



Committee: AUDIT COMMITTEE
Date: WEDNESDAY, 21 JULY 2021
Venue: MORECAMBE TOWN HALL
Time: 6.00 P.M.

A G E N D A

1. **Apologies for Absence**

2. **Minutes**

Minutes of meeting held on 9th June 2021 (previously circulated).

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

4. **Declarations of Interest**

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

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

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

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

5. **The CIPFA Financial Management Code**

Report of the Chief Finance Officer

Report to follow

6. **Annual Governance Statement 2020/21 (Pages 3 - 19)**

Report of the Chief Finance Officer

This report was marked 'to follow' and was published on 16th July 2021.

7. **Update 2019/20 Statement of Accounts** (Pages 20 - 51)

Report of Deloitte LLP

This report was marked 'to follow' and was published on 20th July 2021.

8. **Internal Audit Resourcing** (Pages 52 - 54)

Report of the Director of Corporate Services

This report was marked 'to follow' and was published on 21st July 2021.

9. **HR Assurance Report - Update** (Pages 55 - 59)

Report of the Director of Corporate Services

This report was marked 'to follow' and was published on 21st July 2021. This is a report which will be considered in the public part of the meeting.

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

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

(ii) Substitute Membership

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

(iii) Queries regarding this Agenda

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

(iv) Changes to Membership, substitutions or apologies

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

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

Published on 13th July 2021.

AUDIT COMMITTEE**Annual Governance Statement 2020/21****21 July 2021****Report of Chief Finance Officer****PURPOSE OF REPORT**

To approve the draft Annual Governance Statement (AGS) for 2020/21 for inclusion in the Annual Statement of Accounts following a review of the Council's governance arrangements.

This report is public

RECOMMENDATIONS

- (1) **To approve the Annual Governance Statement (AGS) for 2020/21 and be recommended for adoption and for signing by the Chief Executive and the Leader of the Council.**

1.0 Introduction

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

- F. **Managing risks and performance through robust internal control and strong public financial management; and**
- G. **Implementing good practices in transparency, reporting, and audit to deliver effective accountability.**

2.0 Proposal Details

- 2.1 The draft AGS for 2020/21 is attached at Appendix A. Owing to the COVID-19 pandemic, the usual formulation of this document was unable to take place. However, Microsoft Teams was used to ensure all key officers were given the opportunity to provide information and key evidence to support how the organisation has complied with the principles set out in paragraph 1.4 above during the year.
- 2.2 The timescale to produce the AGS coincides with that for the approval of the audited financial accounts. The AGS must be approved at a meeting of the Council or delegated committee, in this case, the Audit Committee.
- 2.3 The Leader of the Council and the Chief Executive will be asked to sign the AGS certifying that they are aware of the governance issues within the Authority and of the measures that are needed to mitigate them.

3.0 Details of Consultation

- 3.1 Members of the Executive Team and other key officers across the Council have had the opportunity to participate in the formulation of this document. In addition, Service Managers have completed assurance mapping statements to support the AGS and these have been reviewed and signed by the appropriate Director.

4.0 Options and options analysis (including risk assessment)

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

5.0 Conclusion

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

CONCLUSION OF IMPACT ASSESSMENT

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

The report has no direct impact on the above issues.

FINANCIAL IMPLICATIONS

None arising directly from this report.

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

None arising directly from this report.

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

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

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

N/A

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Ref:

Annual Governance Statement 2020/21

INTRODUCTION AND ACKNOWLEDGEMENT OF RESPONSIBILITY

Lancaster City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards. It needs to ensure that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

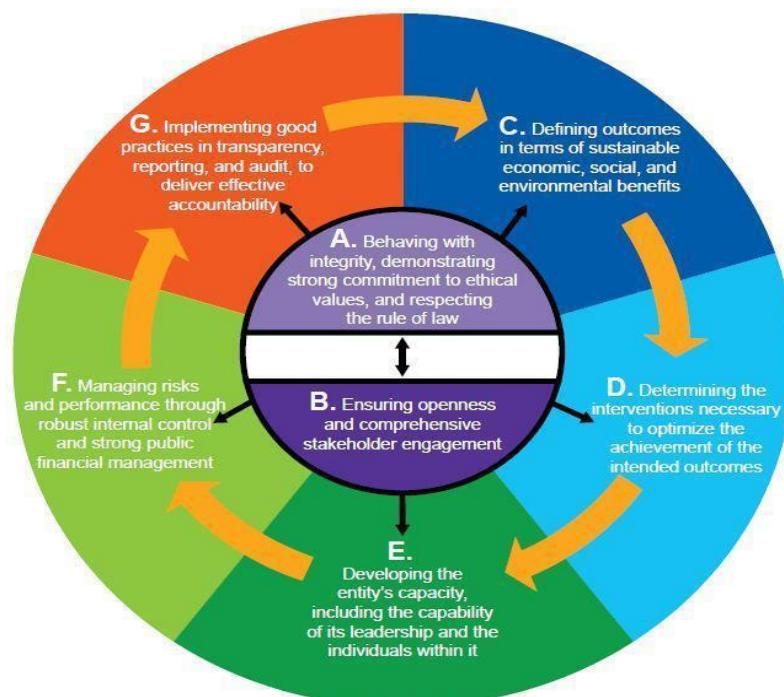
To meet our responsibility, we have put in place proper governance arrangements for overseeing what we do. These arrangements are intended to make sure that we do the right things, in the right way, for the right people, in a timely, open and accountable manner. These arrangements consist of all the systems, processes, culture and values which direct and control the way in which we work and through which we account to, engage with and lead our communities.

The Accounts and Audit Regulations (2015), as amended by the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020, require the council to conduct a review, at least once a year, on the effectiveness of its system of internal control and include an Annual Governance Statement reporting on the review with the Statement of Accounts.

THE GOVERNANCE FRAMEWORK

We have approved and adopted a Code of Corporate Governance, which sets out the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government (2016) (The Framework). The Framework contains seven core interlinked principles detailed in table 1 below

Table 1. Principles for Delivering Good Governance in Local Government



The Framework also expects that local authorities will put in place proper arrangements for the governance of their affairs which facilitate the effective exercise of functions and ensure that the responsibilities set out above are being met.

Key elements of the Council's governance framework are summarised below.

Table 2. Overview of the key elements of the Council's Governance Framework

<p><u>The Council, Cabinet and Leader</u></p> <ul style="list-style-type: none"> • Provide leadership, develop strategy, and set policy • Engage with and support the Council's communities and neighbourhoods to thrive and succeed 	<p><u>Scrutiny and Review</u></p> <ul style="list-style-type: none"> • The Overview and Scrutiny Committee reviews Council policy and can scrutinise and challenge decisions • The Budget and Performance panel reviews operational and financial performance • The Audit Committee reviews internal control, fraud, risk management and governance
<p><u>Decision Making</u></p> <ul style="list-style-type: none"> • Meetings are held in public • Agendas, minutes and decisions are recorded on the Council's website 	<p><u>Risk Management</u></p> <ul style="list-style-type: none"> • Risk management strategy ensures proper management of risks • Risk registers identify both strategic and operational risk
<p><u>Management Team and Statutory Officers</u></p> <ul style="list-style-type: none"> • The Head of Paid Service is the Chief Executive who is responsible for all Council staff and leading an effective corporate management team of Chief Officers to deliver the strategies within the policy framework set by Elected Members • The Council's Section 151 Officer is responsible for safeguarding the Council's financial position and ensuring value for money • The Head of Legal Services is the Council's Monitoring Officer, who is responsible for ensuring legality and promoting high standards of public conduct 	

HOW WE COMPLY WITH THE CIPFA / SOLACE FRAMEWORK

The COVID pandemic has made 2020-21 a year of significant change and the Council has, wherever required, adapted existing governance arrangements as part of its response to the pandemic and plans for recovery. We have set out below, for each governance principle, our self-assessment of compliance in the year and highlighted where COVID has impacted governance arrangements and where this has actually been an opportunity to enhance and seek to sustain the benefits of these changes.

THE COVID – 19 PANDEMIC

In order to support the wider Government response to the pandemic the Council both directly and acting as an agent for Government departments, delivered services in response to the pandemic and provided Financial Support to third parties including businesses within the area. This support has been significant and where appropriate has required the reallocation of staffing resources from business as usual to ensure the administration process used was sound and effectively undertaken as follows:

- Maintaining front line services- in accord with the Council's emergency and business continuity plans essential services continued to be delivered throughout the pandemic. Staff from non-essential services were reallocated to help deliver essential services or to deliver and support new pandemic related services- e.g., the community hub, the business hub. Furthermore, additional staff capacity was allocated to supporting the pan Lancashire work of the resilience forum.

- Supporting businesses - Rate relief together with grants for businesses in the retail, hospitality or leisure sector have to date helped out thousands of businesses with grants totalling £32.5M.
- Supporting residents – the Council has supported vulnerable residents and tenants through the community hub. With the help of volunteers, community groups and businesses, the Council contacted and supported 29,779 residents, and continues to reach out and offer support to those who are vulnerable. This support took many forms including provision of food, ongoing phone calls, pickup and delivery of medicines, commissioning of bereavement counselling, distribution of funds to help families with practical household needs. Additionally, the Council continues to work to proactively support rough sleepers. Residents who have serious underlying health conditions have been identified and there are processes in place to support this group.
- Put place ICT infrastructure so that staff can work remotely from home wherever possible, and providing office equipment, furniture to support that.
- Virtual Council meetings have taken place to maintain open and transparent decision making whilst observing social distancing.
- COVID-19 pages on the Council website are updated daily and provide further information see [Coronavirus information - Lancaster City Council](#)
- The Council's Internal Audit service has worked to ensure that awareness of fraud risk and appropriate systems of governance and internal controls have been maintained despite the changes in processes necessary to provide local people and businesses with rapid and effective support. Internal Audit has also provided assurance that Covid-19 funding provided by the Government has been used for the purpose intended. This work will continue into 2021/22.

The impact of the pandemic on the Council will be long term. It will affect our communities, business and residents in many ways and create significant resource implications for the Council and our partners. As the pandemic is still running its course it is not at this point possible to provide a detailed assessment of these wider impacts.

For the Council itself we have already seen significant financial impacts. Through increasing demand for services and a potential for reduction in income. The impact upon the long-term financial position is very difficult to accurately assess with key elements of the Statutory Accounts such as the Collection Fund (which manages Council Tax and Business Rate collection) severely impacted. The Government is allowing Councils to manage Collection Fund losses over a three-year period (2021/22 to 2023/24) to phase the impact of income lost in 2020/21 and allow time for collection to recover. If this recovery does not happen then there is a risk of the legacy of COVID having a more longer lasting financial impact on the Council.

Set out below is how the Council has specifically complied with the seven core principles set out in the CIPFA / SOLACE framework during 2020/21.

Table 3: Summary of Compliance and COVID impact against the Local Code of Corporate Governance

Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	
Compliance Overview	<p>The following key policies, procedures, and practices remained in place and were applied throughout the year.</p> <ul style="list-style-type: none"> • Code of Conduct for both members and staff • The Council's 'values and behaviours framework' • Registers of interest policies for both staff and members • Council and Committee minutes show any declarations made at meetings are viewable on each Councillor's record on the website • An electronic Gifts and Hospitality register for both staff and Members • Both Standards and Overview and Scrutiny Committees • There are policies and procedures in place for dealing with unacceptable behaviours for both officers and Members • Effective monitoring and review of counter fraud policies are in place and are monitored and reviewed annually by the Corporate Enquiry Team to ensure they are applied consistently • A 'Raising Concerns' Policy is in place and sits with the Council's Monitoring Officer • The Council complies with CIPFA's Role of the Chief Financial Officer and the role of the Head of Audit in Local Government • Training is provided for regulatory committees on a regular basis. • Compliance with specific legislation, law or guidance is documented in decision making documents • The Constitution includes terms of references, defines decision making powers and describes roles and functions
COVID-19 Impact and Council response	<p>Council, Cabinet and Committee face to face meetings, were unable to be held in March 2020. Virtual meetings were introduced online in April and were compliant with access to information and public access requirements. Key decisions to be made by Cabinet from April continued without delay or deferment of Council business, with some decisions taken by the Leader/ Portfolio Holders as necessary. Plans for re-instating face to face council meetings from May 2021, are in place.</p> <p>We applied, wherever required, our statutory powers and our scheme of delegation to ensure continuity of core Council services and to deliver the emergency response and outbreak management activity at pace, in line with COVID related funding conditions and regulations. All such decisions and actual expenditure are recorded and evidenced.</p>

Principle B: Ensuring openness and comprehensive stakeholder engagement	
Compliance Overview	<p>The following key policies, procedures, and practices remained in place and were applied throughout the year.</p> <ul style="list-style-type: none"> • The Council's Corporate Plan is published to all staff, elected members, partners and the community • An annual 'Narrative Report' is published and accompanies the Statement of Accounts • The Section 151 Officer publishes annual accounts within statutory deadlines to the community to report on the organisation's activities, achievements and its financial position and performance • The Council is compliant with the Local Government Transparency Code 2015 • An Overview and Scrutiny and Budget and Performance Panel report is published annually

	<ul style="list-style-type: none"> • The Council publishes key decisions on its website • A Freedom of Information publication scheme is in place • Standardised report pro-formas for decision making are in place and a published timetable of reporting deadlines for committees is published on-line • The Council ensures that appropriate consultation and engagement takes place • The Council publishes all current and closed consultations on its website • Customer feedback forms are in place in key outlets e.g. Salt-Ayre Leisure Centre • The Council has a Consultation Strategy 2018 – 2022 and an annual consultation plan • Participative democracy (People’s Jury) is being used to inform the Council’s strategy for dealing with climate change • The Council has a Community Connector team whose role is to engage and connect with partners, communities and elected members. • During the year virtual meetings and events for stakeholders and residents, chaired by Elected Members were held on a regular basis (sometimes several times per week). • The Council has several communication guidance documents in place e.g. the Intranet Policy and the Plain English and Style Guide • The Council complies with publication dates for reports and the ‘forthcoming decisions list (forward plan) • An up-to-date stakeholder database is in place • Robust arrangements are in place for both the shared service arrangements with Revenue and Benefits and the Corporate Enquiry Team • The Budget and Performance Panel was fully consulted in relation to the Council’s budget • The Council’s vision, strategic plans, priorities and targets are developed in consultations with the local community and other key stakeholders
<p>COVID-19 Impact and Council response</p>	<p>We expanded our contribution to and collaboration with partner organisations to deliver a joined-up response to COVID through increased joint working in a wide variety of settings, notable examples are:</p> <ul style="list-style-type: none"> • Developing and delivering coordinated policy and support for vulnerable citizens and those shielding, distributing food and household essential parcels to clinically extremely vulnerable people and those who needed it, through the community hub. • Supporting the national test and trace operation through our customer service centre. • Providing buildings to allow the delivery of the national testing system and the NHS vaccination program, as well as Nightingale Court. • Business engagement through the local Chamber of Commerce as well both the Morecambe and Lancaster BIDS and directly via the Business Grants helpline and through the business hub. • Contributing to the recourses of the Lancashire Local Resilience forum in particular specific role taken up by the Chief Executive and Head of Public Protection in addition to their existing duties. Contributory roles taken up by many other Council staff.

Principle C: Defining outcomes in terms of sustainable, economic, social and environmental benefits	
Compliance Overview	<p>The following key policies, procedures, and practices remained in place and were applied throughout the year.</p> <ul style="list-style-type: none"> • A revised suite of Corporate key performance indicators aligned to the new emerging priorities) are reported quarterly to Cabinet and the Budget and Performance Panel • A 'Narrative Report' is published within the Statement of Accounts to reflect the Council's key achievements • There are effective arrangements in place to deal with failure in service delivery via the Council's corporate complaints procedure • The Medium-Term Financial Plan, Revenues Estimates and Capital Programme are designed to deliver the strategic priorities • The Council has a capital programme of works • The Council has an approved Capital Investment Strategy • Individual capital projects are equality impact assessed • All key decisions are required to consider fair access to services • The development and delivery of the local plan has been subject to external consultation • Procedures are in place to address conflicting interests e.g. the call-in procedure • The Council has declared a climate change emergency and has committed to becoming net carbon zero by 2030. A strategy has been developed to deliver on this • Formal decisions take into account and assessment of environmental impact, proportionate to the nature of the decision
COVID-19 Impact and Sustainable Recovery Council response	<p>Lancaster District Plan 2030- Beyond the Crisis was approved by Cabinet in September 2020, to provide leadership on recovery from the pandemic and address challenges, uncertainty and new opportunities.</p> <p>Its overall aim is to deliver the Council's strategic priorities and to support recovery to a sustainable, safe and socially just District that is healthy, connected, empowered and enabled.</p> <p>The plan is delivered through 5 themed groups, all of which are interdependent-</p> <ul style="list-style-type: none"> • Group 1- Climate Emergency • Group 2- Finance and Resources (internal focus) • Group 3a- Healthy and Happy Communities • Group 3b- Community Power and Resilience • Group 4- Regenerative and Distributive Economy <p>The Plan is underpinned by principles that ensure the plan remains dynamic and flexible enough to respond to changes in need.</p>

Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes	
Compliance Overview	<p>The key arrangements for managing performance and delivery, to inform interventions, continued to operate throughout the year. These included</p> <ul style="list-style-type: none"> • Effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and consideration on which decisions are based • Member and Officer briefings took place for more complex areas of decision making • The MTFs, Revenue Estimates and Capital Programme are configured

	<p>to meet the requirements of the Council Plan and Ambitions document and are published annually. They are key documents for forecasting budget requirements and planning ahead</p> <ul style="list-style-type: none"> • The MTFs sets out the framework for corporately managing the Council's resources in the years ahead • Corporate Key Performance Indicators are in place and are reported quarterly to Cabinet and the Budget and Performance Panel • Both Capital and Revenue bids consider 'social value'. • Proper, professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making • The Council considers public surveys, demographic information and public health reports when developing the Council Plan
<p>COVID-19 Impact and Council response</p>	<p>Progress against the COVID-19 Recovery Plan was reported to Cabinet in January 2021 and progress will continue to be reported in 2021/22, until recovery priorities and measures of success are integrated with future updates to the Council Plan. Reporting progress in January, at the time of the third national lockdown, meant there was a further re-prioritisation of corporate activity, and realignment of resources to respond to changing circumstances and shifting recovery priorities.</p> <p>A temporary scheme of delegation addressing decision making and spending during the pandemic was introduced in June 2020 to ensure each allocation of the Council's resources was carefully considered and approved.</p> <p>During the initial period of the pandemic monthly financial information was provided to both Cabinet & B&PP. A transition to more standard ways of working took place for the final quarter of the year.</p> <p>A revised Budget was issued at the mid-year point to address the expected impacts of the pandemic and the annual budget was consulted on, issued and approved by Council in February 2021.</p>

<p>Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it</p>	
<p>Compliance Overview</p>	<p>The key arrangements for building our capacity and capability continued to operate throughout the year. The process for annual appraisals was temporarily paused early in the pandemic. Leadership forums, including Wider Leadership Forum were maintained</p> <ul style="list-style-type: none"> • The Council is member of APSE and regularly benchmarks several key Council services e.g. Street Cleansing, Council Housing, Internal Audit, Waste Management, Pest Control and Leisure • The Council has received both blue and green flag status for its clean beaches and parks and open spaces • The Chief Executive and Section 151 Officer regular attend Lancashire Leaders and Lancashire Chief Finance Officer meetings • The Chief Executive is responsible and accountable to the Authority for all aspects of operational management and has regular meetings/1-1's with the Leader, Cabinet and the Senior Leadership Team. • The Executive Team meet with the Leader and Director on a weekly basis. • The Section 151 Officer is responsible to the Authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system

	<p>of internal financial controls and attends Executive Team meetings on invitation.</p> <ul style="list-style-type: none"> • There is a clearly defined management structure and a scheme of delegation to officers, which is underpinned by the Members’ Code of Conduct and a Protocol for Officer and Member relations • All new members receive a full corporate induction, ongoing support and role-specific training • An Accreditation review for Investors in People was carried out in January 2021, resulting in an upgrade to Silver accreditation, and an additional Health and Wellbeing Good Practice Award • An induction programme is provided for all new staff and Members • The Council has several policies and incentives to support the Health and Wellbeing agenda e.g. Agile Working, Absence Management, discounted gym membership and the Cycle to Work Scheme.
<p>COVID-19 Impact and Council response</p>	<p>In the earlier stages of the pandemic, the Council redeployed staff and redirected resources from non-essential activity to critical services and areas of greatest need, in accordance with our emergency action plans and business continuity plans. Staff involved in redeployment have fed-back that they felt valued, empowered to make best use of their existing skills and gained new skills and insights.</p> <p>The health & wellbeing of our employees during the COVID pandemic and lockdown period has been a top priority, and as well as ensuring we engage with staff as stakeholders, we have focused on building a resilient and high performing workforce:</p> <ul style="list-style-type: none"> • Maintaining wellbeing and HR policy information on dedicated staff intranet sites with links to active internal and external support networks, resources and staff well-being check in surveys; and actions arising from those surveys; and • Regular live broadcast to staff from Executive to communicate key well-being messages, updates and Q&A. <p>The Council’s move to the Cloud-based Microsoft 365 environment has secured communication and data security and has also enhanced our ability to work remotely and collaboratively.</p>

<p>Principle F: Managing risks and performance through robust internal control and strong financial management</p>	
<p>Compliance Review</p>	<ul style="list-style-type: none"> • The regulations, policies and governance arrangements set out in the Code of Corporate Governance have been fully applied throughout the year for the Council. Examples of these include • The Council refreshed its Risk Management Policy and procured risk management software to assist with the administration of strategic and operational risk • Information asset registers and privacy notices are now in place for most the council’s service areas and are reviewed by Internal Audit as part of individual service reviews • The Council has an Overview and Scrutiny Committee and a Budget and Performance Panel which have been set clear roles and responsibilities • Key Performance Indicators are reported quarterly to Cabinet and the Budget and Performance Panel and a ‘Narrative Report’ is published within the Statement of Accounts. • Effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based • There is a calendar of dates for submitting, publishing and distributing timely reports to the Council’s committees • An effective Internal Audit Service was resourced and maintained, and

	<p>all Audit reviews are conducted under the Auditing Practices Board Guidelines and in line with Public Sector Internal Audit Standards (PSIAS)</p> <ul style="list-style-type: none"> • In accordance with the Accounts and Audit Regulations 2015, an annual assessment of the Council’s systems of internal audit is carried out each year using the PSIAS and the checklist provided in the Local Government Application Note published by CIPFA. A recent PSIAS peer review resulted in a full compliance opinion being given • The Head of Internal Audit and Assurance has developed a Quality Assurance Improvement Programme to ensure the continual improvement of the Internal Audit Service • An Audit Committee is in place, which is independent of the Executive and the Overview and Scrutiny function • The Head of Internal Audit and Assurance was a certified and chartered auditor (CIA, CMIIA) and also held a Qualification in Internal Audit Leadership (QIAL) • The implementation of internal audit report recommendations is monitored by the Head of Internal Audit and Assurance and the Audit Committee • The Council has several counter-fraud policies in place which assist against fighting fraud and corruption • The Council has a Anti Money Laundering Policy in place which is reviewed by the Audit Committee and has recently appointed a new ‘Anti Money Laundering Reporting Officer’ • The Council’s Annual Governance Statement is prepared in compliance with CIPFA’s ‘delivering good governance in Local Government • The Council uses an on-line e-learning portal to promote the General Data Protection Regulations (GDPR) and information security and is mandatory for all new starters • The Council has a designated Data Protection Officer and continues to work towards ensuring it is fully compliant with GDPR. A recent DP Audit has provided a detailed action plan of areas for improvement. • Secure arrangements are in place for the transfer of sensitive data (SFTP and encryption tools available within Office 365) • The Council has both a records management policy and a confidential waste policy in place • Those making decisions are provided with information that is fit for purpose, relevant, timely and gives clear explanations of technical and financial issues and their implications • Budget monitoring reports are issued to budget holders on a regular basis
<p>COVID-19 Impact and Council response</p>	<p>The impact of COVID on the Council’s financial position was subject to monthly financial analysis and presented to Cabinet and Budget & Performance Panel alongside financial impact returns to central government.</p> <p>Quarterly budget monitoring reports provided a COVID/ Non-COVID forecast information as well as commentary on the position of the Capital Programme and any delays in delivery.</p> <p>COVID related expenditure was coordinated and governed centrally in accordance with delegated authorities. All specific grant funds and allocations were accounted for and controlled in compliance with the terms of the conditions of the grant and our financial rules and procedures.</p>

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

<p>Compliance Review</p>	<p>The Council endeavours always to be open and transparent. The regulations, policies and governance arrangements set out in the Code of Corporate Governance have been applied throughout the year for the Council and can be accessed here:</p> <ul style="list-style-type: none"> • The Council is compliant with the Local Government Transparency Code 2015 • Each year we publish information on our website outlining how we spend Council Tax income. • A 'Narrative Report' is published within the Statement of Accounts to reflect the Council's key achievements • The Council's website is comprehensive, accurate and user friendly • The Council has an on-line Planning Application Policy • Annual presentations are delivered for elected Members concerning the Council's finances as part of the production of the Revenue Estimates, the Capital Programme and the update of the MTFS • An effective internal audit function is resourced and maintained enabling them to deliver an annual internal audit opinion • The Council ensures that all audit recommendations are subject to a follow-up audit ensuring that recommendations are acted upon • The Council complies with both the Public Sector Internal Audit Standards and CIPFA's Statement on the role of the Head of Audit (2010) • In accordance with the Audit and Account Regulations 2015, an annual assessment of the effectiveness of the internal audit function is completed annually • The Audit Committee work programme provides the opportunity for the Head of Internal Audit and Assurance to have a private and confidential discussion with the Audit Committee Members • The Council has a RIPA Policy in place and officers who use social media to carry out surveillance have received relevant training • Arrangements for accountability and prevention of corruption when working with suppliers and partners are documented within the Council's Contract Procedure Rules
<p>COVID-19 Impact and Council response</p>	<p>At to onset of the pandemic in accordance with regulations face to face meetings were temporarily cancelled with virtual meetings commencing 28th April. Reports and minutes were published and made available to the public in the usual way.</p> <p>A temporary scheme of delegation addressing decision making and spending during the pandemic was introduced in June 2020 to ensure each allocation of the Council's resources was carefully considered and approved.</p> <p>Although delivery of the 2020-21 Internal Audit plan was initially paused, due to reprioritisation of service based and audit resources, audit assurance work resumed in the year to complete sufficient audits to provide an annual audit opinion for the year.</p>

Financial Management Code

The CIPFA Financial Management Code 2019 (FM Code) was introduced during 2020-21, to improve the financial resilience of organisations by embedding enhanced standards of financial management. Although the implementation of the FM Code is mandatory only from 2021-22, the Council has assessed compliance with the Code in 2020-21, against each of the seven standards. This concluded that the current working practice and noted planned improvements will meet the expectations of the Code of Practice against each of the standards:

- Responsibilities of the Chief Finance Officer and Leadership Team.
- Governance and Financial Management Style.
- Long to Medium Term Financial Management.
- The Annual Budget.
- Stakeholder Engagement and Business Plans.
- Monitoring Financial Performance; and
- External Financial Reporting

REVIEW OF EFFECTIVENESS

We have responsibility for conducting, at least annually, a review of the effectiveness of our governance framework including the system of internal control. The review of effectiveness is informed by the work of managers within the Council who have responsibility for the development and maintenance of the governance environment and by the Head of Internal Audit's annual report. In addition, Directors have confirmed that they have complied with the risk management framework throughout the year and have provided assurances at year end, including additional assurances about COVID impacts through the year.

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

Assurance from Internal and External Audit

Internal Audit Assurance

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

The 2020/21 Internal Audit Annual Report stated that whilst there are a number of audits that have still to be finalised owing to the delays caused by the Covid-19 pandemic the Council has... *"adequate' controls in place in the majority of the areas examined to be able to maintain an adequate and effective internal control environment. There are several areas where a 'limited assurance' opinion has been given and, in these instances, mitigating action plans have been agreed"*.

This year's report notes the significant progress made around operational risks and the involvement of Service Managers to update risk registers with details. However, the reports refer to concerns around ownership of strategic risks by the Council's Executive and capacity within the Council to fully embed risk management. The Executive are taking this matter seriously, including a comprehensive look at the end-to-end policies, plans, controls and capacity in place for Risk, Improvement, Audit and Assurance, providing regular updates on this work to Audit Committee.

External Audit Assurance

The Council's external auditors, Deloitte provides assurance on the accuracy of the year-end Statement of Accounts and the overall adequacy of arrangements for securing and improving value for money. The revised COVID-19 deadlines have impacted the external auditor's ability

Page 17
to resource the audit and as a result the financial statements audit is yet to be concluded.

All External audit work is conducted with regard to the Code of Practice produced by the National Audit Office. Going forward certain changes are expected to external oversight as the recommendations from the Redmond Review are considered.

A review of key performance indicators

The Council uses a number of key outcome indicators to assess the quality of governance arrangements. Performance in 2020/21 is set out in the table below.

Indicator	Performance in 2020/21
Formal reports issued by the Section 151 Officer or Monitoring Officer	No formal reports have been issued by the Section 151 Officer or the Monitoring Officer.
Number of data incidents reported to the Data Protection Officer (DPO)	20 incidents were reported to the DPO in 2020/21 All were checked and none were reported to the ICO
Number of Data Breaches reported to the Information Commissioner's Office (ICO)	Of the 20 incidents reported to the DPA, none were reported to the ICO
Outcomes from Standards Committee or Monitoring Officer investigations	6 breaches of the code of conduct were reported to the Monitoring Officer but none went to the Standards Committee in 2020/21 due to local resolution by the Monitoring Officer
Proven frauds carried out by councillors or members of staff	There have been no proven frauds carried out by Councillors' or members of staff in 2020/21
Local Government Ombudsman (LGO) referrals upheld	No referrals have been upheld by the LGO or the Housing Ombudsman in 2020/21

GOVERNANCE ISSUES AND SIGNIFICANT CHALLENGES

Issues Identified in Prior Years

Risk Management and Information Governance were identified as governance issues in 2019/20, further commentary on the progress to address these is provided below.

Significant Governance Issues

Human Resources Assurance Work

Following a number of concerns, Internal Audit undertook a review into the Council's Human Resources highlighting a number of control weaknesses which resulted in a minimal assurance and gave rise to a number of recommendations. Whilst action was undertaken to address the more serious concerns and issues raised work is progressing to address these issues and work has continued to address them beyond the end of the financial year. Regular updates are now in place with the Audit Committee and a follow up Audit will take place in Autumn 2021.

Information Governance

The council's Information Governance (IG) Team continue to work on compliance with the General Data Protection Regulations which came into force on the 25 May 2018. The draft report and recommendations recognised that significant progress has been made in some areas. However, there were still a number of areas that required immediate attention, therefore only 'limited' assurance was provided. Much of the work required under the recommendations is collaborative and requires significant participation from all Council departments. Unfortunately, owing to the need to prioritise the response to the pandemic and the re-allocation of large numbers of staff it has not been possible to progress the action plan to any significant degree. As the pandemic response is cautiously moving towards the recovery phase, it is hoped that significant progress can be made this audit year.

A number of minor governance issues were identified following the Annual Governance meetings with key officers. These have been documented in an action plan which will be monitored by Internal Audit and reported to the Executive Team on a quarterly basis and the Audit Committee as part of the progress reporting arrangements.

Significant Challenges for 2021/22 and Beyond

Strategic Risk Management

Strategic risk management continues to be raised as an area of concern, whilst the Council has a Strategic Risk Register, it still requires significant improvement as it currently does not reflect all of the Council's key risks and priorities. As a result, Internal Audit have not been able to utilise this risk register to drive and prioritise their audit work. To date, the strategic risk register has been driven by the Internal Audit Team. The Executive are taking this matter seriously, including a comprehensive look at the end-to-end policies, plans, controls, and capacity in place for Risk, Improvement, Audit and Assurance, providing regular updates on this work to Audit Committee. This should lead to a significant improvement in the Internal Audit Strategy and programme.

Provision of Internal Audit

For the past 4 years the Council has held an agreement with Wyre Borough Council for the provision of the role of Head of Internal Audit (HoIA). Unfortunately, the Council received notification that from 1st April 2021 this agreement would come to an end. Subsequent to this the Council's Principal Auditor has accepted a position at another local authority and as a result, the Council is without an Internal Audit function. All Councils are required to have an Internal Audit function as it occupies a critical position in any organisation, helping it to achieve its objectives by evaluating the effectiveness of governance, risk management and internal control arrangements and playing a key role in promoting good corporate governance. We are currently finalising proposals for the future provision and arrangements for securing an effective Internal Audit linked to the wider work on Risk, Improvement, Audit and Assurance cited above.

Financial Sustainability

The true impact of the COVID-19 pandemic on the 2021/22 budget and future years is unknown. Government assistance through various grant payments and the extension of the furlough scheme is helping to support the local economy, however it is unclear what the impact will be once these support packages end. Given the absence of a long-term financial settlement by Central Government, the continuing impact of COVID-19 on sales, fees and charges, financial sustainability remains a significant risk facing the Council.

The 2021/22 revenue budget was approved at Full Council 24 February 2021 and required a contribution of £2.267M from the Council's reserves in order to balance the budget.

Based on current assumptions the year-on-year cumulative structural deficit is forecast to exceed £11M by 2024/25. Although there are many variables contained within the calculation of the deficit, funding purely from the Council's reserves is not an option as it does not address the underlying structural issues. Reserves can however be utilised to help to ensure the smooth transition of a number of initiatives aimed at eliminating the deficit.

Although Outcomes Based Budgeting (OBR) principles have been applied as part of the 2021/22 budget process it is a core priority for all Officers in the coming financial year, and it will be expected to deliver significant inroads into the deficit. It will be further considered by the Financial Resilience Group alongside ongoing work to embed the Council's new priorities and outcomes during 2021/22.

A process is already underway to seek an in year reduction in the amount of reserves being utilized and to deliver a balanced budget for 2022/23 and beyond with an initial focus on systematic review of vacancies to align with priorities, a detailed analysis of the Budget book and workshops with Heads of Service, alongside extensive work with elected members to set priorities aligned with resources.

The CIPFA/SOLACE guidance recommends that authorities should undertake annual reviews of their governance arrangements to ensure continuing compliance with best practice as set out in the framework.

Owing to the Covid-19 pandemic and key staff being redeployed to work in other areas, this year the Annual Governance Statement for 2020/21 has been pulled together via engagement with all key officers, who have the most appropriate knowledge, expertise and levels of seniority providing information and key evidence to support how the organisation has complied with the principles set out in guidance.

As well as demonstrating how the Council is meeting each of the principles, it is also an opportunity to identify any issues or gaps that could lead to a weaker governance structure.

The AGS is submitted for consideration by the Leader and Chief Executive who then sign to certify they are aware of the governance issues within the Council and of the measures that are required to improve the controls around the Council's governance framework.

CERTIFICATION

As the Leader of the Council, I am aware of the governance issues within this Authority and of the measures that are needed to improve the control environment. Overall, my assessment of the control environment as at 31st March 2021 is satisfactory.

Councillor Caroline Jackson

Leader of Lancaster City Council

As the Chief Executive of the Council, I am aware of the governance issues within this Authority and of the measures that are needed to improve the control environment. Overall, my assessment of the control environment as at 31st March 2021 is satisfactory.

Kieran Keane

Chief Executive of Lancaster City Council



Report to the Audit Committee for the year ending
31 March 2020

July 2021

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Introduction

The key messages in this report

I have pleasure in presenting our update report to the Audit Committee (the Committee) of Lancaster City Council (the Council) for the 2019/20 audit. The scope of our audit was set out within our planning report presented to the committee in March 2020.

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

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

Status of the audit

Our audit is in progress at the date of issue of this report with the following key matters still outstanding:

- Prior year adjustment audit work and review;
- Reconciliation of the data provided in support of our journals testing to the general ledger;
- Conclusion of our work in respect of the authority's arrangements to secure value for money;
- Finalisation and review of PPE testing including queries on how the council dwelling revaluations have been reflected in the fixed asset register and accounts;
- Receipt of certain evidence pertaining to the grant funding utilised in the development of the Luneside East site;
- Review of events since 31 March 2020 up to signing of accounts;
- Finalisation of the Statement of Accounts;
- Completion of internal quality assurance procedures including clearance of a number of remaining review points; and
- Receipt of signed management representation letter.

We have included a section in this report providing observations arising from the work we have so far carried out on the areas of significant risk as reported to you in our audit planning report.

We will provide an oral update on these matters including an update regarding the status of the audit at the meeting.

Conclusions from our testing

- Our audit work is ongoing in the areas listed above.
- We have summarised the uncorrected audit adjustments on page 28.
- Based on the current status of our audit work, we envisage issuing an unmodified audit opinion, with no reference to any matters in respect of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources, or the Annual Governance Statement.
- Our audit report will include an "Emphasis of Matter" paragraph regarding the material uncertainty over property valuations, including assets held within the Lancashire Pension Fund, discussed further on page 13.
- We have considered the impact of the Covid-19 pandemic on our work – we include details on pages 8 to 10. Further details are included in our work on the property valuations, where management's internal valuer identified a material valuation uncertainty. This is common to all valuations completed as at 31 March 2020 across the sector. This wording is reflected in our draft auditor's report. We did not identify any new financial statement or value for money significant risks as a result of the impact of the pandemic.

Introduction

The key messages in this report (continued)

Conclusions from our testing (continued)	<ul style="list-style-type: none">• We have reviewed the internal audit reports relating to the financial year to inform our risk assessment, and have not placed any reliance on their work.• We have raised some control recommendations on pages 17 to 19.
Financial Sustainability and Value for Money	<ul style="list-style-type: none">• In the Statements submitted to audit CIES, the Council reported an accounting surplus of £5.8m for the year (2018/19: deficit of £10.04m) which is due in part to an actuarial gain on the pension liability of £8.9m (2018/19: £3.0m) and gains on revaluation of fixed assets of £3.4m (2018/19: £3.6m). At the provision of service line the Council showed a net deficit of £6.5m (2018/19: deficit of £16.7m). In the Statements submitted to audit the Council had usable reserves of £33.9m (31 March 2019: £33.4m) and unusable reserves of £134.9m (31 March 2019: £129.6m).• We did not identify any significant risks related to Value for Money and we do not anticipate reporting any matters within our audit report in respect of the Council's arrangements for securing the economy, efficiency and effectiveness of the use of resources.
Narrative Report & Annual Governance Statement	<ul style="list-style-type: none">• We have reviewed the Council's Narrative Report & Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work.• At the date of this report, we have no significant matters to raise with you in respect of the Narrative Report, and understand our proposed changes will be made by management.
Duties as public auditor	<ul style="list-style-type: none">• We received two formal objections from local electors in respect of these financial statements. We have determined that the matters raised did not merit the issuance of a Public Interest Report and have communicated this fact, together with our Statement of Reasons. Further details are set out on pages 22-24.• We have not identified any other matters that would require us to issue a public interest report. We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.
Whole of Government Accounts	<ul style="list-style-type: none">• The Council is below the threshold for WGA reporting.

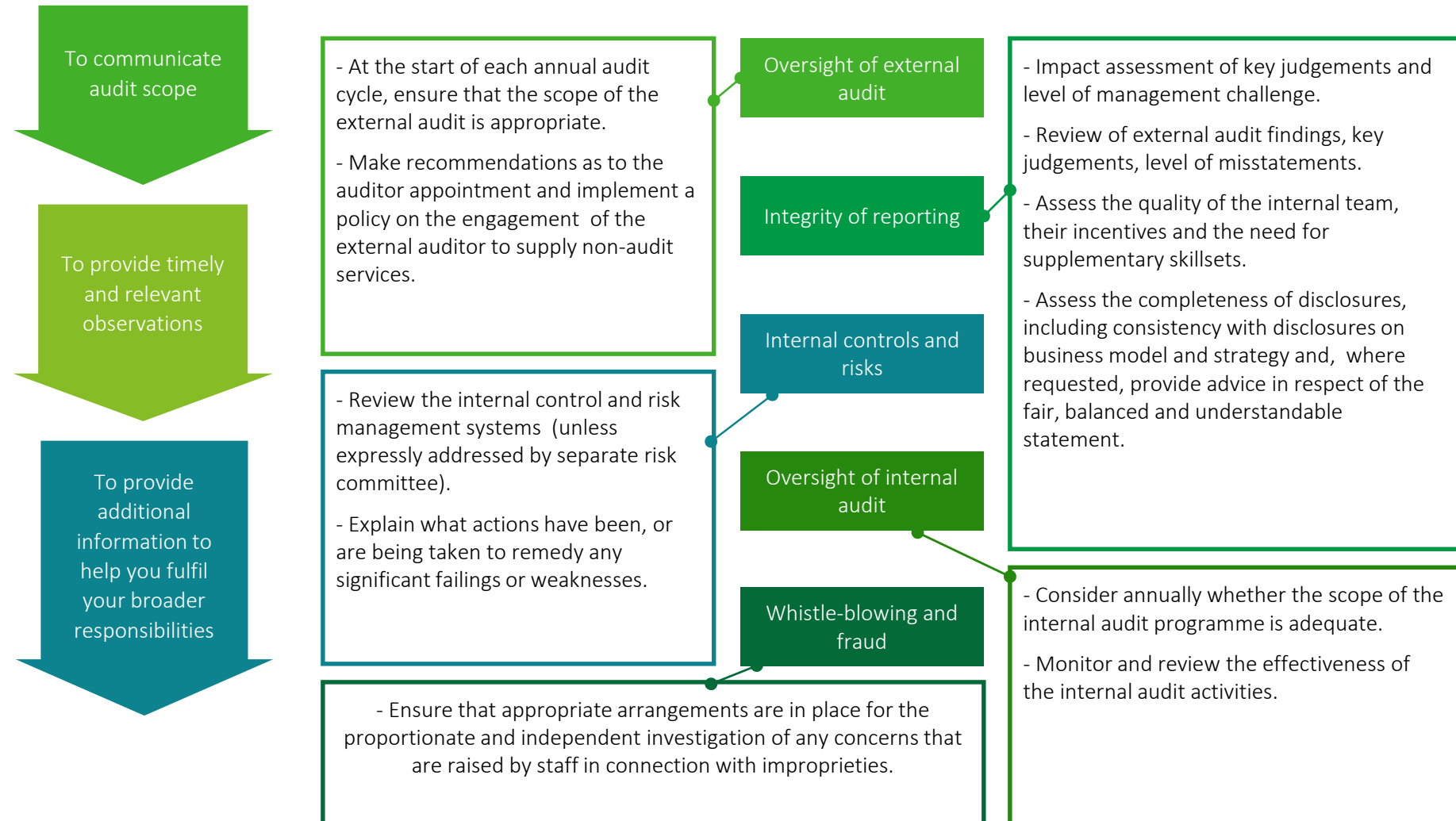
Paul Hewitson
Audit Director

Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit Committee?

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



Your control environment

What we consider when we plan the audit

We expect management and those charged with governance to recognise the importance of a strong control environment and take proactive steps to deal with deficiencies identified on a timely basis.

Responsibilities of management

Auditing standards require us to only accept or continue with an audit engagement when the preconditions for an audit are present. These preconditions include obtaining the agreement of management and those charged with governance that they acknowledge and understand their responsibilities for, amongst other things, internal control as is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibilities of the Committee

As explained further in the Responsibilities of the Audit Committee slide, on page 5, the Committee is responsible for:

- Reviewing the internal control and risk management systems (unless expressly addressed by separate risk committee).
- Explaining what actions have been, or are being taken to remedy any significant failings or weaknesses.

As stakeholders tell us that they wish to understand how external audit challenges and responds to the quality of an entity's control environment, we are seeking to enhance how we plan and report on the results of the audit in response. It is intended that going forward we will look to place an increased focus on how the control environment impacts the audit, from our initial risk assessment, to our testing approach and how we report on misstatements and control deficiencies.

Reliance on controls



In future, we will seek to explore the potential to rely on the most important controls, particularly IT controls, that are relevant to critical business processes. In accordance with forthcoming revisions to ISAs, we will assess inherent risk and control risk associated with accounting estimates, and seek to test controls relevant to key estimates.

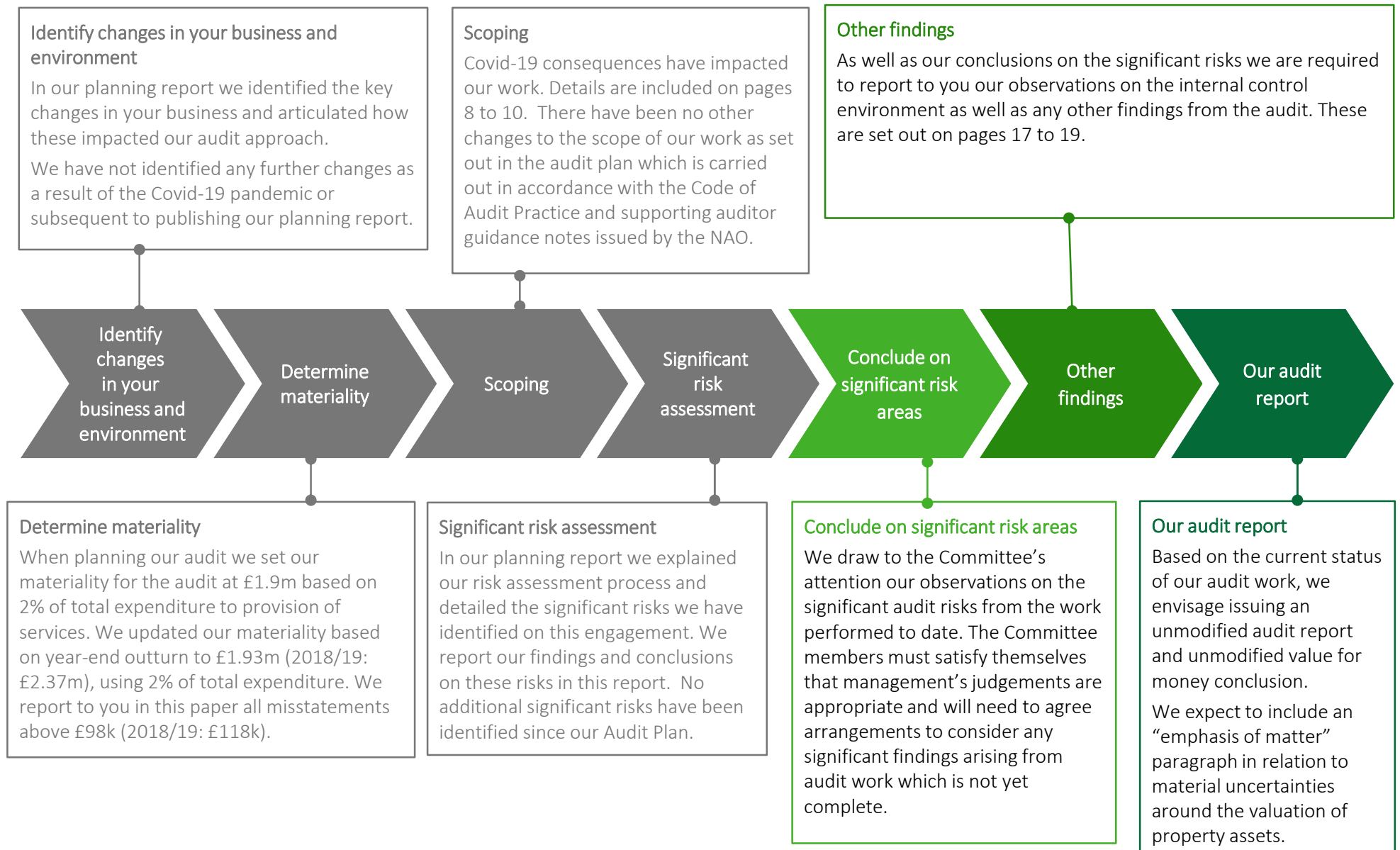
Performance materiality



We set performance materiality as a percentage of materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed materiality. We determine performance materiality, with reference to factors such as the quality of the control environment and the historical error rate.

Our audit explained

We tailor our audit to your organisation



Our audit explained (continued)

Covid-19 pandemic and its impact on our audit.

Requirements

CIPFA has issued guidance highlighting the importance of considering the impact of Covid-19 in preparation of the 2019/20 financial statements, including communicating risks and governance impacts in narrative reporting. This is consistent with the Financial Reporting Council’s guidance to organisations on the importance of communicating the impact of Covid-19 and related uncertainties, including their impact on resilience and going concern assessments.

Entity-specific explanations of the current and expected effects of Covid-19 and the Council’s plans to mitigate those effects should be included in the narrative reporting (including where relevant the Annual Governance Statement), including in the discussion on Principal Risks and Uncertainties impacting an organisation.

As well as the effects upon reserves, financial performance and financial position, examples of areas highlighted by CIPFA include the impact on service provision, changes to the workforce and how they are deployed, impacts upon the supply chain, cash flow management, and plans for recovery. Risks highlighted include those relating to subsidiaries and investments, capital programmes, and resilience of the community including partner organisations and charities.

Actions

A thorough assessment of the current and potential future effects of the Covid-19 pandemic is required including:

- A detailed analysis across the Council’s operations, including on its income streams, supply chains and cost base, and the consequent impacts on financial position and reserves;
- The economic scenario or scenarios assumed in making forecasts and on the sensitivities arising should other potential scenarios materialise (including different funding scenarios);
- Any material uncertainties relating to the Council’s financial position, the financial sustainability of the Council, and the potential requirement for a section 114 notice; and
- The effect of events after the reporting date, including the nature of non-adjusting events and an estimate of their financial effect, where possible.

Impact on the Council	Impact on annual report and financial statements	Impact on our audit
<p>We have considered the key impacts on the business such as:</p> <ul style="list-style-type: none"> • Interruptions to service provision • Supply chain disruptions • Unavailability of personnel • Reductions in income • The closure of facilities and premises 	<p>We have considered the impact of the outbreak on the annual report and financial statements, discussed further on the next pages including:</p> <ul style="list-style-type: none"> • Impact on property, plant and equipment • Valuation of commercial or investment properties • Impact on pension fund investment measurement and impairment • Financial sustainability assessment (page 16) • Narrative reporting • Allowance for expected credit losses 	<p>We have considered the impact on the audit including:</p> <ul style="list-style-type: none"> • Resource planning • Timetable of the audit • Impact on our risk assessment • Logistics including meetings with entity personnel

Our audit explained (continued)

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

	Potential impact on annual report and financial statements	Audit conclusions
<p>Impact on property, plant and equipment</p>	<p>The Royal Institute of Chartered Surveyors has issued a practice alert, as a result of which valuers have identified a material valuation uncertainty at 31 March 2020 for most types of property valuation. This has impacted the Council and requires specific disclosure in the financial statements.</p>	<p>The Council has considered its approach to the measurement of property, plant and equipment (PPE). Where property held at current value is based on market valuations the Council considered with their valuers the impact that Covid-19 has had on current value. The Council also considered whether there are any indications of impairment of assets requiring adjustment at 31 March 2020.</p> <p>The Lancashire County Pension Fund also included a material valuation uncertainty in respect of direct and indirect property holdings in the pension fund.</p> <p>We understand that the Council is disclosing the material uncertainty in the updated accounts and this leads to an Emphasis of Matter in our audit opinion.</p>
<p>Impact on pension fund investment measurement</p>	<p>As a result of the Covid-19 pandemic pension fund investments have been subject to volatility.</p>	<p>We have engaged with the Lancashire County Pension Fund auditor to not only gather information for year-end measurements but to also understand any estimation techniques and any changes to those techniques that may be needed to measure the financial instruments. Where such volatility exists it may mean that the inputs used in the fair value measurement may change and may require a change of measurement technique, and consideration of the level of uncertainty in valuations where there is significantly more estimation.</p>
<p>Expected credit losses</p>	<p>The Council has considered the provision for credit losses for receivables, including for expected credit losses for assets accounted for under IFRS 9.</p>	<p>No issues in relation to this have arisen from our audit work.</p>

Our audit explained (continued)

Covid-19 pandemic and its impact on our audit (continued)		
	Potential impact on annual report and financial statements	Audit conclusions
Covid-19 related income received pre year end	<ul style="list-style-type: none"> There was one main receipt of income related to Covid-19 that was received pre 31 March 2020: <ul style="list-style-type: none"> Covid-19 LA Support grant. This was the first tranche of £1.6bn passed out to Local Authorities by MCHLG on March 27 2020. Lancaster City Council received £101k. This grant was not ring-fenced and was without conditions and therefore should be recognised in income with any unspent amounts carried in reserves. 	<ul style="list-style-type: none"> We note that after discussion and reference to guidance these have been treated correctly in the statement of accounts. The remaining Covid-19 related income receipts received after the year end will be considered as part of the 2020/21 audit.
Narrative and other reporting issues	<p>The following areas need to be considered by local authorities as having being impacted by the Covid-19 pandemic.</p> <ul style="list-style-type: none"> Narrative reporting as well as the usual reporting requirements will need to cover the effects of the pandemic on services, operations, performance, strategic direction, resources and financial sustainability. Reporting judgements and estimation uncertainty; the Council will need to report the impact on material transactions including decisions made on the measurements of assets and liabilities 	<p>We note that the narrative report adequately discloses matters related to Covid-19, including risks, potential impacts and other issues. The report is compliant with the guidance in this area.</p>

Significant risks

Dashboard

Risk	Fraud risk	Planned approach to controls	Controls conclusion	Consistency of judgements with Deloitte's expectations	Page no.
Completeness and cut-off of service line expenditure			Satisfactory		12
Property Valuations			Satisfactory		13
Management override of controls			Area for improvement identified		15

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

Controls approach adopted



Assess design & implementation

Significant risks (continued)

Completeness and cut-off of service line expenditure

Risk identified

The UK auditing standards presume a risk of revenue recognition due to fraud that can be rebutted by the auditor. We have rebutted this risk, and instead believe that the fraud risk lies with the completeness and cut-off of service line expenditure. We identify this as expenditure excluding payroll costs, depreciation and amortisation and expenditure which is grant backed (such as Housing Benefit expenditure).

There is an inherent fraud risk associated with the recording of expenditure in order for the Council to report a more favourable year-end position.

There is a risk that the Council may materially misstate expenditure through manipulating the year end position in order to report a more favourable outcome.

Deloitte response

- We have obtained an understanding of the design and implementation of the key controls in place in relation to recording completeness and cut-off of service line expenditure (excluding payroll, depreciation and amortisation, and expenditure which is grant backed);
- We performed focused testing in relation to the completeness and cut-off of service line expenditure (excluding the areas set out above); and
- We reviewed and challenged the assumptions made in relation to year-end estimates and judgements to assess completeness and accuracy of recorded service line expenditure.

Deloitte view

Based on the work completed to date, we have no concerns that the accounts are materially misstated in respect of expenditure cut-off.

Significant risks (continued)

Valuation of property assets

Risk identified

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

There is therefore a risk that the value of property assets materially differ from the year end fair value.

The Council held £239m of Property, Plant and Equipment (PPE) and £28m of Investment Property at 31 March 2020. The figures involved are therefore material. Revaluation adjustments in 2020 per the draft statements presented for audit totalled an downward revaluation of £112k for PPE and a fair value gain of £18k on investment property.

Deloitte response

- We have obtained an understanding of the design and implementation of key controls in place around the property valuation, and how the Council assures itself that there are no material impairments or changes in value for the assets not covered by the annual valuation;
- We assessed the Council's response to the findings raised in the 2019 audit;
- We reviewed a sample of revaluations performed in the year, assessed whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified individuals;
- We reviewed the approach used by the Council to assess the risk that assets not subject to revaluation are materially misstated;
- We used our valuation specialists, Deloitte Real Estate, to support our review and challenge the appropriateness of the Council's assumptions on its assets values between April 2019 and year end; and
- We tested a sample of revalued assets and re-perform the calculation assessing whether the movement has been recorded through the correct line of the accounts.

Deloitte view

Whilst our work is nearing completion it currently remains under review. We have queries outstanding with the Council around how the Council Dwelling revaluation has been reflected in the fixed asset register and accounts.

Our testing of valuation identified that the Giant Axe Football stadium, home to Lancaster City Football Club and carried in the balance sheet as an investment property, was significantly overstated. Investment property should be carried at a value that reflects the future revenues that are expected to be generated by the asset however, in the case of Giant Axe, this was valued at Depreciated Replacement Cost; a treatment more properly applied to assets held for service delivery.

The valuation error was raised with the Authority team a correction has been made to the financial statements which reduces the valuation of this asset by £2.4m. Examination of the portfolio of investment properties indicated that there were no wider implications of this error.

In addition to this noted error we have also raised some further control recommendations concerning the production of the asset valuations.

Significant risks (continued)

Valuation of property assets – Material Uncertainty due to Covid-19

Material Uncertainty due to Covid-19

The Council's valuer has included disclosures in relation to Covid-19 in their report including the extracts below:

"The outbreak of the Novel Coronavirus (Covid-19), declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020. This has impacted global financial markets and led to severe travel restrictions being implemented by many countries.

Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to Covid-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuations than would normally be the case.

Given the unknown future impact that Covid-19 might have on the real estate market, we recommend that you keep this valuation under frequent review."

This is a common feature of valuation reports prepared to 31 March 2020.

Impact on Statement of Accounts

The Council is required to disclose the existence of this material uncertainty in the Statement of Accounts. We have discussed with management regarding the need to include a detailed disclosure within the accounts, and appropriate disclosure has now been included.

Impact on Audit Opinion

An "emphasis of matter" is required to be included in our audit opinion to draw attention to management's disclosure:

"We draw attention to Notes 13 and 15 which describe the effects of the uncertainties created by the coronavirus (Covid-19) pandemic on the valuation of the Authority's property portfolio and property investments held within the pension scheme.

As noted by the Authority's valuer, and the valuer engaged by the Administering Authority of the pension scheme, the pandemic has caused extensive disruptions to businesses and economic activities and the uncertainties created have increased the estimation uncertainty over the fair value of the property portfolio and property investments held within the pension scheme at the balance sheet date.

Our opinion is not modified in respect of these matters."

Deloitte view

We have made a recommendation to management as part of our comments on the financial statements regarding their disclosure on Covid-19. We will confirm that appropriate disclosure of the material uncertainty is included within notes 5, 13, 15, and 39 prior to finalisation.

Significant risks (continued)

Management override of controls

Risk identified

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

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

Deloitte Response

Significant and unusual transactions

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Journals

We obtained an understanding of the design and implementation testing of the controls in place for journal entries and have identified an opportunity for improvement to the control environment implemented by management.

We have used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

Our work is ongoing to test the completeness and accuracy of the population we have tested.

Accounting estimates

We reviewed the accounting estimates for biases that could result in material misstatements due to fraud. We note from our testing to date that overall the areas requiring a higher degree of estimation in the period were balanced and did not indicate a bias to achieve a particular result.

We tested accounting estimates and judgements, focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

Deloitte view

We have not identified any significant bias in the key judgements made by management.

Our work identified a substantial population of journals which had been self authorised, that is, the normal policy of subjecting all management journals to an independent review prior to recording the impact in the general ledger had been bypassed. The existence of the journals was raised with management who undertook a retrospective remedial review of these journal to ensure that no invalid journals had been processed, bypassing the normal control. We are satisfied that the remedial review has been completed correctly and no invalid journals were identified.

Our work on management override of controls remains ongoing in so much as there remains unreconciled difference between the General Ledgers provided to support our audit and the data provided to support our evaluation of journals. An explanation has been received from management however work remains ongoing to determine whether this adequately explains the observed differences.

Conclusion on arrangements to secure economy, efficiency and effectiveness from the Council's use of resources

Background

Under the National Audit Office's Code of Audit Practice, we are required to report whether, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Code and supporting Auditor Guidance Notes require us to perform a risk assessment to identify any risks that have the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. We are required to carry out further work where we identify a significant risk - if we do not identify any significant risks, there is no requirement to carry out further work. We note that the NAO guidance indicates a low likelihood that Covid-19 forms a risk area impacting the assessment of arrangements for 2019/20. Rather this will form part of the risk assessment and evaluation for 2020/21. The response to Covid-19 is described as an "emerging risk" in this guidance (rather than a significant risk) unless clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the 2019/20 financial year.

Our risk assessment

As part of our planning procedures we did not identify any significant risks or areas of focus in respect of the Council's use of resources.

As part of our year-end audit procedures we did not identify anything of significance and we did not identify any areas of risk from our review of post year-end events.

Deloitte view

Our work on Value for Money is ongoing.

Your control environment and findings

Low Priority

Medium Priority





High Priority

Control insights and areas for management focus

Area of observation	Deloitte recommendation	Risk rating	Management response and remediation plan
IT environment observations	In the prior year we identified a number of minor observations regarding the IT environment which we communicated in our previous report. A number of our observations remain unresolved, and we recommend the authority continues to monitor progress against them.	●	Management will consider the implications of the recommendations and formulate an appropriate response following conclusion of the audit
Bank reconciliations	Each bank account should be reconciled separately rather than to have 9 control accounts reconciled against 7 bank accounts.	●	
	There should be a one-to-one relationship between control account and bank account or, there should be a clear exclusive relationship between one or more control account and one (or more) bank account.	●	
	Deloitte have identified a number of suspense items totalling £97k held on the bank rec. it is noted that the correct treatment is to post these to the ledger (Dr Cash, Cr Suspense account) until the transaction is otherwise resolved.	●	
Procurement card reconciliation schedule not maintained.	A formal review process should be maintained for this reconciliation and should be signed by the reviewer.	●	
Segregation of duties in the context of management journals.	The General Ledger system does not actively prevent the posting of self reviewed journals; as part of our testing of management override of controls we identified just over 300 journals which had been written and posted without being reviewed by an independent officer of the Authority. We understand that this volume of self reviewed journals is unusual and is a consequence of the remote working environment however it is our judgement that this represented an unreasonable deterioration in the framework of control. At our request management undertook a retrospective review of the self reviewed journals. We recommend that management implement a control whereby the accounting system requires separate preparer and reviewer approval. If this is not possible, all journals should be independently reviewed prior to posting and with a further monthly review of all postings to identify any self authorised journals for retrospective review.	●	




Your control environment and findings (continued)

Control insights and areas for management focus

Area of observation	Deloitte recommendation	Risk rating	Management response and remediation plan
Reconciliation Schedule not maintained.	Reconciliation schedule is not maintained to monitor the completion and review of monthly reconciliations. Recommended to maintain a reconciliation schedule to show all reconciliations along with who has completed and reviewed along with the date this occurred.		
Redundancy Payment Calculations	One of our samples for redundancy payment calculations highlighted that the statutory redundancy cap was not correctly applied, from £508/week for the 2018/19 period to the new cap of £525/week for 2019/20. The individual we tested was underpaid by £442. Therefore, this insight suggests that there should be measures made to ensure that the cap is updated every April. The total population of redundancy payments in the year totalled only £118k and hence no wider investigation was undertaken		
Related Party Note	<p>From a review of the Related Parties Note it was evident that no transactions had been recorded in the note, usually in the format of debtor/creditor and income/expenditure. When queried the S151 officer stated that only material transactions are included within the related party note.</p> <p>IAS24 states that a related party transaction is material if it is material to either party; in the context of related parties, particularly parties related to Elected Members we consider it good practice to apply a low threshold for reporting of transactions and balances in the interests of public transparency and accountability and so we recommend that the Council considers how greater transparency and scrutiny could be brought to bear on the identified transactions and balances.</p>		Management will consider the implications of the recommendations and formulate an appropriate response following conclusion of the audit
Timely review of designation of Unreasonably Persistent Complainant (UPC)	Discussion with the Information Governance and Data Protection Manager confirms that the review of the objector's status as unreasonably persistent is overdue. Whilst designated as such the objector's emails will not be delivered to officers of the Authority unless addressed to the customer relations email box or to the Chief Executive. Care should be taken to ensure that designation as Unreasonably Persistent Complainant is reviewed on a timely basis, in accordance with the policy, and is maintained only where merited under the Authority policy.		

Your control environment and findings (continued)

Control insights and areas for management focus

Area of observation	Deloitte recommendation	Risk rating	Management response and remediation plan
Monitoring of ChiefExec@Lancaster mailbox during inspection period	<p>We recommend that the central mailbox UPCs are directed to is monitored during the accounts inspection period, so that any queries on the Statement of Accounts raised to this mailbox will be picked up.</p> <p>We further recommend that, in future communications with individuals to be designated as UPC, that the need to email directly to the designated email box for matters connected to objections to the accounts is clearly set out. We also recommend that confirmation of this fact is communicated to all persons for whom there is an extant UPC / Email block in place.</p>		
Revaluation documentation	When performing the revaluation exercise, the in-house valuers should keep evidence of their discussions and meetings; i.e., diary invites, email summaries and comments/annotations on reports.		Management will consider the implications of the recommendations and formulate an appropriate response following conclusion of the audit
Valuation of assets	<p>In addition to the observations set out in our letter of 23 March 2021 which we understand are in the process of being addressed our valuations experts make the following recommendations:</p> <ul style="list-style-type: none"> • The instructions issued to the valuations team should reference the requirement to the fair value input hierarchy as set out in IFRS13 • The terms should more clearly set out the expected form and content of the resulting report • The final report should include the categorization of assets and also, where applicable, an opinion on the significant components of the assets • The approach to incorporating Stamp Duty Land Taxation (SDLT) should be made more consistent with the function of SDLT and across the portfolio generally. 		

Our audit report

Matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.



Our opinion on the financial statements

Based on our work completed to date it is expected that our opinion on the financial statements will be unmodified.



Material uncertainty related to going concern

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.



Emphasis of matter and other matter paragraphs

We include details on the emphasis of matter paragraph in relation to property valuations on page 13 of this report.

There are no other matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.



Our value for money conclusion

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money).

Based on our work to date, our conclusion on the Council's arrangements is unmodified.



Other reporting responsibilities

The Narrative Report is reviewed in its entirety for material consistency with the financial statements and the audit work performed and to ensure that they are fair, balanced and reasonable.

We are awaiting an updated set of accounts to review, however, based on our work to date, our conclusion in this area is satisfactory.

Other matters

We are required to report by exception on any issues identified in respect of the Annual Governance Statement.

	Requirement	Deloitte response
Narrative Report	<p>The Narrative Report is expected to address (as relevant to the Council):</p> <ul style="list-style-type: none"> - Organisational overview and external environment; - Governance; - Operational Model; - Risks and opportunities; - Strategy and resource allocation; - Performance; - Outlook; and - Basis of preparation - Future sustainability and risks to this posed by Covid-19. 	<p>We have assessed whether the information given in the Narrative Report meets the disclosure requirements set out in guidance, is misleading, or is inconsistent with other information from our audit.</p> <p>We have considered the sustainability narrative including the requirement to discuss and evaluate the impact of Covid-19 within this assessment. We have concluded satisfactorily on this matter.</p> <p>Our assessment of the impact of Covid-19 can be seen from pages 8 to 10.</p>
Annual Governance Statement	<p>The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.</p>	<p>We have assessed whether the information given in the Annual Governance Statement meets the disclosure requirements set out in guidance, is misleading, or is inconsistent with other information from our audit.</p>

Other matters

Objection to Accounts

Under the Local Audit and Accountability Act registered electors of the Authority may raise objections to the Statement of Accounts requesting that the Appointed Auditor consider the matters raised in the objection and determine whether the issues raised merit either a report in the public interest or declaration that an item of account is contrary to law.

In respect of the 2019/20 Statement of Accounts Deloitte received two objections in accordance with the provisions of the Act which we have considered under the terms of Auditor Guidance Note 4 Auditors Additional Powers and Duties (AGN04). Whilst the Act and associated guidance note should be considered the authoritative guidance in this respect, in summary to assist the Audit Committee's understanding of these matters the process is broadly summarised below.

- An objection must be raised within the designated window for electors to object to the Statements, must be made in writing, must be copied to the Authority and must contain sufficient detail as to convey a reasonable understanding of the matters in hand; and
- The objection must relate to an item included within the Statement of Accounts for a year for which an Audit Certificate has not been issued and the objector must be raised by a registered elector of the Authority.

If the above steps are passed then the objection may be declared eligible for consideration under AGN04. In determining whether to accept and consider the objection AGN04 sets out a range of matters which the auditor should have regard to which include:

- Whether the cost of considering the objection would be disproportionate to the sums involved;
- Whether the objection is frivolous or vexatious;
- Whether the objection repeats an objection already considered; and
- Whether the matter clearly falls outside the auditor's jurisdiction.

If the auditor concludes that an eligible objection will not be accepted and considered any further then this judgement must be communicated to the objector together with a statement setting out the auditor's reasons.

Where an eligible objection is accepted by the Auditor then the Auditor will undertake whatever investigations and enquiries are judged necessary to address the objection and, if concluded appropriate, issue a report in the public interest and/or apply to the courts for an item to be declared contrary to law.

Other matters

Objection to Accounts (continued)

Objection 1

The objector provided a wide ranging objection covering setting out the history of the Luneside East Development and the Authority's dealings with Thomas Newall Limited, the entity from which the Luneside East site was compulsorily purchased in 2006, whose central contention was that the Luneside East Development bears no resemblance to the Urban Village for which the Authority acquired the site.

The objection was judged eligible as it met the requirements summarised on page 22 and so we considered whether to accept the objection or not.

The matters complained of, in many cases, had been litigated previously and was in parts subject to an earlier objection raised with KPMG which was not upheld. The residual matters relevant to the Statement of Accounts 2019/20, being the only year for which the Audit Certificate has not been issued and, therefore, the only element which was eligible for consideration, concerned the disclosure contained within Note 42 of the financial statements and specifically that the Draft Statement of Accounts failed to disclose the fact that R. Gardener & Company (Lancaster) Ltd had purchased the rights previously held by Thomas Newall Ltd and brought a claim for Compulsory Purchase Order Compensation before the Land Tribunal.

We concluded that the disclosure in the draft Statement of Accounts was not wholly accurate it did not represent the known position at the time the Statements were drafted. We have requested that management make amendments to Note 42 making it clear that the rights previously assigned to Thomas Newall Ltd have been assigned to R. Gardener & Company (Lancaster) Ltd, that a case was brought against the Authority in the Land Tribunal and that the case was dismissed on 23 November 2020. In view of the fact that only matters relating to years for audit has not been concluded can be considered, the observation that the active case was dismissed on 23 November and the fact that the Contingent Liability was already within the scope of our planned audit procedures we did not judge that it would be proportionate for us to issue a report in the Public Interest on this matter consequently we wrote to the objector on 17 June 2021 confirming that we would not be accepting the objection and setting out our reasons.

We have agreed with the S151 officer that the necessary changes to Note 41 will be made prior to finalisation of audit and signing of the accounts.

Status

Subsequent to our issuing of the Statement of Reasons to the objector we have received notice that the objector intends to complain about our handling of their objection. This is being handled by our complaints team.

Other matters

Objection to Accounts (continued)

Objection 2

The resident provided an objection on 12 October 2020 in which he referenced an earlier request put to the S151 Officer of the Authority. The earlier communication principally referred to Note 42 Contingent Liabilities and the omission of reference to a potential clawback by the European Regional Development Fund of monies granted to the Authority in support of the Luneside East Development.

This liability to clawback was included in the 2018/19 Contingent Liabilities Note however was not included in the draft Statement of Accounts relating to the year ended 31 March 2020.

Having made appropriate enquiries we determined that the objection was eligible under the terms of AGN04. However owing to the fact that the substance of the objection, being the content of the Contingent Liabilities note, was already within the scope of our audit we concluded that it was unlikely to be proportionate to issue a report in the public interest on this matter (assuming one were to be warranted).

As we note on page 3 of this report we are awaiting certain documentation from the Authority relating to the grant claims in respect of the Luneside East Development which we understand are in storage within the Finance Department has been inaccessible since the response to the Covid pandemic resulted in the finance team working remotely.

Status

Subsequent to our issuing of the Statement of Reasons to the objector we have an interim complaint about our handling of their objection. This is being handled by our complaints team.

Maintaining audit quality

Responding to challenges in the current audit market

This is a time of intense scrutiny for our profession with questions over the role of auditors, market choice and the provision of non-audit services by an audit firm. We welcome the debate and are engaging fully with all parties who have an interest in the current audit market reform initiatives, so that our profession, our people, our clients and most importantly, the public interest, are served to the highest standards of audit quality and independence.

The role of audit

- Public confidence in audit has weakened over recent years and the expectation gap has widened with differences between what an audit does and what people think it should do (largely in areas of internal controls, fraud, front half assurance and long term viability).
- Deloitte fully supports an independent review into the role of auditors.
- The Government's Brydon Review will consider UK audit standards and how audits should evolve.

Would it be better to have audit only firms?

- Deloitte believes that multidisciplinary firms have more knowledge, greater access to technology and a deeper talent pool. The specialist input from industry, valuation, controls, pensions, cyber, solvency, IT and tax services are critical to an effective audit.
- Our investment in audit innovation, training and technology is greater because of the multidisciplinary model.

Is the current audit market uncompetitive?

- We recognise that the competition for large, complex clients is fierce, but we wholeheartedly support greater choice being available to stakeholders .
- There are barriers to entry in the listed market that are significant including the required global reach, unlimited liability, and the high cost of tendering.
- The audit profession has engaged with the Competition and Markets Council with ideas on how to provide greater choice in the market, and responded to the CMA's suggested market remedies.

Independence and conflicts from other services

- Legislation and the FRC's Ethical Standard restrict the services we may provide to audit clients.
- Deloitte invests heavily in systems, processes and people to check for potential conflicts.
- We have governance in place to assess any areas of potential conflict, including where required to protect the public interest.
- Fees for non-audit services to audit clients have fallen since 2008 (17% to 7.3% of firm revenue).

Deloitte

- Deloitte and Audit Service Line leadership are happy to meet the Board and management of our clients with respect to this important debate. We reaffirm our commitment to quality, independence and upholding the public interest
 - Our Impact Report and Transparency Report are available on our website <https://www2.deloitte.com/uk/en/pages/about-deloitte-uk/articles/annual-reports.html>
 - Our response to the latest AQR report is on page 28.
-

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit Committee and the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the Narrative Report.

What we don't report

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

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

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

The scope of our work

Our observations are developed in the context of our audit of the financial statements. We described the scope of our work in our audit plan and again in this report.

This report has been prepared for the Audit Committee and Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

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

Deloitte LLP
Newcastle | July 2021

Appendices



Audit adjustments

Unadjusted misstatements

The following uncorrected misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK). Uncorrected misstatements, when taken together with the impact of prior year unadjusted errors, result in a £0.4m misstatement to net assets.

		Debit/ (credit) CIES £m	Debit/ (credit) in net assets £m	Debit/ (credit) reserves £m
Misstatements identified in current year				
“Goodwin” impact on the pension liability	[1]	0.2	(0.2)	
Impact of Misstatements identified in prior year				
Extrapolation of the error noted in the transposition of the valuation certificates into the financial statements			(0.2)	0.2
Estimated Overstatement to the opening bad debt provision		0.1		(0.1)
Extrapolated error relating to missed accruals		(0.3)		0.3
Total		0.0	(0.4)	0.4

[1] The pension scheme actuary has made no allowance for the impact of a legal case “Goodwin” on the pension liability, on the basis that it is not material. We estimate the impact of the Goodwin judgement to be to increase the liabilities by 0.1%, or £0.2m.

Fraud responsibilities and representations

Responsibilities explained



Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



Required representations:

We have asked the Council to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the Council.

We have also asked the Council to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



Audit work performed:

In our planning we identified property valuations, completeness of expenditure and management override of controls as key audit risks for your organisation.

During course of our audit, we have had discussions with management and those charged with governance including the Head of Internal Audit.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements.

We have reviewed the paper prepared by management on the process for identifying, evaluating and managing the system of internal financial control.

Concerns:

No significant concerns have been identified from our work.

Independence and fees

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

Independence confirmation

We confirm that we comply with FRC Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.

Fees

The audit fee for 2019/20, in line with the scale fee provided PSAA, is £44,959 (2018/19: £44,959). We have incurred additional costs in responding to the two objections received in relation to 2019/20. We have also incurred additional costs in concluding the audit due to the level of issues identified. Once the full extent of these costs are known, we will communicate and agree additional fees with management and the Audit Committee.

Non-audit services

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

Relationships

We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.

We are not aware of any relationships which are required to be disclosed.

Our approach to quality

AQR team report and findings

Audit quality remains our number one priority and we have a relentless commitment to it. We continue to invest in and enhance our Audit Quality Monitoring and Measuring programme.

In July 2020 the Financial Reporting Council (“FRC”) issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review (“AQR”) team for the 2019/20 cycle of reviews.

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

We are pleased with our results for the inspections of FTSE 350 entities achieving 90% assessed as good or needing limited improvement, which included some of our highest risk audits. Our objective is for 100% of our audits to be assessed as good or needing limited improvement and we know we still have work to do in order to meet this standard. We are however, extremely disappointed one engagement received a rating of significant improvements required during the period. This is viewed very seriously within Deloitte and we have worked with the AQR to agree a comprehensive set of swift and significant firm wide actions.

We are also pleased to see the impact of our previous actions on prior year adjustments is reflected in the results of current year inspections with no findings in this areas. In addition the FRC identified good practice examples including in: risk assessment, group oversight, our comprehensive IFRS9 expected credit loss audit programme and our audit committee reporting.

Embedding a culture of challenge in our audit practice underpins the key pillars of our audit strategy. We invest continually in our firm wide processes and controls, which we seek to develop globally, to underpin consistency in delivering high quality audits whilst ensuring engagement teams exercise professional scepticism through robust challenge.

All the AQR public reports are available on its website.

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



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Audit Committee**HR Internal Audit Update
21st July 2021****Report of Director of Corporate Services****PURPOSE OF REPORT**

This report aims to provide a synopsis of work undertaken to address matters raised relating to the transition and onward development of Lancaster City Council's Internal Audit services.

This Report is Public

RECOMMENDATIONS

- (1) **To note the progress made in further investigating and implementing work on provision of Internal Audit for Lancaster City Council.**
- (2) **For information only.**

1.0 Introduction

- 1.1 This report provides an update on progress made since the previous Audit Committee on 9th June 2021

2.0 Details

- 2.1 The Audit activities and subsequent investigations regarding the HR, OD and Projects Team also identified a small number of matters arising with regard to risk, assurance and audit more generally, and these were also reported on in the Annual Report of our Lead Internal Auditor at the meeting held on 9th June 2021
- 2.2 The end of our Shared Service agreement for Audit provision provides an opportunity to review good practice, explore the latest guidance and design and implement an audit service that is fit for our rapidly changing future. Key priorities in doing this include:
 - Ensuring direct access to Executive for all Statutory officers, and a strong, independent peer relationship between our 151, Monitoring and Head of Internal Audit;
 - Better aligning our audit and assurance activities with our Corporate and operational risks (as identified in the last meeting) and embedded in an integrated way into our policies, processes and culture;

- Taking on board the latest government reports into Local Government Auditing,
 - Improving engagement and transparency regarding audit activity, and the work of the Committee so that key insights and lessons learned are actively discussed with the Leadership on a regular basis; and
 - More closely linking key risk, audit and assurance capacity with Corporate Services and approaches to Health and Safety, Project Monitoring and Information Governance.
- 2.3 The proposed arrangements seek to strengthen the roles, responsibilities and accountabilities of teams, address identified skills gaps, and put in place a more comprehensive approach to strengthen insights, checks and balances via a Business Improvement and Assurance approach, including the inclusion of a new role leading these activities, who will also act as the Authority's Lead Auditor, supported by a team with wide ranging skills on Projects, Risk, Information Governance, Auditing, Policy, Process and Health and Safety.
- 2.4 The ways of working proposed have been designed to ensure full alignment with the [CIPFA Internal Audit Standards](#) and the roles have been designed to ensure full alignment with the CIPFA good practice guide for the [Head of Internal Audit](#) including reporting lines and access to Executive.
- 2.5 An Interim Head of Business Improvement and Assurance (to undertake the Head of Internal Audit CIPFA role) and interim auditor will be appointed following the completion of the Interim Head of HR role. We expect these to be in place by September.
- 2.6 The Audit programme and ways of working will be reviewed to ensure that they include all key themes identified in the Government's Audit review, as well as any risk, governance or due diligence matters we have identified in business as usual. In parallel, training and support across Leadership and Management Teams will better embed a risk, audit and assurance culture.
- 2.7 A regular meeting between the Chair of the Audit Committee, Portfolio Holder, Director of Corporate Services and Head of Internal Audit is proposed to take place to ensure satisfactory arrangements are developed and maintained
- 2.8 In the short term, we have the ability to use call-off commissions for issue-specific audits, and are also able to draw on capacity from 2 nearby local authorities to provide advice and support.

3.0 Details of Consultation

- 3.1 Extensive consultations and interviews were held with a large number of employees and expert advice was sought from external Audit, Assurance and CIPFA professionals from five organisations. Portfolio holders and the union have been briefed and provided feedback on the relevant issues which have been taken account of in the actions being taken

4.0 Conclusion

- 4.1 Since the Audit Committee held on 9th June 2021, work has progressed to identify and scope interim role provision for the Audit function, linking and embedding it in a wider Business Improvement, Risk and Assurance approach

CONCLUSION OF IMPACT ASSESSMENT

(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing): The steps proposed aim to align the actions of the council more closely with our equality and diversity policies and relevant other priorities.

LEGAL IMPLICATIONS

Extensive specialist advice has been engaged to support the investigations and inform the actions taken.

FINANCIAL IMPLICATIONS

It is proposed that the roles are established from the combined existing roles and vacancies that were held within the Financial Services team.

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

SECTION 151 OFFICER'S COMMENTS

I am aware of the issues raised in the report and have been working with the Leadership Team to respond to them.

MONITORING OFFICER'S COMMENTS

I am aware of the issues raised in the report and have been working with the Leadership Team and external parties to respond to them.

BACKGROUND PAPERS

Appendix 1:

Contact Officer: Paul Thompson
Telephone: 01524 58
Email: s.davies@lancaster.gov.uk
Ref:

Audit Committee**HR Assurance Update
21st July 2021****Report of Director of Corporate Services****PURPOSE OF REPORT**

This report aims to provide a synopsis of work undertaken to address matters raised relating to the effectiveness of Lancaster City Council's HR services.

RECOMMENDATIONS

- (1) **To note the progress made in further investigating and implementing work on HR Assurance**

1.0 Introduction

- 1.1 This report provides an update on progress made since the previous Audit Committee on 9th June 2021

2.0 Details

- 2.1 During 2020, staff absences and other issues in the HR Service led to swift action being taken by the Chief Executive to ensure an effective service, including:
- The temporary transfer of reporting lines for certain functions and work to establish and address identified any identified competency issues with key staff or policy or process effectiveness and adherence issues;
 - The establishment of interim management of the HR function by a highly regarded and experienced officer, (Deputy Director) including due diligence and staff support;
 - A report was commissioned to support the authority in an independent review of issues raised;
 - A focus on Local Government experience and leadership within the recruitment processes for a new Corporate Services Director;
 - The findings of this report were referred to the Internal Audit Team, who produced a report into the matter on 29th October 2020, who identified that the report had not fully identified the range of responses required to the issues, and subsequently suggested an action plan to address the issues raised, included undertaking further investigation work;

- 2.2 No organisation wishes to have capacity challenges to address, and difficulties within HR services are particularly complex, as the HR service itself would normally play a significant role in supporting work and investigations regarding capacity, governance, conduct and competencies. However, the use of external expertise and interventions by the Executive Management Team supported by Audit and Legal teams meant that the issues were investigated, identified and responded to, maintaining service continuity throughout.
- 2.3 As is the case for all local authorities, Lancaster City Council has faced unprecedented challenges in the last year due to the Pandemic, and its approach to reallocating the workforce, delivering pandemic response activities, maintaining continuity of essential services, ensuring the wellbeing of the workforce and supporting the community has been externally recognised as exemplary. Despite the challenges identified in the reports, an effective HR service to recruit, support, train, operate essential HR services and systems, and do all of the extra work associated with pandemic related recruitment and staff changes was maintained.
- 2.4 As part of its regular activities, over the last year we have been able to gather information and insights on working in and for Lancaster City Council via our internal 'your voice' and employee survey activities. We have also been inspected and assessed as part of the independent 'Investors in People' scheme. While there is always room for improvement, these activities provide objective evidence that the impact and scope of the challenges above has been relatively limited, with Lancaster City Council moving from Basic to Silver level on IiP and also securing a Workforce Wellbeing Award. The IiP's findings are based on extensive, independent surveying of staff across the organisation and their own assessments of our systems, processes, behaviours and actions.
- 2.5 Given the differences in information and scope between the investigations and reports, it was vital the Executive Management Team acted based on a complete picture of the matter, and the Executive secured this from externally commissioned work. This was to ensure that, at all times they acted objectively, consistently, compassionately and fairly in their response.
- There were three distinct areas of work:
- HR assurance and investigations;
 - Maintaining continuity of service; and
 - Addressing any systemic weaknesses or lessons learned.
- 2.6 Feedback was obtained from the externally commissioned adviser in December 2020 confirmed that there were a range of opportunities for improvement regarding the behaviours and competencies, the content and governance of HR policy development, agreement and implementation, and adherence to policies, processes and procedures, including in the restructuring of, and appointments to the HR, OD and Projects Team. There appears to have been a limited direct impact of this, restricted to a very small number of roles and policies, and, due to the action taken by the Executive and supported by the Audit Team and others, for a limited duration of time.
- 2.7 The new Corporate Services Director joined the authority at the start of December 2021, met with the Audit Team, and agreed the overarching findings of the Audit Report, and the general principles of the proposed Action Plan. Management of the HR assurance work passed to her, and the following actions were taken:
- The Audit and related reports and investigations were reviewed;
 - A comprehensive service review of the HR team structure, policies and processes was started to regularise its establishment and this is now at staff

- consultation stage;
- Externally verified evidence and information, and employee survey information was also reviewed to understand the general sense of employee support, satisfaction and morale;
- An interim review of specific policies and procedures was undertaken, to ensure that those in use were appropriately developed and agreed, resulting in temporary reversion to previous policies where appropriate;
- A further review is planned to align policies and procedures with best practise, including any governance and consultation activities required for proposed changes once the new team arrangements are in place;
- Discussions were held with key people including the Unions (3 meetings to date);
- Management, support and negotiations were held and, where relevant, return to work plans were put in place for any affected parties associated with the issues raised and their related formal processes;
- Additional checks and safeguards on any changes to the constitution, policies or procedures were put in place to minimise risks of recurrence;
- A revised Action Plan and tracker is in place based on the recommendations of the audit team and subsequent investigation;
- A reinvigorated 'Taking the Lead' regular meeting including leadership and management competency activities for all Heads of Service
- A training programme and approach for Member Committees has started, with training for Overview and Scrutiny Members held in March 2021 to strengthen understanding of roles, responsibilities and accountabilities of Committees and their Members and training planned for Personnel Committee in early Autumn 2021.

2.10 Since the previous update on 9th June the following actions have been undertaken:

- A further 12 staff consultation meetings have been held
- A whole-staff 'working well' survey helping us understand the needs, priorities, key issues and future ways of working for our employees (with a cc 50% response rate at time of report drafting – typical public sector staff surveys secure a 15-30% response rate)
- A recruitment process for an interim Head of HR has been carried out, with an offer now in place subject to pre-employment checks for a start within the month.
- A parallel process for a permanent appointee has been drafted, ready to be checked using the interim's expertise, ready for release.
- The Service review outcomes and feedback have been collated, ready for implementation by the interim Head of HR, again subject to their checking, and the relevant union and Personnel Committee engagement.
- Regular meetings are now in place with the Unions, and regular meetings have been proposed with the Personnel Committee Chair.
- Fortnightly detailed updates are being provided to the Portfolio Holder for HR (the Leader)
- A comprehensive review of progress against the audit findings will be undertaken again in Autumn 2021

3.0 Details of Consultation

3.1 Extensive consultations and interviews were held with a large number of employees and expert advice was sought from external HR and legal professionals from three

organisations. Portfolio holders and the union have been briefed and provided feedback on the relevant issues which has then been included in the actions taken.

4.0 Options and Options Analysis (including risk assessment)

	Option 1: Engage professional help and reform service and related policies	Option 2: Request Lead officers deal with matters raised	Option 3; BAU / do nothing
Advantages	Best potential to align authorities actions with good practice and mitigate risks	Would be the typical response to relevant audits.	Limited. Action is essential to address findings
Disadvantages	Very time-consuming entailing significant senior officer time and intervention, staff consultation and external commissioning of support	The issues raised relate to lead and senior officers within the authority	Exposes the authority to unacceptable risks.
Risks	There will be a period of time when transformation and	There is a risk that an objective approach may not be taken.	Employee satisfaction. Use of council resources. Adherence to legislation and policies

5.0 Officer Preferred Option (and comments)

5.1 Option 1 is the preferred option. A full review of the HR Services, policies and processes, and related governance checks and balances is now at the final implementation stage.

6.0 Conclusion

6.1 A thorough investigation and review of matters relating to HR Services has been undertaken arising from the identification of a number of issues of concern. Changes to personnel, systems and processes have been identified and are in the process of being implemented.

CONCLUSION OF IMPACT ASSESSMENT
(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing): The steps proposed aim to align the actions of the council more closely with our equality and diversity policies and relevant other priorities.

LEGAL IMPLICATIONS

No further implications from previous update

Extensive legal and HR specialist advice has been engaged to support the investigations and inform the actions taken.

FINANCIAL IMPLICATIONS

No further implications from previous update

A provisional increase of £40,000 was agreed in the 2021/22 budget setting process to allow

for any changes needed to address the report's findings.

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

SECTION 151 OFFICER'S COMMENTS

I am aware of the issues raised in the report and have been working with the Leadership Team to respond to them.

MONITORING OFFICER'S COMMENTS

I am aware of the issues raised in the report and have been working with the Leadership Team and external parties to respond to them.

BACKGROUND PAPERS

Appendix 1:

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Ref: