 The Internal Audit and Assurance Manager presented a report to this Committee 24th March 2021 which provided an update on the progress made in relation to both strategic and operational risk management and sought approval of the Council's refreshed Risk Management Policy.
- 2.2 The Council procured GRACE risk management software and with the agreement of the Director or Corporate Services risk management training would be delayed whilst Internal Audit worked with Service Managers to identify key operational risks for their services. This was to allow a more tailored training package to be delivered ensuring it was appropriate for the varying levels of knowledge and understanding of risk across the organisation.
- 2.3 There has been little change to the strategic risk register since it had been last reported to the Audit Committee. Whilst it was hoped that the Internal Audit Plan for 2021/22 would have been derived from the strategic risk register (the golden thread) unfortunately this had not been possible given the register was still considered to be in its infancy and required further development.

- 2.4 Members will be aware the arrangement with Wyre Borough Council for the provision of Head of Internal Audit services ended 31st March 2021 and that the Council procured Mersey Internal Audit Agency (MIAA) to deliver its Internal Audit service for 2021/22 and 2022/23. Given this change and redefining of certain roles and responsibilities, corporate ownership of Risk Management was placed with the Director of Corporate Services from 1st April 2021.
- 2.5 At the request of the Chair of the Audit Committee and the Council's s151 Officer MIAA are currently undertaking a review of the Council's Risk Management arrangements looking at areas such as
- Strategic Policy and Documentation
 - Corporate ownership and responsibility throughout the Council
 - How we identify, record, assess, score, moderate, monitor, escalate and close risks
 - Governance and reporting arrangements
- 2.6 The Council delivers a wide range of service, functions and projects. Effective systems of risk management are key to successful delivery. Across the Council there are many documented examples of how operational risk is considered and managed. Ensuring a consistent and proportionate approach across the Council is a focus of corporate activity It is hoped that this review once concluded will recognise the work to date and provide a clear pathway outlining the work required to embed Risk Management within the Council

3.0 FINANCIAL RISK MANAGEMENT

3.1 Despite some of the issues noted above, risk management is practiced and delivered within the Council to a variety of degrees. Without wishing to influence, undermine or compromise the ongoing work of Internal Audit in this area, the following may be considered broad examples of the arrangements employed to assess and manage the financial risks faced by the Council.

3.2 Identification/ Analysis/ Evaluation

Medium Term Financial Strategy (MTFS) sets out some of the key financial risks for the next 4 years and a range of scenarios

- 4 Year Capital Programme and supporting Strategy
- 4 Year Treasury Management Strategy
- Reserves forecasts and Strategy
- Project Team - Mandatory completion of HMT Green Book compliant documentation which mandates consideration of risks and mitigations/ management arrangements.

3.3 Management

Outcomes Based Resourcing – Phase 1 has been delivered and we are currently looking to procure a delivery partner to take forward Phase 2 delivery

Extensive Member Engagement through forums such as

- Cabinet Briefings: Discussions around financial and non-financial risks around current issues and upcoming reports
- Capital Assurance Group: Consideration of capital investment proposals
- Financial Resilience Group: Consideration financial issues affecting the Council

Proposed Member Training in light of Ethical and Sustainable Investments and Financing reviews

The s151 and Monitoring Officers are now part of the Council's Executive Team and as able to influence decision making at a greater degree

3.4 Reporting/ Monitoring & Review

Ongoing monitoring and scrutiny of quarterly Delivering our Priorities reports linking projects, financial and non-financial performance
Treasury Management Reporting in line with Prudential Code requirements
MTFS review and refresh as part of the Council's annual budget cycle

4.0 DETAILS OF CONSULTATION

4.1 No specific consultation has been undertaken in compiling this report, however the Internal Audit team are working with the s151 in undertaking the current review to assist with the embedding of risk management going forward.

5.0 OPTIONS AND OPTIONS ANALYSIS

5.1 As the report is for noting no alternative options are put forward, but the Committee could make supplementary recommendations regarding any matters arising.

6.1 CONCLUSION

6.1 The Audit Committee are informed of the Council's progress made in relation to strategic and operational risk management.

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

This report has no direct impact on these areas.

FINANCIAL IMPLICATIONS

None arising directly from this report.

SECTION 151 OFFICER'S COMMENTS

Risk management drives many aspects of Internal Audit's work and whilst the report recognises aspects of risk management are being undertaken, work remains to further embed it throughout the Council.

LEGAL IMPLICATIONS

None arising directly from this report.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

[Agenda for Audit Committee on Wednesday, 24th March 2021, 4.30 p.m. - Lancaster City Council](#)

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Ref:

AUDIT COMMITTEE**Statement of Accounts Update****25 May 2022****Report of Chief Finance Officer****PURPOSE OF REPORT**

To provide the Committee with an updated position regarding the conclusion of the audit of the 2019/20 and 2020/21 Statement of Accounts and details of progress in the preparation of the Statement of Accounts for the year ended 31st March 2022.

This report is public.

RECOMMENDATIONS

The Audit Committee is recommended to note the following areas

1. The progress of the audit of the 2019/20 & 2020/21 Statement of Accounts
2. The preparation of the Statement of Accounts for the year ended 31st March 2022.

1.0 INTRODUCTION

1.1 Members will be aware of the long standing issues in relation to the 2019/20 and 2020/21 Statement of Accounts. This paper provides an update on current progress as well as providing information on a national issue and alerts members to the potential impact on the production of the 2021/22 Financial Statements.

2.0 2019/20 STATEMENT OF ACCOUNTS UPDATED POSITION

2.1 The only significant matter that remains outstanding is in regard to Note 42: Contingent Liabilities, which as the Committee will recall was subject to 2 formal objections by local Council Taxpayers. The External Auditor considered the objection in accordance with the National Audit Office's Audit Guidance Note 4 and has formally written to the objectors stating his grounds for not considering the objection.

2.2 In order to finally conclude the audit the External Auditors have requested that the Council seek assurance from a number of external 3rd parties. Officers from Legal and Economic Growth and Regeneration services have been collating this information with two of the assurances requested having been presented to the External Auditors for consideration. Although every endeavour has been made by officers to obtain the final letter of assurance, we have been informed that due to illness and leave commitments it will not be available until June.

- 2.3 Whilst this is extremely disappointing for all concerned it is hoped that once received it will finally allow the audit to be concluded. I am sure the Committee appreciates all efforts by Council officers in working to finally resolve this long running, contentious and sensitive issue.

3.0 2020/21 STATEMENT OF ACCOUNTS UPDATED POSITION

- 3.1 The External Auditor presented his plan for the audit of the 2020/21 Financial Statements for consideration by this Committee at its last meeting (23 March 2022). Although a significant body of audit work has been performed, one area highlighted in the audit plan which appears to have yet been commenced is the audit of the significant risk in relation to Property Valuations.
- 3.2 The Council's Housing Revenue Account dwellings are valued on the basis of Existing Use Value for Social Housing (EUV-SH) which was first introduced on 01 April 2001, following the introduction of Resource Accounting in the HRA. Values are then rebased annually, with periodic full revaluation exercises every 5 years, the fifth of which updated all values to 01 April 2020. This has resulted in a net increase in asset values of £5.391M in the year across the Council's estimated 3,600 dwellings.
- 3.3 All audit matters that have been brought to officers' attention to date have been addressed and any required revisions made to the draft 2020/21 financial statements. The Committee should note that given the potential volume and complexity of transactions relating to Property Valuations that any substantial issues reported at this late stage may well have a significant impact on the Council's ability to deliver the 2021/22 Financial Statements to the 31 July deadline.
- 3.4 The Committee will also be aware that similarly to the 2019/20 statements Note 42: Contingent Liabilities, was subject to formal objections by local Council Taxpayers. The External Auditor is still considering the objections in accordance with regulatory guidance but it is hoped that the information supplied will insist in resolving both the 2019/20 and 2020/21 matters. Members, should note that it is expected that additional costs to the Council in dealing with these on-going objections is likely to exceed £20K.

4.0 2021/22 STATEMENT OF ACCOUNTS POSITION –

- 4.1 At the time of writing this report, the draft 2021/22 Statement of Accounts are still being compiled. Budget guidance notes, internal timetabling has been distributed and progress being monitored.
- 4.2 Once finalised it is intended that they will be published on the Council's website by 31 July 2022, subject to matters at paragraph 6 and a link sent to all Council Members, with paper copies being made available on request.
- 4.2 As noted previously the deadline for publication of audited accounts has been revised to 30 November 2022. As a result, during the period August to November, our External Auditors, should conduct an audit of the accounts. Although both officers and audit staff will work to ensure the deadline is achieved this short time frame will provide a challenge.

5.0 NATIONAL ISSUE - INFRASTRUCTURE ASSETS

- 5.1 In early March 2022 CIPFA was made aware of issues relating to the derecognition of parts of infrastructure assets. Specifically, where Councils have incurred on the replacement, or enhancement of existing infrastructure assets. Council's may not be readily able to identify the cost and accumulated depreciation relating to the original asset components being replaced or enhanced. This applies particularly in relation to highways infrastructure assets, where the engineering records used to maintain, replace and add to the infrastructure assets have not been designed to map against identifiable components. There are also information deficits in relation to historical expenditure on assets created before 1994/95.
- 5.2 In addition some Council's may not be considering, or accounting for impairments of infrastructure and some may not be identifying and applying appropriate useful lives to calculate depreciation.
- 5.3 Whilst this is a national issue which may be considered a greater risk for upper tier Councils with Highway infrastructure assets the City Council has infrastructure assets with a Net Book Value (NBV) of £41M as outline in the table below

Infrastructure Assets	£M
Gross Book Value (GBV)	65.35
Accumulated Depreciation	-24.17
Net Book Value (NBV)	41.18
Sea & River Defences	12.62
Wave Reflection Wall	10.81
Caton Road Flood Relief	9.95
River Lune Millennium Park	2.23
Lancaster Square Routes	1.61
Cycleways	1.43
Other	2.54
	41.18

- 5.4 Many of these assets have been created in recent years and so the supporting historical cost information will be available and many have been subject to audit in previous years. However, there remains the potential for issues around older and replaced assets which both officers and the external auditors will need to consider.
- 5.5 CIPFA understands that the issue is pressing as without resolution it has potential to result in qualification of significant numbers of Councils financial statements. Several "urgent meetings" have been held in an attempt to resolve the issues and consultation papers for temporary changes to the Accounting Code have been issued. However, responses are required by 14 June. This does not afford a great deal of time to implement and account for the impact of any directions ahead of the 31 July deadline.

6.0 IMPACT OF OUTSTANDING WORK

- 6.1 The unresolved issues currently surrounding infrastructure assets and the yet unaudited balances within the 2020/21 accounts creates several significant issues for the Council.
- 6.2 Firstly, CIPFA have advised the issues with infrastructure asset apply to all open, or unsigned Statement of Accounts. As noted above as both the 2019/20 and 2020/21 Statement of Accounts remain open there is the potential for even further delay, or even qualification.
- 6.3 Secondly, operationally we are unable to close our asset register and prepare the capital entries for the 2021/22 Financial Statements until both the issues around infrastructure assets and the auditors work on its 2020/21 significant property valuation risks have been concluded.
- 6.4 Given delay and potential complexity and volume of these transactions there is a risk that without timely resolution officers will **NOT** be able to produce of the Council's draft 2021/22 Financial Statements by the 31 July deadline.

7.0 OPTIONS AND OPTIONS ANALYSIS

- 7.1 As the report is for noting no alternative options are put forward, but the Committee could make supplementary recommendations regarding any matters arising.

8.0 CONCLUSION

- 8.1 Members should note the progress and matters arising to date.

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

No implications directly arising.

LEGAL IMPLICATIONS

S27 of the Local Audit and Accountability Act 2014 makes provision for an elector of the Council's area to make an objection to the local auditor in respect of the grounds set out at paragraph 3.4 of this Report. On receipt of an objection the local auditor must decide (a) whether to consider the objection, and (b) if the auditor does so, whether to take action within paragraph (a) and (b) of s27(1) in response.

In considering any objection, the auditor will need to have regard to the provisions of the 2014 Act and the code of audit practice applicable to the Council. The Local auditor must in carrying out functions under the 2014 Act, have regard to guidance issued by the Comptroller and Auditor General under paragraph 9 of Schedule 6 of the 2014 Act. This includes the Auditor Guidance Note 4.

An objector aggrieved by a decision of a local auditor not to consider the objection or not to apply for a declaration under s28 of the 2014 Act may within 6 weeks from notification of the decision require the auditor to provide written reasons for the decision and within 21 days from receipt of the written reasons may appeal against the decision to the court.

FINANCIAL IMPLICATIONS

There are no financial implication flowing directly from this report.
However, Member's should be aware of the addition audit fee's that may accrue because of the objection to the financial statements.

OTHER RESOURCE IMPLICATIONS, such as Human Resources, Information Services, Property, Open Spaces

No implications directly arising.

SECTION 151 OFFICER'S COMMENTS

This report forms part of the Chief Finance Officer's responsibilities, under his role as s151 Officer.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments

BACKGROUND PAPERS

27 August 2020

<https://committeeadmin.lancaster.gov.uk/documents/s77442/Statement%20of%20Accounts%202019-20%20Final.pdf>

Statement of Accounts 2019/20

<http://www.lancaster.gov.uk/the-council-and-democracy/budgets-and-spending/statement-of-accounts>

Statement of Accounts 2020/21

<http://www.lancaster.gov.uk/the-council-and-democracy/budgets-and-spending/statement-of-accounts>

External Audit Plan 2020/21

[Agenda for Audit Committee on Wednesday, 23rd March 2022, 6.10 p.m. - Lancaster City Council](#)

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AUDIT COMMITTEE

Audit Committee Proposed Work Programme 2022/23

Report of Chief Finance Officer

25 May 2022

PURPOSE OF REPORT

To consider the Proposed Work Programme

This report is public

RECOMMENDATION

- (1) **That the Audit Committee note the proposed Work Programme, as detailed in Appendix A and make any further suggestions if required**

1.0 INTRODUCTION

- 1.1 Audit Committees are a key component of the Council's Corporate Governance framework. 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.

2.0 PURPOSE OF THE REPORT

- 2.1 To provide the Audit Committee with details of expected reports and deadlines to enable it to meet its obligations as outlined in section 1.1 above and within its Terms of Reference.

3.0 DETAILS OF CONSULTATION

- 3.1 None specifically regarding this report, however the content and timing of the various reports have been discussed and agreed with the relevant officers.

4.0 OPTIONS AND OPTIONS ANALYSIS

- 4.1 The options available are to accept the proposed work programme attached at Appendix A, or recommend alternatives as necessary

5.0 CONCLUSION

5.1 The attached proposed work programme will enable the Audit Committee to meet its obligations as outlined in section 1.1 above and its Terms of Reference

<p>CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</p> <p>Not applicable</p>	
<p>FINANCIAL IMPLICATIONS</p> <p>None directly arising from this report</p>	
<p>SECTION 151 OFFICER’S COMMENTS</p> <p>The Section 151 Officer has authored this report in his capacity as Chief Finance Officer</p>	
<p>LEGAL IMPLICATIONS</p> <p>None directly arising from this report</p>	
<p>MONITORING OFFICER’S COMMENTS</p> <p>The Monitoring Officer has been consulted and has no further comments</p>	
<p>BACKGROUND PAPERS</p> <p>Audit Committees Terms of Reference</p> <p>Agenda for Audit Committee on Wednesday, 23rd March 2022, 6.10 p.m. - Lancaster City Council</p>	<p>Contact Officer: Paul Thompson Telephone: 01524 582603 E-mail: pthompson@lancaster.gov.uk Ref:</p>

Audit Committee Work Programme (DRAFT - 12/12/2021)

Contacts

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 Paul Thompson CFO/ s151 Officer (01524) 582603 pthompson@lancaster.gov.uk

Meeting Date	Report	Agenda Publication	Report Author
25th May 2022	Internal Audit Progress Report Counter Fraud Annual Report 2021/22 Audit Committee Assurances in Relation to the Financial Reporting Process Risk Management Update Statement of Accounts Update Work Programme	16th May 16th May 16th May 16th May 16th May 16th May	HolA Corporate Fraud Manager CFO/ s151 Officer CFO/ s151 Officer CFO/ s151 Officer CFO/ s151 Officer
20th July 2022	Internal Audit Annual Report 2021/22 Review of the Council's Counter Fraud Policies Corporate Fraud Annual Business Plan 2022/23 Statement of Accounts 2021/22 (TBC - Good practice but not formally required) CIPFA Financial Management Code Assessment 2021/22 Review of the Council's Risk Management Policy Annual Governance Statement 2021/22	13th July 13th July 13th July 13th July 13th July 13th July	HolA Corporate Fraud Manager Corporate Fraud Manager CFO/ s151 Officer CFO/ s151 Officer CFO/ s151 Officer Monitoring Officer
23rd November 2022	Internal Audit Progress Report Review of Internal Audit Effectiveness Annual Review of Audit Committee Performance Update of Corporate Risk Register Risk Management Q1 Update Statement of Accounts Update Code of Corporate Governance AGS Action Plan Monitoring External Audit Plan: Year ending 31 March 2022	16th November 16th November 16th November 16th November 16th November 16th November 16th November 16th November 16th November	HolA HolA HolA CFO/ s151 Officer CFO/ s151 Officer CFO/ s151 Officer CFO/ s151 Officer CFO/ s151 Officer CFO/ s151 Officer
22nd March 2023	Annual Review of Audit Committee Terms of Reference 2023/24 Internal Audit Charter Internal Audit Strategy and Risk Based Plan 2023/24 Internal Audit Progress Report Review of Money Laundering Policies Review of the Council's Counter Fraud Policies Annual Review of the Regulation of Investigatory Powers Act 2020 (RIPA) Policy and Procedure Review of the Council's Risk Management Policy Statement of Accounts Update Proposed Accounting Policies and Critical Judgements used in the Preparation of the Statement of Accounts 2022/23	15th March 15th March 15th March 15th March 16th March 15th March 15th March 16th March 15th March 15th March	HolA HolA HolA HolA HolA Corporate Fraud Manager Information Governance Manager CFO/ s151 Officer CFO/ s151 Officer CFO/ s151 Officer