



**Committee:** AUDIT COMMITTEE

**Date:** WEDNESDAY, 24 MARCH 2021

**Venue:** THIS WILL BE A VIRTUAL MEETING  
PLEASE CLICK [THIS](#) LINK TO ACCESS THE REMOTE MEETING

**Time:** 4.30 P.M.

## A G E N D A

1. **Apologies for Absence**

2. **Minutes**

Minutes of meeting held on 25<sup>th</sup> November 2020 (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. **Annual Review of Audit Committee Terms of Reference** (Pages 3 - 7)

Report of the Internal Audit and Assurance Manager (Chief Internal Auditor).

6. **Annual Review of the Internal Audit Charter** (Pages 8 - 18)

Report of the Internal Audit and Assurance Manager (Chief Internal Auditor).

7. **Internal Audit Strategy and Draft Audit Plan Priorities 2021-22** (Pages 19 - 25)

Report of the Internal Audit and Assurance Manager (Chief Internal Auditor).

8. **Annual Review of the Council's Counter Fraud Policies** (Pages 26 - 44)  
Report of the Corporate Fraud Manager.
9. **Risk Management Progress Report** (Pages 45 - 70)  
Report of the Internal Audit and Assurance Manager (Chief Internal Auditor).
10. **Proposed Accounting Policies to be used in the Preparation of the Statement of Accounts 2020/21** (Pages 71 - 90)  
Report of the Chief Finance Officer.
11. **Statement from outgoing Chief Internal Auditor**  
Verbal report of the Chief Internal Auditor.

## **ADMINISTRATIVE ARRANGEMENTS**

### **(i) Membership**

Councillors Paul Stubbins (Chair), Geoff Knight (Vice-Chair), Stephie Barber, Abbott Bryning, Oliver Robinson, Katie Whearty and David Whitworth

### **(ii) Substitute Membership**

Councillors Jason Firth (Substitute), Jack O'Dwyer-Henry (Substitute), Stewart Scothern (Substitute), David Whitaker (Substitute), Jason Wood (Substitute) and Joanna Young (Substitute)

### **(iii) Queries regarding this Agenda**

Please contact Sarah Moorghen, Democratic Services - email [smoorghen@lancaster.gov.uk](mailto:smoorghen@lancaster.gov.uk).

### **(iv) Changes to Membership, substitutions or apologies**

Please contact Democratic Support, telephone 582170, or alternatively email [democracy@lancaster.gov.uk](mailto:democracy@lancaster.gov.uk).

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

Published on 16<sup>th</sup> March 2021.

**AUDIT COMMITTEE****24 March 2021****Annual Review of the Audit Committee Terms of Reference****Report of Internal Audit and Assurance Manager  
(Chief Internal Auditor)****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 March 2018, CIPFA re-issued their practical guidance for Audit Committees (Audit Committees Practical Guidance for Local Authorities and Police) and provided local authorities with a suggested term of reference setting out the purpose and the core functions required.

**2.0 Proposed Revisions**

- 2.1 Since the terms of reference were last reviewed (February 2020), no further amendments have been made to the document attached at Appendix A. However, it should be noted that whilst the Committee have approved the Audit Committee Terms of Reference for the last two years, they have yet to be presented to Full Council for endorsement, this will be rectified at the Full Council meeting that immediately follows this meeting.

**3.0 Details of Consultation**

3.1 None specifically regarding this report, however a recent review (November 2020) of the Audit Committees effectiveness confirmed that the current terms of reference conform to CIPFA's guidance and best practice.

**4.0 Options and Options Analysis (including risk assessment)**

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

**CONCLUSION OF IMPACT ASSESSMENT**

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

Not applicable

**FINANCIAL IMPLICATIONS**

None directly arising from this report

**SECTION 151 OFFICER'S COMMENTS**

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

**LEGAL IMPLICATIONS**

None directly arising from this report

**MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted and has no further comments

**BACKGROUND PAPERS**

Audit Committees Practical Guidance for Local Authorities and Police 2018 Edition

**Contact Officer:** Joanne Billington

**Telephone:** 01524 582028

**E-mail:** jbillington@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.**

#### **Statement of Purpose**

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

#### **Core Functions**

##### **Governance, Risk and control**

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

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

### **Internal Audit**

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

### **External Audit**

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

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

**Financial Reporting**

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

**Accountability Arrangements**

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

**Other core functions**

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

**AUDIT COMMITTEE****24 March 2021****Annual Review of the Internal Audit Charter****Report of Internal Audit and Assurance Manager  
(Chief Internal Auditor)****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 The attached Internal Audit Charter was last approved by the Audit Committee at its meeting on 19 February 2020.
- 1.4 In addition to annual reviews by the Audit Committee, the PSIAS external peer review process also provides for an independent assessment of this document. The last review (March 2018) confirmed the document conforms to best practice.

**2.0 Report**

2.1 The annual review of the Audit Charter has only identified one minor change in relation to paragraph 6.8. The Charter now clearly documents the existing arrangements for reporting audit assurance opinions to the Committee and the escalation processes should an audit opinion remain limited / minimal following two follow-up reviews.

2.2 The Audit Committee are asked to approve the minor change made to the Audit Charter.

**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.

**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 Internal Audit Charter is a key part of the framework in which Internal Audit operates, it 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 so 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.

**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**

Public Sector Internal Audit Standards

Local Government Application Note for the UK PSIAS - (CIPFA, in collaboration with the Chartered Institute of Internal Auditors)

CIPFA - The Role of the Head of Internal Audit

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# **LANCASTER CITY COUNCIL INTERNAL AUDIT CHARTER**

**DRAFT**

**TO BE APPROVED BY AUDIT COMMITTEE 24 MARCH 2021**

## **1. Introduction**

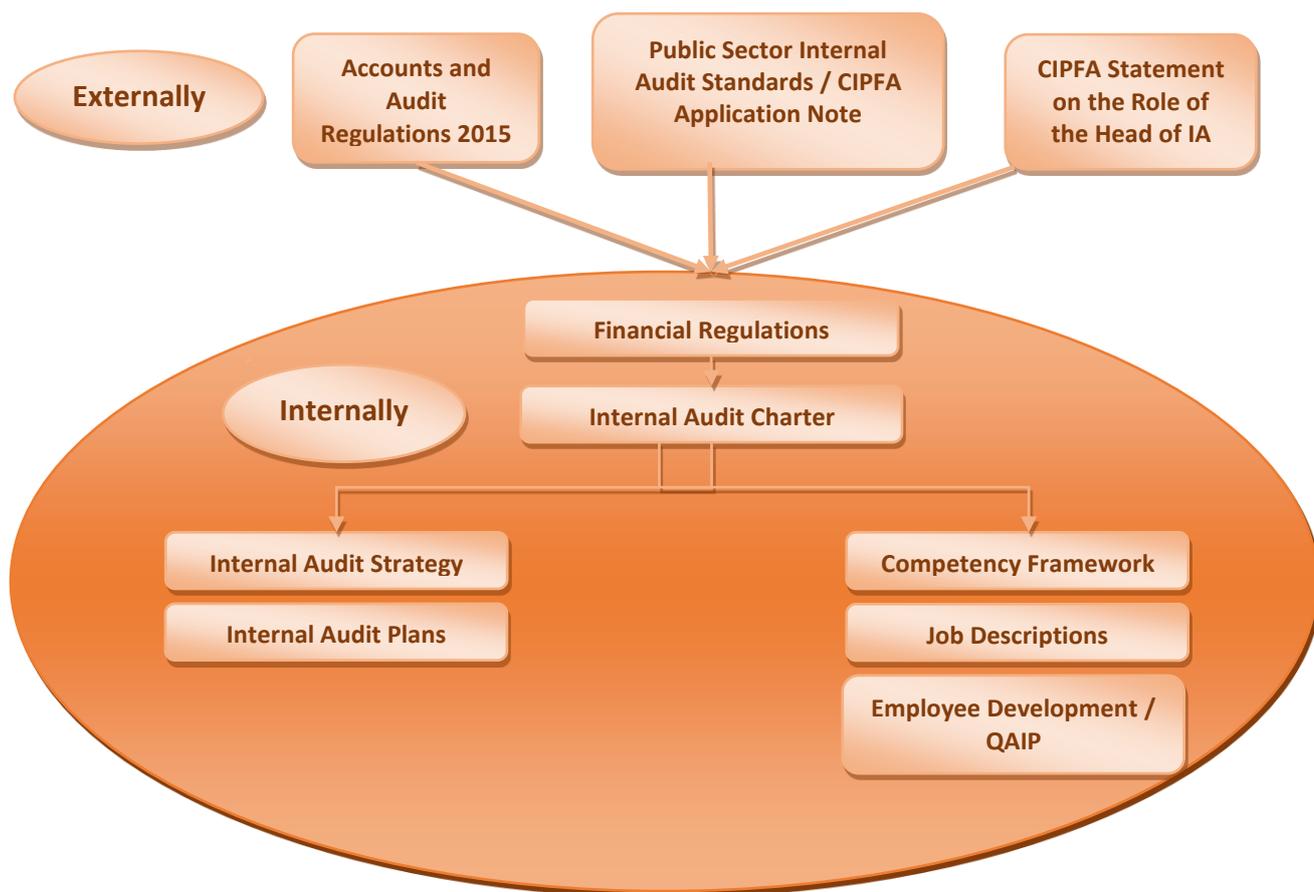
- 1.1 Internal Audit in local authorities is a statutory function, required under section 5 of the Accounts and Audit Regulations 2015. Section 5 requires that local authorities to which the Regulations apply “must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”
- 1.2 From 1 April 2013, “public sector internal auditing standards or guidance” are defined as those set out by the UK Public Sector Internal Audit Standards (PSIAS). The standards combine best practice from the global and private sector experience of the Institute of Internal Auditors (IIA), with the UK public sector expertise of CIPFA and other audit bodies in the public services and form the benchmark against which local authority internal audit services are assessed.
- 1.3 The Standards comprise a revised definition of Internal Auditing, a Code of Ethics for Internal Auditors working in the Public Sector and the Standards themselves. The Standards are mandatory for all internal auditors working in the UK public sector.

## **2. Definition of Internal Audit**

- 2.1 The PSIAS define internal auditing as “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 processes.”

## **3. Framework for Internal Audit**

- 3.1 The following diagram sets out the key legislative, professional and organisational elements which create the framework within which internal audit operates.
- 3.2 Whilst the Council’s highest level of commitment to internal audit is set out in the Financial Regulations, it is the Internal Audit Charter which plays the central and most significant role in establishing the internal framework and environment for internal audit. The Audit Charter sets the scene for the production and management of the more detailed elements, including strategic and operational plans, people management and development, and working practices.
- 3.3 Within the overall framework established under the Charter, internal audit is managed and delivered in accordance with more detailed elements including those relating to HR matters (competency framework, Job Descriptions and the Employee Development and Performance Appraisal regime); strategy and planning; and operational management.



#### 4. Key Organisational Roles and Relationships

- 4.1 The PSIAS require that the Internal Audit Charter defines the terms *'Board'* and *'Senior Management'* in relation to the work of internal audit. For the purposes of internal audit work, the *'Board'* is taken to refer to the Full Council, although in practice, the Audit Committee has delegated responsibility for overseeing the work of internal audit, on behalf of full Council. *'Senior Management'* is taken to refer to the Chief Executive and the Executive Team.
- 4.2 The authority has adopted CIPFA's *"Statement on the Role of the Chief Financial Officer in Local Government"*, 2016, and the associated *"Statement on the Role of the Head of Internal Audit in Public Service Organisations"*, 2019. These statements set out principles and standards for the Section 151 Officer and the Internal Audit and Assurance Manager to act in a mutually supportive way in fulfilling their statutory and professional responsibilities.
- 4.3 Internal Audit supports the Chief Executive, as Head of Paid Service, in providing high level assurances relating to the council's strategy and governance arrangements.
- 4.4 Internal Audit also supports the Monitoring Officer, in discharging his/her responsibilities in maintaining high standards of governance, conduct and ethical behaviour.

- 4.5 The Internal Audit and Assurance Manager is responsible for the effective review of all aspects of governance, risk and internal control across the full range of the Authority's activities.
- 4.6 The existence of Internal Audit does not detract from or diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient, accountable and well-ordered manner.
- 4.7 Internal Audit works with, and is accountable to the council's Audit Committee, to ensure it can:
- rely on the assurances provided by Internal Audit; and
  - rely on the assurances provided in respect of all other aspects of the Council's governance arrangements, to enable them to perform an informed critique of the Annual Governance Statement, on behalf of the Council.

## **5. Internal Audit Independence and Objectivity**

- 5.1 Internal Audit operates independently within the Council to ensure it is able to appraise the Authority's governance, risks and internal control systems in the impartial and unbiased manner essential to the proper conduct of audits.
- 5.2 To ensure this independence, Internal Audit operates within a framework that allows unrestricted access to all council officers, senior management and Elected Members. As such, all Internal Audit staff have the right to access all premises, records and documentation held by the council, its officers and Elected Members, and to seek explanations as they see necessary to effectively discharge their duties. This position is supported by S5(2) of the Accounts and Audit Regulations 2015.
- 5.3 The Internal Audit and Assurance Manager will report in their own name to officers and Elected Members, as they are charged with maintaining effective governance within the organisation. The work of Internal Audit will be performed and reported in accordance with the direction and agreement of the Internal Audit and Assurance Manager.
- 5.4 Objectivity is preserved by ensuring that internal audit personnel are free from conflicts of interest and do not undertake any non-audit duties. The exception to this being that the Internal Audit and Assurance Manager has functional (though not operational) management of the services provided by the shared Corporate Enquiry Team (CET). Where there is a call for internal audit review and opinion on any area in which the Internal Audit and Assurance Manager has fulfilled an operational role, this will be managed and reported on directly by another member of the audit team where possible. If necessary, consideration will be given to procuring audit services from an external source in order to maintain independence.
- 5.5 Where internal auditors have a perceived or real conflict of interest in undertaking a particular piece of work, this will be managed through the internal audit management and supervisory process. Internal auditors are required to declare any potential conflict of interest both on an annual basis, and when they are assigned a particular audit review. The work will then be reassigned to another auditor.

## **6. Reporting Lines and Audit Reports**

- 6.1 The Internal Audit and Assurance Manager reports administratively to the Section 151 Officer.
- 6.2 Functionally, the work of Internal Audit is reported in full to senior managers, Members of the Audit Committee and the External Auditor by means of specific reports, and in summary form to Audit Committee via periodic monitoring and activity reports.
- 6.3 The Internal Audit and Assurance Manager and the Chief Executive have mutual direct access to each other as they consider appropriate and the Internal Audit and Assurance Manager attends Executive Team meetings as and when required.
- 6.4 The Internal Audit and Assurance Manager and Chairman of the Audit Committee have mutual direct access to each other as they consider appropriate and hold regular one-to-one meetings.
- 6.5 Most internal audit assignments will result in the production of a formal report. Draft reports will be sent to the manager(s) responsible for the area under review for agreement of the factual accuracy of findings and to develop an action plan to address weaknesses in internal controls.
- 6.6 Once agreed, final reports will be copied to the Section 151 Officer, relevant Directors, Service Managers as well as Members of the Audit Committee and the External Auditors.
- 6.7 Internal Audit will report regularly on the results of its work to the Executive Team and the Audit Committee, highlighting significant control issues and potential for improving risk management, governance and internal control processes.
- 6.8 Whilst management are ultimately responsible for the implementation of agreed actions, follow up audits will be completed by Internal Audit to monitor implementation of the agreed actions and provide an updated assurance opinion where this was awarded limited or minimal. The Audit Committee will receive regular updates and should the overall assurance opinion remain unchanged following the completion of two follow-up reviews, the Committee may seek explanations directly from the managers responsible for the delay or failure to implement.

## **7. Scope of Internal Audit Work**

- 7.1 The scope of Internal Audit covers all the council's governance arrangements, procedures for ensuring the effective management of all significant risks and ensuring regularity in all its financial affairs, including achieving value for money.
- 7.2 Where the Council works in partnership with other organisations, the role of Internal Audit will be defined on an individual basis or agreed with the organisation through liaison with the relevant Director and the Section 151 Officer.
- 7.3 Where Internal Audit undertakes work on behalf of any other organisations, this will be determined in conjunction with the Audit Committee and in consultation with the Section 151 Officer to ensure that adequate audit resources remain available to provide assurance over the council's activities. External assurance

work will result in a report and assurance statement to the relevant organisation's Board and recommendations to its senior management.

- 7.4 Internal Audit may undertake consultancy work in addition to its primary assurance role and the extent of each type of work will be set out in internal audit plans. The scope of any consultancy work will be agreed with management and will only be undertaken where resources permit without impacting on the annual assurance process. In line with the PSIAS, the Audit Committee will be advised of any consultancy work requested and performed.
- 7.5 Where individual internal auditors undertake non-audit activities, for example in participating in corporate projects in a non-audit role, the auditor involved will not participate in future audits of the service/project area until at least one year has elapsed from completion of the activity.
- 7.6 The role of Internal Audit in fraud related work is set out in the following Council documents:
- Financial Regulations;
  - Anti-Fraud, Bribery and Corruption Policy; and
  - Raising Concerns at Work Policy.
- 7.7 The primary responsibility for maintaining a sound system of internal control, including arrangements to prevent and detect fraud and corruption lies with management. The completion of planned audit work assists this process by highlighting areas where controls are inadequate or are not operating as intended.

## **8. Internal Audit Obligations and Responsibilities**

- 8.1 The Internal Audit and Assurance Manager is responsible for:
- Developing and proposing the future strategic direction for Internal Audit within the Authority;
  - Developing an annual audit plan in the context of the strategic direction and based on an understanding of the significant risks to which the organisation is exposed;
  - Managing the provision of a complete professional internal audit service to the authority that is compliant with the PSIAS;
  - Monitoring and reporting the performance of the Internal Audit service;
  - Producing and reporting to Audit Committee an annual audit opinion, based on the outcomes of internal audit work conducted throughout the year;
  - Providing advice and guidance on risks and the application and development of internal controls;
  - Maintaining good working relationships with External Audit based on mutual recognition and respect, leading to a joint improvement in performance and the avoidance of unnecessary overlapping of work;
  - Assessing all matters of potential fraud or irregularity in line with the requirement of the Council's Anti-Fraud, Corruption and Bribery Policy. Internal audit will undertake or commission investigations as necessary into

such matters and advise the Statutory Officers and Audit Committee of the outcomes.

## **9. Limitations of Internal Audit Responsibilities**

9.1 In seeking to discharge the obligations and responsibilities set out in section 8 above, it should be noted that Internal Audit is not responsible for the following, which are the proper responsibility of management:

- Controlling the risks of the Authority;
- Establishing and maintaining systems of internal control;
- Determining operational policies or procedures; and
- Preventing or detecting fraud and irregularity.

## **10. Client Obligations and Responsibilities**

10.1 The effective fulfilment of the objectives of internal audit reviews and the robustness of internal audit assurance opinions requires commitment from the managers of services under review to:

- understand their responsibilities to establish systems of internal control which ensure that activities are conducted in a secure, efficient, accountable and well-ordered manner;
- identify, evaluate and manage business (including financial) risks on a day-to-day basis;
- inform Internal Audit of proposed new systems to enable involvement from the outset, the scope of involvement to be mutually agreed;
- discuss risks identified with the lead auditor at the start of an audit assignment with a view to agreeing the scope, objectives and methodology for the review, to be formalised in the audit brief;
- agree with the lead auditor the plan for the review including timescales, communication lines and expectations;
- provide constructive input and adequate resources to complete the review within the agreed timescale;
- respond to audit requests and documentation on a timely basis ensuring that accurate, up-to-date information is made available to auditors as required;
- evaluate and take ownership of agreed actions, taking account of risk and cost-effectiveness: and
- implement agreed actions in line with agreed timescales.

## **11. Resourcing and Staffing Matters**

11.1 The Internal Audit and Assurance Manager will hold an appropriate professional qualification (CMIIA, CCAB or equivalent) and have extensive internal audit experience.

11.2 Internal audit will be staffed according to the staffing structure as approved by the Section 151 Officer and advised to the Audit Committee and will aim to

maintain experienced and qualified staff. Adequate resources will be maintained to enable meaningful, evidenced assurances to be provided.

- 11.3 The Internal Audit and Assurance Manager will ensure that the Internal Audit service has access to an appropriate range of knowledge, skill, qualifications and experience required to deliver the audit plan.
- 11.4 Individual training needs are established and agreed through the Employee Development and Performance Appraisal (EDPA) process along with the most cost effective means of meeting those needs. As a professional service, staff are expected to actively participate in relevant formal Continuing Professional Development (CPD) schemes.

## **12. Ethics**

- 12.1 The PSIAS contain a Code of Ethics which is mandatory for all internal auditors in the public sector. In addition, individuals are also required to adhere to the council's Code of Conduct for Employees and the Codes of Ethics of their professional bodies, where appropriate.
- 12.2 Internal Audit has adopted the PSIAS Code of Ethics. Staff will be required to declare annually any personal interests and certify that they understand and will comply with requirements of the Code.

## **13. Review**

- 13.1 The Internal Audit and Assurance Manager will review this Charter annually and in the event of any substantive changes, present it to the Audit Committee for approval.

**AUDIT COMMITTEE****Internal Audit Strategy and Draft Audit Plan Priorities  
2021/22****24 March 2021****Report of Internal Audit and Assurance Manager (IAAM)  
(Chief Internal Auditor)****PURPOSE OF REPORT**

Review and approval of the Internal Audit Strategy and consideration and approval of the draft audit plan priorities for 2021/22 (Quarter 1 only).

**This report is public**

**RECOMMENDATIONS**

- 1. The Internal Audit Strategy be approved by the Audit Committee and it be noted that the IAAM is reporting that at present the work of the Internal Audit Team is not fully aligned to the current strategy.**
- 2. The Audit Committee consider and approve the draft audit plan priorities for Quarter 1 of 2021/22 and note that further development of the plan is required to ensure an overall audit opinion can be delivered as at the 31 March 2022.**
- 3. The Audit Committee note that the current arrangements with Wyre Borough Council for the sharing of the Chief Internal Auditor role will cease on the 31 March 2021.**

**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 IAAM) 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.”

## **2.0 Proposal Details**

### **Internal Audit Strategy**

- 2.1 In accordance with the PSIAS standards, an internal audit strategy is in place and is refreshed on an annual basis. No changes have been made to this strategy since it was last reviewed by the Audit Committee in February 2020. However, it is felt that at present, Internal Audit are not in a position to successfully deliver on all of its responsibilities as identified in the strategy. Help from the Executive Team is needed to enable the Internal Audit Team to meet its obligations to the organisation and ensure that standards of risk, governance and internal control are improved. The key areas where support from the Executive Team will make a positive difference are: 1) improved communication with and involvement of the internal audit team in the delivery of the corporate plan ambitions; 2) providing a more focused steer in respect of internal audit work priorities and; 3) assisting the team in raising its profile and awareness of the value the service can add in the organisation.

## **3.0 Draft Audit Plan Priorities 2021/22**

- 3.1 Whilst in previous years an annual audit plan has been produced and presented to the Audit Committee for comment and approval, a decision has been taken this year to move to quarterly planning. This is mainly due to the on-going pandemic and the need for Internal Audit to be flexible and responsive to emerging risks across the organisation. However, it is also quite timely, given Wyre Borough Council have decided not to renew the current arrangement in respect of the shared Chief Internal Auditor role from the 1 April 2021.
- 3.2 Whilst it was hoped that the strategic and operational risk registers would have assisted with the development of this year's audit plan, this is not the case as they are still in the early stages of development following a number of delays during the course of the year (see report on Risk Management later in this agenda for further details regarding the nature of these delays). Therefore, the first section of the draft audit plan details the work that the current IAAM has identified as a priority and therefore requires completion during the first quarter (April – June). The second section details known forthcoming priorities for quarters 2-4, but recognising that this section will need to be revisited on completion of the risk registers, examination of all the assurance statements (still being compiled) and consideration of the resources required going forward by the Section 151 Officer and the Audit Committee.
- 3.3 The draft audit plan priorities for 2021/22 attached at Appendix B is currently based on estimated available resources of 220 days, this being delivered solely by the in-house Principal Auditor (1 FTE).

**4.0 Financial Considerations**

4.1 The current draft audit plan priorities for 2021/22 will be delivered within the overall budget for the internal audit and assurance service. However further consideration is needed in respect of financing the team’s resources going forward.

**5.0 Details of Consultation**

5.1 The Executive Team and the S151 Officer have been consulted in the preparation of the draft audit plan for 2021/22. However, further consultation will need to be carried out once all the risk registers are in place, assurance mapping has been fully completed and additional resources have been identified and put in place.

**6.0 Options and Options Analysis (including risk assessment)**

6.1 The options available are to either accept the internal audit strategy 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 the strategy should be agreed by the Section 151 Officer, the Audit Committee and be reported to the Council’s External Auditors.

6.2 In addition, Members are invited to comment on and then approve the proposed draft audit plan priorities for Quarter 1 of 2021/22 only. There are no alternative options to be considered at this point in time.

**7.0 Conclusion**

7.1 A robust audit strategy and effective planning are key elements in the delivery of an effective internal audit service. The attached audit strategy and draft audit plan priorities, if successfully developed further in the coming months 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 2021/22 (Q1) can be delivered within the overall budget for the internal audit and assurance service. However, further budget considerations will need to be considered once the Section 151 Officer and Audit Committee Chairman have identified the resources required going forward.

**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. Given the current situation,

discussions have commenced around the future provision of internal audit services and several options are provisionally being considered and will be reported to the Committee.

Any new arrangements will impact the audit plan going forward and facilitate further engagement and support from Executive, as well as the embedding of risk management within the Council.

**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)

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**Ref:**

## Internal Audit Strategy

### 1.0 Internal Audit Strategy

- 1.1. This strategy is the high-level statement of how the internal audit service will be developed and delivered in accordance with its approved terms of reference (the Audit Charter) and how it links to the council's strategic organisational objectives and priorities.

### 2.0 Service Purpose

- 2.1 The key purposes of the internal audit service are to:

- provide the council\* with independent assurance regarding the effectiveness of its systems of risk, governance and internal control;
- support the council in delivering organisational change and its development programme; and
- help the council secure and demonstrate value for money throughout its activities.

\* This purpose also relates to Preston City Council with regards to the audit by Lancaster's internal audit of the revenues and benefits shared service arrangements.

### 3.0 Strategic Aims & Objectives

- 3.1 Internal audit's strategic aims and objectives are defined as:

- promoting and helping develop standards of risk management throughout the council's operations;
- contributing to improving standards of internal control and governance within the authority and its key partnerships;
- developing the corporate 'assurance framework' and coordinating the capture and reporting of sources of assurance;
- developing and supporting managers in the management of risk;
- working closely with the corporate enquiry team to develop programmes of work to combat and reduce the risk of fraud;
- supporting the council in identifying efficiencies and achieving value for money in service delivery; and
- continuing to develop the scope, robustness and effectiveness of internal audit's assurance work.

### 4.0 Identifying and accommodating significant local and national issues and risks

- 4.1 Emerging local and national issues that might warrant internal audit attention will primarily be identified through:

- contributing to the development, updating and monitoring of the assurance framework;

- reviewing the corporate plan, strategic risk register and individual service plans; and
  - regular consultation and liaison with the External Auditors, Section 151 Officer, Service Managers and the Executive Team.
- 4.2 This approach will seek to ensure that significant risks are adequately identified, assessed and evaluated in terms of the level of assurance necessary and already available, and will involve:
- tracking corporate policy/priority developments and the decisions taken by the authority's decision-making bodies;
  - regular consultation with service managers, the Executive Team and the Audit Committee Chairman;
  - regular liaison with other review bodies, especially the Council's external auditor;
  - liaison with/considering the approach and work programmes of other internal review bodies, for example the Overview and Scrutiny function;
  - liaison with other local government auditors and active participation in local/regional professional groups;
  - consideration of key corporate risks; and
  - maintaining a professional focus and taking advantage of opportunities for professional updates/development, including continuous professional development where appropriate.
- 4.3 In line with the Council's developing risk management policy and associated assurance framework, the risk-based audit plan should seek to provide assurance in areas of significant risk where alternative sources of assurance are not readily available. Typically this will tend to focus on the auditing of "underlying risks", being those risks which are not being addressed by a current corporate or service-based project or initiative. The plan will be reviewed and updated on a rolling basis to accommodate any emerging significant risks and assurance needs identified through an ongoing review of the assurance framework.
- 4.4 Internal audit activity may involve any one, or a combination of the following:
- a specific piece of internal audit assurance work;
  - efficiency/VFM or support work directed at improving the efficiency of existing procedures and/or standards of governance and control; or
  - contributing to corporate groups/projects/reviews (officer and/or Member based) established for a given purpose/objective.

**DRAFT AUDIT PLAN PRIORITIES - 2021/22**

This plan will be reviewed on a quarterly basis following examination of assurance mapping declarations, risk registers and management requests/referrals

**APPENDIX B**

Category of Work	Audit Title	Detailed Rational	Audit Type	Days allocated based on 1FTE Auditor (220 days p/a)	Links to Risk Registers / MTFS / Corporate Plan Priorities/Projects
<b>General / Meetings / Non-Chargeable</b>					
Other Internal Audit Responsibilities	Internal Audit Management / Planning / Audit committee Advice and assistance Qualification training / professional development	These activities are carried out by the Internal Audit and Assurance Manager (Chief Internal Auditor). Zero days have been allocated given this position will be vacant from the 1 April 2021.	N/A	0	N/A
<b>Quarter 1 Priorities</b>					
2021/22 Audit Plan Work	Property Investment Strategy/Capital Schemes	Following an increase in capital schemes/acquisitions across the council, assurance is needed that such schemes/acquisitions are planned, approved and executed, in line with policies, regulation and governance requirements.	RB	5	MTFS/Strategic Risk Register (SR1 & 2)
2021/22 Audit Plan Work	P2P Project Assurance	Following the implementation of the P2P project, assurances are needed that the system is working as intended and outcomes are as expected. Therefore end to end testing will be carried out to ensure the system is being utilised consistently and identify/address any anomalies where it has not been adopted consistently, activities are taking place outside the system, or the system is only being partly used.	RB	10	Strategic Risk Register (SR8)
Other Internal Audit Responsibilities	Risk Management	Ongoing facilitation and roll out of a robust Risk Management framework. This will include the delivery and administration of strategic and operational risk workshops the results of which will assist with the prioritisation of internal audit work for the coming year.	S	20	Corporate priority/operational risk
Other Internal Audit Responsibilities	Preparation of the 2020/21 Annual Governance Statement and continuous monitoring of the minor issues action plan	Whilst in previous years the Chief Internal Audit Manager has assisted in identifying and documenting evidence to ensure compliance with CIPFA's Delivering Good Governance framework, given the limited resources within the Internal Audit Team and the absence of the Chief Internal Audit Manager from the 1 April 2021, no days have been allocated this year to complete this piece of work and alternative arrangements for its completion will need to be made.	M	0	Statutory requirement in line with the Accounts and Audit Regulations 2015
Other Internal Audit Responsibilities	Assurance mapping exercise	To assist with the formulation of the audit plan and ensure resources are maximised an assurance mapping exercise will be completed with each council service to identify other sources of assurance received. The results of this exercise will focus the priorities of internal audit for the coming year.	M	5	Compliance with CIPFA's Delivering Good Governance Framework
Follow-up Audit Plan Work	Procurement and Contract Management	Original review completed September 2018 and awarded an overall limited assurance opinion. In accordance with the Internal Audit Charter, follow-ups are required until substantial assurance has been achieved (it should be noted that this follow-up was delayed pending receipt of updated national procurement guidance and more recently the ongoing pandemic).	RB	5	Operational Risk
Follow-up Audit Plan Work	Data Protection - Policy and Process Review	Original review completed by Merseyside Internal Audit Service in May 2020 and was awarded an overall limited assurance opinion. In accordance with the Internal Audit Charter, follow-ups are required until substantial assurance has been achieved (it should be noted that there has been a slight delay in following-up this piece of work due to the ongoing pandemic).	RB	3	Strategic Risk
Follow-up Audit Plan Work	Insurance	Original review completed in November 2019 and was awarded an overall limited assurance opinion. In accordance with the Internal Audit Charter, this piece of work was followed-up in July 2020 and as the assurance opinion remained unchanged a further follow-up will be carried in March 2021. If the assurance opinion is not raised as a result of this second follow-up it will be escalated to the Manager/Service Director/Audit Committee.	RB	2	Operational Risk
Other Internal Audit Responsibilities	NFI Covid-19 Grants Post Assurance Testing	Following business grant payments totalling in excess of £36 million, the council has a mandatory obligation to the Cabinet Office to carry out post assurance work to identify any fraudulent payments.	M	5	External Requirement
<b>Total</b>				<b>55</b>	
<b>Other Upcoming Priorities (Q2-4) To be reviewed and approved following completion of assurance mapping, implementation of risk registers and consideration of resources going forward</b>					
Other Internal Audit Responsibilities	Payroll e-budgeting	Internal Audit will continue to be involved on this project group until the project is completed and the e-budgeting tool is fully operational. Assurance will be given prior to the new system being used for the next budget setting exercise (2022/23).	S	Qtr2	MTFS
Other Internal Audit Responsibilities	National Fraud Initiative (NFI) - Administration of annual Single Person Discount (SPD) Data Matching exercise	Internal Audit will collate and upload of the 2021/22 SPD data in order to comply with the requirements of the mandatory annual NFI data matching exercise	M	Fixed Qtr. 3	Operational Risk
Follow-up Audit Plan Work	Legal fees and Charges and Debt Recovery	In accordance with the Audit Charter a follow up review will be required if the ongoing audit (from the 2020/21 audit plan) results in an overall limited assurance opinion being awarded.	RB	Qtr. 3/4	Operational Risk
2021/22 Audit Plan Work	Effectiveness of new HR arrangements	Following ongoing implementation of the HR Assurance action plan, work is to be carried out to provide assurance on the effectiveness of any new working arrangements, policy and procedural changes and overall governance arrangements.	RB	Qtr. 3/4	Operational Risk
2021/22 Audit Plan Work	Climate Change / Carbon Neutral work	Recognising the councils commitment to achieving carbon neutral status by 2030 and the increasing corporate projects, Internal Audit will need to provide assurances around these projects however a steer from the Executive Team will be required.	RB	TBC	MTFS/Corporate Plan/Strategic Risk Register (SR6)
2021/22 Audit Plan Work	Debtors	Internal Audit have not given any assurances on this key financial system since 2016 (substantial assurance provided). Given the requirement to keep such systems under cyclical review and the recent changes to personnel, procedures and processes a review is required in this area prior to the year end. Part of rolling programme.	RB/KFS	TBC	MTFS/Operational risk/part of rolling programme
2021/22 Audit Plan Work	Council Resilience	Following the council declaring a national emergency in 2019, a number of significant changes have been made to the council's working practices. Assurances are therefore required to ensure that the council and its services can operate effectively, and that adequate and effective procedures are appropriately documented to ensure that the council can respond and recover appropriately. This piece of work will include a review of the council's ICT disaster recovery plan, the council's emergency response plan and individual service business continuity arrangements.	RB	TBC	Strategic Risk/Operational Risk
2021/22 Audit Plan Work	CCTV Compliance	Following changes to the Compliance with the Surveillance Camera Code of Practice, assurances are required to confirm the council is compliant. In addition work is also needed to ensure that Research / City Centre data collection is conducted in line with guidance.	M	TBC	Operational Risk
2021/22 Audit Plan Work	Use of social Media for investigatory work.	Following the update to the RIPA Policy in November 2019, assurance is needed to confirm that officers are complying with policy, in particular around the use of social media in investigations.	M	TBC	Operational Risk/Annual Governance Action Plan
2021/22 Audit Plan Work	Compliance with the Constitution (in particular Scheme of Delegation)	Following a comprehensive constitutional review in 2019, and risks identified during the year in other service areas, assurance work is needed to ensure adequate and effective governance arrangements are in place, aligned with council policies and procedures, ultimately ensuring that the Constitution is fit for purpose.	RB	TBC	Strategic/Operational Risk/Annual Governance Action Plan
2021/22 Audit Plan Work	Council Time Recording Systems (Flexi, annual leave, sickness recording and monitoring)	Internal Audit observations have identified corporate inconsistencies in the recording of annual leave, flexi and sickness absence throughout the ongoing pandemic. An audit may therefore be beneficial following reestablishment/changes to the above systems/processes once procedures/processes are re-instated.	RB	TBC	Operational Risk
2021/22 Audit Plan Work	Revenues and Benefits Shared Service Assurance Work	In agreement with the Head of the Revenues and Benefits Shared Service, areas where assurances are required will be agreed in accordance with the Shared Service Level Agreement.	RB/KFS	TBC	Operational Risk
Other Internal Audit Responsibilities	Service Heads/Senior Managers - Service and support work	During the course of the year Internal Audit will liaise with newly appointed / promoted service heads or senior managers to ensure any areas of responsibility (line management, connotationally etc), are known and fully understood and to build an effective working relationship.	S	Ongoing	Operational Risk
<b>R = Referral/request</b> <b>KFS = Key Financial System</b> <b>M = Mandatory</b> <b>RB = Risk Based</b> <b>S = Support work</b>					

**AUDIT COMMITTEE****24 March 2021****Annual Review of the Council's Counter Fraud Policies****Report of Corporate Fraud Manager****PURPOSE OF REPORT**

Annual Review of the Council's Counter Fraud Policies

**This report is public****RECOMMENDATIONS**

- (1) That the Audit Committee approve the refreshed counter fraud policies, namely;
  - a. Anti-Fraud, Corruption and Bribery Policy; and**
  - b. Sanctions Policy.****
- (2) The Audit Committee note the Raising Concerns Policy (formally Whistleblowing Policy) will be reviewed by the Monitoring Officer and approved by the Personnel Committee in accordance with their Terms of Reference later in year.**
- (3) The Audit Committee note that the Anti-Money Laundering Policy will be reviewed by the Money Laundering Officer and approved by the Audit Committee at their meeting on the 26 May 2021.**

**1.0 Background**

- 1.1 The Audit Committee's Terms of Reference state they have a discharged responsibility to "monitor counter fraud, actions and resources and review the assessment of fraud risks and potential harm to the council from fraud and corruption". Given this responsibility, the Audit Committee work programme includes an annual review of the council's counter fraud policies.
- 1.2 Whilst the Audit Committee reviewed and approved the Raising Concerns Policy in February 2020, it should be noted that responsibility for the review and approval of this policy sits within the responsibility of the Personnel Committee. Therefore, going forward this policy will be reviewed annually by the Monitoring Officer and submitted to the Personnel Committee.
- 1.3 Owing to the on-going pandemic the review of the Anti-Money Laundering Policy has been delayed. This policy will be brought to the next Audit Committee

meeting in May. In addition, training for both the Money Laundering Officer and their Deputy will be sought if deemed necessary.

**2.0 Report**

2.1 Members are asked to review and approve the refreshed counter fraud policies attached at Appendices 1 and 2 and note that no changes have been made to either policies since they were last reviewed by the Audit Committee in February 2020.

**3.0 Details of Consultation**

3.1 Consultations have taken place with the Council’s Corporate Fraud Manager and the Internal Audit and Assurance Manager when reviewing the attached counter fraud polices.

**4.0 Options and Options Analysis (including risk assessment)**

4.1 The options available are to either agree the attached polices or recommend alternative wording if necessary.

**5.0 Conclusion**

5.1 It is timely and appropriate to refresh the council’s counter fraud polices which assists the council in demonstrating that arrangements are in place that are designed to promote and ensure probity and propriety in the conduct of its business.

<p><b>CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</b></p> <p>Not applicable.</p>	
<p><b>FINANCIAL IMPLICATIONS</b></p> <p>None directly arising from this report.</p>	
<p><b>SECTION 151 OFFICER’S COMMENTS</b></p> <p>The Section 151 Officer has been consulted and has no further comments.</p>	
<p><b>LEGAL IMPLICATIONS</b></p> <p>None directly arising from this report.</p>	
<p><b>MONITORING OFFICER’S COMMENTS</b></p> <p>The Monitoring Officer has been consulted and has no further comments.</p>	
<p><b>BACKGROUND PAPERS</b></p>	<p><b>Contact Officer:</b> Haley Garstang  <b>Telephone:</b> 01772 906388  <b>E-mail:</b> h.garstang@preston.gov.uk</p>

## LANCASTER CITY COUNCIL

## ANTI-FRAUD, BRIBERY AND CORRUPTION POLICY – February 2021

**1 Definitions**

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines **Fraud** as “*Any intentional false representation, including failure to declare information or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss*”. In the UK, the term fraud is used to describe many acts such as deception, bribery, forgery, extortion, corruption, theft, conspiracy, embezzlement, misappropriation, false representation, concealment of material facts and collusion.

The Fraud Act 2006 further defines fraud in three classes:

- False representation
- Failure to disclose information where there is a legal duty to do so
- Abuse of position

1.2 The Theft Act 1968 defines **Theft** as “*a person shall be guilty of theft if he dishonestly appropriates property belonging to another with the intention of permanently depriving the other of it*”

1.3 CIPFA defines **Corruption** as the “*offering, giving, soliciting or acceptance of an inducement or reward which may improperly influence the action of any person*”. The United Nations’ defines it as an umbrella term for a number of delinquent behaviours, including: embezzlement; fraud; bribery; cronyism and nepotism; money laundering; extortion; abuse of position; and improper political funding.

1.4 CIPFA defines **Bribery** as “*an inducement or reward offered, promised or provided to gain personal, commercial, regulatory or contractual advantage.*”

1.5 This policy covers all the above and the Council acknowledges and will be vigilant to

the fact that that, within these definitions, fraud, theft, bribery and corruption can take many diverse forms.

1.6 This policy is concerned with:

- Acts committed against the Council by individuals or organisations;
- Acts committed by the Council’s employees, elected Members or contractors in the course of their duties (guidance on issues arising from the private and personal activities of employees which may impinge on the performance of their duties or risk bringing discredit to the Council is contained in the Employees code of conduct and the Members’ code of conduct).

## 2 Scope of the Policy

2.1 This Policy applies to all employees, contractors and elected Members of the Council and places expectations on the Council's partners and all individuals and organisations providing services for the Council.

2.2 This Policy sits alongside and is supported by the following Council documents:

- Raising Concerns Policy
- Anti-Money Laundering Policy
- Counter Fraud Sanction Policy
- Code of Corporate Governance
- Officers and Members Codes of Conduct.

## 3 Commitment and Strategy

3.1 Lancaster City Council is committed to delivering high quality, value for money services in a fair, open, honest and accountable manner. The Council is determined to protect itself and the public from all forms of fraud, theft, corruption and bribery, including any irregularity and the improper use or misappropriation of the Council's property or resources both from within and outside the Council.

3.2 In support of this commitment, the Council's strategy is to rigorously maintain and develop anti-fraud and corruption arrangements with the following objectives:

Objective	Key Characteristics
<b>Developing a strong anti-fraud and corruption culture</b>	<ul style="list-style-type: none"> <li>• A strong ethical framework – clear rules and procedures</li> <li>• Effective Leadership</li> <li>• Maintaining public confidence in the Council</li> <li>• A sound system of internal control</li> </ul>
<b>Deterring and Preventing Fraud and Corruption</b>	<ul style="list-style-type: none"> <li>• Continuous improvement of arrangements to combat fraud and corruption</li> <li>• Monitoring of potential exposure to fraud and corruption and acting accordingly</li> <li>• Ensuring the integrity of staff appointed</li> <li>• Consultants, contractors and suppliers acting with integrity</li> <li>• Ensuring adequate anti-fraud and corruption arrangements within partnerships</li> </ul>
<b>Raising Awareness</b>	<ul style="list-style-type: none"> <li>• Ensuring elected Members and officers understand the rules, regulations, policies, strategies and expectations placed upon them</li> </ul>

	<ul style="list-style-type: none"> <li>Elected Members and employees understand the risks and recognise their ability to protect the organisation against fraud and corruption</li> </ul>
<b>Maintaining effective reporting arrangements and preventing further loss</b>	<ul style="list-style-type: none"> <li>Ensuring that all genuine suspicions/concerns are raised</li> <li>Maintaining effective reporting arrangements</li> <li>Informing external parties where appropriate</li> <li>Minimising losses once a report has been received</li> </ul>
<b>Facilitating effective investigations and recovery and seeking suitable sanctions and redress</b>	<ul style="list-style-type: none"> <li>Carrying out timely, lawful and effective investigations and minimising impact</li> <li>Seeking appropriate sanctions and redress to deal robustly with the perpetrators of fraud and corruption</li> <li>Maximising the recovery of losses</li> <li>Learning from experience</li> </ul>

3.3 Implementation of the strategy is promoted and supported by an annually updated

Fraud Team Business Plan.

3.4 Development of this strategy will be proportional to the risks facing the Council and

will be informed by an objective and regularly reviewed assessment of those risks as part of a corporate risk assessment programme.

#### **4 Expectations, Responsibilities and Culture**

4.1 The public is entitled to expect Local Government employees and Members to conduct themselves to the highest standards and with the utmost integrity. The Council is determined to adopt a culture and tone around the seven principles of public life: (a) selflessness; (b) integrity; (c) objectivity; (d) accountability; (e) openness; (f) honesty; and (g) leadership.

The Council will convey this commitment through its Code of Corporate Governance.

In relation to anti-fraud, bribery and corruption Lancaster City Council employees should have particular regard to the Council's Code of Conduct, which is contained within part 4 of the Lancaster City Council Constitution and can be located [here](#)

4.2 The way in which the Council is organised and has defined responsibilities in relation

to this policy is set out in the following table:

### Organisation and Responsibilities

Groups / Individuals	Key Roles and Responsibilities
<b>Standards Committee</b>	<ul style="list-style-type: none"> <li>• Setting and monitoring the standards of conduct for elected Members</li> </ul>
<b>Audit Committee</b>	<ul style="list-style-type: none"> <li>• Approving the Anti-Fraud, Bribery and Corruption Policy</li> <li>• Monitoring the effectiveness of the Council's strategy and operational arrangements</li> </ul>
<b>Chief Executive</b>	<ul style="list-style-type: none"> <li>• Overall responsibility for the Council's operational procedures</li> <li>• Leading by example through sound ethical behaviour and the promotion of the Council's anti-fraud and corruption arrangements</li> </ul>
<b>Section 151 Officer (Head of Financial Services)</b>	<ul style="list-style-type: none"> <li>• Overall responsibility for the Anti-Fraud, Bribery and Corruption Policy and supporting procedures</li> <li>• Developing and maintaining policies to combat fraud, corruption and other forms of financial crime</li> <li>• Reviewing the Council's exposure to risk and</li> <li>• Ensuring that effective investigation procedures are in place</li> </ul>
<b>Monitoring Officer (Head of Legal Services)</b>	<ul style="list-style-type: none"> <li>• Ensuring that all the Authority's decisions are within the law and statutory codes of practice</li> <li>• Ensuring any actual or potential breaches or acts of maladministration are appropriately reported</li> </ul>
<b>Service Heads</b>	<ul style="list-style-type: none"> <li>• Reviewing their Service's exposure to risk and updating local action plans accordingly.</li> <li>• Leading by example in their service areas through sound ethical behaviour and by promoting the Council's anti-fraud and corruption arrangements</li> </ul>

<p><b>Internal Audit and Assurance Manager/Fraud Manager</b></p>	<ul style="list-style-type: none"> <li>• Reviewing the effectiveness of the Council's anti-fraud and corruption arrangements and reporting to the Section 151 Officer, Management Team and the Audit Committee</li> <li>• Maintaining a corporate overview of the Council's exposure to risk and advising management accordingly</li> <li>• Overseeing the operation of the Anti-Fraud, Bribery and Corruption Policy and related investigations</li> <li>• Reporting on any corrective measures required which have been identified through internal audit work and investigations</li> <li>• Undertaking investigations into suspected cases of fraud</li> <li>• Maintaining a record of investigations on the fraud case management system</li> <li>• Advising the Head of Human Resources of any investigations involving staff at an appropriate stage</li> <li>• Referring cases to the Police and other external agencies where necessary and appropriate</li> </ul>
<p><b>Managers</b></p>	<ul style="list-style-type: none"> <li>• Responding quickly and positively to concerns or allegations</li> <li>• Reporting to the Internal Audit and Assurance Manager immediately any suspected financial impropriety, including fraud or theft and taking all necessary steps to prevent further loss</li> <li>• Establishing and maintaining systems of internal control which effectively manage the risk of fraud or other malpractice</li> <li>• Responding positively to the results of any reviews of their internal control framework by incorporating changes to address any weaknesses found</li> <li>• Communicating to the Council's partners, contractors and suppliers the expectation that they will act with high standards of integrity and ethics</li> </ul>
<p><b>All employees and elected Members</b></p>	<ul style="list-style-type: none"> <li>• Managing the risk of fraud</li> <li>• Demonstrating a clear opposition to fraud and corruption through the adoption of procedures and practices which are beyond reproach and by reporting any suspicions</li> </ul>

	<ul style="list-style-type: none"> <li>• Adhering to legal requirements, the Council's codes, rules and regulations and relevant professional codes of conduct</li> </ul>
<b>Partners, Contractors and Suppliers</b>	<ul style="list-style-type: none"> <li>• Thee Council expects its partners, contractors and suppliers to act with high standards of integrity and ethics</li> </ul>

## 5 Deterrence and Prevention

5.1 The Council is committed to continually improving its anti-fraud and corruption arrangements. It will work closely with the police and other external agencies to strengthen and continuously improve its arrangements to combat fraud and corruption and, subject to legal constraints, will share information to support any related national or local initiatives.

5.2 The Council will monitor its potential exposure to the risk of fraud and corruption and the adequacy of its policies, systems and procedures to mitigate them. It will ensure there are effective arrangements to identify new and emerging risks and update its policies, systems and procedures accordingly.

5.3 The Council is committed to maintaining a strong ethical framework through clear rules, procedures and policies and clear lines of accountability. It will seek to maintain a sound system of internal control which is reviewed regularly by Internal Audit and the Council's external auditors and through the production of an Annual Governance Statement in accordance with the Accounts and Audit (England) Regulations 2011.

5.4 The Council is committed to learning from self assessment and independent reviews and will respond positively to recommendations made, by updating its internal control framework.

5.5 The Council will take appropriate and proportional action against those engaging in fraudulent or corrupt practices and will consider referral to the Police where appropriate. Any internal action against employees will be in accordance with the Council's Disciplinary Policy and Procedures; Members may be reported to the Standards Committee in accordance with the Constitution; contracts with third parties may be revoked per the formal contract; and the Council may withdraw from partnering arrangements per the partnership agreement. Prosecutions and alternative sanctions will be considered in line with the Councils' Sanction Policy (in relation to counter fraud).

5.6 The Council recognises that training and guidance is vital in maintaining the

effectiveness of its anti-fraud and corruption arrangements and is committed to ensuring that Members and employees receive guidance, training and support appropriate to their role and areas of responsibility so as to ensure that risks are effectively managed.

5.7 The Council is committed to ensuring the integrity of the people it employs through

the maintenance of robust recruitment and selection procedures and pre-appointment screening.

5.8 The Council will conduct its procurement practices in a fair and transparent manner

and will undertake due diligence in evaluating prospective contractors, and suppliers. Contracts will seek to ensure third parties act with integrity and will set out the sanctions, including the termination of any relationship, in the event of the contractor or supplier adopting practices which are inconsistent with this Policy or the Council's Code of Corporate Governance.

5.9 The Council is committed to effective partnerships which deliver shared objectives.

It will ensure that prospective partnering arrangements are supported by sound business cases and robust risk assessments. Due diligence will be exercised in carrying out proper checks on potential partners and arrangements will be approved

through robust decision-making processes. Partnering agreements will seek to ensure that partners act with integrity and in accordance with corporate ethical standards as set out in the Code of Corporate Governance. Through partnering agreements the Council will secure its right to monitor the performance of its partners and agreements will set out the sanctions, including the Council's right to

withdraw from the partnership, in the event of deficiencies.

5.10 The Council will, where appropriate, publicise the outcome of investigations and any subsequent prosecutions to make people aware of the possible consequences

of engaging in fraud or corrupt practices.

## **6 Raising Concerns**

6.1 The Council's reporting arrangements seek to ensure that the interests of the public

and the Council are protected against any form of malpractice that can reduce public confidence in the Council and its services, including acts committed outside of official duties but which may impact upon the Council's trust in the individual concerned.

6.2 Members and employees are expected to always be aware of, and vigilant to, the possibility of fraud, corruption, theft, and irregularity or the improper use or misappropriation of the Authority's property or resources. Members and employees

are encouraged to report genuine concerns immediately.

6.3 The Council positively encourages external organisations and members of the public to raise any concerns they may have.

6.4 The Council is committed to taking seriously all concerns which are genuinely raised.

It will, where appropriate, take action against those who raise unfounded malicious allegations. In the case of employees this may involve taking disciplinary action against the officer raising the concern.

6.5 The Council is committed to maintaining confidential reporting arrangements and anyone with genuine concerns should report them in accordance with guidance available through the following links:

## **7 Investigations**

7.1 The Council is committed to carrying out proper, prompt and formal investigations into all reports of suspected fraud, corruption, theft, irregularity or the improper use or misappropriation of the Council's property or resources to minimise and prevent further losses.

7.2 Investigations will be carried out in accordance with relevant legislation, including:

- The Criminal Procedure and Investigations Act 1996
- The Police and Criminal Evidence Act 1984
- The Human Rights Act 1998
- The Regulation of Investigatory Powers Act 2000

### **7.3 Police Investigations**

Where there is Police involvement, the following points should be borne in mind:

- The Police will normally remove original documentation. Copies should, therefore be taken of documents required for operational purposes, prior to them being handed over to the Police.
- All evidence related to the investigation should be stored securely, in such a way as to ensure confidentiality. Depending upon the nature of the irregularity, it may be appropriate to remove documents or software in a way that does not raise the suspicions of the person under investigation.
- It is important to collect as much documentary evidence as soon as possible since the onset of an investigation may trigger its destruction, if this has not happened already.

## **8 Sanctions, Redress and Recovery**

8.1 The Council is committed to dealing robustly and appropriately with the perpetrators of fraud and corruption. This may include criminal and/or civil

proceedings as well as taking action under the Council's Disciplinary Policy and Procedure, Sanction Policy (in relation to counter fraud) or through the Standards Committee.

8.2 The Council will work with other organisations as necessary to take all reasonable measures to recover any losses arising from fraudulent activity.

## 9 Alternative methods for taking a complaint forward

9.1 If either a member of the public, employee or Council Member feels it is right to take the matter outside these processes, the following are possible ways forward:

- **Your Local Councillor** - If you are unsure how to contact your Councillor please see: [www.lancaster.gov.uk](http://www.lancaster.gov.uk)
- **The External Auditor** - Paul Hewitson (Director) – [www.deloitte.co.uk](http://www.deloitte.co.uk) Tel: 0191 202 5353
- **Your Trade Union**
- **The Police**
- **The Local Government and Social Care Ombudsman** - [www.lgo.org.uk](http://www.lgo.org.uk)
- **Protect** - Protect is a registered charity that promotes accountability and good governance in organisations and responsibility amongst individuals. It can give you free, confidential advice at any stage about how to raise a concern about serious malpractice/wrongdoing at work. It may be contacted by telephone, 020 3117 2520, or by e mail, [whistle@protect-advice.org.uk](mailto:whistle@protect-advice.org.uk)

## Appendix A Internal Investigations

Prior to the commencement of any investigation the nature of each matter must be determined on its merits, in order to decide upon the course of action to be followed:

- Where a criminal offence is suspected and the matter is potentially of a serious nature, an internal investigation may be undertaken whilst maintaining a close liaison with the Police, (In these cases, it may be appropriate to consider handing the case over to the Police, this may occur at any stage of the Council's own investigation).
- Where there are reasonable grounds to suspect an offence an interview under caution (IUC) must be considered. Any IUC's will comply with the Police and Criminal Evidence Act 1984 codes of conduct.
- Liaison with the Head of Human resources should be undertaken at all stages of the investigation process. This is particularly important where action is required at an early stage, including the possible suspension of the officer involved, in accordance with the Council's disciplinary procedure.
- Where a criminal offence is suspected but the matter is not considered material in terms of value or seriousness (for example petty theft), the matter may be dealt with under the Council's disciplinary procedure.
- Where the incident is not of a criminal nature, it should be dealt with under the Council's disciplinary procedure.
- Within the investigation process an interview may be held in order to gather information and ascertain facts, or more formally to examine and review information, verify and confirm facts, and if appropriate seek explanations for the interviewees conduct/actions
- All relevant facts pertinent to the investigation should be obtained prior to the interview.
- Representation should be offered to the interviewee, in terms of accompaniment by their Trade Union Official, a friend, or other such person. If the interviewee requests representation, the interview should only take place when this representation is adequately provided.
- A management representative should be present, who should have the power to suspend the employee if need be.
- An accurate record must be kept of the interview.
- Legal advice should be sought from the Head of Legal Services on the strength of the evidence obtained.
- Where a decision is made to interview an employee, the arrangements should be made as soon as possible.
- If, during the course of an interview which is not an interview under caution (IUC), it becomes clear that a criminal offence may have been committed, the interviewee must be cautioned before further questioning takes place, in order to comply with the Police and Criminal Evidence Act 1984. It is critical at this point that the suspect is informed that he/she may leave the interview at any time. If he or she does remain they must be informed that they may seek legal advice if they wish.

**Officers undertaking investigations are however advised to terminate the interview immediately and inform the Police should reasonable grounds exist for suspecting that a serious offence may have been committed. Serious**

**offences include either way offences involving fraud or theft with a value of over £50,000, corruption, bribery and conspiracy. The Police will then make the decision as where or not to interview the suspect.**

### **Interview Notes/Statements**

When compiling interview notes or statements regard should be given to the following:

- When an interview with a witness or a suspect takes place, questions and answers must be recorded contemporaneously and the suspect/witness must sign the statement.
- If the suspect/witness refuses to sign the record, this fact must be noted and the interview note signed by the two interviewers. Any other notes from an interview, whether shorthand or longhand, must be kept. Any change in persons in the interview room should be recorded, including time of changes, and people entering and leaving.
- If a statement is obtained from a suspect/witness, it must be kept in the correct format. Specific stationary is available for such records. It must begin with the name and job title of the suspect/witness making the statement and must be dated and timed. The suspect may write the statement or it may be written for him/her. The person giving the statement must not be prompted and they must sign at the bottom of each page and initial every alteration. When the statement has been completed, the suspect/witness must sign after the final word. The interviewer should also witness the suspect's/witness' signature. Where representation has been taken up, the representative should also sign any written statements made by the interviewee.
- The suspect/witness must be allowed to re-read the statement before the final signing and must be allowed to alter anything written. The suspect/witness must initial all amendments.
- It is imperative that record keeping is comprehensive, legible and accurate. It should be noted that all documents, including working papers, might be required as evidence.

An employee must be given every opportunity to explain his/her conduct/actions, and no unfair pressure or method should be used to obtain information. Where applicable, the Police and Criminal Evidence Act 1984 (Code of Practice C) will be followed.

### **Finalising the Investigation**

At the end of the investigation, the Investigating Officer should ensure that a report is produced which sets out all of the facts relating to the case. The subject of the investigation should be provided with a copy of the draft report at this stage, and given the opportunity to comment on, but not change the report. Following which, the final report including the conclusions drawn and recommendations made, should be produced and submitted to the Chief Executive and copied to the relevant Director and Service Head, if appropriate.

Where it is clear that no irregularity has occurred, the suspect must be told as soon as possible and this should be confirmed in writing. If an allegation is made in good

faith, but it is not confirmed by the investigation, no action will be taken against the person who made the allegation. **If, however, an allegation is suspected to have been made frivolously, maliciously, or for personal gain, disciplinary action may be taken against the accuser.**

When the Service Head has received the advice and conclusions following from the investigation, and where appropriate has sought and received the advice from the Head of Legal Services and Monitoring Officer and the Head of Human Resources, He/she shall take appropriate action without delay.

If it is felt that there is a case to answer, the employee should be informed of the action that the Council proposes to take as soon as possible. If disciplinary action is to be considered, the Council's disciplinary policy must be carefully followed. If the Council is satisfied that an irregularity has occurred, and the Police are notified, the employee should not be suspended indefinitely solely because of subsequent Police investigations and/or court proceedings. Disciplinary proceedings should be completed as a matter of urgency.

Records should be kept at every stage of the inquiry. The employee should be personally informed of the final conclusions of the Council and a formal letter should subsequently confirm these.

Any systems weaknesses highlighted by the investigation should be included in the report and recommendations made as to how they can be overcome. Internal Audit will then obtain management responses to the recommendations made and ensure that a post audit review is carried out at a later date to assess progress in implementing the agreed recommendations. Details of the investigation, its findings and any recommendations will be reported to the Audit Committee as part of the internal Audit reporting procedures.

**Counter Fraud**

# **Lancaster City Council Sanction Policy**

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February 2021

Lancaster City Council is committed to protecting public funds through its investigations into cases of fraud. The Oxford English Dictionary defines fraud as *“Wrongful or criminal deception intended to result in financial or personal gain”*. Fraud may also occur by failure to disclose information where there is a legal duty to do so.

This policy is intended to cover any form of fraud that the Council may consider necessary to investigate. The Council will consider taking enforcement action against any individual or organisation which commits a criminal offence against the Council, (including criminal conduct related to the systems administered by the Authority or any of its partners) or the wider local community.

Areas in which the Council faces the risk of fraud include: (the list should not be considered exhaustive):

- Business Rates
- Council Tax
- Council Tax Reduction Scheme
- Employee Fraud
- Grants
- Insurance
- Mandate Fraud
- Procurement
- Social Housing Fraud

The Council may work with other organisations such as the Department for Work and Pensions, the Police, Home Office, HM Revenues and Customs and other local authorities in order to detect and deter fraud. The work may include joint investigations with them and, where appropriate, assist in any prosecution.

The Council recognises that the use of Simple Cautions, Penalties (as prescribed in the Council Tax Reduction Scheme (Detection of Fraud and Enforcement) (England) Regulations 2013 and the Social Security Administration Act 1992 (as amended) and prosecutions have a key role to play in deterring offenders.

In **all** cases where fraud is identified the Council will consider commencing legal processing to cover the debt from the fraudulent party

This document replaces the Lancaster City Council's Sanction Policy for the Council Tax Reduction Scheme.

### Course of Action

The initial decision on what appropriate action may be taken lies with (1) the Fraud Manager who will submit a report to (2) the Director of the service affected, making recommendations on the appropriate sanction. If approved, the report will be counter signed by the Director and the approved action will be followed. If it is not approved, a case conference will take place between the recommending officer and the Director to discuss what action, if any, is appropriate.

In the event of the case being submitted for prosecution, the report, together with the investigation evidence, will be submitted to the Council's Governance (Legal) Team who in turn will determination on the institution of legal proceedings.

Consideration will be given to the individual circumstances of each case in deciding the appropriate enforcement action from a range of sanctions.

### **A) Simple Caution**

Where the evidential requirement for a prosecution is satisfied and the offender has admitted the offence, a caution is one of the enforcement actions available to the Council.

Whether an offer of a caution is suitable is an operational decision based on the specific circumstances of the individual case.

#### **The Council may offer a Simple Caution if:**

- The case involves low-level, mainly first-time, offending
- There is an absence of previous warnings, penalties, cautions or convictions
- A penalty is not appropriate
- The overall value of the fraud is below £5,000
- The person's subsequent attitude is one of penitence (eg. genuine expression of remorse for their actions and/or co-operation with the investigation)
- The person is elderly or suffering from either significant mental or physical ill health, but their fraudulent act is considered too serious to go unpunished
- There are no significant aggravating factors such as the person being in a position of trust, sophisticated nature of the offence or significant planning

**If the person refuses the offer of a simple caution the case will usually be referred for prosecution.**

### **B) Alternative Penalties**

The Council may offer an alternative penalty where appropriate and where legislation allows the offer of a penalty. The Council will have particular regard to:

- Circumstances where the case does not involve factors that make prosecution the only realistic option (such as collusion, abuse of position, sophisticated nature or significant planning);

- The loss to public funds;
- Whether the person has no unspent previous convictions; and
- Whether the person has no cautions or alternative penalties within the last two years.

### **Council Tax Support Scheme**

Regulation 11 of The Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013 allows the Council to offer a penalty of 50% of the amount of excess reduction/overpayment (rounded down to the nearest whole penny) subject to a minimum penalty of £100 and a maximum penalty of £1000 as an alternative to prosecution. The penalty is levied in addition to the amount of excess reduction/ overpayment. Upon accepting the penalty the person has 14 days in which to change their decision.

A penalty may be offered in cases of attempted fraud, as an alternative to prosecution, where an offence of Council Tax Support Scheme fraud has been committed but the fraud is discovered and stopped before any award of Council Tax Support is made. In these cases the amount of the penalty would be £100.

### **Housing Benefit, Council Tax and National Benefits**

Powers to investigate and prosecute benefit fraud now lie with The Department for Work and Pensions. Where an overpayment of Housing Benefit, Council Tax Benefit or National Benefits is also being considered for the offer of a penalty these will be dealt with under the provisions contained in the Social Security Administration Act 1992 (as amended). These penalties will be administered by The Department for Work and Pensions.

If a penalty is not accepted, or it is withdrawn, the Council must consider whether to prosecute, therefore all cases must be up to prosecution standard.

The offer of a penalty should happen at a **special interview**. The person should be told at the interview that:

- It is not an interview under caution
- In light of the evidence available, it is believed there are grounds for instigating criminal proceedings for the alleged offence
- It has been decided to offer them the alternative of agreeing to pay a penalty instead of their case being referred for prosecution
- They will be expected to make a decision on whether to agree to pay a penalty, by the end of the interview
- Acceptance of the penalty is not an admission of guilt
- Recovery of the penalty will occur in the same way as recovery of the overpayment

- They have 14 days in which to change their mind should they accept the penalty

Failure to repay the penalty or default on instalments will result in the person facing civil proceedings for recovery.

The officer who conducted the interview under caution will not conduct the special interview.

**The Council may consider issuing a penalty if:**

- To the Council's knowledge the person has no previous unspent convictions
- The person has no cautions or alternative penalties within the last two years
- The person has not admitted the offence during an interview under caution
- The excess reduction/overpayment is under £5,000
- A Simple Caution is not appropriate
- The person is elderly or suffering from either significant mental or physical ill health, but their fraudulent act is considered too serious to go unpunished

**If the person refuses the offer of a penalty, the case will usually be referred for prosecution.**

**C. Prosecution**

The Decision to Prosecute – additional factors:

- The Council shall always consider the principles set out in the Code for Crown Prosecutors. Accordingly, a prosecution will only be started when the case has passed both stages of the Full Code Test: the evidential test; followed by the public interest test.
- Each case will be considered on its own merits to determine the most appropriate course of action.
- In all cases considered for sanction, it is essential that each case is subject to scrutiny on the basis of its own particular details. The circumstances of each individual case will ultimately determine the eventual outcome of this exercise
- It should be noted that it may be appropriate to prosecute or take other sanction action against a person who has attempted to commit a fraud.

**AUDIT COMMITTEE****Risk Management Progress Report****24 March 2021****Report of the Internal Audit and Assurance Manager  
(Chief Internal Auditor)****PURPOSE OF REPORT**

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

This report is public

**RECOMMENDATIONS**

1. The Audit Committee notes the progress made in relation to both the council's strategic and operational risk management arrangements and notes the amended strategic risk register at Appendix A.
2. That the Audit Committee is asked to review and approve the refreshed Risk Management Policy at Appendix B.

**1.0 Background**

- 1.1 In accordance with their terms of reference the Audit Committee is charged in providing those with governance, independent assurance of the adequacy of the risk management framework. This will involve monitoring the effective development and operation of risk management across the council and monitoring progress in addressing risk-related issues reported to the committee.
- 1.2 There are a number of good examples across the organisation where it can be evidenced that robust risk management has been applied to its decision-making process, however further work is required to strengthen the reporting and documentation of this.
- 1.3 Work completed in 2019 and early 2020 included the development and approval of a Risk Management Policy (approved by Audit Committee in November 2019), the procurement of risk management software (January 2020) and the production of a strategic risk register. An update on progress made in relation to strategic and operational risk is detailed in section 2 below.

**2.0 Strategic Risk**

2.1 Whilst the Executive Team have not yet received any training in relation to the new risk management software, a copy of the current risk register is held on TEAMS and risk owners are encouraged by Internal Audit to update this on a regular basis. Since the register was last presented to the Audit Committee in November 2020 the only updates made to date (5 March 2021) have been those of the Section 151 Officer. Whilst it was hoped that the Internal Audit Plan for 2021/22 would have been derived (the golden thread) from the strategic risk register this has not been possible given the register is still considered to be in its infancy and requires further development.

**3.0 Operational Risk**

3.1 It was hoped that the Risk Management Policy and training would have been rolled out and operational risk registers would have been in place by early 2021, in order to assist with the production of the 2021/22 Internal Audit plan. However, owing to the on-going pandemic and more recently more pressing corporate priorities this has not been achieved. To speed up progress it was agreed with the Director of Corporate Services that Internal Audit would work with Service Managers to identify key operational risks for each service area prior to the provision of risk management training. This process is currently underway, and it is hoped that this approach will help to develop an effective risk management training programme and gain an understanding of the different capabilities across the organisation prior to the delivery of such training.

3.2 Following the purchase of risk management software the attached policy has been updated and will be circulated to all service managers following its approval.

**4.0 Details of consultation**

4.1 No specific consultation has been undertaken in compiling this report, however the Internal Audit team are now working with the Director of Corporate Services to assist with the embedding of risk management going forward.

**5.0 Options and options analysis (including risk assessment)**

5.1 No alternative options have been identified.

**6.0 Conclusion**

6.1 The Audit Committee are informed of the council's progress made in relation to strategic and operational risk and note the updated strategic risk register at Appendix A.

6.2 The adoption of a Risk Management Policy will help the council to demonstrate its commitment to managing risk wherever it may arise. The council's refreshed Risk Management Policy is at Appendix B.

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

This report has no direct impact on these areas.

**FINANCIAL IMPLICATIONS**

None arising directly from this report.

**SECTION 151 OFFICER'S COMMENTS**

Risk management drives many aspects of Internal Audit's work and whilst the report recognises the significant progress has been made around risk management, work remains to further embed it throughout the Council.

**LEGAL IMPLICATIONS**

None arising directly from this report.

**MONITORING OFFICER'S COMMENTS**

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

**BACKGROUND PAPERS**

None

**Contact Officer:** Joanne Billington

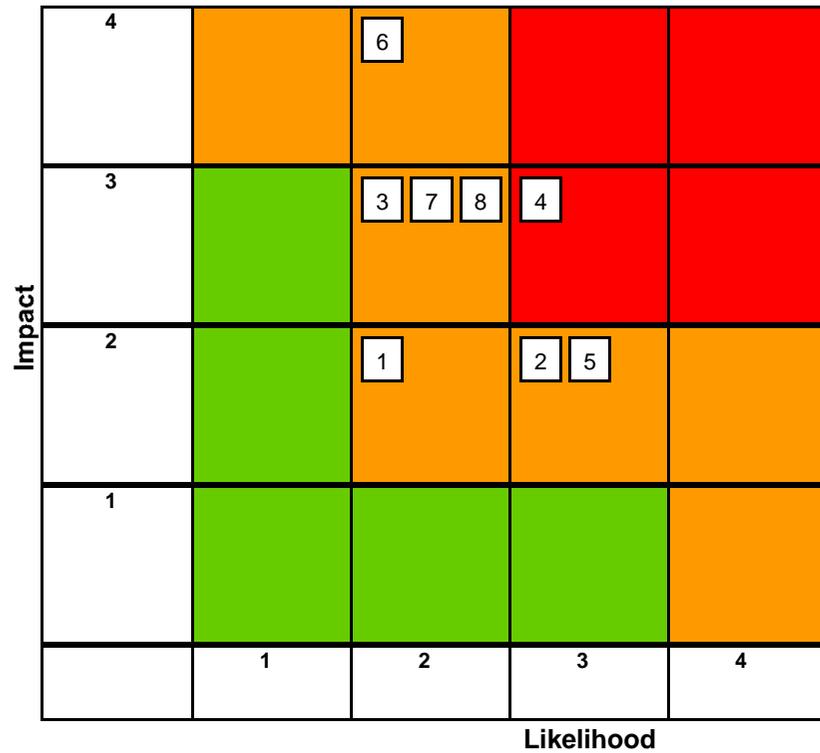
**Telephone:** 01524 582028

**E-mail:** jbillington@lancaster.gov.uk

**Ref:**

# Actions Plans By Entity with Mitigating Actions

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



Risk	Risk Owner	Inherent Risk Score	Existing Control Measure Description	Residual Risk Score	Risk Response Category	Target Risk Level	Action Plan Description
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Strategic Risk Register

Items in Group: 8

Risk	Risk Owner	Inherent Risk Score	Existing Control Measure Description	Residual Risk Score	Risk Response Category	Target Risk Level	Action Plan Description
SR1 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.	Sarah Davies (Corporate Director Corporate Services) Paul Thompson (Financial Services Manager)	9	Officer/Member Working Groups - Capital Strategy Group (CSG) and Financial Resilience Group (FRG)	4	Reduce	1	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.
			Council Strategies - Funding the Future Strategy, Road to Ambition, Investment Strategy, Reserves Strategy and Medium-Term Financial Strategy				Development of LATCO's or other alternative service delivery vehicles to deliver efficiencies and/ or operational surpluses which can be reinvested into Council Services.
			The Strategy contains 4 Pillars to achieve Financial Stability. 1) Investment to gain financial return; 2) Pursuing efficiencies with vigour; 3) Outcomes based resourcing; and 4) Commercialisation				
			Strategic acquisitions of established investments to obtain rental or other income at a commercial rate of return. Multidiscipline Property Investment Team established to review and challenge investment opportunities ahead of review by Capital Strategy Group.				
A number of Lean Process Reviews are in progress to identify efficiencies within a number of core Council processes.							

Risk	Risk Owner	Inherent Risk Score	Existing Control Measure Description	Residual Risk Score	Risk Response Category	Target Risk Level	Action Plan Description
SR2 The Council fails to meet the £2m 2021/22 funding gap as a result of ineffective delivery of the efficiency programme and failure to deliver on key projects.	Sarah Davies (Corporate Director Corporate Services) Paul Thompson (Financial Services Manager)	9	Budget and Performance Panel	6	Reduce	2	Consisting of Executive Team to monitor delivery via monthly and quarterly reports and provide support and challenge to each project as required. Meeting Monthly. Several projects delayed due to COVID 19 – reporting now suspended for Projects & Performance (Finance Continues)
			Reserves Policy				Established to provide a central co-ordination point for all the Council's projects. Responsible for co-ordination and monitoring.
			Project Managers				Monitoring report linking Projects, Performance and Resources presented to Cabinet and Budget & Performance Panel. Several projects delayed due to COVID 19 – reporting now suspended for Projects & Performance (Finance Continues)
			Programme Managers				Project and Financial information present to Cabinet/ Portfolio providing an opportunity for review and discussion of performance. See above
			Programme Delivery Board				Outcome based resourcing exercise underway to identify revenue saving for 21/22 and beyond
			Cabinet				
			Portfolio Holder				

Risk	Risk Owner	Inherent Risk Score	Existing Control Measure Description	Residual Risk Score	Risk Response Category	Target Risk Level	Action Plan Description
SR3 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. Outcome of Local Government re-organisation (Unitary Authority Proposal) may also have an adverse impact on recruitment/retention of key staff. *(this may form a new strategic risk once outcomes are known in March 2021)	Sarah Davies (Corporate Director Corporate Services)	12	Pay and Grading Structure in place	6	Accept	6	<p>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.</p> <p>Recent experience suggests that this assisted in attracting applicants with the desired skills and values.</p> <p>The Council is progressing its approach to developing its existing workforce, via an apprentice programme and also via a reallocation / talent team, which has shown its effectiveness and potential during the pandemic.</p> <p>The Council also recognises that a further attraction to applicants are work/ life balance, wellbeing, attractive pension scheme, pool car scheme, cycle to work scheme, employee supportive policies, equality of opportunity etc. These are all in place and being developed further</p>
			Recruitment and Retention Policy				
			Annual Appraisal Process				
SR4 The use of council assets is not maximised leading to insufficient funding to meet the funding gap and deliver capital projects.	Mark Davies (Corporate Director Communities and the Environment) Sarah Davies (Corporate Director Corporate Services) Kieran Keane (Chief Executive) Iain Robertson (Head of Property, Investment and Regeneration) Jason Syers (Director for Economic Growth and Regeneration) Paul Thompson (Financial Services Manager)	12	Capital Strategy Group	9	Reduce	6	Regular review of the Asset Management Plan to ensure performance parameters are being achieved.

Risk	Risk Owner	Inherent Risk Score	Existing Control Measure Description	Residual Risk Score	Risk Response Category	Target Risk Level	Action Plan Description
SR5 Council services are disrupted and / or additional services are required, and costs are incurred as a result of national emergencies e.g. Covid pandemic and the potential of the unknown impacts following the UK's withdrawal from the EU.	Mark Davies (Corporate Director Communities and the Environment)	9	Lancashire Resilience Forum	6	Accept	6	The Council continues to adequately resource its emergency planning function, including maintaining its team of out of appropriately trained emergency response officers.
			Emergency plans				Adequate non earmarked reserves are maintained to allow for the impact of long-term emergencies like the pandemic.
			Business Continuity Plans				The Council continues to invest in resilience measures eg technology to facilitate remote homeworking
			Government Planning				The Council continues to allocate resource to developing its key partnerships LRF, CSP and local resilience partners
							The Council supports community resilience through CEPGs and FLAG groups etc
							The Council appraises and potentially invests in schemes and activities that provide adaptation (e.g. Lune river defence)
SR6 The Council fails to reduce its direct Co2 emissions to 'net zero' by 2030.	Mark Davies (Corporate Director Communities and the Environment)	16	Delivery plan in place	8	Accept	8	The Council continues to work on the delivery of its action plan
							The Council considers the recommendations of the Peoples Jury and builds recs that can be delivered directly by the Council into its plans
SR7 The Council fails to deliver its key priorities due to the lack of an underpinning strategy setting out expected delivery / outcomes.	Mark Davies (Corporate Director Communities and the Environment) Sarah Davies (Corporate Director Corporate Services) Kieran Keane (Chief Executive) Jason Syers (Director for Economic Growth and Regeneration) Paul Thompson (Financial Services Manager)	9	Funding the future	6	Reduce	4	Prosperity Plan
			Carbon Zero +				Local Development Plan
			Medium Term Financial Strategy (MTFS)				Community Wealth Building Strategy.
			Programme Management				No Change for FtF Strategy
							Cabinet and Exec team are undertaking an extensive programme to develop the corporate planning, budgeting and performance management of the Council (Circles)

Risk	Risk Owner	Inherent Risk Score	Existing Control Measure Description	Residual Risk Score	Risk Response Category	Target Risk Level	Action Plan Description
SR8 The Council fails to deliver its key projects due to the lack of staffing capacity and resources (financial) within the Council.	Jason Syers (Director for Economic Growth and Regeneration)	9	Local Plan	6	Reduce	3	Local Plan
			Medium Term Financial Strategy (MTFS)				Funding the Future Strategy
			Investment Strategy				The Council continues to resource key service teams in Planning, economic development, regeneration, property investment and facilities management.
			Capital Programme				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.

# **Risk Management** **Policy**

## **March 2021**

**Contents**

- 1.0 Introduction
- 2.0 Scope
- 3.0 Risk Management Objectives
- 4.0 Benefits
- 5.0 Definitions
- 6.0 Standards
- 7.0 Approach
- 8.0 Risk Registers
- 9.0 Roles and Responsibilities
- 10.0 Embedding Risk Management
- 11.0 Culture
- 12.0 Training and Awareness
- 13.0 Summary

Appendix 1 - Check List for Risk Identification

Appendix 2 - Measures of Likelihood and Impact

Appendix 3 - Risk Response Categories

**Version control**

	<b>Description</b>	<b>Date</b>
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

## **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, the council's elected Members 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 learnt 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; and
- 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; and
  - Enhanced communication between staff, Elected Members 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 two 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.

### 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. Risk management is a fast-moving discipline and standards are regularly supplemented and updated.

- 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; and
- ◆ 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; or
- 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.

There are several different types of risks that an organisation may face including financial loss, failure of service delivery, physical risks to people, and damage to the organisation's reputation. To act as a prompt and to ensure completeness, a checklist of risk categories has been developed around the acronym '**PERFORMANCE**'. 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 a 'Risk Register'. Risks recorded in the register will 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 (Diagram 1). Where the likelihood and impact cross, determines the risk level. For example, Possible Likelihood (2) and Very High Impact (4) would result in a risk level of 8.

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. This risk score is given to assist Internal Audit when pulling together the Risk Based Audit Plan. Those risks that have scored as 'red' risks will be the risks that Internal Audit will want to ensure are appropriately mitigated and will therefore take priority when the audit plan is produced.

## 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. To ensure resources are focused on the most significant risks, the council's approach to risk management is to focus on the risks that have scored as 'red' or 'amber' on the matrix. This may also be referred to as the council's risk appetite.

The residual risk score will be the deciding factor as to whether further action is required in order to reduce the risk to within the council's 'risk appetite'. 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).

Any risks that are NOT scored as a 'red' or 'amber' risk, therefore falls below the risk appetite, and will be accepted and kept under review for any significant changes that may increase the risk score. Anything identified as a 'red' or 'amber' risk will take priority and the necessary actions will be taken to mitigate the risk.

## 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 for each 'red' or 'amber' risk. A risk owner should be identified for each action.

The authorisation status of any included mitigation action should be maintained such that it is not wrongly considered that the severity of a risk is reduced without the mitigation action forming a part of the implementation of the activity concerned.

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; or
- 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. This must be clearly stated in the register to evidence the effectiveness of the evaluation and scoring process. In another example, a decision may be made following assessment, that despite additional controls the residual risk is still too great and that a decision is made to avoid the risk entirely by stopping the activity. Again this must be clearly documented.

### **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 Members to be more fully aware of the extent of the risks and progression being made to manage them. Both strategic and operational risk workshops will be administered by Internal Audit on an annual basis. However, the Grace Risk Management system will encourage risk owners to continually monitor and update identified risks on a regular basis.

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.

Progress on high 'red' risks for both strategic and operational risk registers will be reported to the Audit Committee at each of their meetings.

## **8.0 Risk Registers**

8.1 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; and
- Any relevant articles from risk management publications.

8.2 The Internal Audit and Assurance Team will oversee administration of both strategic and operational risk registers within the Grace Risk Management

system (Grace). However, identified risk owners will ultimately be responsible for monitoring and updating their risk scores and actions plans.

- 8.3 The Grace system will automatically send risk owners with a weekly email reminder of any overdue risk reviews and overdue actions, and Internal Audit 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. However Internal Audit will monitor these 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.

## **9.0 Roles and Responsibilities**

- 9.1 To ensure risk management is effectively implemented, all staff and Members 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; and
- ◆ Attend training and awareness sessions as appropriate.

### **All Members**

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

Some individuals and groups have specific leadership roles or responsibilities and these are identified below:

### **Cabinet**

- ◆ Risk manage the council in delivering its core purpose, priorities and outcome; and
- ◆ 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 risk registers;
- ◆ Where appropriate escalate operational risks for possible inclusion on the strategic risk register; and
- ◆ Approve and review recommendations and amendments to the Risk Management Policy.

### **The Executive Team**

- ◆ Champion an effective council-wide risk management culture;

- ◆ Ensure Members receive relevant risk information; and
- ◆ Responsible for owning and managing corporate strategic risks.

### **Corporate Directors**

- ◆ Risk manage their directorate in delivering the council's core purpose, priorities and outcomes;
- ◆ Constructively review and challenge the risks involved in decision making; and
- ◆ The Director of Corporate Services, supported by the Internal Audit and Assurance Manager champion's risk management. It is their responsibility to promote the adequate and proper consideration of risk management to senior managers and more widely within the council.

### **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;
- ◆ 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; and
- ◆ 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; and
- ◆ Report on risk management issues to partnership boards or equivalent.

### **Internal Audit**

- ◆ 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;
- ◆ Collate risk information and prepare reports as necessary to both the Executive Team and the Audit Committee;
- ◆ Ensure the Internal Audit work plan is focused on the key risks facing the council;

- ◆ Provide assurance that risks are being effectively assessed and managed;
- ◆ During all relevant audits, challenge the content of risk registers; and
- ◆ Periodically arrange for the independent review of the council's risk management process and provide an independent objective opinion on its operation and effectiveness.

## **10.0 Embedding Risk Management**

10.1 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.

## **11.0 Culture**

11.1 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.

## **12.0 Training and Awareness**

- 12.1 Having documented a robust approach and established clear roles and responsibilities and reporting lines, it is important to provide officers and Members with the knowledge and skills necessary to enable them to manage risk effectively. The Internal Audit Team will use a range of training methods to meet the needs of the organisation. Furthermore, risk management information and templates will be developed and will be available on the intranet to ensure the council can apply a consistent approach when managing risk.

### **13.0 Summary**

- 13.1 The adoption of 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.

## Check List for Risk Identification (PERFORMANCE)

### **Political**

- ◆ Change in Government policy
- ◆ Member 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.

## Measures of Likelihood and Impact

**Diagram 1**

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

### Likelihood Measures

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

### Impact Measures

	<b>Low 1</b>	<b>Medium 2</b>	<b>High 3</b>	<b>Very High 4</b>
<b>People / Duty of Care</b>	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
<b>Financial Impact</b>	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
<b>Legal Impact</b>	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
<b>Service Impact</b>	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

<b>Project Delivery</b>	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
<b>Intervention Required</b>	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
<b>Reputation Impact</b>	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

### Risk Response Categories

	<b>Description</b>
<b>Avoid</b>	<p>A decision is made not to take a risk.</p> <p>Where the risks outweigh the possible benefits, avoid the risk by doing things differently e.g. revise strategy, revisit objectives or stop the activity.</p>
<b>Accept</b>	<p>A decision is taken to accept the risk.</p> <p>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.</p>
<b>Transfer</b>	<p>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.</p> <p>Although responsibility can be transferred, in most cases accountability remains with the council, so this still needs to be monitored.</p>
<b>Reduce</b>	<p>Implement further additional action(s) to reduce the risk by;</p> <ul style="list-style-type: none"> <li>• minimising the likelihood of an event occurring (e.g. preventative action) and/or</li> <li>• reducing the potential impact should the risk occur (e.g. business continuity plans)</li> </ul> <p>Further actions are recorded in the risk register and regularly monitored.</p>
<b>Exploit</b>	<p>Whilst taking action to mitigate risks, a decision is made to exploit a resulting opportunity.</p>

**AUDIT COMMITTEE****24 March 2021****Proposed Accounting Policies to be used in the Preparation  
of the Statement of Accounts 2020/21****Report of Chief Finance Officer****PURPOSE OF REPORT**

This report seeks approval from Members in respect of the changes to the Council's Accounting Policies for the 2020/21 financial year.

**This report is public**

**RECOMMENDATIONS**

It is recommended that the Audit Committee:

**1. Approves the accounting policies, as set out in Appendix 1****1.0 Introduction**

1.1 This report presents the significant accounting policies that will be used in the preparation of the 2020/21 Statement of Accounts and summarises the changes from 2019/20 that have been introduced because of amendments to the Code of Practice on Local Authority Accounting 2020/21 (the Code), or as part of the Council's annual review process. They should contain only policies that are relevant to the circumstances of the Council and address material transactions. They should be subject to annual review and agreement by those charged with governance

**2.0 Accounting Policies**

2.1 In preparing the statement of accounts, the Chief Finance Officer is responsible for selecting suitable accounting policies and ensuring that they are applied consistently. The Council's accounting policies are the specific principles, conventions, rules and practices that are applied in the production and presentation of the annual Statement of Accounts. These policies must be disclosed as a note to the annual accounts, and a copy of the policies can be found at Appendix 1. There have been no changes from the policies used to prepare the 2019/20 Statement of Accounts.

**3.0 International Financial Reporting Standard (IFRS) 16**

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

3.2 The currently International Accounting Standard 17 Leases (IAS17) draws a distinction between finance leases, which are captured by the Council on its balance sheet, as opposed to operating leases, which are not captured. IFRS 16 removes the finance/

operating lease distinction, (subject to some exceptions). From 2022/23 the Council must recognise every lease on its balance sheet. The lease is recognised as a liability, while the subject of the lease i.e., property or equipment appears as an asset.

3.2 IFRS 16 is designed to improved levels of accuracy and transparency to the reporting process. In practical terms officers will need to identify and review the existing lease arrangements in the forthcoming year.

3.3 The Code of Practice on Local Authority Accounting requires the Council to disclose as a note in the 2020/21 accounts, information relating to the impact of an accounting change required by a new standard that has been issued but not yet adopted by the 2020/21 Code.

**4.0 Details of Consultation**

4.1 Consultation has taken place with the Council’s External Auditors, Deloittes LLP.

**5.0 Options and Options Analysis (including risk assessment)**

5.1 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

**5.2 Officer Preferred Option**

The preferred option is option C at paragraph 5.1.

**6.0 Conclusion**

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

**7.0 Appendices**

7.1 Appendix 1 – Proposed Accounting Policies 2020/21

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

Not Applicable

**FINANCIAL IMPLICATIONS**

None directly arising from this report

**SECTION 151 OFFICER’S COMMENTS**

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

**LEGAL IMPLICATIONS**

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

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

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

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

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

**MONITORING OFFICER'S COMMENTS**

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

**BACKGROUND PAPERS**

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**Ref:**

## 1. ACCOUNTING POLICIES

### 1.1 Basis of Preparation

The Statement of Accounts summarises the Council's transactions for the 2020/21 financial year and its position on 31 March 2021. 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:

<b>Quoted securities</b>	Current bid price
<b>Unquoted securities</b>	Professional estimate
<b>Unitised securities</b>	Current bid price
<b>Property</b>	Market value

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

Component	Description	Treatment
<b>Service Costs</b>		
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.
<b>Re-measurements</b>		
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.
<b>Contributions</b>		
Contributions paid to the pension fund	Cash paid as employer's contributions to the pension fund in settlement of liabilities.	These are not accounted for as an expense.

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

#### **Discretionary Benefits**

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

#### **1.7 Events after the Balance Sheet Date**

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

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

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

#### **1.8 Financial Instruments**

##### Financial Liabilities

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

The effective interest rate is the rate that exactly discounts estimated future cash

payments over the life of the instrument to the amount at which it was originally recognised.

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

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

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

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

#### Financial Assets

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

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

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

#### Financial Assets measured at Amortised Cost

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

Annual credits to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the balance sheet is the outstanding principal receivable plus accrued interest and interest credited to the comprehensive income and expenditure statement is the amount receivable for the year in the loan agreement.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### Expected credit loss model

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

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

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

### **1.10 Government Grants and Contributions**

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

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

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

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

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

### **1.11 Business Improvement Districts**

Business Improvement District (BID) schemes apply to Lancaster City Centre and

Morecambe Town Centre. The Scheme is funded by a BID levy paid by non-domestic ratepayers. The Council collects the levy in respect of the BID and pays this across to Lancaster BID Ltd and Morecambe BID Ltd CIC as managing bodies for the Scheme.

### **1.12 Heritage Assets**

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

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

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

### **1.13 Intangible Assets**

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

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

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

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment.

### **1.14 Inventories and Long-term Contracts**

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

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

### **1.15 Investment Property**

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

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

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

### **1.16 Leases**

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

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

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

#### **The Council as Lessee**

##### **Finance Leases**

Property, plant and equipment held under finance leases are recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred. Lease payments are

apportioned between:

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

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

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

### **Operating Leases**

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

### **The Council as Lessor**

#### **Finance Leases**

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

Lease rentals receivable are apportioned between:

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

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the

deferred capital receipts are transferred to the Capital Receipts Reserve.

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

#### Operating Leases

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

### 1.17 Overheads and Support Services

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

### 1.18 Property, Plant and Equipment

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

#### Recognition

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

#### Componentisation

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

#### Measurement

Assets are initially measured at cost, comprising:

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

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

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

by the Council.

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

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

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

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

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

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

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

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

- Where there is a balance of revaluation gains for the asset in the Revaluation

Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).

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

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

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

### 1.19 Impairment

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

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

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

### 1.20 Depreciation

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

Depreciation is calculated on the following basis:

Category	Method and period over which assets depreciated
Land	Not depreciated
Council Dwellings	Straight-line allocation on a componentised bases over the useful life of the property as estimated by the Valuer; (5 - 80 years)
Other buildings	Straight-line allocation on a componentised bases over the useful life of the property as estimated by the Valuer; (5 - 40 years)
Vehicles, plant and equipment	Straight-line allocation over 10 to 15 years depending on the type of asset;
Infrastructure	Straight-line allocation over 10 to 40 years depending on the type of asset.
Community Assets	Not depreciated

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

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

### **Disposals and Non-current Assets Held for Sale**

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

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

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

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

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

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

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

## **1.21 Provisions, Contingent Liabilities and Contingent Assets**

### **Provisions**

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

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

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

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

### **Contingent Liabilities**

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

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

### **Contingent Assets**

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

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

## **1.22 Reserves**

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

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus and Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets,

financial instruments, retirement and employee benefits and do not represent usable resources for the Council. These reserves are explained in the relevant notes.

**1.23 Revenue Expenditure Funded from Capital under Statute**

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

**1.24 Value Added Tax (VAT)**

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