



Committee: AUDIT COMMITTEE
Date: WEDNESDAY, 22 MARCH 2023
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 23 November 2022 (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. **Refreshed Risk Management Policy (Pages 4 - 22)**

Report of Chief Executive.

6. **Strategic Risk Management (Pages 23 - 29)**

Report of Chief Executive.

Amended report issued 21 March 2023

7. **Annual Review of the Audit Committee Terms of Reference (Pages 30 - 39)**

Report of the Head of Internal Audit.

Published 15 March 2023

8. **Annual Review of the Internal Audit Charter** (Pages 40 - 50)

Report of the Head of Internal Audit.

9. **Internal Audit Plan 2023/24** (Pages 51 - 68)

Report of Head of Internal Audit.

10. **Internal Audit Progress Report** (Pages 69 - 85)

Report of the Head of Internal Audit.

11. **Review of Money Laundering Policies** (Pages 86 - 100)

Report of Monitoring Officer.

Published 15 March 2023

12. **Proposed Accounting Policies and Critical Judgements used in the Preparation of the Statement of Accounts 2022/23** (Pages 101 - 122)

Report of Chief Financial Officer

Published 21 March 2023.

13. **Statement of Accounts Update** (Pages 123 - 128)

Report of Chief Financial Officer

Published 20 March 2023

14. **Arrangements for the Appointment of External Auditor** (Pages 129 - 131)

Report of the Chief Financial Officer

Published 15 March 2023

15. **Meeting with External Auditors**

Discussions with the External Auditors.

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

Councillors Paul Stubbins (Chair), Peter Yates (Vice-Chair), Darren Clifford, Sally Maddocks, Geoff Knight, Jean Parr and David Whitaker

(ii) Substitute Membership

Councillors Roger Cleet (Substitute), Jason Firth (Substitute), Erica Lewis (Substitute), John Wild (Substitute) and Joanna Young (Substitute)

(iii) Queries regarding this Agenda

Please contact Democratic Services - email democracy@lancaster.gov.uk.

(iv) Changes to Membership, substitutions or apologies

Please contact Democratic Support, telephone 582000, or alternatively email democracy@lancaster.gov.uk.

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

Published on 14 March 2023.

AUDIT COMMITTEE**Refreshed Risk Management Policy****22 March 2023****Report of Chief Executive****PURPOSE OF REPORT**

To update the Audit Committee on the progress made on centralising strategic and operational risk management and to approve the council's refreshed Risk Management Policy.

This report is public.

RECOMMENDATIONS

1. The Audit Committee note the progress made in centralising strategic and operational risk management, undertaken in response to the Risk Management Review July 2022.
 2. The Audit Committee review and approve the refreshed Risk Management Policy – March 2023, as shown as appendix A.
- 1.0 Risk Management Review follow up**
- 1.1 The council's Internal Audit team undertook a review of Risk Management, the findings of which were published in July 2022.
 - 1.2 As a result of the findings, an action plan was produced to implement the recommended improvements.
 - 1.3 Progress to date includes:
 - Centralisation of strategic and operational risks into the Grace risk management system.
 - Training on the use of the Grace system provided to risk owners and risk action plan owners.
 - Alignment of departmental approach to risk.
 - Review of risk management reporting processes.
 - Creation of reference materials on the topic of risk for officers to use, including intranet pages and a Grace system user guide.
 - Refresh of the Risk Management Policy.
 - 1.4 A further Audit to assess the success of the improvements will be undertaken starting in March 2023.

2.0 RISK MANAGEMENT POLICY

2.1 The risk management policy has been redrafted to incorporate the following improvements:

- Change of format, to make the document easier to read.
- Further references made to the Grace risk management system (now it is in use).
- Clarification on the monitoring and reporting process.
- Inclusion of a project risk definition.
- A new section added on Risk Appetite.
- Updated roles and responsibilities, to reflect the council's current structure.

3.0 DETAILS OF CONSULTATION

3.1 Individuals and Service Heads whose areas of responsibility involve the risk management activity have been consulted.

4.0 OPTIONS AND OPTIONS ANALYSIS

4.1 Recommendation 1 requests the Committee note progress to date in centralising strategic and operational risk management. As no formal approval is required so the Committee may choose to note or not as they wish

4.2 The options that Audit Committee Members might consider in relation to recommendation 2 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.

4.3 Options analysis, based on associated risks and opportunities in respect of recommendation 2 is set out in the following table:

Risk/ Opportunity	Option A – Approve Policy	Option B – Do Not Approve
Failure of the council to meet requirements in identifying and responding to risk management	Adoption of the policy defines, in accordance with proper practice, the council's approach to risk management	Without a formal policy statement, the Council's response is likely to be inconsistent
Failure of services and individuals to meet expectations around risk management	The policy and guidance provide the framework for ensuring that services and individuals are aware of their own responsibilities in regard to risk management	Individuals are unlikely to be aware of their personal responsibilities
Significant risk of financial and reputational loss to the council from failure to manage its risks effectively	The policy is aimed at establishing procedures within the Council to enable risks to be more fully understood and managed	Exposure to the risk of financial loss is likely to be poorly understood and managed

4.4 The preferred option is option a at paragraph 4.2.

5.0 CONCLUSION

5.1 Recent changes to the Council’s management structure and the review of the Council’s existing Risk management arrangements presented an opportunity for the Council to reset and strengthen its commitment to Risk management. Approval of the proposed Policy provide the framework for this commitment to be implemented and fulfilled.

APPENDICES

Appendix A – Refreshed Risk Management Policy 22.03.23

<p>CONCLUSION OF IMPACT ASSESSMENT (including Health & Safety, Equality & Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing):</p> <p>No direct impact arising from this report, which provides a copy of the council’s refreshed Risk Management Policy.</p>	
<p>LEGAL IMPLICATIONS</p> <p>No direct legal implications arising from this report.</p>	
<p>FINANCIAL IMPLICATIONS</p> <p>No direct financial implications arising from this report.</p>	
<p>OTHER RESOURCE IMPLICATIONS, such as Human Resources, Information Services, Property, Open Spaces</p> <p>No direct resource implications arising from this report.</p>	
<p>SECTION 151 OFFICER’S COMMENTS</p> <p>The Section 151 Officer has contributed to this report in his role as Head of Financial Services, including responsibility for Internal Audit.</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>Appendix A: Risk Management Policy - March 2023</p>	<p>Contact Officer: Chief Executive Telephone: 01524 582501 Email: chiefexecutive@lancaster.gov.uk Ref: N/A</p>



Risk Management Policy and Procedure

March 2023

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Version control

	Description	Date
V0.1	Draft submitted to Executive Team for comments	13 November 2019
V0.2	Draft submitted to Audit Committee	27 November 2019
V1.0	Approved by Audit Committee	27 November 2019
V1.1	Draft submitted to Audit Committee	24 March 2021
V1.2	Revisions submitted to the Senior Leadership Team for comments	18 January 2023
V1.2	Draft submitted to Audit Committee	March 2023
V1.2	Approved by Audit Committee	22 March 2023

Due for review every 2 years.

1.0 Introduction

- 1.1 Risk is unavoidable and is part of all our lives. As an organisation, we need to take risks to grow and develop. Risk management involves understanding, analysing and addressing risks to make sure the organisation achieves its objectives. Successful risk management can make a council more flexible and responsive to new pressures and external demands. It allows an organisation to deliver services better and to meet the needs and expectations of its community in what is a fast changing and dynamic environment. The benefits of successful risk management include improved service delivery, financial performance and corporate governance.
- 1.2 This policy explains Lancaster City Council's approach to risk management and the framework that will operate to establish and drive an effective system not only to minimise risk but also to enable continuous improvement at every level of the organisation.

2.0 Scope

- 2.1 This policy applies to all staff, Councillors and all working groups and partnerships. The responsibilities of these groups and the individuals within them, for the implementation and the effective management of risk is detailed below.
- 2.2 This policy and guidance will be reviewed periodically to take account of changing legislation, government initiatives, best practice and experience gained within the council.

3.0 Risk Management Objectives

- 3.1 The council has identified a number of key risk management objectives that need to be met to ensure a robust risk management framework is embedded across the council, namely:
 - Adopt a strategic approach to risk management to make better informed decisions which is vital to successful transformational change
 - Set the 'tone from the top' on the level of risk we are prepared to accept on our different service delivery activities and priorities
 - Acknowledge that even with good risk management and our best endeavours, things can go wrong. Where this happens, we use the lessons learned to try to prevent it from happening again
 - Develop leadership capacity and skills in identifying, understanding and managing the risks facing the council
 - Integrate risk management into how we run council business/services. Robust risk management processes help us to achieve our core purpose, priorities and outcomes.
 - Support a culture of well-measured risk taking throughout the council's business. This includes setting risk ownership and accountabilities and responding to risk in a balanced way, considering the level of risk, reward, impact and cost of control measures.
 - Ensure that the council continues to meet all statutory and best practice requirements in relation to risk management
 - Ensure risk management continues to be a key and effective element of our Corporate Governance arrangements

4.0 Benefits

4.1 In addition to supporting strategic and operational business planning, if risk management is thoroughly embedded and practices are consistently applied it can bring a number of other key benefits to the organisation, namely:

- Improved service delivery and financial performance, supporting the effective use of the council's resources
- Improved decision making and budgeting
- Continuous service improvement
- Enhanced communication between staff, Councillors and partners.

5.0 Definitions

5.1 Risk can be defined as:

“An uncertain event that, should it occur, will have an effect on the council's objectives and/or reputation. It is the combination of the probability of an event (likelihood) and its effect (impact).”

Risk management can be defined as:

“The systematic application of principles, approach and processes to the identification, assessment and monitoring of risks.”

5.2 By managing our risk process effectively we will be in a better position to safeguard against potential threats and exploit potential opportunities to improve services and provide better value for money.

5.3 Risk management is applied at all levels of service delivery across the council. The council separates risk into three categories:

Corporate Strategic Risks – Risks that could have an effect on the successful achievement of our long-term core purpose, priorities and outcomes. These are risks that could potentially have a council-wide impact and/or risks that cannot be managed solely at a service level because higher level support/intervention is needed.

Operational / Service Risks – Risks that could have an effect on the successful achievement of the service or business outcomes / objectives. Potentially these risks could have a significant financial, reputational and/or service delivery impact on the business unit as a whole.

Project Risks - For strategic projects these registers will include risks relating to the completion of the project. These will be included within GRACE once the project has been agreed and any external funding accepted. For smaller projects the risk may be included in the services risk register with the project risk type recorded against the risk. However, for projects managed by an external organisation it is accepted that risks registers may need to be held outside of the GRACE system, ensuring that alternative monitoring arrangements are in place.

6.0 Risk Management Standards

- 6.1 A number of standards have been developed worldwide to help organisations implement risk management systematically and effectively. These standards seek to establish a common view on frameworks, processes and practice, and are generally set by recognised international standards bodies or by industry groups.
- 6.2 Despite the publication of the global risk management standard in 2009; ISO 31000, the Institute of Risk Management (IRM) has decided to retain its support for the original 'Risk Management Standard' that was published in 2002 because it is a simple guide that outlines a practical and systematic approach to the management of risk. The standard is not prescriptive i.e. a box ticking exercise or a certifiable process. Instead, the standard represents best practice against which organisations can measure themselves. The council has reviewed this policy against this standard.

7.0 Risk Management Approach

- 7.1 The purpose of the risk management approach outlined in this policy is to:
- Provide standard definitions and language to underpin the risk management process
 - Ensure risks are identified and assessed consistently throughout the organisation through the clarification of key concepts
 - Clarify roles and responsibilities for managing risk
 - Implement an approach that meets current legislative requirements and follows best practice and relevant standards
- 7.2 Before we can identify our risks we need to establish the context by looking at what we are trying to achieve and what our proposed outcomes are. Depending on the area under review, the relevant objectives and outcomes will usually be detailed in existing documents, e.g. council plan, individual services plans, project briefs, partnership agreements etc.

To ensure consistency, the following four steps should be followed when identifying, evaluating, treating / mitigating and reviewing risks:

Step 1 – Identifying risk

Risk identification should be approached in a methodical way to ensure that all significant activities within the organisation have been identified and all risks flowing from these activities have been defined. Many risks will be identified as part of the routine service planning stages where barriers to specific business objectives can easily be recognised. All staff have a duty to report emerging risks to their heads of service / manager as and when they are identified. Risks can arise and be identified when the following events occur:

- the change of internal or external processes
- staff/councillors leave and/or restructuring takes place
- through procurement of a new supplier or asset
- partners change or are re-structured
- legislation is revised or introduced
- the social and or economic climate alters
- new projects are undertaken
- an incident occurs

To help in the risk identification process a number of common risk assessment techniques/methods can be used, for example, questionnaires, checklists, workshops, brainstorming sessions, audits and inspection reports or flowcharts.

To act as a prompt and to ensure completeness, a checklist of risk categories has been developed around the acronym ‘**PERFORMANCE**’.

Political	Opportunities/ Outcomes	New Partnerships
Electronic	Reputation	Customers / Citizens
Regulatory	Management	Environment
Financial	Assets	

Examples of risks from each category are detailed in the [Risk Identification Checklist at Appendix 1](#).

When describing risks, it helps to display the identified risk in a structured format to ensure a comprehensive risk identification, description and assessment process takes place. The council has developed a corporate format which must be used to identify, evaluate and mitigate risk. Templates can be located on the intranet.

Once identified, all risks are recorded in the appropriate ‘Risk Register’ on the Grace risk management system. Risks recorded in the register should be given a unique identifier. A risk owner must be allocated and recorded against each risk on the risk register. Such accountability helps to ensure ‘ownership’ of the risk is documented and recognised. A risk owner is defined as a person with the accountability and authority to effectively manage the risk. At this stage there may well be a long list of possible risks. The next step will help to prioritise these in order of importance.

Step 2 – Analysing and Evaluating risk

In order to analyse and evaluate risks, a thorough risk assessment needs to be undertaken. That is, a detailed analysis of the potential threats faced by the council which may prevent achievement of its objectives. Through consideration of the sources of the risk, possible consequences, and the likelihood of those consequences occurring, it helps make decisions about the significance of risks and whether they should be accepted or treated.

To ensure that a consistent scoring mechanism is in place across the council, risks are assessed using the agreed [criteria for likelihood and impact detailed in Appendix 2](#). When assessing the risk, the highest measure identified in each table is the score taken to plot the risk level on the risk matrix (Table 1). Where the likelihood and impact cross, determines the risk level.

For example, a Likelihood of 2 (possible) and a Very High Impact of 4 would result in a risk level of 8.

Table 1

Impact	Very High	4	8	12	16
	High	3	6	9	12
	Medium	2	4	6	8
	Low	1	2	3	4
		Unlikely	Possible	Likely	Very Likely
		Likelihood			

A “traffic light” approach is used to show high (red), medium (amber) and low (green) risks.

First Risk Score – Inherent (Gross) Risk Score

Following identification of the risk, a score for the gross likelihood and gross impact will be given to the risk as it currently stands, to ascertain the inherent (gross) risk score. The inherent risk score is the score given before any controls or actions are taken to alter the risk's impact or likelihood.

Second Risk Score – Residual Risk Score

Risks are then re-scored to ascertain the residual risk score. This is the score given when taking into consideration any controls already in place and/or any existing actions that are not operating effectively.

The residual risk score will be the deciding factor as to whether further action is required. It is at this point that a risk response category is assigned by the risk owner to determine what, if any, action is to be taken e.g. reduce or accept the level of risk. ([See appendix three for further information on risk response categories](#)).

Third Risk Score – Target Risk (Retained Risk) Score

If a risk requires further mitigating action in order to reduce the risk score to within a tolerable level, the risk owner needs to set a realistic target score and develop an action plan which when implemented will reduce the risk to within the target risk score.

Step 3 – Treatment and Action Planning

Actions, which will help to minimise the likelihood and / or impact of the risk occurring, are identified where the risk score needs to be reduced further. One or more action plan owners should be identified for each action.

Net risks are prioritised by applying the same criteria and matrix used for assessing the gross risk level (Step 2). It is the risk owner's responsibility to ensure that the agreed net risk level for each risk is an accurate reflection of the likelihood and [impact measures detailed in Appendix 2](#).

Not all risks can be managed all of the time, so having assessed and prioritised the identified risks, cost effective action needs to be taken to manage those that pose the most significant threat.

Risk may be managed in one, or a combination of, the following ways:

- Avoid - A decision is made not to take a risk
- Accept - A decision is taken to accept the risk
- Transfer - All or part of the risk is transferred through insurance or to a third party
- Reduce - Further additional actions are implemented to reduce the risk
- Exploit - Whilst taking action to mitigate risks, a decision is made to exploit a resulting opportunity.

These are described in more detail in [Appendix 3](#). The managed approach to risk should always be documented in the risk register, for example, after assessment of the risk, a decision may be made to 'transfer' the risk, therefore no further mitigating controls are required.

Step 4 – Monitoring and Reporting

Risk management should be thought of as an ongoing process and as such risks need to be reviewed regularly to ensure that prompt and appropriate action is taken to reduce their likelihood and/or impact.

Regular reporting enables senior managers and Councillors to have greater awareness of the extent of the risks and progression being made to manage them. Risk workshops will be administered on an annual basis. The Grace Risk Management system will encourage risk owners to monitor and update identified risks on a regular basis. For 'red' risks the system will issue reminders on a quarterly basis, for 'amber' risks reminders will be issued every six months and for 'green' risks reminders will be issued once a year. Risk owners are able to update their risks more frequently than this if desired.

In addition, quarterly reminders will be sent to Heads of Service / Managers asking them to consider / add newly identified risks to the system throughout the course of the year.

Updates from the strategic risk register will be reported to the Audit Committee at each of their meetings.

8.0 Risk Appetite

8.1 The council's risk appetite refers to the amount and type of risk that it is prepared to pursue, retain or take in pursuit of our objectives before action is deemed necessary to reduce the risk.

Risk appetite is not a single, fixed concept; there will be a range of appetites for different risks which need to be aligned and regularly reviewed as this will change/vary over time.

8.2 Generally, the Council has low appetite for regulatory and reputational risks and will put in sufficient controls through its policies and procedures to manage the risk to their lowest reasonable levels of impact and likelihood. However, the Council is open to risks in its delivery of priorities and outcomes and will adopt a trust-based and partnership working approach. The Council seeks to find and support opportunities and innovative solutions to optimise the delivery of Plan 2030. Where the Council is more open to risk, officers are still expected to ensure that adequate governance, risk management and internal controls are in place, but it is expected the residual risk may remain higher even with these measures in place.

9.0 Risk Registers

9.1 To ensure that the risk registers are comprehensive and accurately reflect the levels of risk within the council, all relevant and available sources of information will be used in their compilation and review, namely:

- The council's Annual Governance Statement
- Internal audit reports
- External audit reports
- Committee reports / portfolio holder / officer delegation reports
- Risk Assessments
- Incident / accident reports
- Insurance claims and advice from the council's Insurers
- Complaints
- Any relevant articles from risk management publications

9.2 Colleagues within the Office of the Chief Executive (OCE) will oversee administration of both strategic and operational risk registers within the Grace Risk Management system. Identified risk owners will ultimately be responsible for monitoring and updating their risk scores and actions plans.

- 9.3 The Grace system will automatically send risk owners a weekly email reminder of any overdue risk reviews and overdue actions, and OCE colleagues will monitor risk movements to ensure that risk owners are updating records as and when required.

Managers are encouraged to amend risk scores or descriptions with the intention of maintaining a culture of openness. The OCE will spot check a selection of amendments to ensure that actions taken e.g. increased or improved control, or another viable explanation e.g. the activity ceases altogether, has been recorded within the system to support the change.

10.0 Roles and Responsibilities

To ensure risk management is effectively implemented, all staff and Councillors should have a level of understanding of the council's risk management approach and regard risk management as part of their responsibilities:

All Employees

- Manage day to day risks and opportunities effectively and report risk management concerns to their line managers
- Participate fully in risk workshops and action planning as appropriate
- Attend training and awareness sessions as appropriate

All Councillors

- Support and promote an effective risk management culture
- Constructively review and scrutinise the risks involved in delivering the council's core purpose, priorities and outcomes

Cabinet

- Risk manage the council in delivering its core purpose, priorities and outcome
- Consider and challenge the risks involved in making any 'key decisions'

Audit Committee

- Provide independent assurance to the council on the overall adequacy of the risk management framework, including review of proposed amendments to the Risk Management Policy prior to its presentation to Cabinet
- Review and challenge the content of the strategic risk register
- Approve and review recommendations and amendments to the Risk Management Policy

Senior Leadership Team

- Champion an effective council-wide risk management culture
- Ensure Councillors receive relevant risk information
- Responsible for owning and managing corporate strategic risks, which will be reviewed quarterly or more often when needed.

Corporate Directors

- Risk manage their directorate in delivering the council's core purpose, priorities and outcomes. Ensuring colleagues are updating their risk registers as required.
- Constructively review and challenge the risks involved in decision making

Heads of Service / Managers

- Responsible for the effective leadership and management of risk in their service areas to meet service objectives / outcomes in line with the council's risk management framework
- In conjunction with the appropriate risk owner, maintain the relevant risk registers ensuring all key risks are identified, managed and reviewed in line with the corporate risk management approach

- Promptly escalate risks appropriately
- Encourage staff to be open and honest in identifying risks and opportunities
- Ensure risk management process is an explicit part of transformation and all significant projects
- Ensure that appropriate resources and importance are allocated to the process
- Provide assurance that the risks for which they are the risk owner are being effectively managed. This will be completed as part of the Annual Governance review process.

Risk Owners

- Take ownership of the action/s they are responsible for by either confirming the existence and effectiveness of existing actions or ensuring that any further actions are implemented

Partners

- Where appropriate participate in the development of a joint partnership risk register
- Actively manage risk within the partnership
- Report on risk management issues to partnership boards or equivalent

Project Managers

- Ensure that the risks associated with their projects are identified, recorded and regularly reviewed as part of the project management process
- Provide assurance about the management of those risks

Office of the Chief Executive

- Design and facilitate the implementation of a risk management framework ensuring it meets the needs of the organisation
- Act as a centre of expertise, providing support and guidance as required
- Act as systems administrators for the Grace risk management system and check that risk owners are updating their assigned risks in accordance with the schedule. Escalating to senior management as required.
- Collate risk information and prepare reports as necessary to both the Senior Leadership Team and the Audit Committee

Internal Audit

- Ensure the Internal Audit work plan is focused on the key risks facing the council
- During all relevant audits, challenge the content of risk registers to provide assurance that risks are being effectively managed.
- Periodically arrange for the independent review of the council's risk management process and provide an independent objective opinion on its operation and effectiveness

11.0 Embedding Risk Management

For risk management to be effective and a meaningful management tool, it needs to be an integral part of key management processes and day-to-day working. As such, risks and the monitoring of associated actions should be considered as part of a number of the council's significant business processes, including:

- Corporate Decision Making – significant risks, which are associated with policy or action to be taken when making key decisions, are included in appropriate committee reports.
- Business / budget planning – this annual process includes updating the relevant risk registers to reflect current aims / outcomes.
- Project Management – all significant projects should formally consider the risks to delivering the project outcomes before and throughout the project. This includes risks that could have an effect

on service delivery, benefits realisation and engagement with key stakeholders (service users, third parties, partners etc.).

- Partnership Working – partnerships should establish procedures to record and monitor risks and opportunities that may impact the council and/or the partnership’s aims and objectives.
- Procurement – all risks and actions associated with a purchase need to be identified and assessed, kept under review and amended as necessary during the procurement process.
- Contract Management – significant risks associated with all stages of contract management are identified and kept under review
- Insurance – the council’s Insurance Officer manages insurable risks and self-insurance arrangements.
- Health and Safety – the council has specific policies and procedures to be followed in relation to health and safety risks.

12.0 Culture

The council will be open in its approach to managing risks and will seek to avoid a blame culture. Lessons from events that lead to loss or reputational damage will be shared as well as lessons from things that go well. Discussion on risk in any context will be conducted in an open and honest manner.

13.0 Training and Awareness

Having documented a robust approach and established clear roles and responsibilities and reporting lines, it is important to provide officers and Councillors with the knowledge and skills necessary to enable them to manage risk effectively. Colleagues within OCE will act as administrators for the council’s Grace risk management system and will provide advice and arrange training for colleagues as required.

14.0 Summary

This policy and the ongoing efforts to embed sound risk management principles into the council’s ‘fabric’ will improve the way in which services are delivered. A solid, well-documented and comprehensive approach to risk management and its adoption into the decision-making process is good practice, essential to good management and strengthens the council’s governance framework.

Appendix 1 - Check List for Risk Identification (PERFORMACE)

Political

- Change in Government policy
- Councillor support / approval
- Political personalities
- New political arrangements

Economic

- Demographics
- Economic downturn - prosperity of local businesses / local communities

Regulatory

- Legislation and internal policies/regulations including:
 - Health & Safety at Work Act, Data Protection, Freedom of Information, Human Rights, Equalities Act 2010 and Public Sector Equality Duty 2011, Employment Law, TUPE, Environmental legislation etc.
- Grant funding conditions
- Legal challenges, legal powers, judicial reviews or public interest reports

Financial

- Budgetary pressures
- Loss of/reduction in income/funding
- Cost of living/inflation, interest rates, increase in energy costs
- Financial management arrangements
- Investment decisions, Sustainable economic growth
- Affordability models and financial checks
- Inadequate insurance cover
- System / procedure weaknesses that could lead to fraud

Opportunities/ Outcomes

- Add value or improve customer experience/satisfaction
- Reduce waste and inefficiency
- Maximising independence for older people with disabilities
- Developing sustainable places and communities
- Protecting the community and making Lancaster a safer place to live

Reputation

- Negative publicity (local and national), increase in complaints

Management

- Loss of key staff, recruitment and retention issues
- Training issues
- Lack of/or inadequate management support
- Poor communication/consultation
- Capacity issues - availability, sickness absence
- Emergency preparedness / Business continuity

Assets

- Property - land, buildings and equipment,
- Information – security, retention, timeliness, accuracy, intellectual property rights
- ICT – integrity, security, availability, e-government
- Environmental - landscape, countryside, historic environment, open space

New Partnerships/ Projects/ Contracts

- New initiatives, new ways of working, new policies and procedures

- New relationships – accountability issues / unclear roles and responsibilities
- Monitoring arrangements
- Managing change

Customers/ Citizens

- Changing needs and expectations of customers - poor communication/consultation
- Poor quality / reduced service delivery - impact on vulnerable groups
- Crime and disorder, health inequalities, safeguarding issues

Environment

- Recycling, green issues, energy efficiency, land use and green belt issues, noise, contamination, pollution, increased waste or emissions,
- Impact of planning or transportation policies
- Climate change – hotter drier summers, milder wetter winters and more extreme events – heat waves, flooding, storms etc.

Appendix 2 – Measures of Likelihood and Impact

Table 1

Impact	Very High	4	8	12	16
	High	3	6	9	12
	Medium	2	4	6	8
	Low	1	2	3	4
		Unlikely	Possible	Likely	Very Likely
Likelihood					

Likelihood Measures

	Unlikely 1	Possible 2	Likely 3	Very Likely 4
Probability	Less than 10% chance of circumstances arising	10% to 40% chance of circumstances arising	41% to 75% chance of circumstances arising	More than 75% chance of circumstances arising
Timescale	Is unlikely to occur.	Possible in the next 3 or more years .	Likely to occur in the next 1-2 years .	Occurred in the past year or is very likely to occur in the next year .

Impact Measures

	Low - 1	Medium - 2	High - 3	Very High - 4
People / Duty of Care	Low level of foreseeable minor injuries	High level of foreseeable minor injuries Low level of foreseeable serious injuries	High level of foreseeable severe injuries	Foreseeable long-term injury, illness
Financial Impact	Up to £500k Less than 5% over project budget	Up to £2 million 5-10% over project budget	Up to £5 million 11-25% over project budget	Over £5 million More than 25% over project budget
Legal Impact	Minor civil litigation	Major civil litigation and/or local public enquiry	Major civil litigation and/or national public enquiry	Legal action certain Section 151 or government intervention or criminal charges
Service Impact	Short term service disruption	Noticeable service disruption affecting customers	Significant service failure but not directly affecting vulnerable groups	Serious service failure directly affecting vulnerable groups
Project Delivery	Minor delay to project	Significant delay to project	Project fails to deliver target impacting on the service performance	Project fails to deliver target impacting on council's performance
Intervention Required	Intervention by Service Manager, Project Manager or equivalent	Intervention by Head of Service or equivalent.	Intervention by the Executive or Board	Intervention by Boars or Council
Reputation Impact	Short term negative local media attention	Significant negative local media attention	Sustained negative local media attention and/or significant national media attention	Sustained negative national media attention

Appendix 3 - Risk Response Categories

Category	Opportunity or Threat	Description
Accept	Threat	A decision is taken to accept the risk. Management and/or the risk owner make an informed decision to accept that existing actions sufficiently reduce the likelihood and impact of a risk and there is no added value in doing more.
Avoid	Threat	A decision is made not to take a risk. Where the risks outweigh the possible benefits, avoid the risk by doing things differently e.g. revise strategy, revisit objectives or stop the activity.
Fallback	Threat	Put in place a fallback plan for the actions that will be taken to reduce the impact of the threat should the risk occur. This is a reactive form of the 'reduce' response which has no impact on likelihood.
Reduce	Threat	Implement further additional action(s) to reduce the risk by: <ul style="list-style-type: none"> • minimising the likelihood of an event occurring (e.g. preventative action) and/or • reducing the potential impact should the risk occur (e.g. business continuity plans) <p>Further actions are recorded in the risk register and regularly monitored.</p>
Transfer	Threat	Transfer all or part of the risk through insurance or to a third party e.g. contractor or partner, who is better able to manage the risk. Although responsibility can be transferred, in most cases accountability remains with the council, so this still needs to be monitored.
Share	Threat or Opportunity	Share is different from the transfer response. It seeks multiple parties, typically within the supply chain, to share the risk on pain/gain share basis.
Enhance	Opportunity	Proactive actions taken to: <ul style="list-style-type: none"> • Enhance the probability of the event occurring. • Enhance the impact of the event should it occur.
Exploit	Opportunity	Whilst taking action to mitigate risks, a decision is made to exploit a resulting opportunity.
Reject	Opportunity	A conscious and deliberate decision is taken not to exploit or enhance the opportunity, having discerned that it is more economical not to attempt an opportunity response action. The opportunity should continue to be monitored.

AUDIT COMMITTEE**Strategic Risk Management****22 March 2023****Report of Chief Executive****PURPOSE OF REPORT**

To provide the Committee with an update on the authorities progress in updating the Strategic Risk Register.

This report is public.

RECOMMENDATIONS

1. The Audit Committee note the updated Strategic Risk Register, as shown as appendix A.
- 1.0 Report**
 - 1.1 Audit Committee received a report on 23 November 2022 providing an update of the Strategic Risk Register.
 - 1.2 Audit Committee members are asked to note Appendix A; any comments will be considered and implemented as appropriate in the ongoing risk management process.
 - 1.3 The GRACE (Governance, Risk Assessment and Control Evaluation) system has now been updated with strategic and operational risks. From the end of March 2023, in line with other quarterly reporting function, risks will be reviewed by the assigned risk owners every 90 days.

CONCLUSION OF IMPACT ASSESSMENT

(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing):

No direct impact arising from this report, which provides an updated copy of the authority's Strategic Risk Register.

LEGAL IMPLICATIONS

No direct legal implications arising from this report.

FINANCIAL IMPLICATIONS

No direct financial implications arising from this report.

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

No direct resource implications arising from this report.

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has contributed to this report in his role as Head of Financial Services, including responsibility for Internal Audit.

MONITORING OFFICER'S COMMENTS

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

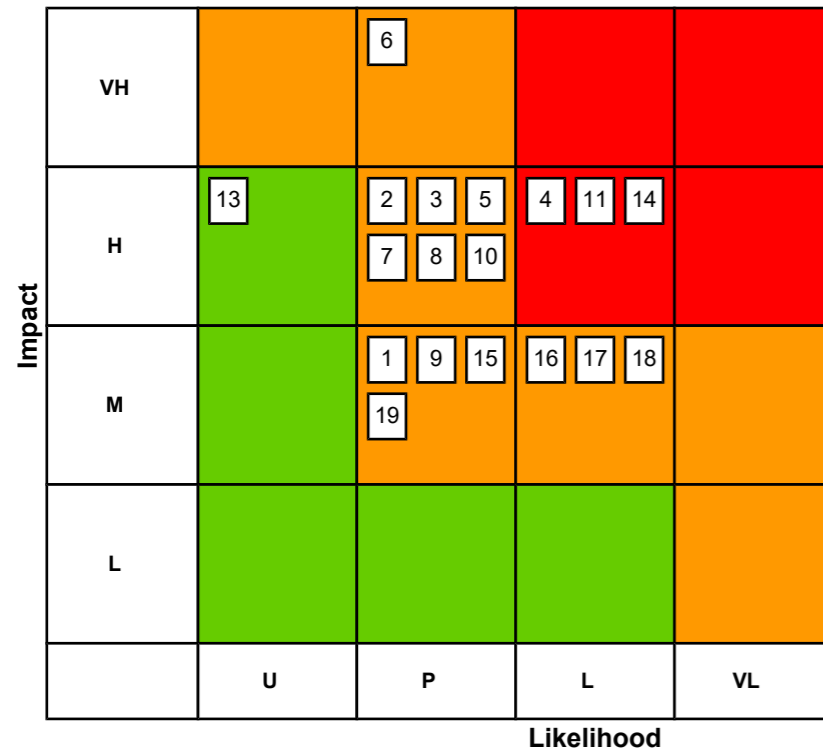
BACKGROUND PAPERS

Appendix A: Strategic Risk Register, 22 March 2023

Contact Officer: Chief Executive
Telephone: 01524 582501
Email: chiefexecutive@lancaster.gov.uk
Ref: N/A

Actions Plans By Entity with Control Measures

Entity: Strategic Risk Register, Risk Assessment open, Current Risk version, Risk is open



Risk No.	Risk	Risk Description	Residual Risk Score	Risk Category	Existing Control Measure Description	Action Plan Title	Action Plan Description	Action Plan Owners	Action Plan Type	Action Plan Due Date
Strategic Risk Register										
<i>Items in Group: 19</i>										
1	SR01 Central Government funding is insufficient to provide the current level of service leaving the council unable to deliver the financial resilience initiative and achieve financial stability.	Central Government funding and/or revenues collected are insufficient to provide the current level of service leaving the council unable to deliver the financial resilience initiative and achieve financial stability. Link to Plan 2030: Value for Money	4	Financial - Budgetary pressures, Loss of/reduction in income/funding, Cost of living/inflation, interest rates, etc.	Officer/Member Working Groups - Capital Assurance Group (CAG) and Financial Resilience Group (FRG) Council Strategies - Funding the Future Strategy, Road to Ambition, Investment Strategy, Reserves Strategy and Medium Term Financial Strategy Monthly income monitoring by applicable services Formal quarterly reporting to Cabinet and Budget and Performance Panel	Outcomes Based Resourcing Commercialisation Funding the Future Strategy Business Plans for Investments Fees and Charges Income Monitoring	Review of existing budgets to identify areas for realignment/ refocusing or cessation to deliver efficiencies but ensuring that Services remain aligned with the Councils Priorities. Development of other alternative service delivery vehicles to deliver efficiencies and/ or operational surpluses which can be reinvested into Council Services. E.g. Salt Ayre The Strategy contains 4 Pillars to achieve Financial Stability. 1) Investment to reduce costs; 2) Pursuing efficiencies with vigour; 3) Outcomes based resourcing; and 4) Commercialisation Develop business plans for investment particularly in relation to decarbonisation and renewable energy generation. Regular monitoring and forecasting by services of all fees and charges. To be undertaken by Heads of Service and Managers.	Mark Davies (Chief Executive) Paul Thompson (S151 Officer) Paul Thompson (S151 Officer) Paul Thompson (S151 Officer) Paul Thompson (S151 Officer)	In Progress In Progress In Progress In Progress In Progress	30/12/2024 01/10/2023 31/03/2024 31/03/2024 31/03/2024

Risk No.	Risk	Risk Description	Residual Risk Score	Risk Category	Existing Control Measure Description	Action Plan Title	Action Plan Description	Action Plan Owners	Action Plan Type	Action Plan Due Date
2	SR02 The Council fails to meet the 2024/25 funding gap as a result of ineffective delivery of the efficiency programme and failure to deliver on key projects.	The Council fails to meet the 2024/25 funding gap as a result of ineffective delivery of the efficiency programme and failure to deliver on key projects. Link to Plan 2030: Value for Money	6	Financial - Budgetary pressures, Loss of/reduction in income/funding, Cost of living/inflation, interest rates, etc.	Budget and Performance Panel Reserves Policy Project Managers - suitably skilled PMs assigned to lead strategic projects Programme Managers (for specific programmes) Programme Delivery Board Cabinet Portfolio Holder Outcomes Based Resourcing for 23/24 financial year Project Delivery Board - Consisting of Executive Team to monitor delivery via monthly and quarterly reports and provide support and challenge to each project as required. Meeting Monthly. Programme Manager - Established to provide a central co-ordination point for all the Council's projects and performance. Responsible for co-ordination and monitoring. Delivering Our Ambitions Quarterly Monitoring Reports - Monitoring report linking Projects, Performance and Resources presented to Cabinet and Budget & Performance Panel. Quarterly Cabinet Meetings - Project and Financial information present to Cabinet/ Portfolio providing an opportunity for review and discussion of performance. As part of the Funding the Future Strategy, the Outcomes Based Resourcing exercise is commencing July 2022 to identify revenue savings for 2023/24 and beyond.	Outcomes Based Resourcing	Outcomes-Based Resourcing (OBR) approach to focusing on where resources can have maximum impact on strategic priority areas.	Mark Davies (Chief Executive) Paul Thompson (S151 Officer)	Implemented	31/12/2024
3	SR03 The Council fails to recruit and retain competent / key staff resulting in ineffective leadership, increased costs and failure to deliver	The Council fails to recruit and retain competent / key staff resulting in ineffective leadership, increased costs and failure to deliver effective services, projects and council priorities. The cost of living crisis means will further exacerbate this. Link to Plan 2030: Investing in Our Skills	6	Management - Loss of key staff, recruitment and retention issues, Training issues, Lack of/ or inadequate management etc.	Recruitment and Retention Policy Annual Appraisal Process Pay and Grading Structure - The new pay and grading structure and job evaluation process will ensure that all posts are objectively evaluated and then placed on a new pay and grading scale. Recent experience suggests that this assisted in attracting applicants with the desired skills and values. Restructure Toolkit - In order to retain the most talented staff as we go through the OBR process, a restructure toolkit has been produced.	People Strategy	A People Strategy is in development to ensure staff experience, development and management are aligned to support the success of the council's workforce.	Alex Kinch (Head of HR)	In Progress	01/04/2023
4	SR04 The use of council assets is not maximised leading to insufficient funding to meet the funding gap and deliver capital projects.	Future capital investment is dependent on capital receipts from the sale and utilisation of council assets. At present the Council does not have an Asset Management Plan to assist with the identification and management of council assets. Link to Plan 2030: Innovative Public Service	9	Assets - Property (land, buildings and equipment), Information (security, retention, timeliness, etc.)	Capital Strategy Group	Asset Management Plan	Asset Management Plan will be written to ensure its findings can be incorporated into the 2024/25 budget cycle	Jonathan Noad (Head of Property, Investment and Regeneration) Joanne Wilkinson (Head of Housing)	In Progress	30/09/2023

Risk No.	Risk	Risk Description	Residual Risk Score	Risk Category	Existing Control Measure Description	Action Plan Title	Action Plan Description	Action Plan Owners	Action Plan Type	Action Plan Due Date
5	SR05 Council services are disrupted and / or additional services are required and costs are incurred as a result of national emergencies	Council services are disrupted and / or additional services are required and costs are incurred as a result of national emergencies.	6	Regulatory - Legislation and internal policies/regulations including: Health & Safety at Work Act, Data Protection etc.	Lancashire Resilience Forum Emergency plans Business Continuity Plans Government Planning Follow Government Direction - The Council continues to adequately resource its emergency planning function, including maintaining its team of out of appropriately trained emergency response officers. Financial Planning - Adequate non earmarked reserves are maintained to allow for the impact of long term emergencies like the pandemic. Business Resilience - The Council continues to invest in resilience measures eg technology to facilitate remote homeworking. Partnerships - The Council continues to allocate resource to developing its key partnerships LRF, CSP and local resilience partners	Financial Planning Community Resilience Adaptation Schemes	Adequate non earmarked reserves are maintained to allow for the impact of long term emergencies like the pandemic. The Council supports community resilience through CEPGs and FLAG groups etc The Council appraises and potentially invests in schemes and activities that provide adaptation (eg Lune river defence)	Suzanne Lodge (Director of Communities & Environment) Suzanne Lodge (Director of Communities & Environment) Suzanne Lodge (Director of Communities & Environment)	In Progress In Progress In Progress	31/03/2024 31/03/2024 31/03/2024
6	SR06 The Council fails to reduce its direct Co2 emissions to 'net zero' by 2030.	In January 2019 the Council declared a 'climate change emergency' and have now sought endorsement of an approach to reduce the Council's direct Co2 emissions to 'net zero' by 2030. Whilst an action plan is in place, costs associated with implementing the actions are considerable and are constantly under review. Link to Plan 2030: Carbon Zero	8	Environment - Recycling, green issues, energy efficiency, land use and green belt issues, noise, contamination etc.	Delivery plan in place Peoples Jury - The Council considers the recommendations of the Peoples Jury and builds recs that can be delivered directly by the Council into its plans	Delivery Plan	The Council continues to work on the delivery of its action plan. More details can be found on our website: https://www.lancaster.gov.uk/sites/climate-emergency/new-and-updates	Mark Davies (Chief Executive)	In Progress	31/03/2024
7	SR07 The Council fails to deliver its key priorities due to the lack of an underpinning strategy setting out expected delivery / outcomes.	On the 29 January 2019, Full Council approved the Council's strategic priorities for the purpose of informing budget decisions for 2020-21 and future years.	6	Opportunities/ Outcomes - Add value or improve customer experience/satisfaction, Reduce waste and inefficiency etc.	Carbon Zero + More details can be found on our website: https://www.lancaster.gov.uk/sites/climate-emergency/new-and-updates Medium Term Financial Strategy (MTFS) - in place to set out how the council proposes to manage its financial resources in line with corporate priorities. Programme Management - in place to ensure strategy is followed and monitored on a regular basis. Corporate Plan / Plan 2030 - Updated in December 2021 to lay out the councils vision.	Prosperity Plan Local Development Plan	Community Wealth Building Strategy. No Change for FtF Strategy. Cabinet and SLT are undertaking an extensive programme to develop the corporate planning, budgeting and performance management of the Council. Local Development Plan	Mark Davies (Chief Executive) Suzanne Lodge (Director of Communities & Environment) Paul Thompson (S151 Officer) Mark Davies (Chief Executive) Suzanne Lodge (Director of Communities & Environment) Paul Thompson (S151 Officer)	In Progress In Progress	30/09/2024 30/09/2024
8	SR08 The Council fails to deliver its key projects due to the lack of staffing capacity and resources (financial) within the Council.	The Council has a number of key projects (Canal Quarter, Eden North, OBR, My Mainway, Heysham Gateway, Bailrigg etc) all of which have detailed strategies for implementation however delivery may not be achieved due to the lack of staff/resources within the council. Link to Plan 2030: Investing in Our Skills	6	Financial - Budgetary pressures, Loss of/reduction in income/funding, Cost of living/inflation, interest rates, etc. New Partnerships/Projects/ Contracts - New initiatives, new ways of working, new policies and procedures etc.	Local Plan Medium Term Financial Strategy (MTFS) Investment Strategy Capital Programme The Council continues to resource key service teams in Planning, economic development, regeneration, property investment and facilities management.	Local Plan Funding the Future Strategy Reserves Capital Programme Staffing Capacity Issues	Local Plan Funding the Future Strategy Adequate reserves are maintained to allow, due diligence of property investment, regeneration projects and key strategic planning strategies. Ensure capital programme is prioritised to facilitate match funding leverage and maximise the potential to attract external funding. HRBPs working with services where there are staffing capacity issues to find solutions, e.g. succession planning where there are hard to fill roles, more creative online campaigns for recruitment; service reviews to be undertaken as part of OBR. Wider People Strategy to support services to attract and retain staff.	Mark Davies (Chief Executive) Mark Davies (Chief Executive) Mark Davies (Chief Executive) Paul Thompson (S151 Officer) Mark Davies (Chief Executive) Paul Thompson (S151 Officer) Alex Kinch (Head of HR)	In Progress In Progress In Progress In Progress In Progress	31/03/2024 31/03/2024 31/03/2024 31/03/2024 30/09/2023

Risk No.	Risk	Risk Description	Residual Risk Score	Risk Category	Existing Control Measure Description	Action Plan Title	Action Plan Description	Action Plan Owners	Action Plan Type	Action Plan Due Date			
9	SR09 The Council's services are disrupted by a cybersecurity issue.	The Council's services are disrupted by a cybersecurity issue. Failure to prevent data loss and privacy incidents leading to financial/ data loss, disruption or damage to the reputation of the Council.	4	Reputation - Negative publicity (local and national), increase in complaints Assets - Property (land, buildings and equipment), Information (security, retention, timeliness, etc.)	Business Continuity Plans	Cyber Treatment Plan	Cyber treatment plan funding obtained to help achieve increase Council resilience and security	Paul Thompson (S151 Officer)	In Progress	31/03/2024			
					Training of staff in cybersecurity								
					Vulnerability Testing	LGA training funding key officers trained in CISM & CISSP	LGA training funding key officers trained in CISM & CISSP	Paul Thompson (S151 Officer)	In Progress	31/03/2024			
					Cloud Hosted Immutable Backups								
					Anti virus devices	Staff trained in information security principles	Staff trained in information security principles	Paul Thompson (S151 Officer)	In Progress	31/03/2024			
					Network Monitoring								
					Use of firewalls								
					NCSC active cyber defence services								
10	SR10 Changes in Government policy impact on our ability to deliver major projects and programmes that would benefit our communities.	SR10 Changes in Government policy impact on our ability to deliver major projects and programmes that would benefit our communities. Link to Plan 2030: Value for money	6	Regulatory - Legislation and internal policies/regulations including: Health & Safety at Work Act, Data Protection etc.	Continued monitoring and horizon scanning of Government policy Clear and focused Council strategy to maximise alignment with Government policy and resourcing Strategic Plans - Continue to develop Council strategic plans and documentation in light of emerging Government policy								
11	SR11 International and national issues rapidly impact on the strategic and financial context of the Council and / or partners, businesses and communities.	SR11 International and national issues rapidly impact on the strategic and financial context of the Council and / or partners, businesses and communities.	9	Financial - Budgetary pressures, Loss of/reduction in income/funding, Cost of living/inflation, interest rates, etc.	Retention of in-house expertise to provide agility and resilience in rapidly-emerging issues Strategic responsiveness through continued risk management review Agility and Resilience - Continue to develop agility and resilience across the organisation Strategic risk management approach								
12	SR12 Budgetary proposals are brought forward / agreed that are then challenged, causing delays or changes to implementation.	SR12 Budgetary proposals are brought forward / agreed that are then challenged, causing delays or changes to implementation. Link to Plan 2030: Innovative Public Service	6	Financial - Budgetary pressures, Loss of/reduction in income/funding, Cost of living/inflation, interest rates, etc.	Comprehensive, robust and transparent approach to budget development and service delivery.	OBR	Outcomes-Based Resourcing (OBR) approach to focusing on where resources can have maximum impact on strategic priority areas.	Mark Davies (Chief Executive) Paul Thompson (S151 Officer)	In Progress	31/12/2024			
13	SR13 The Council's reputation is damaged through local concerns or activities.	SR13 The Council's reputation is damaged through local concerns or activities. Link to Plan 2030: Community Engagement	3	Reputation - Negative publicity (local and national), increase in complaints	Pro-active communications and transparency Strategic management of all Council activities to ensure continued high reputation Delivery of Services - Continue to manage and deliver services in a way that supports the authority's reputation as a Co-operative, Kind and Responsible Council.	Strategic communication	Strategically communicate and engage with residents, partners and stakeholders to ensure actions align with reputation	Mark Davies (Chief Executive)	In Progress	30/09/2023			
14	SR14 Major, sudden unforeseen expenditure or income reduction arises, necessitating significant change or reduction to services.	SR14 Major, sudden unforeseen expenditure or income reduction arises, necessitating significant change or reduction to services. Link to Plan 2030: Value for money	9	Financial - Budgetary pressures, Loss of/reduction in income/funding, Cost of living/inflation, interest rates, etc.	Budget and Performance Panel Reserves Policy Continue financial forecasting and scenario planning e.g. for energy costs	Move to sustainable solutions	Minimise exposure to cost spikes such as energy by moving to sustainable solutions independent of external pressures	Mark Davies (Chief Executive)	In Progress	31/12/2024			
15	SR15 The Council's infrastructure and assets fail to meet the future needs of the organisation and the residents of the district.	SR15 The Council's infrastructure and assets fail to meet the future needs of the organisation and the residents of the district. Link to Plan 2030: Innovative Public Services, Value for money	4	Assets - Property (land, buildings and equipment), Information (security, retention, timeliness, etc.)	Asset Management Plan Continuous review of assets and infrastructure	Asset Management Plan	Conduct a major review of Council infrastructure and assets, taking a future focused approach to asset management.	Mark Davies (Chief Executive)	In Progress	30/09/2023			
16	SR16 The Council's services fail to adapt to socioeconomic and demographic trends within the district, resulting in failure to meet the needs of local residents and businesses.	SR16 The Council's services fail to adapt to socioeconomic and demographic trends within the district, resulting in failure to meet the needs of local residents and businesses. Link to Plan 2030: Enabling	6	Customers/Citizens - Changing needs and expectations of customers (poor communication/consultation), Poor quality etc.	Corporate Plan Policy Framework Continuous review of strategy and policy, and alignment with service delivery.								

Risk No.	Risk	Risk Description	Residual Risk Score	Risk Category	Existing Control Measure Description	Action Plan Title	Action Plan Description	Action Plan Owners	Action Plan Type	Action Plan Due Date
17	SR17 Negligent or unlawful action by the Council, resulting in financial or other liabilities.	SR17 Negligent or unlawful action by the Council, resulting in financial or other liabilities.	6	Reputation - Negative publicity (local and national), increase in complaints Management - Loss of key staff, recruitment and retention issues, Training issues, Lack of/or inadequate management etc.	Corporate Governance Continuous review of governance processes to ensure they are fit for purpose	Training and development	Training and development to ensure staff and members are equipped to follow governance requirements	Luke Gorst (Head of Legal Services)	In Progress	31/03/2024
18	SR18 Failure of the South Lancaster Growth Catalyst programme to deliver high quality homes and recoup financial investment.	SR18 Failure of the South Lancaster Growth Catalyst programme to deliver high quality homes and recoup financial investment. Link to Plan 2030: Access to Quality Housing, Investment and Regeneration	6	Financial - Budgetary pressures, Loss of/reduction in income/funding, Cost of living/inflation, interest rates, etc. New Partnerships/Projects/Contracts - New initiatives, new ways of working, new policies and procedures etc.	Programme Management	Partnership Working with County Council	Continued development of partnership working with Lancashire County Council to successfully deliver the programme alongside engagement with local partners and residents	Mark Davies (Chief Executive) Jonathan Noad (Head of Property, Investment and Regeneration)	In Progress	31/03/2024
19	SR19 Failure of the Canal Quarter programme to deliver regeneration through use of the Council's assets in the area.	SR19 Failure of the Canal Quarter programme to deliver regeneration through use of the Council's assets in the area. Link to Plan 2030: Investment and Regeneration	4	Assets - Property (land, buildings and equipment), Information (security, retention, timeliness, etc.) New Partnerships/Projects/Contracts - New initiatives, new ways of working, new policies and procedures etc.	Programme Management	Development of a Canal Quarter Masterplan	Development of a Canal Quarter Masterplan that sets out a route to successful regeneration of the area in line with local needs and the Council's priorities	Jonathan Noad (Head of Property, Investment and Regeneration)	In Progress	31/03/2024

AUDIT COMMITTEE**22 March 2023****Annual Review of the Audit Committee Terms of Reference****Report of Head of Internal Audit****PURPOSE OF REPORT**

Annual Review of the Audit Committee's Terms of Reference

This report is public**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 October 2022, 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 2022), amendments have been made in line with the new guidance. Appendix A shows the various amendments and changes with Appendix B providing a clean copy of the Terms of Reference incorporating all the suggested revisions.

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 Appendices A & B 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. Full Council is the body responsible for agreeing and/or amending the Terms of Reference for Committees.

BACKGROUND PAPERS

Guiding the Audit Committee.
Supplement to Audit Committee member
guidance' 2022 edition

Contact Officer: Luke Gorst

Telephone: 01254 582024

E-mail: lgorst@lancaster.gov.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.

Governance

6.1 The terms of reference should set out the committee's position in the governance structure of the authority.

Statement of Purpose

6.2 The audit committee is a key component of Lancaster City Council's corporate governance. The committee's purpose is to provide ~~It provides and~~ an independent high-level focus on the adequacy of governance, risks and control arrangements. Its role in ensuring there is sufficient assurance over governance, risk and control gives greater confidence to all those charged with governance that those arrangements are effective. ~~audit, assurance and reporting arrangements that underpin good governance and financial standards.~~

6.3 ~~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, together with the financial and governance reports, helping to ensure that there are adequate arrangements in place for both internal challenge and public accountability. ~~efficient and effective assurance arrangements are in place.~~

Core Functions

Governance, Risk and control

6.4 To review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.

6.5 To review the annual governance statement (AGS) and consider whether it properly reflects the risk environment and supporting assurances, taking into account the head of audit's annual audit opinion.

- 6.6 To consider whether the annual evaluation for the annual governance statement fairly concludes that governance arrangements are fit for purpose, supporting achievement of the authority's objectives.
- 6.7 To consider the reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 6.8 To consider the reports on the effectiveness of the financial management arrangements, including compliance with CIPFA's **Financial Management Code**.
- 6.9 To consider the council's arrangements to secure value for money and review assurances and assessment on the effectiveness of these arrangements.
- 6.10 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.
- 6.11 To monitor counter fraud, actions and resources and review the assessment of fraud risks and potential harm to the council from fraud and corruption.
- 6.12 To monitor the counter fraud strategy, actions and resources.
- 6.13 To review the governance and assurance arrangements for significant partnerships or collaborations.
- Arrangements for audit and assurance** 6.14 To consider the Councils framework of assurance and ensure that it adequately addresses the risks and priorities of the Council

Internal Audit

- 6.15 To approve the internal audit charter.
- 6.16 To review proposals made in relation the appointment of external providers of internal audit services and to make recommendations on their effectiveness.
- 6.17 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.
- 6.18 To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- 6.19 ~~To approve and periodically review safeguards to limit impairments to independence or objectivity of the internal audit team.~~ To consider any impairments to the independence or objectivity of the head of internal audit arising from additional roles or responsibilities outside of internal auditing and to approve and periodically review safeguards to limit such impairments.
- 6.20 To approve significant interim changes to the risk-based audit plan and resource requirements.
- 6.21 To consider reports from the head of internal audit on the performance during the year, including the performance of external providers of internal audit services
These will include:
- Updates on the work of internal audit, including key findings, issues of concern and action in hand as a result of internal audit work.

- Regular reports on the results of Quality Assurance Improvement Programme (QAIP)
- Reports on instances where the internal audit function does not conform with Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN), considering whether the non-conformance is significant enough that it must be included in the AGS

~~This will include an update on the implementation of agreed recommendations.~~

- 6.22 To consider the head of internal audit's annual report including
- The statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement (these will indicate the reliability of the conclusions of internal audit)
 - The opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control, together with the summary of the work supporting the opinion (these will assist the committee in reviewing the AGS)
- 6.23 To consider summaries of specific internal audit reports as requested.
- 6.24 To receive reports outlining action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are any concerns about progress with the implementation of agreed actions.

~~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.~~

- 6.25 To contribute to the QAIP and in particular the external quality assessment of internal audit that takes place at least once every five years.
- 6.26 To consider a report on the effectiveness of internal audit to support the AGS where required to do so by the accounts and audit regulations.
- 6.27 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

- 6.28 To support the independence of External Audit through consideration of any External Auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor pane; as appropriate.
- 6.29 To receive and comment upon the scope and depth of the External Auditor work, considering the scope and depth of external audit work and to ensure it gives value for money.
- 6.30 To monitor the External Auditor's progress with the Annual Plan.
- 6.31 To consider the external auditors' annual letter, relevant reports and the report to those charged with governance.
- 6.32 To consider specific reports as agreed with the external auditor.
- 6.33 To advise and recommend on the effectiveness of relationships between internal and external audit and other inspection agencies or relevant bodies.

6.34 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.

6.35 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.

6.36 To consider additional commissions of work from external audit.

Financial Reporting

6.37 To monitor the arrangements and preparations for financial reporting to ensure that statutory requirements and professional standards can be met.

6.38 To review the annual Statement of Accounts on behalf of full Council in accordance with the Accounts and Audit Regulations 2015. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

6.39 To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

6.40 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

6.41 To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements and internal and external audit functions.

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 and the effectiveness of the committee in meeting its purpose. ~~any matters it shall see fit.~~

6.42 To publish an annual report on the work of the committee, including a conclusion on the compliance with the **CIPFA Position Statement**.

To review any issue referred to it by the Chief Executive or any Council body.

Other core functions

6.43 To consider any matters referred to it by the Monitoring Officer in accordance with Overview and Scrutiny Procedure Rule 12.

6.44 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.

6.452 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

6.46 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

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.

Governance

6.1 The terms of reference should set out the committee's position in the governance structure of the authority.

Statement of Purpose

6.2 The audit committee is a key component of Lancaster City Council's corporate governance. The committee's purpose is to provide independent high-level focus on the adequacy of governance, risks and control arrangements. Its role in ensuring there is sufficient assurance over governance, risk and control gives greater confidence to all those charged with governance that those arrangements are effective.

6.3 It oversees internal and external audit, together with the financial and governance reports, helping to ensure that there are adequate arrangements in place for both internal challenge and public accountability.

Core Functions

Governance, Risk and control

6.4 To review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.

6.5 To review the annual governance statement (AGS) and consider whether it properly reflects the risk environment and supporting assurances, taking into account the head of audit's annual audit opinion.

6.6 To consider whether the annual evaluation for the annual governance statement fairly concludes that governance arrangements are fit for purpose, supporting achievement of the authority's objectives.

6.7 To consider the reports on the effectiveness of internal controls and monitor the implementation of agreed actions.

6.8 To consider the reports on the effectiveness of the financial management arrangements, including compliance with CIPFA's **Financial Management Code**.

- 6.9 To consider the council's arrangements to secure value for money and review assurances and assessment on the effectiveness of these arrangements.
- 6.10 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.
- 6.11 To monitor counter fraud, actions and resources and review the assessment of fraud risks and potential harm to the council from fraud and corruption.
- 6.12 To monitor the counter fraud strategy, actions and resources.
- 6.13 To review the governance and assurance arrangements for significant partnerships or collaborations.

Arrangements for audit and assurance 6.14 To consider the Councils framework of assurance and ensure that it adequately addresses the risks and priorities of the Council

Internal Audit

- 6.15 To approve the internal audit charter.
- 6.16 To review proposals made in relation the appointment of external providers of internal audit services and to make recommendations on their effectiveness.
- 6.17 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.
- 6.18 To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- 6.19 To consider any impairments to the independence or objectivity of the head of internal audit arising from additional roles or responsibilities outside of internal auditing and to approve and periodically review safeguards to limit such impairments.
- 6.20 To approve significant interim changes to the risk-based audit plan and resource requirements.
- 6.21 To consider reports from the head of internal audit on the performance during the year, including the performance of external providers of internal audit services
These will include:
 - Updates on the work of internal audit, including key findings, issues of concern and action in hand as a result of internal audit work.
 - Regular reports on the results of Quality Assurance Improvement Programme (QAIP)
 - Reports on instances where the internal audit function does not conform with Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN), considering whether the non-conformance is significant enough that it must be included in the AGS
- 6.22 To consider the head of internal audit's annual report including

- The statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement (these will indicate the reliability of the conclusions of internal audit)
- The opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control, together with the summary of the work supporting the opinion (these will assist the committee in reviewing the AGS)

- 6.23 To consider summaries of specific internal audit reports as requested.
- 6.24 To receive reports outlining action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are any concerns about progress with the implementation of agreed actions.
- 6.25 To contribute to the QAIP and in particular the external quality assessment of internal audit that takes place at least once every five years.
- 6.26 To consider a report on the effectiveness of internal audit to support the AGS where required to do so by the accounts and audit regulations.
- 6.27 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

- 6.28 To support the independence of External Audit through consideration of any External Auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panne; as appropriate.
- 6.29 To receive and comment upon the scope and depth of the External Auditor work, considering the scope and depth of external audit work and to ensure it gives value for money.
- 6.30 To monitor the External Auditor's progress with the Annual Plan.
- 6.31 To consider the external auditors' annual letter, relevant reports and the report to those charged with governance.
- 6.32 To consider specific reports as agreed with the external auditor.
- 6.33 To advise and recommend on the effectiveness of relationships between internal and external audit and other inspection agencies or relevant bodies.
- 6.34 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.
- 6.35 To consider periodically 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.
- 6.36 To consider additional commissions of work from external audit.

Financial Reporting

- 6.37 To monitor the arrangements and preparations for financial reporting to ensure that statutory requirements and professional standards can be met.

- 6.38 To review the annual Statement of Accounts on behalf of full Council in accordance with the relevant Accounts and Audit Regulations 2022 Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
- 6.39 To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.
- 6.40 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

- 6.41 To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements and internal and external audit functions.

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 and the effectiveness of the committee in meeting its purpose.

- 6.42 To publish an annual report on the work of the committee, including a conclusion on the compliance with the **CIPFA Position Statement**.

To review any issue referred to it by the Chief Executive or any Council body.

Other core functions

- 6.43 To consider any matters referred to it by the Monitoring Officer in accordance with Overview and Scrutiny Procedure Rule 12.
- 6.44 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.
- 6.452 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
- 6.46 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

AUDIT COMMITTEE**22 March 2022****Annual Review of the Internal Audit Charter****Report of The Head of Internal Audit****PURPOSE OF REPORT**

Annual Review of the Internal Audit Charter

This report is public**RECOMMENDATIONS**

- (1) **That the Audit Committee agree the revised Internal Audit Charter at Appendix A.**

1.0 Background

1.1 Specific requirements detailed in the Accounts and Audit Regulations 2015 require a relevant body to 'undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account Public Sector Internal Audit Standards (PSIAS) or guidance'. From 1 April 2013 the standards and guidance were defined in the PSIAS and CIPFA's Application Note which provides guidance on the specific requirements for local government internal audit services.

1.2 The Application Note documents a number of specific local government requirements, including the requirement to complete an extensive checklist for assessing compliance with the PSIAS. One of the mandatory requirements within the checklist is to have an Internal Audit Charter in place which is reviewed periodically.

1.3 In addition to annual reviews by the Audit Committee, the PSIAS external peer review process also provides for an independent assessment of this document.

2.0 Audit Charter

2.1 The Internal Audit Charter was last re-approved at the Audit Committee meeting in March 2022. The Charter has been reviewed and no changes are deemed necessary for 2023/24.

3.0 Details of Consultation

3.1 No consultations have taken place when reviewing the Audit Charter other than with the Section 151 Officer.

4.0 Options and Options Analysis (including risk assessment)

4.1 The options available are to either accept the Audit Charter which will provide the council and its Internal Audit function with the basis for continued compliance with established Internal Audit standards, or recommend alternative wording if necessary. Any deviation from best practice or changes to this Charter should be agreed by the Section 151 Officer, the Audit Committee and reported to the Council's External Auditors.

5.0 Conclusion

5.1 It is timely and appropriate to update the council's Internal Audit Charter; this is a key component in establishing compliance with professional standards for Internal Audit.

<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 Internal Audit Charter is a key part of the framework in which Internal Audit operates formally defines the Service's purpose, authority, responsibility and reinforces the emphasis on core principles around objectivity and independence. The proposed Charter reflects current best practice as defined by PSIAS and CIPFA and the benefits of any departure, or deviation would need to be clearly defined and articulated and subject to formal agreement by s151 Officer and the Audit Committee.</p>	
<p>LEGAL IMPLICATIONS</p> <p>None directly arising from this report.</p>	
<p>MONITORING OFFICER'S COMMENTS</p> <p>The Monitoring Officer has been consulted and has no further comments.</p>	
<p>BACKGROUND PAPERS</p> <p>Public Sector Internal Audit Standards Local Government Application Note for the PSIAS - (CIPFA, in collaboration with Chartered Institute of Internal Auditors) CIPFA - The Role of the Head of Internal Audit</p>	<p>Contact Officer: Fiona Hill Telephone: 07825 592842 E-mail: Fiona.hill@miaa.nhs.uk</p>

Internal Audit Charter

Lancaster City Council

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- 4 Standard 1200 – Proficiency and Due Professional Care
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1 Introduction

The Internal Audit Charter is mandated through the Public Sector Internal Audit Standards (2017) 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 (2017), the CIPFA Local Government Application Note (LGAN) and aligned to the Core Principles for the Professional Practice of Internal Auditing.

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.

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.

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 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 to support 'the transformation and effective delivery of public services by being a trusted partner in the provision of assurance and solution services that improve outcomes and really make a difference'.

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 Committee, the Council and statute (Section 151 Local Government Act 1972 and the Accounts and Audit Regulations 2015).

In accordance with the organisation's Financial Regulations, 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 Committee.

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

The Director of Internal Audit will report functionally to the Audit Committee. and establish effective communication with, and have free and unfettered access to, the Chief Executive and the Chair of the Audit 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 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 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 professionally qualified 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 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 Committee. The strategy will take into account the relative risk maturity of the organisation, taking due regard of the assurance framework.

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 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 Committee.

The Director of Internal Audit will agree arrangements for interim reporting to the Chief Executive and Audit 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 internal audit activity will also evaluate the potential for the occurrence of fraud and consider how the organisation manages fraud risk. CIPFA has issued a *Code of Practice on Managing the Risk of Fraud and Corruption*. While compliance with the code is voluntary, CIPFA strongly recommends that it is used as the basis for assessment of how an organisation manages its fraud risk. The Director of Internal Audit should be notified of all suspected or detected fraud, corruption or impropriety in order to inform the annual opinion and risk based plans. 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 Committee. The plan will set out the priorities for Internal Audit activity, consistent with the organisation's 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 organisation's 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 Committee.

12 Standard 2600 – Communicating 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 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, 2017) underpins the internal audit services provided to the organisation.

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

13 Definitions

Board	The governing body of the organisation with overall responsibility for governance. For the local authority this role is performed by the Audit Committee and Full Council.
Chief Executive	Officer responsible and accountable for funds entrusted to the organisation.
Audit 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.

Louise Cobain

Engagement Lead

Tel: 07795 564916

Email: Louise.cobain@miaa.nhs.uk

Fiona Hill

Engagement Manager

Tel: 07825 592842

Email: Fiona.hill@miaa.nhs.uk

AUDIT COMMITTEE**Internal Audit Plan 2023/24
22 March 2023****Report of Head of Internal Audit****PURPOSE OF REPORT**

To inform Members of the planned Internal Audit work for the forthcoming year.

This report is public

RECOMMENDATION

The Committee is asked to:

1. Approve the 2023/24 Annual Internal Audit Plan and draft two year Strategic Plan to 2025/26 (Appendix A)
2. Note that reports dealing with both progress against the Plan and outcomes achieved will be submitted to each meeting; and
3. Note that Plan changes will be reported during the year.

1.0 Introduction

- 1.1 The terms of reference of the Audit Committee include the wording: "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".
- 1.2 Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN) (CIPFA 2013) Professional standards for Internal Audit in local government specify that "The Chief Audit Executive (the HoIA) must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals."
- 1.3 The standards also specify that "The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. It must incorporate or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities."
- 1.4 The Internal Audit Plan and Charter considered elsewhere on the agenda define the scope and the rationale of the approach being followed. They allow Internal Audit, independently, to provide assurance to managers, the Chief Executive, the Section 151 Officer and other stakeholders about the effectiveness of controls and the management of risk. They also enable Internal Audit to assist this Committee with its responsibility to oversee the effectiveness of governance arrangements in the Council and in its partnerships through the reporting arrangements in place

2.0 Proposal Details

Draft Internal Audit Plan 2023/24

- 2.1 The Plan defines the scope and reasoning behind the approach being adopted. Overall, the objectives are:
- to fulfil Internal Audit's own statutory obligations;
 - to provide assurance, support and advice to Chief Officers on matters under their control;
 - to support the Section 151 Officer's statutory obligations to maintain an adequate and effective audit of the Council's accounting records and its systems of internal control;
 - to assist the Audit Committee in gaining independent assurance on the Council's risk management, governance and control arrangements;
 - to report compliance with the PSIAS; and
 - to contribute to the development of corporate standards
- 2.2 The Plan is mapped to the Council's strategic objectives and strategic and will be reviewed as part of the risk assessment process to ensure that it remains focused on the Council's key risks and challenges and adds value.

3.0 Financial Considerations

- 3.1 As part of the Councils General Fund Revenue Budget 2023/24 the current contractual arrangement with MIAA was extended for 3 years. The current draft audit plan priorities for 2023/24 will be delivered within the overall budget for the internal audit service. However further consideration maybe needed in respect of financing any additional bespoke support going forward.

4.0 Details of Consultation

- 4.1 The 2023/24 Plan is Year One of a Three Year Strategic Audit Plan covering 2023/24 – 2025/26. It will be subject to a review and refresh during year in consultation with Senior Leadership Team. Later in 2023/24 further consultations will be held with Chief Officers to ensure that the Plan continues to meets the stated objectives. Any significant changes to reflect new developments, changes to priorities and/or resources will be reported to this Committee.
- 4.2 Ongoing consultations will take place with Heads of Service during 2023/24 to ensure that specific Terms of Reference are prepared for each planned audit that reflect the detailed key risks relevant to each area.

5.0 Options and Options Analysis (including risk assessment)

- 5.1 The options available are to either accept the internal audit plan 2023/24 which will provide the Council and its internal audit function with the basis for continued compliance with established Internal Audit standards or recommend alternative proposals if necessary. There are no alternative options to be considered at this point in time.

6.0 Conclusion

- 6.1 Robust and effective planning are key elements in the delivery of an effective internal audit service. The attached audit plan, will assist the council in achieving its objectives and provide an overall opinion on the Council's control environment, which is a required key source of assurance in the Council's Annual Governance Statement.

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

This report has no direct impact on these areas.

FINANCIAL IMPLICATIONS

The draft audit plan priorities for 2023/24 can be delivered within the overall budget for the internal audit service.

SECTION 151 OFFICER'S COMMENTS

The delivery of the Council's audit strategy and audit plan are fundamental to the assessment of the Councils Internal Control environment.

LEGAL IMPLICATIONS

None arising from this report

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments

BACKGROUND PAPERS

Public Sector Internal Audit Standards (PSIAS) and CIPFA's Local Government Application Note (LGAN)

Contact Officer: Joanne Billington

Telephone: 01524 582028

E-mail: jbillington@lancaster.gov.uk

Ref:



Lancaster City Council

Internal Audit Plan 2023/2024

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1. Executive Summary
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Appendix A: Strategic Three Year Internal Audit Plan

Appendix B: Internal Audit Key Performance Indicator

Appendix C: MIAA Assurance and Solutions

Your Internal Audit Team



Louise Cobain
Engagement Lead
07795 564916
Louise.cobain@miaa.nhs.uk

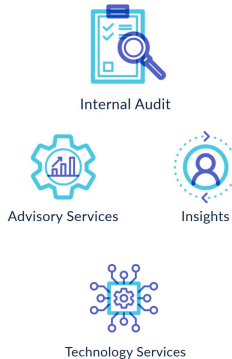


Fiona Hill
Engagement Manager
07825 592842
Fiona.hill@miaa.nhs.uk

1 Executive Summary

1.1 Working in partnership with you

MIAA Assurance, providing cost effective assurance, insight and foresight. These services are delivered in partnership with you to ensure they are personal and responsive, ensuring the best possible customer experience.



Working with you

- ✓ Strong relationships
- ✓ In depth knowledge and understanding of the council
- ✓ Strong risk assessment
- ✓ Tailored plan focused on your risks
- ✓ Core assurances integral to your assurance Framework
- ✓ Focus on areas for improvement
- ✓ Flexible and responsive
- ✓ Strong service KPIs and delivery
- ✓ Insights from our wider client base, at both organisation and system levels
- ✓ Benchmarking insights
- ✓ Events and Networking
- ✓ Advisory support
- ✓ Fully compliant External Quality Assessment

1.2 Your Risk Assessment

A strong risk assessment underpins the Internal Audit Plan. This has focused upon your Assurance Framework as this represents **Lancaster City Council (the Council)** own assessment of the risks to achieving its strategic objectives. These are summarised in Appendix A. We have clearly set out the risks which have been prioritised within the audit plan and those which are not.

1.3 Your Internal Audit Plan

Your Internal Audit service includes core assurances, national and regional risk areas and strategic risks from your assurance framework. The draft plan is based on an initial risk assessment and provides indicative coverage for the Council. The plan will remain flexible to allow for responses to emerging challenges that the Council may face.

Your operational annual plan in Section 5 forms part of the Council's three year Strategic Plan (shown in Appendix A). This will be reviewed as part of our ongoing risk assessment process to ensure that it remains focused on the Council's key risks and challenges and adds value.

We will actively engage across the organisation to ensure we have a full and detailed understanding of your risks and can ensure we focus our work to best effect.

MIAA insights, including benchmarking, briefings and events will be integral to your plan.

As part of the 2023/24 planning MIAA are currently planning to propose to uplift to contracts of 1.8%, based on the inflationary uplift of 2.9% net of an anticipated efficiency requirement of 1.1%. This would result in your fees for 2023/24 being £88.184. Given the current uncertainties regarding the NHS pay award position the anticipated uplift may be subject to change and we will update you on this accordingly.

2 Your Internal Audit, Assurance and Solutions Services

The public sector landscape in England continues to change, and the impact of COVID-19, international issues and economic challenges are likely to be felt for many years to come.

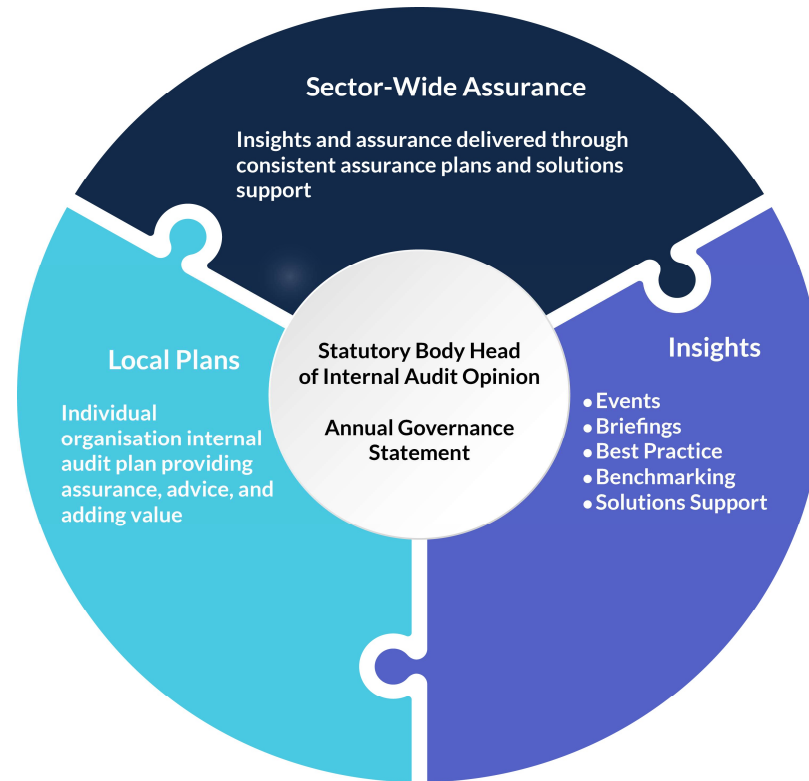
Our vision is for MIAA to continue to be a Trusted Advisor through the retention of personalised, local focus and relationships with the added benefits provided by an at scale provider.

This is about MIAA continuing to build on its shared services capability to create a comprehensive offering, which provides insight, adds value and supports transformational change whilst operating efficiently.

MIAA continue to review and adapt our audit service and the way we provide assurance to meet your needs in the changing landscape.

This is about risk assessment at every level and regrouping audit plans and advisory commissions to support organisations and the wider public sector.

Internal Audit, Assurance and Solution Plans



2 Your Internal Audit, Assurance and Solutions Services – Adding Value

Client Focused
Research & Development
Briefings & Events
Specialist Services
Flexibility and ability to respond and adapt



Embedded external insights and local presence
Access to MIAA Insights and Benchmarking
Retention of corporate memory and relationships

Local presence
Multi-disciplinary teams and specialist resource integral to the core service
Use of technology to provide efficient and effective service
Flexibility

No surprises
Relations and ongoing communications
Regular management and Audit Committee reporting

ISO accredited systems
Significant experience and knowledge brought from our extensive client base

2 Your Internal Audit, Assurance and Solutions Services – Adding Value

Understanding Your Vision, Objectives and Risks

A key focus of our strategic risk assessment is understanding your vision and ensuring that the internal audit plan contributes to your objectives. This in turn ensures that the assurances provided are built around your risks.

Assurance Built Around Your Risks

- Financial sustainability
- Delivery of key change programmes
- Leadership and workforce
- Climate change

We map your strategic objectives and strategic risks to the 3 Year Strategic Internal Audit Plan (Appendix A). This is reviewed as part of the risk assessment process to ensure that the plan remains focused on the Council's key risks and challenges and adds value.

Priorities	A Sustainable District	An Inclusive and Prosperous Local Economy	Healthy and Happy Communities	A Co-operative, Kind and Responsible Council
Strategy	Climate Emergency <i>taking action to meet the challenges of the climate emergency</i>	Community Wealth-Building <i>building a sustainable and just local economy that benefits people and organisations</i>	Increasing Wellbeing, Reducing Inequality <i>empowering and supporting healthy ways of living, and tackling the causes of inequality</i>	Community Engagement, Power and Resilience <i>drawing on the wealth of skills and knowledge in the community, and working in partnership</i>
Outcomes	net zero carbon by 2030 while supporting other individuals, <u>businesses</u> and organisations across the district to reach the same goal (Carbon Zero)	supporting the development of new skills and improved prospects for our residents within an environmentally sustainable local economy (Sustainable Skills)	supporting wellbeing and ensuring local communities are active, engaged, <u>involved</u> and connected (Community Engagement)	listening to our communities and treating everyone with equal respect, being friendly, honest, and empathetic (Listening and Empathy)
	moving towards zero residual waste to landfill and incineration (Reduced Waste)	advocating for fair employment and just labour markets that increase prosperity and reduce income inequality (Fair Work)	tackling discrimination and reducing inequality (Reducing Inequality)	working in partnership with resident local organisations, anchor institutions and partners recognising the strengths and skills in our community to build a powerful force working for our district (Partnership)
	increasing the amount of sustainable energy produced in the district and decreasing the district's energy use (Sustainable Energy)	supporting new and existing enterprises in sustainable innovation and the strengthening of local supply networks (Sustainable Innovation)	focused on early-intervention approaches and involving our communities in service design and delivery (Early Intervention)	investing in developing the strengths and skills of our staff and councillors (Investing In Our Skills)
	transitioning to an accessible and inclusive low-carbon and active transport system (Low Carbon and Active Transport)	using our land, property, <u>finance</u> and procurement to benefit local communities and encouraging residents, businesses, organisations and anchor institutions to do the same (Social Use of Resources)	(re)developing housing to ensure people of all incomes are comfortable, <u>warm</u> and able to maintain their independence (Access to Quality Housing)	focused on serving and enabling our residents, local <u>organisations</u> and district (Enabling)
	supporting our communities to be resilient to flooding and adapt to the wider effects of climate change (Climate Resilience)	securing investment and regeneration across our district (Investment and Regeneration)	improving access to and involvement in arts, culture, <u>leisure</u> and recreation, supporting our thriving arts, culture and heritage sector (Access to Culture and Leisure)	embracing innovative ways of working to improve service delivery and the operations of the council (Innovative Public Services)
increasing the biodiversity of our district (Biodiversity)	Promoting business ownership models that empower the local workforce, such as co-operatives, social <u>enterprises</u> and community ownership (Inclusive Ownership)	keeping our district's neighbourhoods, parks, <u>beaches</u> and open space clean, well-maintained and safe (Quality Public Spaces)	providing value for money and ensuring that we are financially resilient and sustainable (Value for Money)	

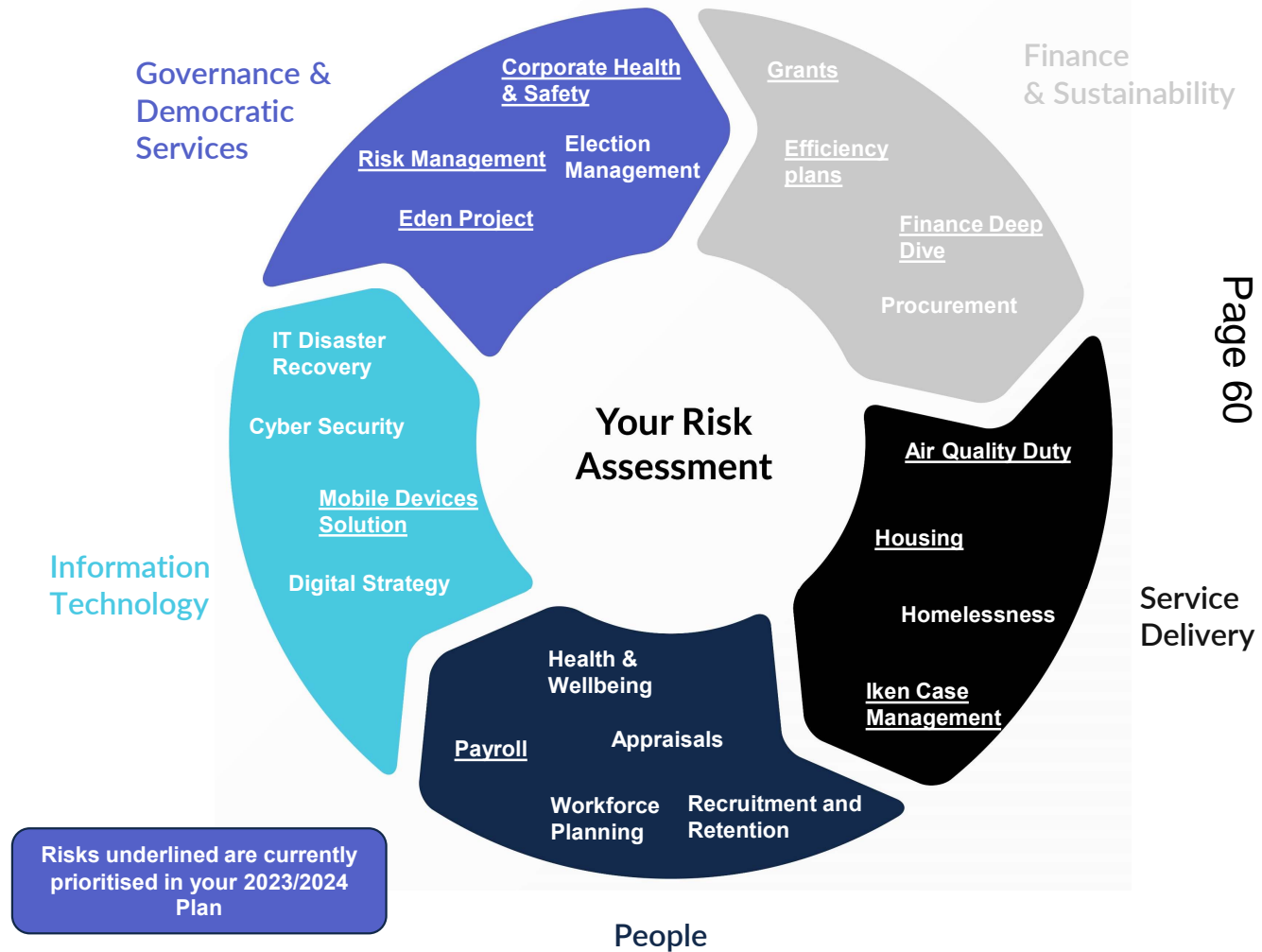
3 Internal Audit Risk Assessment

The Lancaster City Council internal audit plan is built from a risk assessment which has considered national and local system risks, place based developments and your local strategic risk assessment, along with our breadth of experience and understanding of the challenges you face.

A key focus of our strategic risk assessment is understanding your vision and ensuring that the internal audit plan contributes to your objectives. This in turn ensures that the assurances provided are built around your risks.

The initial strategic risk assessment and internal audit risk assessment has considered:

- **Organisation intelligence** – including review of your Strategic Risk Register, Strategy and Committee papers
- **Assurance mapping** – utilisation of the 3 lines of assurance model and professional standards to ensure focused coverage.
- **Core assurance** – including core systems assurances and Public Sector Internal Audit Standards requirements.
- **Previous Internal Audit coverage** – we have reviewed your previous Internal Audit coverage to ensure the proposed plan does not duplicate coverage.
- **Follow Up** – Internal Audit coverage will also include follow up of outstanding internal audit actions.



4 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 your Strategic Risk Register).
- Engagement of Audit Committee, Executive Directors and management to refresh and confirm the plan post tender.
- 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

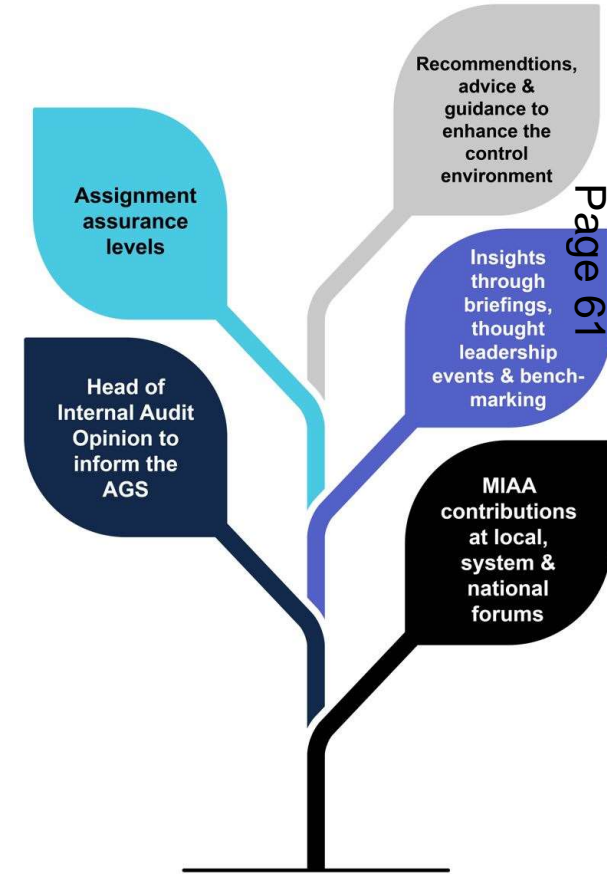
The outcome of your risk assessment is summarised below:

Organisational Reviews
Provision of assurances across core and risk based reviews

- Risk Management
- Eden Project Governance
- Financial Controls (Deep Dive)
- Grant Funding Claims (Eden Project)
- Efficiency Savings
- Corporate Health & Safety
- Iken Case Management System
- Air Quality Duty Review
- Housing Safety
- Payroll
- Mobile Devices Management Solution

Follow Up and Contingency

Outcomes



Added Value

5 Operational Internal Audit Plan 23/24

Review & Scope	Risk / Rationale	Planned Delivery	Executive Lead
Governance & Leadership			
Risk Management: To provide assurance that core risk management controls have established and maintained.	HOIA Opinion Requirement/ PSIAS requirement/Core Assurance	Q4	Chief Finance Officer
Eden Project Governance: To provide assurance over the design and operating effectiveness of Eden Project Management Governance at the Council.	Risk Assessment/Management Request	TBC	Chief Finance Officer
Finance & Sustainability			
Financial Controls (Deep Dive TBC): To provide assurance that the most significant key controls are appropriately designed and operating effectively in practice.	Core Assurance	Q3	Chief Finance Officer
Grant Funding Claims (Eden Project): To provide assurance that the most significant key controls are appropriately designed and operating effectively in practice for the collation, completion and submission of grant funding claims.	Risk Assessment/Management Request	Q1 – Q4	Chief Finance Officer
Efficiency Savings: To provide assurance on the adequacy and effectiveness of current systems and processes in place within the Council to support the delivery of the Councils planned cost savings.	Risk Assessment/Management Request	Q2	Chief Finance Officer
Service Delivery			
Corporate Health & Safety: To provide assurance processes and controls that are established and operated to identify and manage risks in relation to compliance with corporate Health and Safety requirements.	Management Request	Q2	Head of Legal Services
Iken Case Management System: To provide assurance processes and controls that are established to identify and manage risks and operate effectively, in relation to the Iken Case Management System	Management Request	Q2	Head of Legal Services
Air Quality Duty Review: To provide assurance processes and controls that are established and operated to identify and manage risks in relation to compliance with Air Quality Duty.	Risk Assessment/Management Request	Q3	Director Communities and Environment
Housing: To evaluate the design and operating effectiveness the Council has in ensuring rental properties meet statutory requirements and do not endanger residents.	Management Request	Q4	Director Communities and Environment

Review & Scope	Risk / Rationale	Planned Delivery	Executive Lead
People			
Payroll including additional salary payments: To provide assurance that the most significant key controls are appropriately designed and operating effectively in practice. Review to include a focus on additional payments including Honorariums	Risk Assessment	Q2	Head of Legal
Information Technology			
Mobile Devices Management Solution: To provide assurance processes and controls that are established and operated to identify and manage risks in relation to the new Mobile Devices Management System.	Risk Assessment	Q3	Chief Finance Officer
Follow up & Contingency			
Follow up and Contingency	PSIAS requirement	Q1 – Q4	
Planning & Reporting			
Planning, Management, Reporting & Meetings	PSIAS requirement	Q1 – Q4	

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.

The following risk areas were identified as part of the annual risk assessment (refer above), but are not currently prioritised within the Internal Audit Plan coverage.

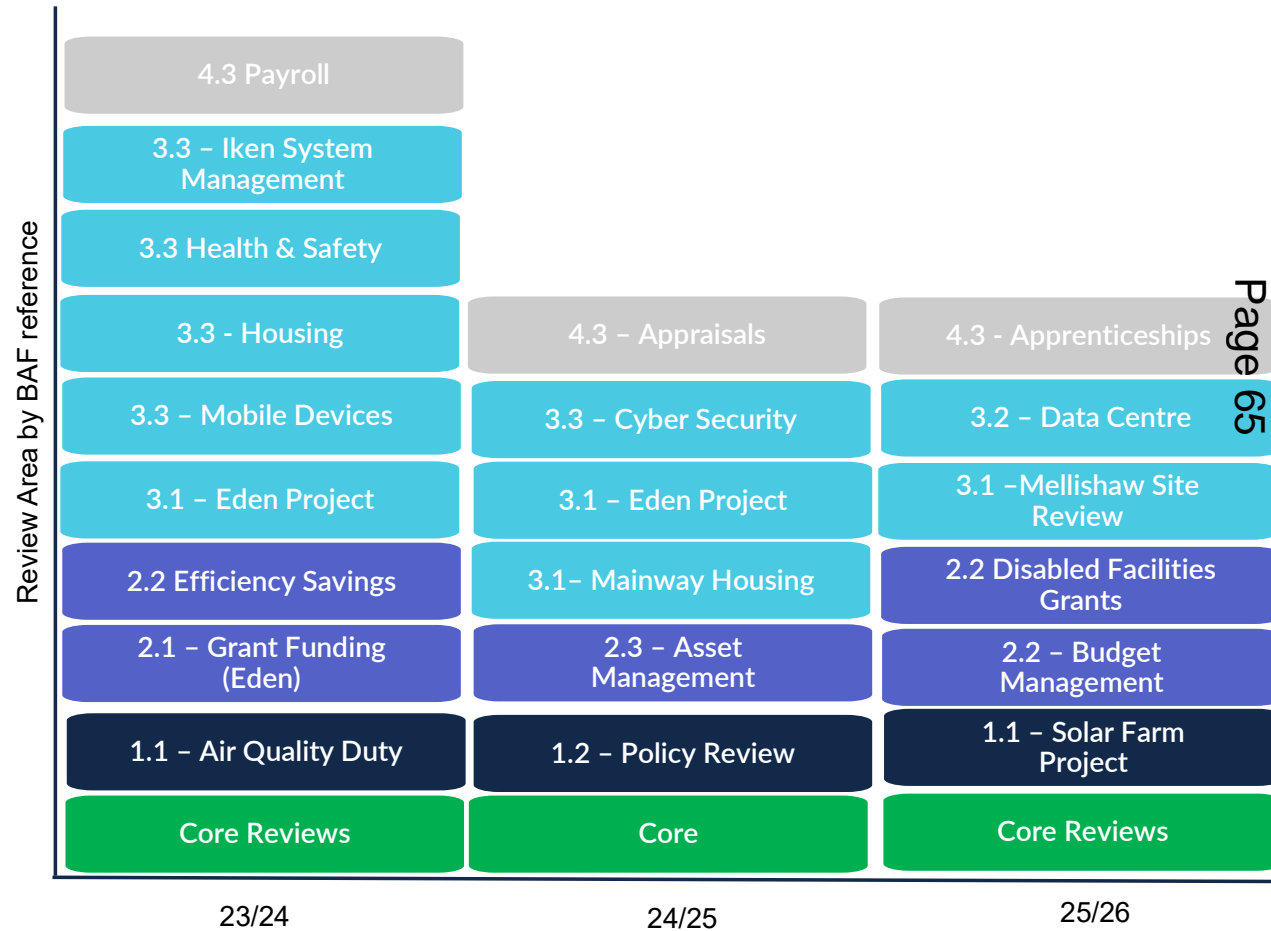
Risk Area	Review Origin	Rationale
Policy Management	Risk Assessment/Management Request	Policies are in the process of being updated to considered for 2024/2025 Audit Plan
Solar Farm Project	Risk Assessment/Management Request	Business Plan being drafted, to considered for 2024/2025 Audit Plan
Mainway Housing Scheme	Management Request	Project being scoped, to be considered for 2024/2025 Audit Plan
Mellishaw Travellers Site	Management Request	Not considered to be a priority. To be considered in future plans.
Appraisals	Risk Assessment	Not considered to be a priority. To be considered in future plans.
IT Asset Management	Risk Assessment	Not considered to be a priority. To be considered in future plans.

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.

Appendix A – 3 Year Strategic Internal Audit Plan

We have mapped your strategic objectives and strategic risks to the 3 Year Strategic Internal Audit Plan. This will be reviewed as part of the risk assessment process to ensure that it remains focused on the Council’s key risks and challenges and adds value.

REF	Strategic Risk	Score
Principal Objective: A sustainable district		
1.1	The Council fails to reduce its direct Co2 emissions to 'net zero' by 2030.	16
1.2	The Council fails to deliver its key priorities due to the lack of an underpinning strategy setting out expected delivery / outcomes.	9
Principal Objective: An inclusive and prosperous local economy		
2.1	International and national issues rapidly impact on the strategic and financial context of the Council and / or partners, businesses and communities.	12
2.2	Central Government funding is insufficient to provide the current level of service leaving the council unable to deliver the financial resilience initiative and achieve financial stability.	9
2.3	The use of council assets is not maximised leading to insufficient funding to meet the funding gap and deliver capital projects.	12
Principal Objective: Healthy and Happy Communities		
3.1	Changes in Government policy impact on our ability to deliver major projects and programmes that would benefit our communities.	9
3.2	Major, sudden unforeseen expenditure or income reduction arises, necessitating significant change or reduction to services.	9
3.3	Infrastructure and assets fail to meet the future needs of the organisation and the residents of the district.	9
3.4	The Council fails to deliver its key projects due to the lack of staffing capacity and resources (financial) within the Council.	9
Principal Objective: A co-operative, kind and responsible Council		
4.1	Budgetary proposals are brought forward / agreed that are then challenged, causing delays or changes to implementation.	9
4.2	Fail to meet the 2024/25 funding gap as a result of ineffective delivery of the efficiency programme and failure to deliver on key projects.	9
4.3	Fails to recruit and retain competent / key staff.	12
4.4	Council services are disrupted and / or additional services are required and costs are incurred as a result of national emergencies	9



Appendix B – Internal Audit Key Performance Indicators

An efficient and effective internal audit service is delivered in partnership. It is important that clear expectations are established and a range of KPIs are in place to support this. It is important that organisations ensure an effective Internal Audit Service. Whilst input and process measures offer some assurance, the focus should be on outcomes and impact from the service. Our annual Head of Internal Audit Opinion will provide you with a range of impact and effectiveness measures, as well as confirmation of our compliance with Public Sector Internal Audit Standards and accreditations.

In addition, the following operational KPIs have been proposed for you.

Operational KPI	Target	Measurement and Frequency
Agreement of Annual Plan prior to the start of the year	100%	Annual (measured as per agreed Audit Committee date / Audit Committee Workplan)
Completion of annual plan within agreed timetable and budget	100%	Annual (measured through HOIA opinion) plus in year reporting to Audit Committee
Presentation of the Head of Internal Audit Opinion to the Audit Committee	100%	Annual (measured as per agreed Audit Committee date / Audit Committee Workplan)
Delivery of audit reports to audit committee as per the plan	100%	Quarterly (measured as per annual operational delivery plan)
Terms of reference agreed with management at least 10 working days before commencement of audit	100%	Quarterly (measured as per TeamMate system) – requires MIAA and Council to deliver KPI (for urgent requests this may be shorter depending on the nature of the request)
Draft reports issued within 10 days of completion meeting	100%	Quarterly (measured as per TeamMate system)
Final audit report issued within 10 days of receiving management response	100%	Quarterly (measured as per TeamMate system)
Final audit reports are agreed by the nominated executive director, who will ensure consultation has taken place with relevant council officers	100%	Quarterly (measured as per annual operational delivery plan)
Receipt of all internal audit reports in accordance with timelines for Audit Committee publication with completed cover sheets as required	100%	Quarterly (measured as per agreed Audit Committee dates)
Proportion or recommendations accepted by management	95%	Quarterly (measured as per TeamMate system) – the target allows for advisory recommendations (we would expect 100% of high risk recommendations).
Monitor and Follow Up implementation of accepted recommendations by due date	95%	Quarterly (measured through follow up reports) - requires Council and MIAA to deliver KPI
Issue of client satisfaction survey following completion of each review	100%	Quarterly (measured as per agreed Audit Committee dates)
Operation of systems to ISO Quality Standards and compliance with Public Sector Internal Audit Standards.	100%	Quarterly (measured as per agreed Audit Committee dates)
Commitment to training and development of audit staff. Maintenance of 65% Qualified (CCAB, IIA etc) 35% Part Qualified	100%	Quarterly (measured as per agreed Audit Committee dates)

Appendix C – MIAA – Assurance and Solutions

MIAA, as an NHS not for profit shared service provides internal audit assurance and a range of specialist advisory support. Advisory support is not restricted to audit clients. Where advisory support is provided to audit clients, there is a clear separation of duties and no interdependencies. There is however an effective interrelationship to inform planning.

MIAA Internal Audit Assurance

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the 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 processes.

- Internal Audit operates to the Public Sector Internal Audit Standards, compliance with which is confirmed through independent external quality assessment.
- We develop risk-based plans to determine the priorities of our internal audit activity which is consistent with the organisation’s goals.
- Whilst we undertake consulting/advisory activities these are completed in the context of the activities’ potential to improve the management of risks, add value and improve the organisation’s operations. These engagements must be reflected in the internal audit plan.
- Public sector requirement for an annual statement to be made by the Head of Internal Audit on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control
- We report to and are accountable to the Audit Committee.

MIAA Solutions

MIAA has taken the step of establishing a separate advisory service offer. Agile support to any organisation including, but not restricted to NHS organisations.

- We provide expert delivery, advice and guidance in respect of system development, known system challenges and/or subject matter expertise to address corporate challenges and transformation.
- There is no annual plan. All commissions are on an agreed project basis.
- Projects may be cross system or at scale (e.g. region wide) and delivered to any organisation. Some may be internal audit clients, many are not.
- This service is managed and delivered independently of MIAA Assurance.
- Our advisory services are commissioned by and report to Executive leads.

Public Sector Internal Audit Standards

Our work was completed in accordance with Public Sector Internal Audit Standards and conforms with the International Standards for the Professional Practice of Internal Auditing.

Limitations

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.

AUDIT COMMITTEE

22 March 2023

Internal Audit Progress Report**Report of Head of Internal Audit****PURPOSE OF REPORT**

To advise Members of the latest monitoring position regarding the Internal Audit plans 2021/22 and 2022/23

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 and 2022/23 audit plans be noted.

1.0 Audit Plan monitoring

1.1 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.

1.2 As part of the service provision MIAA include a separate progress report to each Audit Committee detailing progress against the agreed plans and highlighting key messages for Audit Committee attention.

1.3 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 As this report is for noting there are no other options presented.

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 2021/22

[Agenda for Audit Committee on Wednesday, 24th November 2021, 6.10 p.m. - Lancaster City Council](#)

Internal Audit Plan 2022/23

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

MIAA Internal Audit Progress Reports

[Agenda for Audit Committee on Wednesday, 25th May 2022, 6.10 p.m. - Lancaster City Council](#)

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

Contact Officer: Fiona Hill
Telephone: 07825 592842
E-mail: Fiona.hill@miaa.nhs.uk

Internal Audit Progress Report Audit Committee (March 2023)

Lancaster City Council

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Appendix B: Performance Indicators

Appendix C: Key Areas from our Work and Actions to be Delivered

Appendix D: Follow-up of Previous Audit Actions

Appendix E: Assurance Definitions and Risk Classifications

Your Team

Name	Role	Contact Details
Louise Cobain	Engagement Lead	Louise.Cobain@miaa.nhs.uk 07795 564916
Fiona Hill	Engagement Manager	Fiona.Hill@miaa.nhs.uk 07825 592842

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 Plans for 2021/22 and 2022/23 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 November 2022 to March 2023.

2 Executive Summary

There has been the focus on the following areas:

<p>2021/22 Audit Reviews</p>	<p>MIAA were appointed as the internal audit provider in November 2021 and as such, delivery of the 21/22 Internal Audit Plan did not commence until December 2021. There have been ongoing pressures at the council which have impacted on this delivery, as such requests have been received to delay a number of reviews.</p> <p>These reviews will be included in the 2022/23 Head of Internal Audit Opinion.</p> <p>Since we last reported our progress to the Audit Committee in November, the following reviews have been finalised:</p> <ul style="list-style-type: none"> • Efficiency Programme Delivery (Moderate Assurance) • Property Investment Strategy – Capital Schemes (Substantial Assurance) • Collection of Income and Reconciliations – (Limited Assurance) <p>The remaining review for 2021/22 below is currently at draft report stage:</p> <ul style="list-style-type: none"> • HR Assurance Review – (Draft report) <p>Appendix C provides details of Key Areas and Actions to be delivered.</p>
<p>2022/23 Audit Reviews</p>	<p>Since the previous Audit and Standards Committee, the following reviews have been finalised:</p> <ul style="list-style-type: none"> • Budgetary Controls (Substantial Assurance)

	<ul style="list-style-type: none"> • IT Resilience/Cyber (Confidential) <p>The following 2022/23 reviews are progressing or are in draft report stage:</p> <ul style="list-style-type: none"> • Data Protection and Policy Follow-up Review (Draft Report) • Council Time Recording Systems (Draft Report) • Externally Managed Events (Draft Report) • CCTV Compliance (Draft Report) • Council Resilience (Draft Report) • Assurance Mapping Exercise (In progress) • Project Management (In progress) <p>The following 2022/23 reviews have agreed Terms of Reference and are due to start imminently or are being scoped:</p> <ul style="list-style-type: none"> • Risk Management • Key Financial Controls <p>Appendix A provides an overview of the delivery of your Head of Internal Audit Opinion for 2022/23.</p> <p>Appendix B provides information on Internal Audit performance.</p>
Follow-up	<p>A summary of the current status of follow-up activity is included in Appendix D, however, we would draw the committee's attention to the following:</p> <ul style="list-style-type: none"> • We have followed up three limited assurance reports from the previous auditors, along with the reports we have recently issued. • There were 84 actions followed up with 33 completed or superseded and of the remaining 51, 31 were not due, 11 in progress and 9 have not yet been started or we are awaiting an update.
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> <ul style="list-style-type: none"> • We have replaced the Apprenticeships Review with a Project Management review.

<p>MIAA Quality of Service Indicators</p>	<p>MIAA operate systems to ISO Quality Standards. Public Sector Internal Audit Standards (PSIAS) require MIAA to ‘develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.’ This programme must include internal and external assessments.</p> <p>External assessments must be conducted at least once every five years. Our last external assessment was completed in 2020 and concluded MIAA fully complies with PSIAS (as previously reported to Audit Committee).</p> <p>We also undertake regular internal assessments to ensure our ongoing compliance with requirements. We have recently completed our annual self-assessment of compliance with PSIAS and can confirm full compliance with PSIAS.</p>
<p>Cyber Essentials</p>	<p>MIAA are committed to delivering and demonstrating the highest standards of information governance and cyber security in order to protect not only our information and systems but to protect the data we collect and create through our audit and advisory activities with clients.</p> <p>We have consistently submitted a compliant NHS Data Security and Protection Toolkit return and have, for several years, been certified to the national Cyber Essentials standard.</p> <p>This October, however, we enhanced this further becoming one of only circa 20 NHS organisations certified to the more exacting Cyber Essentials Plus standard. Certification to this standard required rigorous independent testing of our cyber security controls across our devices. That we have achieved this certification is a demonstration not only of the security of our devices but also a validation of the proactive monitoring and maintenance that we have in place to protect data and systems from malicious threats.</p>
<p>Insights</p>	<p>Collaborative Masterclass Events</p> <ul style="list-style-type: none"> • Outlook for the Public Sector 2023 - MIAA (20th April 2023) • MIAA Audit Committee Members Event - MIAA (21st June 2023)

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 position regarding the 2021/22 Internal Audit reviews. Please note, reviews which were not included in the 2021/22 Head of Internal Audit Opinion*, will be included in the opinion for 2022/23

HOIA Opinion Area	Status	Assurance Level
2021/22 Reviews		
Collection of Income & Reconciliations*	Completed	Limited Assurance
Property Investment Strategy / Capital Schemes*	Completed	Substantial Assurance
Council Tax*	Completed	Moderate Assurance
Efficiency Programme Delivery *	Completed	Moderate Assurance
Effectiveness of HR Arrangements*	Draft report	

Below sets out the overview of delivery for your Head of Internal Audit Opinion for 2022/23.

2022/23 Reviews		
HOIA Opinion Area	Status	Assurance Level
Risk Management		
Risk Management	Planning	
Risk Based Reviews		
Key Financial Controls	Planning	
Budgeting	Completed	Substantial
Project Management	In progress	
Assurance Mapping	In progress	
Climate Change/Carbon Neutral Work	Q4	

Recruitment	Moved from Q3 to Q4	
Council Resilience/Emergency Preparedness	Draft report	
Contract Management	Q4	
Time Recording Systems	Draft report	
CCTV Compliance	Draft report	
Externally Managed Events	Draft report	
Data Protection and Policy Follow-up	Draft report	
IT Resilience/Cyber	Completed	Confidential

Follow Up

Quarter 2	Completed	N/A
Quarter 4	Completed	N/A

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	<p>There is ongoing engagement and communications regarding delivery of key reviews to support the Head of Internal Audit Opinion.</p> <p>MIAA were appointed as the internal audit provider in November 2021 and as such, delivery of the 21/22 Internal Audit Plan did not commence until December 2021. It was agreed that delivery relating to 21/22 would continue into 22/23. In addition, there have been ongoing pressures at the council which have impacted on this delivery.</p> <p>These reviews will be included in the 2022/23 HoIAO.</p>
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: Key Areas from our Work and Actions to be Delivered

Report Title	Efficiency Programme Delivery			
Executive Sponsor	Head of Financial Services and Section 151 Officer			
Objective	To was to provide assurance on the adequacy and effectiveness of current systems and processes in place within the Council to support the delivery of the Councils planned cost savings.			
Assurance Level	Moderate			
Recommendations	0 X Critical	1 x High	3 x Medium	1 x Low
Summary	<p>Overall, the review identified there was adequate system of internal control, however, there were some areas of weaknesses in design and/or inconsistent application of controls.</p> <p>In particular, there was a lack of common approach and consistency both in the quality of information provided and the forms completed for savings schemes. The council would benefit from a bespoke procedure in place for the preparation, monitoring and approval of saving schemes and therefore controls could be improved by ensuring these are implemented.</p> <p>The review confirmed cabinet were involved in discussion and approval of the budget and involved in regular, quarterly, monitoring of the budget prior to the papers being presented to the Budget and Performance Panel for further review, scrutiny, and acceptance. However, monitoring of individual schemes could be improved with an extract of the approved Saving Monitoring spreadsheet included as way to update members on progress.</p>			
Key Risks Highlighted with No Agreed Action	N/A			

Report Title	Property Investment Strategy _ Capital Schemes
Executive Sponsor	Head of Financial Services and Section 151 Officer

Objective	To provide assurance that the most significant key controls in Property Investment Strategy are appropriately designed and operating effectively in practice.			
Assurance Level	Substantial			
Recommendations	0 X Critical	0 x High	1 x Medium	1 x Low
Summary	<p>The review identified that whilst there is a system of control, in some areas the controls were not operating effectively.</p> <p>The Council had a Capital Investment Strategy in place.</p> <p>It also had a group to review investment opportunities the Capital Strategy Group, until January 2021, when it stopped meeting due to the pandemic. In January 2022, the new Capital Assurance Group was formed. Terms of Reference were in place and detail the remit, the decision making arrangements, and the expected outcomes of the Group. Decision making noted in the minutes of the former Capital Strategy Group, could have been improved, which will be implemented by the new group.</p> <p>There were four completed investments under the Property Investment Strategy, and these were consistent with the Council's aims and goals, and this rationale is recorded in each business case. The Strategy set out what documentation should be produced for each business case, but these were not in place or fully completed for every business case as one was for a land purchase, as opposed to a property purchase.</p> <p>All four investments were in accordance with the Councils constitution and are recorded on the Council's asset registers.</p>			
Key Risks Highlighted with No Agreed Action	N/A			

Report Title	Collection of Income and Reconciliations
Executive Sponsor	Head of Financial Services and Section 151 Officer
Objective	To identify and evaluate the controls in place to manage the key risks which could impact the effective operation of Income Collection and Reconciliation.

Assurance Level	Limited			
Recommendations	0 X Critical	2 x High	0 x Medium	2 x Low
Summary	<p>Our review noted the council had a significant amount of its debtors having been outstanding for over 365 days with the biggest contributor to the aged debts being Housing Benefits.</p> <p>We found that Debt Management Policies and Guidance should be updated and published on the intranet. We understand that management are in the process of completing a Policy refresh.</p> <p>The Council has formed a shared service with Preston City Council to achieve savings in processing costs. A joint policy for Housing Benefits Overpayments is in place and was last amended in 2016. The Council is responsible for collecting income.</p> <p>Budgets and actual figures are produced for the directorates on a quarterly basis, with variances recorded for investigation by the budget holder.</p>			
Key Risks Highlighted with No Agreed Action	N/A			

Report Title	Budgetary Control			
Executive Sponsor	Head of Financial Services and Section 151 Officer			
Objective	To review and provide an opinion on the system of Budgetary Control and provide assurance that financial reports provided accurate and sufficient information to enable the Council to meet its business objectives.			
Assurance Level	Substantial			
Recommendations	0 X Critical	0 x High	1 x Medium	2 x Low
Summary	<p>Overall, the review identified that controls were generally designed and operating effectively.</p> <p>The Councils Constitution and Financial Procedure Rules set out the budgetary responsibilities for key officers and committees. Although the Council set out the budgetary responsibility at Senior Leader level,</p>			

	<p>controls could be strengthened by ensuring the importance of budget monitoring and budget holder responsibilities is communicated to its budget holders via a guidance document.</p> <p>Our review highlighted that the 2022/2023 budget had been formally approved by Council and uploaded into Civica prior to the new financial year. It was further confirmed that the 2023/2024 budget is currently on course to be agreed prior to April 2023.</p> <p>In year monitoring of budgets takes place and this is completed via a number of mechanisms, both strategically and at service level. At a service level, it was noted that budget holders are provided individual budget monitoring sheets and are required to provide reasoning and comments on any variances and confirm their accuracy. At a strategic level, it was confirmed that there is regular presentation of the Council Budgets with analysis at both the Budget and Performance Panel and Cabinet.</p> <p>It was confirmed that budget changes and virements do have an appropriate approval process with those over £10k being referred to Council. Testing of these virements noted no issues, however controls could be strengthened by ensuring these limits are built into the Council’s Constitution and Financial Procedure Rules.</p>
<p>Key Risks Highlighted with No Agreed Action</p>	<p>N/A</p>

Appendix D: Follow-up of previous internal audit recommendations

The status of the actions is as at February 2023

AUDIT TITLE (YEAR)	NO OF RECS MADE	ASSURANCE LEVEL	PROGRESS ON IMPLEMENTATION				OUTSTANDING RECOMMENDATIONS			
			✓/S	P	X	Not due	C	H	M	L
Previous Audit Team Reviews										
Debt Legal Recovery Services (2021/22)	5	Limited	3	2	-	-	-	-	-	-
Insurance (2019/20)	11	Limited	7	4	-	-	-	-	-	-
Procurement & Contract Management (2018/19)	18	Limited	6	3	9	-	-	-	-	-
GDPR	Being followed up as a separate review which is at draft report stage									
HR Assurance	Being followed up as a separate review which is at draft report stage									
MIAA Audit Reviews										
Main Accounting System (2021/22)	4	Substantial	1	1	-	2	-	-	-	3
Treasury Management (2021/22)	5	Substantial	2	-	-	3	-	-	1	2
Business Support Grants (2021/22)	4	Substantial	1	-	-	3	-	-	1	2
Council Tax (2021/22)	8	Moderate	3	-	-	5	-	1	4	-
P2P System (2021/22)	4	Limited	-	1	-	3	-	2	2	-
Conflicts of Interest (2021/22)	9	Substantial	4	-	-	5	-	-	1	4
Risk Management (2021/22)	5	No Assurance	5	-	-	-	-	-	-	-

AUDIT TITLE (YEAR)	NO OF RECS MADE	ASSURANCE LEVEL	PROGRESS ON IMPLEMENTATION				OUTSTANDING RECOMMENDATIONS			
			✓/S	P	X	Not due	C	H	M	L
Efficiency Delivery (2021/22)	5	Moderate	-	-	-	5	-	1	3	1
Property Investment Strategy (2021/22)	2	Substantial	-	-	-	2	-	-	1	1
Collection of Income and Reconciliations (2021/22)	4	Limited	1	-	-	3	-	2	-	1
Budgetary Controls (2022/23)	3	Substantial	-	-	-	3	-	-	1	2
TOTALS	87		33	11	9	34	-	6	14	16

Key to recommendations:

- ✓/S Implemented or Superseded
- P Partially implemented/recommendation in progress
- X Recommendation not implemented
- ND Not due for follow up
- C Critical priority recommendation
- H High priority recommendation
- M Medium priority recommendation
- L Low priority recommendation

Debt Recovery – Key actions outstanding are regarding exploring the reporting functions of the systems in use.

Insurance – Key actions are around improvements to be made to the claims spreadsheet. These are all in progress.

Procurement & Contract Management – We will include the points outstanding from this review in our Contract Management Review.

Risk Management – This review has been superseded with the 2022/23 Risk Management Review, where the actions will be followed up.

Appendix E: 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**22 March 2023****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

RECOMMENDATION

It is recommended that the Audit Committee:

1. That the proposed Anti-Money Laundering Policy attached as Appendix A is approved for 2023/24.

1.0 BACKGROUND

- 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.

2.0 ANTI-MONEY LAUNDERING POLICY

- 2.1 The 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 Committee last reviewed and approved at the Audit Committee meeting in March 2022. Since that date, there has been an update to the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 by way of the Money Laundering and Terrorist Financing (Amendment) (No. 2) Regulations 2022. Although this makes various updates to the 2017 Regulation, particularly around Cryptoassets; there are no specific requirements linked to Local Authorities.

- 2.3 The policy has been reviewed to reflect current legislation and available best practice guidance and no changes are deemed necessary for 2023/24.

3.0 DETAILS OF CONSULTATION

3.1 No consultations have taken place when reviewing the Anti Money Laundering Policy for 2023/24 other than with the Section 151 Officer.

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 2023/24

**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

Contact Officer: Paul Thompson
(Chief Finance Officer)
Telephone: 01524 582603
Email: pthompson@lancaster.gov.uk
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**22 March 2023****Proposed Accounting Policies and Critical Judgements used
in the Preparation of the Statement of Accounts 2022/23****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 2022/23 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 2022/23 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 2022/23 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 2022/23 (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 has been a number of changes from the policies used to prepare the 2021/22 Statement of Accounts, these are highlighted in the paragraphs below.

3.0 CHANGES TO ACCOUNTING POLICIES

INFRASTRUCTURE ASSETS

- 3.1 Members will recall from a previous Statement of Accounts updates, the national issue regarding the derecognition of parts of infrastructure assets specifically where Councils have incurred costs on the replacement, or enhancement of existing infrastructure assets.
- 3.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Department for Levelling Up, Housing and Communities (DLUHC), have developed a solution for the recording of Infrastructure Assets via the enacted via Statutory Instrument on 30 November 2022 effective from 21 December 2022. Accounting Policy 1.21 Infrastructure now reflects these changes.

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 advisors.

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 2022/23 to reflect the new accounting standards and the Council's material transactions

APPENDICES

Appendix 1 – Proposed Accounting Policies 2022/23

Appendix 2 – Critical Judgements 2022/23

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

<p>Not Applicable</p>

FINANCIAL IMPLICATIONS

None directly arising from this report

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

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

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

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

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

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

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

Contact Officer: Paul Thompson
(Chief Finance Officer)

Telephone: 01524 582603

Email: pthompson@lancaster.gov.uk

Ref:

1. ACCOUNTING POLICIES

1.1 Basis of Preparation

The Statement of Accounts summarises the Council's transactions for the 2022/23 financial year and its position on 31 March 2023. 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 (excluding infrastructure)

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.

See accounting policy 1.21 for details of the Council's infrastructure assets policy

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
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;
Community Assets	Not depreciated
Assets under construction	Not depreciated
Assets held for sale	Not depreciated
Heritage assets	Not depreciated

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

Disposals and Non-current Assets Held for Sale

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

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

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

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

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

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

Capital receipts can only be used to fund new capital investment or, be set aside to reduce the Council's underlying need to borrow (the capital financing requirement). However, the flexible use of capital receipts allows revenue expenditure to be funded from capital receipts where it generates ongoing revenue savings or transforms service delivery to reduce costs.

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

1.21 Infrastructure Assets

Infrastructure assets include sea and river defences, footways, cycleways and footbridges and street improvement works.

Recognition

Expenditure on the acquisition of infrastructure assets is capitalised on an accruals basis, if it is probable that the future economic benefits associated with the item will flow to the Council and the cost of the item can be measured reliably.

Measurement

Infrastructure assets are measured on a depreciated historical cost basis. However, for opening balances for infrastructure assets held under the accounting rules that applied before 1 April 1994 this is a modified form of historical cost with expenditure that was incurred before this date only included to the extent that it had not been financed before the end of the 1993/94 financial year.

Where material impairment losses are identified they are accounted for by the carrying amount of the asset being written down to the recoverable amount.

Depreciation

Depreciation is provided on infrastructure assets that are subject to deterioration or depletion and by the systematic allocation of their depreciable amounts over their useful lives. Depreciation is charged on a straight-line basis.

Annual depreciation is the depreciation amount allocated each year.

Useful lives of the various infrastructure assets are assessed using industry standards where applicable as follows:

Asset Type	Useful Life
Sea & River Defences	40 years
Footways, Cycleways & Street improvement	20 years

Disposal and derecognition

When a component of an infrastructure asset is disposed of or decommissioned, the carrying amount of the component in the Balance Sheet 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.

The written-off amounts of disposals are not a charge against council tax, as the cost of the non-current assets is fully provided for under separate arrangements for capital financing. Amounts are transferred to the capital adjustment account from the General Fund Balance in the Movement in Reserves Statement.

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).

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

1.28 Group Accounts

The Council has two wholly owned subsidiary companies, which are currently not trading. Once a trading these will be consolidated into the Council's group accounts on a line-by-line basis, after eliminating intra-group transactions. An entity could be material but still not consolidated if all of its business is with the county council and eliminated on consolidation – i.e. the consolidation would mean that the group accounts are not materially different to the single entity accounts.

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 2020. 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.

AUDIT COMMITTEE

Statement of Accounts Update

22 March 2023

Report of Chief Finance Officer

PURPOSE OF REPORT
To provide the Committee with an updated position regarding the conclusion of the audits of the 2019/20, 2020/21 and 2021/22 Statement of Accounts and the preparations for production of the 2022/23 Financial Statements.
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 & 2021/22 Statement of Accounts**
2. **The state of preparation in closure and production of 2022/23 Statement of Accounts**
3. **The s151 Officers proposal for the submission of the draft statement of accounts for 2022/23**

1.0 INTRODUCTION

1.1 Members will be aware of the long standing issues in relation to the 2019/20, 2020/21 and 2021/22 Statement of Accounts. This paper seeks to inform Members on their current progress and provide updates on the Council's actions to prepare for production of the 2022/23 statements.

1.2 The position in regard to the Statement of Accounts audits broadly remains unchanged from previous updates, although a schedule of outstanding work required to conclude the 2019/20 and 2020/21 audits was provided by the External Auditor 01 March 2023. The position for each of the 3 years, as well as the Council's work to address the Auditors' request and the impact on the preparations for the production of the 2022/23 Financial Statement, is provided in the sections below.

2.0 2019/20 STATEMENT OF ACCOUNTS POSITION

2.1 In line with previous updates, the only significant matters that remain outstanding are the objection from a local Council Taxpayer in regard to Note 42: Contingent Liabilities and the impact of the national infrastructure assets issue as previously reported.

3.0 2020/21 STATEMENT OF ACCOUNTS POSITION

- 3.1 The Committee will recall that the External Auditor presented his plan for the audit of the 2020/21 Financial Statements for consideration by this Committee at its meeting 23 March 2022. As highlighted as part of the Statement of Accounts Update papers presented at previous meetings, a significant body of audit work has been performed but as noted in previously work in relation to Property Valuations is still yet to be concluded.
- 3.2 To reiterate previous update reports 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.
- 3.4 The Committee will also be aware that, as with 2019/20 statement, Note 42: Contingent Liabilities, was once again subject to formal objections by a local Council Taxpayer. The External Auditor is still considering the objections in accordance with regulatory guidance.
- 3.5 As noted above the impact of the national infrastructure assets issue will impact the 2020/21 Statements.

4.0 2021/22 STATEMENT OF ACCOUNTS POSITION

- 4.1 The draft 2021/22 Statement of Accounts were published on the Council's website ahead of the 31 July 2022 deadline. A link was sent to Council Members, and paper copies are available on request.
- 4.2 The External Auditor was due to present his Audit Plan setting out his approach to auditing the 2021/22 financial statements at the Committee 23 November 2022. Unfortunately, this was deferred as the plan was not submitted and a verbal update was provided instead. The External Auditors are yet to formally provide the Committee with a plan for the delivery of the 2021/22 Audit. Neither the s151 Officer nor key members of the finance team are aware of any substantial audit work having been undertaken on the 2021/22 Financial Statements to date.
- 4.3 The Committee should also note that, as with the 2019/20 & 2021/20 Statement of Accounts, Note 42: Contingent Liabilities, is subject to formal objections by local Council Taxpayer. The External Auditor is still considering the objections in accordance with regulatory guidance but it is hoped that the information supplied will assist in resolving all outstanding matters in this area. Further discussion is provided below.

5.0 OUTSTANDING MATTERS

Statement of Accounts 2019/20 & 2020/21

5.1 Members will recall from July and November's Committee meetings that the External Auditors had expectations to conclude all outstanding audits by December 2022, with a long stop date of March 23. As noted at paragraph 1.2 above on the 01 March 2023 the External Auditor provided a schedule of outstanding work required to conclude the 2019/20 and 2020/21 audits. The schedule contains thirty-two lines of enquiry and requests over one hundred sources of information covering a variety of areas such as audit planning, initial sample selection, Value for Money assessment as well as the on-going objections. Subject to a few points of clarification with the Auditors, at the time of writing over 80% of the information has been provided.

5.2 A member of the audit team is schedule to undertake the required work commencing 20th March for 3 weeks. Members will have to accept that this diversion of officer time to collate the information as well as support the member of the audit team will inevitably have a significant impact our preparations for 2022/23 close down and production of the Financial Statements.

Statement of Accounts 2021/22

5.3 The External Auditor has confirmed in his correspondence 01 March 2023 that with regret he will **NOT** be able to get through the 2021/22 audit before the end of March as he had previously communicated to the Audit Committee. Again, as noted at paragraph 4.2 neither the s151 Officer nor key members of the finance team are aware of any substantial audit work having being undertaken on the 2021/22 Financial Statements to date. This lack of work on the 2021/22 should be of concern to the Committee as this significant volume of work will need to be undertaken at some point which will severely impact staff, from both a well-being perspective and also prevent them from supporting other Council projects such as Eden, Mainway, OBR, Canal Quarter. In addition, the Council's incoming External Auditors KPMG will require both the 2021/22 and 2022/23 audits to be concluded before they can commence their work in 2023/24.

Objections to the Financial Statements

5.4 The Committee will recall that the 2019/20, 2020/21 and 2021/22 Statement of Accounts are subject to formal objections by local Council Taxpayer. In order to finally conclude the audit, the External Auditors requested that the Council seek assurance from a number of external third 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 and, without any information to the contrary, are assumed to have been accepted by them.

5.5 Following a meeting in December with the remaining third party a number of additional items have now been provided and we await confirmation from the auditors either that they are satisfied, or, if not, what further assurances they require.

5.6 As this matter now appears to be concluding it is critical that, rather than the repetitive pattern of question, response, delay, further questions from the Auditor that has been experienced, he now clearly states what specific further assurances, he seeks to enable discussions to be concluded.

5.7 Whilst the delay in finalising the objection is extremely disappointing for all concerned it is hoped that the matter will finally be concluded. I am sure the Committee appreciates all efforts by Council officers in working to resolve this long running,

contentious and sensitive issue.

- 5.8 Committee Members should be aware that the annual Audit Fee does not contain an amount for dealing with objections and so the associated costs will be borne by the Council. Current estimates are an additional cost to the Council of c£31K.

6.0 PREPARTION FOR 2022/23 STATEMENT OF ACCOUNTS

6.1 In preparation for the production of the 2022/23 Statement of Accounts finance staff have undertaken a number of actions including.

- The Council's Accounting Policies & Critical Judgements have been reviewed and are presented elsewhere on this agenda for approval.
- Budget Holder Guidance Notes on Closure of Accounts 2023/24 highlighting all critical deadlines has circulated to relevant staff.
- Key members of the finance team have attended on-line training to ensure they are aware of the changes to the 2022/23 Code of Practice
- Internal planning documents have been revised to reflect the revised deadline and changes within the Code of Practice

6.2 Members should note that for 2022/23 the submission for the draft statement of accounts deadline has reverted to its pre COVID deadline of 31st May a reduction of 2 months from the previous 31st July. This change does place additional pressures on the finance team particularly given the requests from the External Auditors, and the additional officer time required to collate the information as well as support the member of the audit team with responses to questions and provision of further evidence.

6.3 Given that audit work does not appear to be near completion on 2020/21 statements and there has been no apparent work on 2021/22 statements the s151 Officer would ask the Committee to consider the benefit of stretching the already limited capacity of the finance team to achieve the earlier submission deadline, particularly given that there are limited expectations that the External Auditors will be in a position to fulfil their contractual obligations and conclude the audit by 30th September. Although disappointing not achieving the 31st May deadline does not carry any penalty for the Council. The Council must however publish a notice on its website advising of the delay and once available they must publish the formal Notice of the Commencement of the Period for the Exercise of Public Rights. This is the 30 day period during which any person interested or any journalist may, on reasonable notice, inspect and make copies of the accounts or any Local Government Elector may raise an objection to any item of account.

6.4 A revised deadline would allow the team some capacity to assist the auditors in concluding the 2019/20 and 2020/21 as well as starting the 2021/22 audit, whilst working on the production of the 2022/23 Statements. This approach has been discussed with the Chief Executive and the Finance Portfolio Holder who are supportive of the suggestion, given the on-going delays and frustrations. The Department for Levelling Up, Housing and Communities are recently consulted on the extending this deadline to 30th June, with an announcement due shortly.

7.0 DETAILS OF CONSULTATION

7.1 The report provides the Committee with an update on the progress of the audit of the Statement of Accounts 2019/20 to 2021/22 and preparation for the 2022/23 Statement production and so consultation has been limited to discussion with the External Auditors.

8.0 OPTIONS AND OPTIONS ANALYSIS

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

9.0 CONCLUSION

9.1 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 additional audit fees 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

Contact Officer: Paul Thompson
Telephone: 01524 582603

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>

Statement of Accounts 2021/22

<https://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](#)

Statement of Accounts Updates

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

[Agenda for Audit Committee on Wednesday, 25th May 2022, 6.10 p.m. - Lancaster City Council](#)

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

[Agenda for Audit Committee on Wednesday, 24th November 2021, 6.10 p.m. - Lancaster City Council](#)

Email: pthompson@lancaster.gov.uk

Ref:

AUDIT COMMITTEE

Arrangements for the Appointment of External Auditors

Report of Chief Finance Officer 22 March 2023

PURPOSE OF REPORT

The purpose of this report is to inform the Audit Committee of the outcome of Public Sector Audit Appointments (PSAA) procurement process for the appointment of External Auditors to the Council for the period 2023/24 to 2027/28.
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This report is public

RECOMMENDATIONS

It is recommended that the Audit Committee:

1. Note that KPMG have been appointed as the Council's external auditor for the appointing period from 2023/24 to 2027/28.

1.0 INTRODUCTION

- 1.1 The Local Audit and Accountability Act 2014 (the Act) at Section 7 states that an authority must appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding financial year.
- 1.2 In 2017, the Council opted into the 'appointing person' national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23. Deloitte has been the council's external auditor under this appointment.
- 1.3 Council agreed at its meeting 23 February 2022 for PSAA to appoint its external auditor for the appointing period spanning the audits from 2023/24 to 2027/28. The procurement process conducted by PSAA took place during the Spring/Summer of 2022. On 3rd October, PSAA informed the Council of the outcome of the procurement process. In summary, PSAA offered contracts to six suppliers: Grant Thornton, Mazars, Ernst and Young, KPMG, Bishop Fleming and Azets Audit Services. On 17th October, PSAA subsequently informed the Council that they proposed appointing **KPMG** as the External Auditor for Lancaster City Council for 5 years from 2023/24 to 2027/28.

2.0 BACKGROUND

- 2.1 KPMG is one of the 'Big Four' audit firms and operates in over 100 countries with over 230,000 employees providing audit, assurance, tax, consulting and advisory services to the public and private sectors. KPMG employees around 16,000 people in the UK. Within the public sector they have 14 active Key Audit Partners supported by a team of 100 staff and a range of specialists. KPMG undertakes a range of other public sector audit work including Local Audits in the NHS, central and local government audit work on behalf of NAO and Audit Scotland and a range of external audits in the education and social housing sectors. Prior to 2018, KPMG were the Council's appointed auditors.

- 2.2 In developing appointment proposals PSAA considered information provided by both opted-in bodies and audit firms, and have had regard to and sought to balance a range of factors including:
- auditor independence, the most critical of all the factors;
 - joint/shared working arrangements and information from bodies, where we have prioritised those requests that are most relevant to the auditor's responsibilities;
 - our commitments to the firms under the audit contracts;
 - bodies' main offices and firms' geographical preferences;
 - the status of prior years' audits; and
 - continuity of auditor where appropriate.

- 2.3 The Council was given the opportunity to make representations about the choice of Auditor appointment. Following discussions with the Finance Team and in consultation with the Chief Executive Member for Finance and Resources and the Chairman of the Audit Committee, no such representations were considered necessary. This will mean that, subject to the Council's resolution, the current External Auditor, Deloitte will remain in place to undertake the audit of the Council's accounts for 2022/23 and KPMG will be appointed by PSAA for the audit of the Council's accounts from the 2023/24 financial year for five years

3.0 DETAILS OF CONSULTATION

- 3.1 Under regulation 13 of the Appointing Persons Regulations, PSAA must appoint an external auditor to each opted-in body having consulted on their proposal.

- 3.2 PSAA sent consultation emails to Section 151 Officers and copied in the Audit Committee Chair and Chief Executive from 17 October 2022, with responses requested by 14 November 2022.

- 3.3 Through this consultation, the Council was able to make representations to PSAA about the proposed auditor appointment including any reasons why the proposed appointment should not be made, for example:

- There is an independence issue in relation to the firm proposed as the auditor, which had not previously been notified
- There are formal and joint working arrangements relevant to the auditor's responsibilities which had not previously been notified

- 3.4 The s151 Officer was satisfied with the appointment of KPMG as the external auditor for the Council given there are no such circumstances of concern.

4.0 OPTIONS AND OPTIONS ANALYSIS

- 4.1 As the report is only for noting the options that Audit Committee Members might consider in relation to the contents of this report are:

- a) Note the appointment of KPMG as the Council's external auditors 2023/24 to 2027/28.
- b) Do not note the appointment of KPMG as the Council's external auditors 2023/24 to 2027/28.

- 4.2 The preferred option is option a at paragraph 4.1.

5.0 CONCLUSION

- 5.1 Members should note the appointment of KPMG as the Council's external auditors for 2023/24 to 2027/28.

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

Not Applicable

FINANCIAL IMPLICATIONS

In concluding the procurement process for the appointment of External Auditors, PSAA advised audit bodies to anticipate an increase in fees in the region of 150% with effect from 2023/24 (whilst acknowledging that actual fees will depend on the amount of work required by individual auditors). It must be stressed that, irrespective of the choice of auditor appointment, the fees would be the same.

On the basis of the latest fee estimates for 2021/22 (the latest information available) which is c£45K, this would imply that the Council's audit fees will rise to c£113k. It should also be noted that it is not known at this stage to what extent the Government will provide Councils with additional funding to reflect the new burdens place on them by the changes in the audit regime.

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

Section 7 of the Local Audit and Accountability Act 2014 requires the Council to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. This report has been produced to comply with this statutory obligation.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

Council 23 February 2022

[Agenda for Council on Wednesday, 23rd February 2022, 6.00 p.m. - Lancaster City Council](#)

Contact Officer: Paul Thompson
 (Chief Finance Officer)

Telephone: 01524 582603

Email: pthompson@lancaster.gov.uk

Ref: