



Committee: AUDIT COMMITTEE
Date: WEDNESDAY, 20 JULY 2022
Venue: MORECAMBE TOWN HALL
Time: 6.10 P.M.

A G E N D A

1. **Apologies for Absence**

2. **Minutes**

Minutes of meeting held on 25th May 2022 (previously circulated).

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

4. **Declarations of Interest**

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

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

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

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

5. **Annual Governance Statement 2021/22** (Pages 3 - 22)

Report of the Monitoring Officer

This report was marked "to follow" and was published on 15th July 2022

6. **CIPFA Financial Management Code** (Pages 23 - 45)

Report of the Chief Finance Officer

This report was marked "to follow" and was published on 14th July 2022.

7. **Strategic Risk Management** (Pages 46 - 58)

Report of the Chief Executive

This report was marked "to follow" and was published on 14th July 2022.

8. **Internal Audit Annual Report 2021/22** (Pages 59 - 74)

Report of the Internal Audit and Assurance Manager

This report was marked "to follow" and was published on 15th July 2022

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

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

(ii) Substitute Membership

Councillors Roger Cleet (Substitute), Jason Firth (Substitute), David Whitaker (Substitute), John Wild (Substitute), Jason Wood (Substitute) and Joanna Young (Substitute)

(iii) Queries regarding this Agenda

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

(iv) Changes to Membership, substitutions or apologies

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

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

Published on 12th July 2022.

AUDIT COMMITTEE**Annual Governance Statement
2021/22****20 July 2022****Report of the Monitoring Officer****PURPOSE OF REPORT**

To approve the draft Annual Governance Statement (AGS) for 2021/22 for inclusion in the Annual Statement of Accounts following a review of the Council's governance arrangements.

This report is public

RECOMMENDATIONS

(1) To consider the Annual Governance Statement (AGS) for 2021/2 and be recommended for adoption and for signing by the Chief Executive and the Leader of the Council, subject to any minor non-material changes.

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 2021/22 is attached at Appendix A. All key officers and the Head of Internal Audit 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.

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 assisted in the authoring of the Annual Governance Statement. The issues highlighted within the AGS are consistent with his understanding of the operation of the Councils governance framework for the year and together with the Leader, Chief Executive and Monitoring Officer he is committed to addressing the matters highlighted.

LEGAL IMPLICATIONS

Legal Services has no further comments to make on this Report

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has authorised this report.

BACKGROUND PAPERS

N/A

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Ref:

Annual Governance Statement 2021/2022

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 efficiently, effectively and economically.

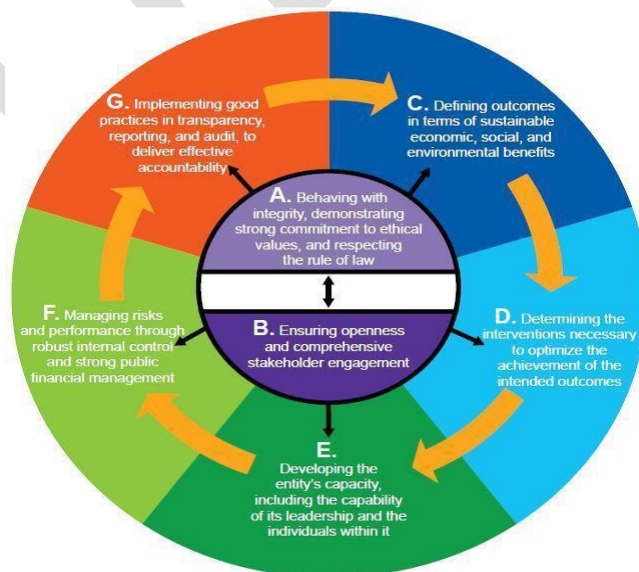
To meet our responsibility, we have put in place proper governance arrangements for overseeing what we do. These arrangements are intended to make sure that we do the right things, in the right way, for the right people, in a timely, open and accountable manner. These arrangements consist of all the 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

The Council has adopted a Code of Corporate Governance which is currently under review. The Preparation and publication of this Annual Governance Statement is in accordance with the principles set out in 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 continued to have a significant effect on the Council’s governance in 2021-2022. During this period, the district has transitioned through different government coronavirus lockdowns and measures. In early April 2021 restrictions started to lift including the re-opening of non-essential retail and public buildings. Restrictions were re-introduced in early December 2021 with the Prime Minister’s announcement of a move to plan B measures in England following the spread of the Omicron variant. The plan B measures were lifted by the end of January 2022. 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

The Council has continued 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 formation of a covid response team including outbreak management, surveillance and monitoring, the creation of a community hub and 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 £64M. Front line officers supported businesses how to trade safely and the district council trailblazed a covid safe award which became a national award. Officers from the Council also worked with civil servants from many government departments to support drafting guidance and policies and sharing good practice.
- 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 residents, and continues to 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.
- ICT infrastructure so that staff can work remotely from home wherever possible, and providing office equipment, furniture to support that.
- Virtual Council meetings, affording appropriate access to members of the public and transparency in decision making whilst observing social distancing, continued until 7 May 2021 in accordance with the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020.
- In person meetings held after 7 May 2021 were re-arranged to ensure appropriate social distancing and COVID measures were put in place.
- COVID-19 pages on the Council website provide further information see [Coronavirus information - Lancaster City Council](#)

As the circumstances of the pandemic changed and restrictions started to be lifted, the Council started planning to support the district with reopening. An Economic Re-opening, Recovery and Renewal Framework was approved by Cabinet in September 2021. The Framework sets out the Council's broad approach to supporting the local economy following the Pandemic.

The impact of the pandemic on the Council will be long term. It has and will continue to affect our communities, business and residents in many ways and create significant resource implications for the Council and our partners.

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 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 2021/22.

Table 3: Summary of Compliance 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 (provided by MIAA) • 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 • The Constitution is regularly reviewed and kept up to date
COVID-19 Impact and Council response	<p>Council, Cabinet and Committee continued to be held virtually until 7 May 2021. Virtual meetings were compliant with access to information and public access requirements. Key decisions to be made by Cabinet continued without delay or deferment of Council business, with some decisions taken by the Leader/ Portfolio Holders as necessary. Face to face council meetings started again in May 2021 following risk assessment, testing requirements and increased ventilation. Measures were put in place to ensure appropriate social distancing, sanitation, and face coverings.</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 publishes information in accordance with the Local Government Transparency Code 2015 and is working towards greater publication in accordance with the Code. • An Overview and Scrutiny and Budget and Performance Panel report is published annually • The Council publishes all 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 • 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 has subscribed to the Engagement HQ Platform, Keep Connected. The platform is an easy and secure way for the public to participate in projects (https://keepconnected.lancaster.gov.uk) • Participative democracy (People's Jury) has been 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 were held. Officers have been able to arrange extra ordinary meetings via Microsoft Teams when concerns arise, increasing the Council's partnership working • 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) • 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 • Online publication of Councillors' interest in accordance with the Localism Act 2011
COVID-19 Impact and Council	<p>We continued to contribute to and collaborate with partner organisations to deliver a joined-up response to COVID through joint working in a wide variety of settings, notable examples are:</p>

<p>response</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.
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<p>Principle C: Defining outcomes in terms of sustainable, economic, social and environmental benefits</p>	
<p>Compliance Overview</p>	<p>The following key policies, procedures, and practices remained in place and were applied throughout the year.</p> <ul style="list-style-type: none"> • Corporate key performance indicators (revised as and when appropriate) 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, Revenue Budget 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 (where applicable) the impact on Climate, Equality, Wellbeing & Social Value, Health & Safety and Community Safety. This includes consideration of fair access to services • The Council has an approved local plan • The Council has commenced a Climate Emergency Local Plan review which seeks to make amendments to the Local Plan following the Council's Climate Emergency. • Procedures are in place to address conflicting interests e.g. the call-in procedure and codes of conduct for members and officers. • 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 an assessment of environmental impact, proportionate to the nature of the decision
<p>COVID-19 Impact and Sustainable Recovery</p>	<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. This plan remains in place.</p>

<p>Council response</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> <p>In September 2021 Cabinet approved an Economic Re-opening, Recovery and Renewal Framework which provides a basis for the Council’s support for the economy following the Covid Pandemic. This includes setting outcomes around sustainable economic recovery, restored local confidence, stronger partnerships and safe and healthy economy.</p>
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<p>Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes</p>	
<p>Compliance Overview</p>	<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 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 • 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 continued to be reported to Cabinet, Council, Overview and Scrutiny throughout 2021 and COVID related issues continue to be addressed into 2022. Since March 2021 corporate activity and resources have largely reverted back to pre-pandemic</p>

	<p>levels. Although, the Pandemic has had lasting impact on how the Council uses and organises its resources. There is now a greater degree of flexibility in staff being able to work from home remotely and office accommodation has been changed to allow increase 'hot-desking'.</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>

Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it

<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 regularly 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 regularly with portfolio holders and Cabinet as a whole. • 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 of internal financial control and attends Executive Team meetings on invitation. • 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>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

	<p>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</p> <ul style="list-style-type: none"> • 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 continues to secure communication and data security and has also enhanced our ability to work remotely and collaboratively.</p>

Principle F: Managing risks and performance through robust internal control and strong financial management

<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 applied through the year for the Council. Examples of these include • The Council has a Risk Management Policy • All services have Information asset registers and privacy notices are now in place for most the Council's service areas and are being reviewed by Internal Audit Service • 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 in place from October 2021 following the resignation of the Council's previous Internal Audit and Assurance Manager in April 2021, and all current Audit reviews are conducted under the Auditing Practices Board Guidelines and in line with Public Sector Internal Audit Standards (PSIAS) • 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 (Louise Cobain of MIAA) is Consultative Committee of Accountancy Bodies (CCAB), Chartered Public Finance Accountant (CPFA) 2005 qualified and also holds a Chartered Management Institute Level 5 Leadership and Management Programme (2018). • The implementation of internal audit report recommendations is monitored by the Council's Head of Internal Audit and Audit Service and Assurance (provided by MIAA) and the Audit Committee. MIAA has External Quality Accreditation (which is required every five years. This was undertaken in 2020 by CIPFA which confirms MIAA's full compliance with the Public Sector Internal Audit Standards. MIAA also undertakes annual self-assessments against standards which again confirms full compliance. • 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
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	<p>reviewed by the Audit Committee. A revised Anti Money Laundering Policy was approved by Audit Committee in March 2022</p> <ul style="list-style-type: none"> • The Council has an ‘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. Progress is being made on a recent DP Audit and Action Plan. There are still areas for improvement including review and update on all Data Protection Policies, documenting the basis for type and category of information held, work in Privacy Notices and work around GDPR and contracts. • 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. The records management policy is currently under review and being updated. • 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>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>

<p>Principle G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability</p>	
<p>Compliance Review</p>	<p>The Council endeavors 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 endeavors to publishes information in accordance 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

	<ul style="list-style-type: none"> • An effective internal audit function is resourced and maintained enabling them to deliver an annual internal audit opinion • The Council ensures that there is a process in place for the follow up of audit recommendations • The Council complies with both the Public Sector Internal Audit Standards and CIPFA’s Statement on the role of the Head of Audit (2019) • 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 members are able to have private and confidential discussions with the Head of Internal Audit and Assurance. This is safeguarded by the functions and responsibilities of the Audit Committee in the Council’s Constitution. • In accordance with the Public Sector Internal Audit Standards (PSIASs) the Head of Audit & Assurance developed an Internal Audit Plan (2021/2022). This was approved by Audit Committee in November 2021. • The Council has a RIPA Policy in place and officers who use social media to carry out surveillance have received relevant training. The RIPA Policy was reviewed by the Audit Committee in March 2022 and remains under annual review. • 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 the onset of the pandemic in accordance with regulations face to face meetings were temporarily cancelled with virtual meetings commencing 28th April 2020 and ending on 7 May 2021. 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>

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. The implementation of the FM Code is mandatory from 2021-22, and the Council has assessed compliance with the Code, against each of the seven standards. This concluded that the current working practice and noted planned improvements (subject to works set out in the table below) 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

Table

Standard	Action Required	Responsible Officers	Timescale
Responsibilities of the Leadership Team and Chief Financial officer (CFO)	Increased use of benchmarking data and peer review for inclusion in business case and as part of Outcomes Based Resourcing (OBR) to focus on VfM aspects.	Executive Team	February 2023 - To be incorporated as part of 2023/24 budget process)
	Recruitment to address the capacity issues within finance function	Director of Corporate Services & CFO	August 2022
Governance and Financial Management Style	Ensure that Internal Audit deliver sufficient audit work and coverage to support the annual HoIA Opinion and AGS	Head of Internal Audit Chief Finance Officer	July 2022
	Review of Financial procedure rules	Chief Finance Officer	March 2023
	Undertake a comprehensive review of the local code of Corporate Governance	Chief Finance Officer/ Monitoring Officer	November 2022
Long to Medium Term Financial Management	Utilisation of OBR principles as it works to address the structural deficit as part of the 2023/24 budget process.	Cabinet Executive Team	December 2022 – As part of the 2023/24 budget process
	As part of the process to address the structural deficit service plans will need to be re-aligned to reflect to Council's	Chief Finance Officer Cabinet Executive Team	December 2022 – As part of the 2023/24 budget process

	ambitions and outcomes		
Annual Budget	Seek an in-year reduction in the use of reserves to deliver a balanced budget for 2023/24 and beyond	CFO, Executive Team Cabinet	December 2022 – As part of the 2023/24 budget process
Stakeholder Engagement and Business Plans	Review and consideration of the most effective methods of stakeholder engagement on financial matters.	Executive Team Cabinet	February 2023 – As part of the 2023/24 budget process
	Further work is required to fully embed project management and the accompanying disciplines throughout the Council and ensure that is consistently applied.	Executive Team and Programme Manager	December 2022 – As part of the 2023/24 budget process

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 Internal Audit's annual report.

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 Service gives an opinion on the Council's internal control, risk management and governance framework.

The 2021/2022 Internal Audit Annual Report and Head of Internal Audit Opinion recognises that the Council, like other organisations across the public sector, has continued to face unprecedented challenges due to COVID-19. The overall opinion of the Head of Audit *"...for the period 1st April 2021 to 31 March 2022 provides Limited Assurance that there is a compromised system of internal control as weaknesses in the design and/or inconsistent*

application of controls has impacted on the overall system of internal control puts achievement of the organisation's objectives at risk."

In October 2021, MIAA were requested to support the Council, both in terms of providing a Head of Internal Audit service and delivery of the 2021/22 internal audit plan. The previous in-house internal audit provision had ceased and there had been little or no internal audit activity for the period April – October 2021. As such, the Internal Audit Plan developed by MIAA, focused upon mandated and core assurances and priority areas highlighted within Lancaster City Council's 2020/21 Annual Governance Statement.

Reviews have focused upon risk management, core financial systems, conflicts of interest, grants and confirmation of compliance with specific grant conditions. Eighteen recommendations have been raised as part of the work completed by MIAA, including one critical and four high risk rated recommendations relating to the review of risk management. Actions and timescales for implementation of the recommendations have been discussed and agreed with the Council. Assessment of the progress of the implementation of agreed actions is a key part of the internal audit plan and will be included within the regular reports to the Audit Committee.

As part of the Shared Revenues & Benefits Service Agreement, Lancaster City and Preston City Council have completed the internal audit reviews of Housing Benefits and National Non-Domestic Rates.

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 to resource the audit and as a result both the 2019/20 and 2020/21 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 2021/22 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)	23 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 23 incidents reported to the DPA, one breach was reported to the ICO with no sanction being imposed.
Outcomes from Standards Committee or Monitoring Officer investigations	8 breaches of the code of conduct were reported to the Monitoring Officer. One matter went to the Standards Committee. Other matters were either discontinued on the screening and finding of no

	breach by the Monitoring Officer or resolved by 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 2021/22
Local Government Ombudsman (LGO) referrals upheld	One referral has been made to the LGO in 2021/22. This was partly upheld. No referrals to the Housing Ombudsman were made in 2021/22.

GOVERNANCE ISSUES AND SIGNIFICANT CHALLENGES

Issues Identified in Prior Years

Risk Management and Information Governance were identified as governance issues in 2019/20 and commented on during the last Governance review 2020/21, 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 in late 2020 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. The Last Governance Report confirmed that action had been undertaken to address the more serious concerns and that work was progressing to address other issues. The Audit Committee has been provided with updates on progress.

The HR Assurance Update provided to Audit Committee on 21 July 2021 summarised steps taken in 2020 and in early 2021. This included twenty actions recorded as either having been undertaken or planned to be completed. The Report indicated that the recruitment process for an interim Head of HR had begun and that an offer had been made.

A new head of Human Resources was appointed in March 2022 and is currently reviewing the Action Plan with a view to taking further steps to address outstanding recommendations of the Internal Audit.

Information Governance

The Council's Information Governance (IG) Team continues to work on compliance with the General Data Protection Regulations which came into force on the 25 May 2018. Our Internal Audit carried out a review of IG policy and processes in May 2020. Internal Audit 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.

As the circumstances of the Covid pandemic have changed over the course of 2021/22, the IG team have made progress against the recommendations made by Internal Audit. Although, much of the work required under the recommendations is collaborative and requires significant participation from all Council departments. This means that change is not as quick as one would like. Moreover, progress remained limited until early 2022 owing to the need to prioritise the response to the pandemic and the re-allocation of large numbers of staff.

IG have formulated an Action Plan against the recommendations of Internal Audit. The plan shows progress in a number of key areas and identifies issues yet to be resolved and further steps to be taken.

Provision of Internal Audit

In April 2021, the Council's Internal Audit Manager left the Authority. The Council appointed MIAA to provide Internal Audit Services in October 2021. There was therefore a six-month period when the Council did not have staff delivering the internal audit function. This created a significant governance issue.

MIAA have been appointed to deliver the Council Internal Audit Service and will be part of the Council's internal control, governance, and risk management framework.

Other Governance Issues

A number of other 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 the Executive Team on a quarterly basis and the Audit Committee will be kept updated on progress.

Significant Challenges for 2022/23 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. It currently does not align all of the Council's key strategic risks, within the context of the Council's agreed priorities and outcomes. As a result, Internal Audit have not been able to utilise this risk register to inform and prioritise their audit work. The Executive are taking this matter seriously. From 22/23 oversight of strategic risk management will belong to the Office of the Chief Executive. The executive team have prioritised a comprehensive review of the end-to-end policies, plans, controls, and capacity in place for Risk, Improvement, Audit and Assurance, and will provide regular updates on this work to Audit Committee. This will lead to a significant improvement in the Council's risk management strategy and framework.

Financial Sustainability

There remain significant uncertainties in terms of Local Government funding over the next couple of years. These have been exacerbated by national circumstances such as COVID-19, Brexit as well as significant increases in utilities and contract prices and also by local issues around decommissioning plans for the Heysham power station.

Following significant work by Cabinet and Executive to carefully consider a series of options and proposals, including a detailed review of the Council's capital programme mitigating the associated revenue consequences the 2022/23 revenue budget was approved at Full Council 23 February 2022 without a draw on the Council's reserves.

However, based on current assumptions the forecast budget deficit exceeds £3.9M, with the year-on-year cumulative structural deficit is forecast to exceed £9M by 2025/26. 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.

It must be recognised that the overall size of the challenge the Council faces in addressing its underlying structural deficit is significant and the formulation of a balanced budget over the medium and longer term will require the delivery of considerable savings.

Continued focus on delivering the Funding the Future Strategy and the application of Outcomes Based Resourcing principles such as strategic prioritisation, service transformation and continuous improvement will play a significant part in achieving the level of savings required. The Council must recognise that it will face a number of key decisions over the next financial year which will affect the manner in which it delivers its services.

REVIEWING AND REPORTING ARRANGMENTS

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 2021/22 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

The Leader of the Council and Chief Executive both recognise the importance of having a solid foundation of good governance and sound financial management. They pledge their commitment to address the matters highlighted in this Statement, and to further enhance our governance arrangements to enable delivery of our Corporate Plan.

Signed on behalf of Lancaster City Council:

Councillor Caroline Jackson
Leader of Lancaster City Council

Mark Davies
Chief Executive of Lancaster City Council

Date:

AUDIT COMMITTEE**The CIPFA Financial Management Code****20 July 2022****Report of Chief Finance Officer****PURPOSE OF REPORT**

The Chartered Institute of Public Finance and Accountancy (CIPFA) have issued a Financial Management (FM) Code which aims to ensure a high standard of financial management in local authorities. This purpose of this report is to provide an assessment of the Council's current compliance with the code together with areas for improvement.

This report is public

RECOMMENDATIONS

The Committee is asked to

- **To consider whether the assessment carried out at APPENDIX A of the Council's level of compliance compared to the Standards contained in CIPFA's Financial Management Code is consistent with its understanding, and whether there are any further comments it wishes to make**

1.0 INTRODUCTION

1.1 In December 2019, CIPFA published its Financial Management code (FM Code) to provide guidance for good and sustainable financial management in local authorities. It has been produced to assist local authorities in demonstrating their financial sustainability through a set of standards of financial management.

1.2 The standards have different practical applications according to the size and different circumstances of individual authorities and their use locally should reflect this. The principle of proportionality applies to the FM Code and reflects a non-prescriptive approach to how each standard is met.

2.0 BACKGROUND

2.1 In response to recent concerns around financial resilience of Councils, CIPFA has introduced a new FM Code as part of a package of measures that it is putting in place. These measures have been driven by the exceptional financial circumstances faced by local authorities, having revealed concerns about fundamental weaknesses in financial management. In particular there have been a small number of high-profile failures across local government which threaten stakeholders confidence in the sector as a whole.

2.2 The FM Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. For the first time the FM Code sets out the standards of financial management for local authorities.

2.3 In February 2021 CIPFA provided clarification on compliance with the code to reflect COVID-19 pressures. This stated: Much of the Code requirements are based on statutory responsibilities, the timescales for which CIPFA is not able to influence. The Code does, however, allow for both flexibility and a proportionate approach:

“The manner in which compliance with the FM Code is demonstrated will be proportionate to the circumstances of each local authority.” and that:

“Financial management standards are to be guided by proportionality.”

2.4 CIPFA concluded that while the first full year of compliance is 2021/2022, it can do so within a more flexible framework where a proportionate approach is encouraged. In practice this is likely to mean that adherence to some parts of the Code will *demonstrate a direction of travel*.

3.0 The CIPFA Statement of Principles of Good Financial Management

3.1 The FM Code applies a principle-based approach rather than prescribing the financial management processes that local authorities should adopt. They have been developed by CIPFA in consultation with senior practitioners from local authorities and associated stakeholders. The principles have been designed to focus on an approach that will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable.

3.2 The principles include:

- i. Organisational leadership – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
- ii. Accountability – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
- iii. Financial management is undertaken with transparency at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
- iv. Adherence to professional standards is promoted by the leadership team and is evidenced.
- v. Sources of assurance are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.
- vi. The long-term sustainability of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

3.3 In turn the Code is structured around 7 areas of focus:

- The 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
- External Financial Reporting

- 3.4 Each of these areas is supported by a set of guidance standards against which Councils should be assessed. CIPFA's expectation is that authorities will have to comply with all the financial management standards if they are to demonstrate compliance with the FM Code and to meet its statutory responsibility for sound financial administration and fiduciary duties to taxpayers, customers and lenders.
- 3.5 Although the FM Code does not have legislative backing, it applies to all local authorities, including police, fire, combined and other authorities. The Code recognises that some organisations have different structures and legislative frameworks. Where compliance with this code is not possible adherence to the principles is appropriate.
- 3.6 The Council's external auditors will have regard to the FM Code and will be looking to ensure that the Council is meeting the Code. Furthermore, CIPFA guidance issued in February 2021 stated that the Council's Annual Governance Statement (AGS) should include the overall conclusion of the assessment of compliance with the principles of the FM Code. Where there are outstanding matters, or areas for improvement, these should be included in the action plan.
- 3.7 The results of this assessment is documented at Appendix A and identified a range of further actions required, the majority of which were already planned areas of work. These are summarised as follows:

Standard	Action Required	Responsible Officers	Timescale
Responsibilities of the Leadership Team and Chief Financial officer (CFO)	Increased use of benchmarking data and peer review for inclusion in business case and as part of Outcomes Based Resourcing (OBR) to focus on VfM aspects.	Executive Team	February 2023 - To be incorporated as part of 2023/24 budget process
	Recruitment to address the capacity issues within finance function	Chief Finance Officer	August 2022
Governance and Financial Management Style	Ensure that Internal Audit deliver sufficient audit work and coverage to support the annual HoIA Opinion and AGS	Head of Internal Audit Chief Finance Officer	July 2022
	Review of Financial procedure rules	Chief Finance Officer	March 2023
	Undertake a comprehensive review of the Local code of Corporate Governance	Chief Finance Officer/ Monitoring Officer	November 2022
Long to Medium Term Financial Management	Utilisation of OBR principles as it works to address the	Cabinet Executive Team	December 2022 – As part of the

	structural deficit as part of the 2023/24 budget process.		2023/24 budget process
	As part of the process to address the structural deficit service plans will need to be re-aligned to reflect to Council's ambitions and outcomes	Chief Finance Officer Cabinet Executive Team	December 2022 – As part of the 2023/24 budget process
Annual Budget	Seek an in-year reduction in the use of reserves to deliver a balanced budget for 2023/24 and beyond	Chief Finance Officer Executive Team Cabinet	December 2022 – As part of the 2023/24 budget process
Stakeholder Engagement and Business Plans	Review and consideration of the most effective methods of stakeholder engagement on financial matters.	Executive Team Cabinet	February 2023 – As part of the 2023/24 budget process
	Further work is required to fully embed project management and the accompanying disciplines throughout the Council and ensure that is consistently applied.	Executive Team and Programme Manager	December 2022 – As part of the 2023/24 budget process

3.8 As noted above these areas for improvement will be included in the Council's Annual Governance Statement and progress monitored through the Audit Committee. The AGS is presented to the Committee elsewhere on this agenda

4.0 Options and options analysis (including risk assessment)

4.1 As the assessment of performance against CIPFA's FM Code requirement is a regularity requirement and forms part of the Council's Annual Governance Statement no alternative options are identified.

5.0 Conclusion

5.1 The CIPFA FM Code is intended to be a live document to support continuous improvement of financial management. This will be reviewed and updated annually and progress on the activities included within the Action Plan will be presented to a future meeting of the Audit Committee

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

Section 151 of the Local Government Act 1972 states that "every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs".

CIPFA's judgement is that compliance with the FM Code will assist local authorities to demonstrate that they are meeting these important legislative requirements.

LEGAL IMPLICATIONS

CIPFA's intention is that the FM Code will have the same scope as the Prudential Code for Capital Finance in Local Authorities, so although the FM Code does not have legislative backing, it applies to all local authorities. In addition to its alignment with the Prudential Code the FM Code also has links to the Treasury Management in the Public Sector Code of Practice and Cross Sectoral Guidance Note and the annual Code of Practice on Local Authority Accounting in the United Kingdom. In this way the FM Code support authorities by re-iterating in one place the key elements of these statutory requirements.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

N/A

Contact Officer: Paul Thompson
Telephone: 01524 582603
E-mail: pthompson@lancaster.gov.uk
Ref:

**Level of Compliance with the CIPFA Financial Management Code
Financial Year 2021/22**

Ref	Description	FM Code Ref	Detail	RAG Assessment	Compliance Assessment & Commentary Key Actions, Owners & Deadlines
Responsibilities of the Leadership Team and Chief Financial officer (CFO)					
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money (VFM).	17-18	<p>Legislative requirement for Authorities to deliver VFM.</p> <p>Delivery of VFM depends on decisions of Elected Members.</p> <p>Shared responsibility across the Leadership Team to communicate and understand the risks involved.</p>	AMBER	<p>Value for Money is assessed as part of the external audit process and although not yet formally concluded no issues have been raised by the External Auditor in relation to 2020/21, or previous years.</p> <p>The Council's Medium Term Financial Strategy (MTFS) and General Fund and Housing Revenue Budgets were agreed in February 2021. The MTFS delivers a financial plan through a rigorous budget setting process.</p> <p>One of the key objectives of the MTFS is to provide cost effective services which demonstrate value for money.</p> <p>Business cases for spending plans are reviewed by the Executive Team before passing through to Members for discussion and challenge prior to formal consideration by Cabinet and recommendation to Council for formal approval, in line with the Constitution.</p> <p>Regular meetings take place between Cabinet, Executive and statutory officers at which budget issues are discussed, including the continuing impact of COVID-19 on the Council's finances, to ensure that any proposals for additional spend show value of money.</p> <p>Budget & Performance Panel reviews service and financial performance (against cost and performance) on a quarterly basis and uses its remit to periodically review key (off target) services.</p>

					<p>The Annual Governance Statement focuses on all aspects of governance, but critically on processes around VFM in service provision</p> <p>The Council's Project Management Model which is the compulsory method of managing projects within the council contains key templates for financial assessments and risk management</p> <p>Assessment: Amber</p> <p>Actions Required Increased use of benchmarking data and peer review for inclusion in business case and as part of Outcomes Based Resourcing (OBR) to focus on VfM aspects.</p> <p>Ownership Executive Team</p> <p>Deadline February 2023 - To be incorporated as part of 2023/24 budget process)</p>
B	The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government	18-19	<p>In summary this Statement requires that the CFO:</p> <ul style="list-style-type: none"> • Is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest. • Must be actively involved in, and able to bring influence to 	AMBER	<p>Neither the Chief Finance Officer or Monitoring Officer posts are members of the Councils Executive Team and attend meetings on invitation only. Although able to bring influence on the various business decisions this is often at the later stages of the process.</p> <p>The CFO personally leads on the Budget process and MTFS and ensures that all risks are considered and detailed as part of the MTFS, in conjunction with the other members of the Leadership Team (Cabinet and Executive).</p> <p>The CFO is CIPFA qualified with significant experience of local government finance. Continuing professional development is undertaken as required by their accounting body.</p>

			<p>bear on, all material business decisions</p> <ul style="list-style-type: none"> • Must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively. • Must lead and direct a finance function that is resourced to be fit for purpose. • Must be professionally qualified and suitably experienced. 		<p>The CFO through the Finance team provides the financial reporting and monitoring to the Corporate Management Team and Members, with the Treasury Management reporting going through Audit Committee and Council as prescribed in the CIPFA Prudential Code and the CIPFA Treasury Management Code.</p> <p>The Financial Services function consists of 23 FTE's and delivers financial, exchequer and procurement support to services. The finance team includes 4 qualified accountants and a number of accounting technicians. There has been a significant reduction in capacity with key vacancies held pending a director led service review.</p> <p>There are contracts in place for specialist financial advice such as technical accounting, treasury management and taxation.</p> <p>Assessment: AMBER</p> <p>Actions Recruitment to address the capacity issues within finance function</p> <p>Owners Director of Corporate Services & CFO</p> <p>Deadline August 2022</p>
Governance and Financial Management Style					
C	The Leadership team demonstrates in its actions and behaviours responsibility for	21	<p>The leadership team espouses the Nolan principles.</p> <p>The authority has a clear framework for governance and internal control.</p>	RED	There is a Code of Conduct for Members which is overseen by the Standards Committee. In addition, there is a Code of Conduct for Officers.

	governance and internal control.	<p>The leadership team has established effective arrangements for assurance, internal audit and internal accountability.</p> <p>The leadership team espouses high standards of governance and internal control.</p> <p>The leadership team nurtures a culture of effective governance and robust internal control across the authority.</p>		<p>Although the Council has in place a framework for governance and internal controls through its Code of Corporate Governance, following the ending of the shared arrangement for the provision of a Head of Internal and subsequent staff resignations the Council was without an Internal Audit service until the appointment of Mersey Internal Audit Agency (MIAA) in October 2021.</p> <p>Both the CFO and Head of Internal Audit (HoIA) have judged that sufficient audit work and coverage of key risks will be undertaken by July 2022 to provide assurance over the effectiveness of the Governance of the Council, and the system of Internal Control. This will enable the HoIA to provide their annual assessment to assist in the production of the Annual Governance Statement for 2021/22.</p> <p>The Financial Procedure Rules were last subject to a full review and approval by Audit Committee on 2014. Contract Procedure Rules, were reviewed and approved November 2020. Both documents are clear about the respective authorisation limits for authorisation of contracts and the subsequent commitment/ incurrence of expenditure.</p> <p>The Council's Audit Committee has no independent membership and is limited Councillor representation. The Committee considers all aspects of audit activity and the regulatory framework including corporate governance, as part of its Terms of Reference. Within the Councils Constitution all Committees have separate Terms of Reference.</p> <p>Assessment Red</p> <p>Actions</p> <ul style="list-style-type: none"> Ensure that Internal Audit deliver sufficient audit work and coverage to support the annual HoIA Opinion and AGS Review of Financial procedure rules
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					<p>Ownership Chief Finance Officer</p> <p>Deadline July 2022</p>
D	<p>The authority applies the CIPFA/SOLA CE Delivering Good Governance in Local Government: Framework (2016)</p>	22	<p>This framework recommends that the review of the effectiveness of the system of internal control is reported in an annual governance statement</p>	RED	<p>As noted above the Council was without an internal audit function for approximately 6 months until the appointment MIAA in October 2021</p> <p>The Council's Local Code of Corporate Governance, has not been comprehensively reviewed for a number of years with planned review in 2019 delayed due to the COVID-19 pandemic. A more comprehensive review will be undertaken in 2022 to take account of any potential longer-term changes arising from the impact of COVID-19 and presented to Audit Committee November 2022</p> <p>The Council prepares an Annual Governance Statement (AGS) in line with the framework within CIPFA's Local Code of Corporate Governance.</p> <p>The draft AGS is provided to the Audit Committee for review and approval in advance of its inclusion signing by the CEO and Leader of the Council and in the Statement of Accounts.</p> <p>Assessment Red</p> <p>Actions Undertake a comprehensive review of the local code of Corporate Governance</p> <p>Ownership Chief Finance Officer/ Monitoring Officer</p>

					Deadline November 2022
E	The financial management style of the authority supports financial sustainability	22-23	<p>Strong financial management is assessed against a hierarchy of</p> <ol style="list-style-type: none"> 1. delivering accountability, 2. supporting performance 3. enabling transformation. <p>Need to perform well at each level before moving to the next. This is broadly linked to economy, efficiency and effectiveness.</p>	GREEN	<p>The Council Plan together with the MTFS and annual budgets set the strategic framework for the work and financial plans of the Council and recognise the agreed corporate priorities and objectives.</p> <p><u>Stage 1.</u> The Council has an effective framework of financial accountability through:</p> <ul style="list-style-type: none"> • Member delegations which include financial responsibilities. • Officer delegations which include financial responsibilities. • Financial Procedure Rules which set out financial responsibilities for Directors, Heads of Service and Budget Holders <p><u>Stage 2.</u> The Council has an effective performance management framework in place including, performance measures, customer satisfaction, monitoring of key strategic projects and quarterly performance reporting to Cabinet and Budget and Performance Committee. The Finance Team have attempted to implement a Finance Business Partnering approach, although this has been restricted pending the capacity issues and forthcoming service review.</p> <p><u>Stage 3.</u> There are many examples of financial management supporting Transformation specifically in relation to key strategic projects, but further work required towards acting as an enabler.</p> <p>Assessment Green</p>

					<p>Actions</p> <p>Further work to develop business partnering model</p>
Long to Medium Term Financial Management					
F	The authority has carried out a credible and transparent financial resilience assessment.	25-26	<p>The authority has undertaken a financial resilience assessment.</p> <p>That assessment tested the resilience of the authority's financial plans to a broad range of alternative scenarios.</p> <p>The authority has taken appropriate action to address any risks identified as part of the assessment</p>	AMBER	<p>The Council has reviewed the CIPFA Financial Resilience index and considers the findings to show the Council to be financially resilient with no areas of pressing concern. However, the index is based on data published in 2020 and has not yet been refreshed.</p> <p>The Local Government Association (LGA) undertook an independent assessment of the Council's financial resilience 2021/22. A number of outlying areas were highlighted for a detailed review and consideration against performance against outcomes. A more thorough piece of work is planned for as part of the Council's Outcomes Based Resourcing approach to budgeting from 2023/24.</p> <p>In the MTFs there are some illustrative scenario's about how changes in key assumptions about Business Rates, Council Tax etc would impact on the budget, but these do not cover all key variables, or the longer-term impact.</p> <p>The service and financial planning process provided information on cost and demand drivers to enable robust and informed financial planning in each service area.</p> <p>The Council has recognised the underlying structural deficit within its budget and although some OBR principles were applied as part of the 2021/22 and 2022/23 budget processes 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 2022/23.</p> <p>Assessment Amber</p>

					<p>Actions Although the Council delivered a balanced budget for 2022/23 without a call on reserves, further work will be undertaken during the year to utilise OBR principles as it works to address the structural deficit as part of the 2023/24 budget process.</p> <p>Ownership CFO, Executive Team and Cabinet</p> <p>Deadline December 2022 – As part of the 2023/24 budget process</p>
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.	26	<p>The authority has a sufficiently robust understanding of the risks to its financial sustainability.</p> <p>The authority has a strategic plan and long-term financial strategy that addresses adequately those risks.</p> <p>The authority reports effectively to the leadership team and to members its prospects for long-term financial sustainability, the associated risks and the impact of these for short- and medium-term decision making</p>	AMBER	<p>In consultation with Cabinet the Council produces a 4-year MTFs and a 30-year Housing Business Plan incorporating revenue and capital models using a range of assumptions for economic and service related factors. The MTFs is refreshed annually considered by the Executive and Cabinet before being recommended to Full Council.</p> <p>The current high levels of uncertainty around future funding for local government, and the legacy impacts of COVID-19, as well as local factors such as the decommissioning of the Heysham Nuclear Power Stations and the growing structural deficit make producing a meaningful long-term plan very challenging. The risks around financial planning are clearly set out in the Council's MTFs and has been communicated to the Executive and Members.</p> <p>Although there is significant work to be completed to fully embed risk management throughout the Council, it is recognised that a considerable amount of work is undertaken to manage the Council's financial risks. The Council needs to continue to develop its overall approach in particularly around the key drivers underpinning the structural deficit.</p>

					<p>The Council retains prudent levels of resources to manage risks over the short term as outlined in the budget and MTFS papers.</p> <p>Assessment Amber</p> <p>Actions Although the Council delivered a balanced budget for 2022/23 without a call on reserves, further work will be undertaken during the year to utilise OBR principles as it works to address the structural deficit as part of the 2023/24 budget process.</p> <p>Ownership CFO, Executive Team and Cabinet</p> <p>Deadline December 2022 – As part of the 2023/24 budget process</p>
H	The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.	26-27	<p>The authority is aware of its obligations under the Prudential Code.</p> <p>The authority has prepared a suitable capital strategy.</p> <p>The authority has a set of prudential indicators in line with the Prudential Code.</p> <p>The authority has suitable mechanisms for monitoring its</p>	GREEN	<p>The Council is aware of its obligations under the Prudential Code and has assessed itself as compliant with those obligations.</p> <p>The Council has a 5-year General Fund Capital Programme and supporting Capital Strategy in line with the Prudential Code. Although the Code suggests this could be extended the Council has judged that this is a reasonable period over which to have meaningful plans and assumptions.</p> <p>The Capital Programme sets out the high-level capital investment plans proposals but in addition contains a limited “development pool” for projects the Council wish to explore but where the supporting business case is not fully developed. Decisions made about schemes within the development pool are through consideration of robust</p>

			performance against the prudential indicators that it has set.		<p>business cases and separate reports to Cabinet. The Council also has a 30-year Housing Business Plan which includes a 30-year capital investment programme.</p> <p>The Councils prudential indicators are set in line with the Code and reflect current and forecast levels of investment and borrowing. There are effective mechanisms in place to monitor performance against the Code, with bi-annual reporting to the Cabinet, Budget & Performance Panel and Council.</p> <p>The Councils commercial investments ceased following the revisions to the Code in November 2020 and the Council has no plans for further debt for yield schemes. Previous commercial investments were undertaken in line with the Council's Commercial Property Investment Strategy.</p> <p>Assessment: Green</p> <p>Actions Assess the implications arising from any proposed changes to the Prudential Code.</p> <p>Owner CFO</p> <p>Deadline On going</p>
I	The authority has a rolling, multi-year medium-term financial plan consistent with sustainable service plans.	27	<p>The authority has in place an agreed medium term financial plan.</p> <p>The medium-term financial plan consistent with and integrated into relevant service plans and its capital strategy.</p>	AMBER	<p>The Council has in place an agreed 4-year MTFS. The strategy is consistent with the capital programme and is refreshed annually to reflect relevant strategic priorities, commitments, underlying assumptions as well as emergent local, or national issues.</p> <p>The development of service budgets is Directorate led. Cost drivers and demand are considered within each directorate and used to form</p>

			<p>The medium-term financial plan has been prepared on the basis of a robust assessment of the relevant drivers of cost and demand.</p>		<p>the basis of pressures identified and mitigations /savings put forward. The detail of the analysis of cost drivers is not contained specifically in the MTFS but forms part of the internal budget setting process, though reference is made to particularly large changes in the narrative</p> <p>Assessment: Amber</p> <p>Actions Required As part of the process to address the structural deficit service plans will need to be re-aligned to reflect to Council's ambitions and outcomes</p> <p>Owner Executive Team & Cabinet</p> <p>Deadline December 2022 – As part of the 2023/24 budget process</p>
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Annual Budget

J	<p>The authority complies with its statutory obligations in respect of the budget setting process.</p>	29	<p>The authority is aware of its statutory obligations in respect of the budget-setting process.</p> <p>The authority has set a balanced budget for the current year.</p> <p>The authority is likely to be able to set a balanced budget for the forthcoming year.</p> <p>The authority is aware of the circumstances under which it should issue a Section 114 notice and how it would go about doing so.</p>	GREEN	<p>The Council understands its obligation in respect of the budget-setting process and has set a balanced budget for the current year.</p> <p>The 2021/22 revenue budget was approved at Full Council 24 February 2022 and required a contribution of £2.267M from the Council's reserves in order to balance the budget.</p> <p>Through a review of a number of areas including the capital programme and income generating opportunities the Council balanced its 2022/23 budget without a call on reserves. Although a structural deficit remains for 2023/24 with drawings on reserves forecast. The overall level of reserves remains sustainable in the short-term pending the outcomes of OBR</p>
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					<p>The Council is aware of the circumstances under which it should issue a section 114 notice and how it would go about doing so. This includes latest guidance issued by CIPFA in light of COVID-19.</p> <p>Assessment: Green</p> <p>Actions Required None</p>
K	The budget report includes a statement by the Chief Finance Officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.	29-30	<p>The authority's most recent budget report includes a statement by the CFO on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves.</p> <p>The report accurately identifies and considers the most significant estimates used to prepare the budget, the potential for these estimates to be incorrect and the impact should this be the case.</p> <p>The report sets out the current level of the authority's reserves, whether these are sufficient to ensure the authority's ongoing financial sustainability and the action that the authority is taking to address any shortfall.</p> <p>The authority has sufficient reserves to ensure its financial sustainability for the foreseeable future.</p>	AMBER	<p>Both the General Fund and HRA budget reports include a statement by the Chief Finance Officer on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves</p> <p>The budget reports set out the detail of key estimates e.g., business rates, council tax, housing rents, specific grants, fees and charges etc. It does not set out specific service assumption details and the impact of variations in those.</p> <p>The report sets out the current level of the Council's reserves, the sufficiency of them and the plans for the use of reserves in the future. Based on current information the Council has sufficient reserves to meet the expected deficits, which ensures its sustainability for the short-term pending the outcome of the Council's Outcomes Based Resources review.</p> <p>Assessment: Amber</p> <p>Actions Required A process is already underway to seek an in-year reduction in the use of reserves to deliver a balanced budget for 2023/24 and beyond</p> <p>Owner CFO, Executive Team and Cabinet</p> <p>Deadline</p>

December 2022 – As part of the 2023/24 budget process

Stakeholder Engagement and Business Plans

L	The authority has engaged, where appropriate, with key stakeholders in developing its long-term financial strategy, medium term financial plan and annual budget.	31	<p>The authority knows who its key stakeholders are.</p> <p>The authority has sought to engage with key stakeholders in developing its long-term financial strategy, its medium-term financial plan and its annual budget.</p> <p>The authority has assessed the effectiveness of this engagement.</p> <p>The authority has a plan to improve its engagement with key stakeholders.</p>	AMBER	<p>The Council is aware of who its key stakeholders are. Currently it only undertakes limited formal engagement and consultation with residents and interested parties on its medium-term financial strategy and annual budget through the Budget & Performance Panel meeting in January each year. Engagement with residents/ service users is conducted in line with individual service changes proposed within the budget, as part of the development and delivery of those proposals, rather than detailed engagement on the whole budget.</p> <p>Whilst recognising that engagement with the public on Council spending is hard for residents to engage with in a meaningful way progress is being made via its Community Connectors and Peoples Jury and it is hoped an increased use of on-line tools.</p> <p>Engagement is therefore focussed on development of the Council Plan and Priorities through consultation with residents, businesses, and other organisations with a stake in the district</p> <p>Assessment: Amber</p> <p>Actions Required Review and consideration of the most effective methods of stakeholder engagement on financial matters.</p> <p>Owner Executive Team and Cabinet</p> <p>Deadline February 2023 – As part of the 2023/24 budget process</p>
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M	<p>The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.</p>	31-32	<p>The authority has a documented option appraisal methodology that is consistent with the guidance set out in IFAC/PAIB publication 'Project and Investment Appraisal for Sustainable Value Creation: Principles in Project and Investment Appraisal'.</p> <p>The authority offers guidance to officers as to when an option appraisal should be undertaken.</p> <p>The authority's approach to option appraisal includes appropriate techniques for the qualitative and quantitative assessment of options.</p> <p>The authority's approach to option appraisal includes suitable mechanisms to address risk and uncertainty.</p> <p>The authority reports the results of option appraisals in a clear, robust and informative manner that gives clear recommendations and outlines the risk associated with any preferred option(s).</p>	<p>AMBER</p>	<p>The Council recently established a Projects Team overseen by a Programme Manager as well as refreshing its project management methodology and supporting documentation, which is consistent with other government and other leading methodologies.</p> <p>The Council's project management framework is clear that there are no major investments, or service changes without developing a business case including an options appraisal and project initiation documents although this not yet fully embedded and is inconsistently applied across the Council</p> <p>Delivering our Priorities (DoP) quarterly reports are presented to Cabinet and Budget & Performance Panel. The DoP reports contains not only financial and project reporting but performance against the Council's key performance indicators (KPI's)</p> <p>External specialism is engaged when required and members of the Finance Team and are involved in the review and challenge of all financial modelling along with key input from other key support services and the service area leading on delivery.</p> <p>Business cases contain both quantitative evaluation of costs and benefits and qualitative evaluation of fit to Council Priorities and outcomes for residents/ service users. The project documentation includes an evaluation of risk and uncertainty and the extent that this can be mitigated for given options</p> <p>Capital schemes within the development pool are reviewed by the Capital Strategy Group which includes the chairs of Budget and Performance and Overview and Scrutiny Committees prior to submission to Cabinet, or Full Council if applicable for consideration and approval.</p> <p>Assessment: Amber</p>
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					<p>Action Further work is required to fully embed project management and the accompanying disciplines throughout the Council and ensure that is consistently applied.</p> <p>Owner Executive Team and Programme Manager</p> <p>Deadline December 2022 – As part of the 2023/24 budget process</p>
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Monitoring Financial Performance

N	The Leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.	33	<p>The authority provides the leadership team with an appropriate suite of reports that allow it to identify and to correct emerging risks to its budget strategy and financial sustainability.</p> <p>The reports cover both forward- and backward-looking information in respect of financial and operational performance.</p> <p>There are mechanisms in place to report the performance of the authority's significant delivery partnerships.</p> <p>The reports are provided to the leadership team in a timely manner and in a suitable format.</p> <p>The leadership team is happy with the reports that it receives and with</p>	GREEN	<p>Quarterly financial and non-financial DoP reports are provided to Executive, Cabinet and Budget & Performance Panel. The reports identify significant variances and provides some commentary on any corrective actions being taken. The reports cover the position to date and the forecast for the remainder of the financial year. It also includes of the various capital schemes and planned use of reserves.</p> <p>DoP reporting also provides information in respect of the Council's basket of key operational performance indicators and projects.</p> <p>Reporting to officers is usually 1-month after the quarter end with reporting to Members in the following two weeks, dependent upon committee cycles, which creates a time lag. As a result of COVID-19 Financial information, forecasts are available on a more regular basis and accessible by budget holders this highlights significant variances earlier.</p> <p>Assessment: Green</p> <p>Action</p>
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			its ability to use these reports to take appropriate action		<p>More work is required to ensure timely distribution of financial information, reporting of corrective action as well as refinements to various aspects</p> <p>Owner CFO</p> <p>Deadline 2022/23 Quarter 1 Delivering our Priorities report</p>
O	The Leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.	33	<p>The authority has identified the elements of its balance sheet that are most critical to its financial sustainability.</p> <p>The authority has put in place suitable mechanisms to monitor the risk associated with these critical elements of its balance sheet.</p> <p>The authority is taking action to mitigate the risk identified.</p> <p>The authority reports unplanned use of its reserves to the leadership team in a timely manner.</p> <p>The monitoring of balance sheet risks is integrated into the authority's management accounts reporting processes.</p>	GREEN	<p>The Council has historically considered its reserves position, investments and borrowing, and debt levels as most critical and therefore reporting is currently only made on these elements of the balance sheet.</p> <p>Forecast use of reserves is reported on a quarterly basis to the Cabinet, Budget and Performance and Executive. This highlights any changes to planned use/ contribution to balances as well as movements in budgeted contributions to/from earmarked reserves. This then feeds into any MTFS refresh, or revised budget process, along with intelligence about key risks.</p> <p>Borrowing and investments are reported to Cabinet, Budget and Performance and Council on a bi-annual basis as part of the Treasury Management reporting. Prudential Code requirements are adhered too to provide the risk management of treasury activity. Additional reporting on areas including collection rates, arrears and write offs now incorporated</p> <p>Assessment: Green</p> <p>Action Required Continued review and refinement of the presentation of financial information</p>

					<p>Ownership CFO</p> <p>Deadline On going</p>
External Financial Reporting					
P	The Chief Finance Officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom.	35	<p>The authority's leadership team is aware of the CFO's responsibilities in terms of the preparation of the annual financial statements.</p> <p>The authority's CFO is aware of their responsibilities in terms of the preparation of the annual financial statements.</p> <p>These responsibilities are included in the CFO's role description, personal objectives and other relevant performance management mechanisms.</p> <p>The authority's financial statements have hitherto been prepared on time and in accordance with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom.</p>	GREEN	<p>Both the Council's leadership team and CFO are aware of the CFO's responsibilities in terms of the preparation of the annual financial statements. These responsibilities form part of the CFO's role description and personal objectives.</p> <p>The Council's Statement of Accounts are prepared on time and in accordance with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom. A declaration to this effect is made within the accounts and signed by the S151 Officer.</p> <p>Assessment: Green</p> <p>Actions Required: None</p>
Q	The presentation of the final outturn figures and variations from budget	35	The authority's leadership team is provided with a suitable suite of reports on the authority's financial	GREEN	The presentation of the final outturn position to the Cabinet and Executive compares the outturn to budget and explains the reasons

	<p>allows the Leadership team to make strategic financial decisions.</p>		<p>outturn and on significant variations from budget.</p> <p>The information in these reports is presented effectively.</p> <p>These reports are focused on information that is of interest and relevance to the leadership team.</p> <p>The leadership team feels that the reports support it in making strategic financial decisions.</p>		<p>for any key variances from budget in line with the in-year quarterly budget monitoring process.</p> <p>The report sets out the impact of these variances on general balances and earmarked reserves and makes proposals for further contributions to/ or from these.</p> <p>These reports focus on material issues, which require action or awareness from the leadership team and therefore are appropriately focused</p> <p>In addition, the narrative report that accompanies the Statement of Accounts provides a link to achievement of outcomes and performance. The Leadership Team understand variances from budget and how they have been managed.</p> <p>Assessment: Green</p> <p>Actions Required: None</p>
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Audit Committee**Strategic Risk Management
20 July 2022****Report of Chief Executive****PURPOSE OF REPORT**

To set out the authority's current and planned approach to Strategic Risk Management.

This report is public.

RECOMMENDATIONS

- (1) **That Audit Committee note the update on the authority's approach to Strategic Risk Management, and Appendix A setting out the latest update to the authority's Strategic Risk Register.**
- 1.0 Report**
- 1.1 Audit Committee received a report on 25 May 2022 providing an update on risk management policy, documentation, governance and reporting.
- 1.2 The council's Internal Audit team is also undertaking a review of corporate risk management. The outcome of this review will be shared during summer 2022.
- 1.3 In the meantime, the authority has taken a number of steps to develop its risk management practice, including:
- Allocating responsibility for corporate risk management at a strategic level to the Office of the Chief Executive, ensuring the Executive Team has direct oversight of risk management.
 - Updating the Strategic Risk Register; the updated document can be found at Appendix A.
 - Instigating regular and frequent Executive Team review and updating of the Strategic Risk Register.
- 1.4 The Strategic Risk Register will be continually updated in line with the Executive Team review process.
- 1.5 Audit Committee members are asked to note the report and Appendix; any comments will be considered and implemented as appropriate in the ongoing risk management process.

CONCLUSION OF IMPACT ASSESSMENT

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

No direct impact arising from this report, which considers overall risk management practice at a strategic level.

LEGAL IMPLICATIONS

No direct legal implications arising from this report.

FINANCIAL IMPLICATIONS

No direct financial implications arising from this report.

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

No direct resource implications arising from this report.

SECTION 151 OFFICER'S COMMENTS

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

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

Appendix A: Strategic Risk Register, July 2022 Update
[Report to Audit Committee, 25 May 2022](#)

Contact Officer: Chief Executive

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Ref: N/A

Strategic Risk Register: Update July 2022

Rank	Risk	Risk to Corporate Plan	Owner(s)	Inherent Risk Score		Existing Control Measure(s)	Residual Risk Score		Response Category	Target Risk Level		Action Plan
				Impact	Likelihood		Impact	Likelihood		Impact	Likelihood	
1	SR1 Central Government funding and/or revenues collected are insufficient to provide the current level of service leaving the council unable to deliver the financial resilience initiative and achieve financial stability.	Failure to deliver on the some of or all of the priorities of: A Sustainable District; An Inclusive and Prosperous Local Economy; Healthy and Happy Communities; A Co-operative, Kind and Responsible Council	Head of Finance and Section 151 Officer	3	3	Officer/Member Working Groups - Capital Assurance Group (CAG) and Financial Resilience Group (FRG)	2	2	Reduce	1	1	Review of existing budgets against outcomes to identify areas for realignment/ refocusing or cessation to deliver efficiencies but ensuring that Services remain aligned with the Council's Priorities
			Chief Executive									Development of LATCOs or other alternative service delivery vehicles to deliver efficiencies and/ or operational surpluses which can be reinvested into Council Services
												The Strategy contains 4 Pillars to achieve Financial Stability. 1) Investment to gain financial return; 2) Pursuing efficiencies with vigour; 3) Outcomes based resourcing; and 4)
												Develop business plans for investment particularly in relation to decarbonisation and renewable energy generation
												A number of Lean Process Reviews are planned, to follow earlier successful rounds of service review

Rank	Risk	Risk to Corporate Plan	Owner(s)	Inherent Risk Score		Existing Control Measure(s)	Residual Risk Score		Response Category	Target Risk Level		Action Plan
				Impact	Likelihood		Impact	Likelihood		Impact	Likelihood	
2	SR2 The Council fails to meet the £3.9m 2024/25 funding gap as a result of ineffective delivery of the efficiency programme and failure to deliver on key projects.	Failure to deliver on the some of or all of the priorities of: A Sustainable District; An Inclusive and Prosperous Local Economy; Healthy and Happy Communities; A Co-operative, Kind and Responsible Council	Head of Finance and Section 151 Officer	3	3	Budget and Performance Panel	3	2	Reduce	2	1	<p>Consisting of Executive Team to monitor delivery via monthly and quarterly reports and provide support and challenge to each project as required. Meeting Monthly.</p> <p>Established to provide a central co-ordination point for all the Council's projects. Responsible for co-ordination and monitoring</p> <p>Monitoring report linking Projects, Performance and Resources presented to Cabinet and Budget & Performance Panel</p> <p>Project and Financial information present to Cabinet/ Portfolio providing an opportunity for review and discussion of performance. See above</p> <p>As part of the Funding the Future Strategy, the Outcomes Based Resourcing exercise is commencing July 2022 to identify revenue savings for 2023/24 and beyond</p>
						Reserves Policy						
						Project Managers						
						Programme Managers						
						Programme Delivery Board						
	Cabinet											
		Chief Executive			Portfolio Holders							

Rank	Risk	Risk to Corporate Plan	Owner(s)	Inherent Risk Score		Existing Control Measure(s)	Residual Risk Score		Response Category	Target Risk Level		Action Plan
				Impact	Likelihood		Impact	Likelihood		Impact	Likelihood	
3	SR3 The Council fails to recruit and retain competent / key staff resulting in ineffective leadership, increased costs and failure to deliver effective services, projects and council priorities. The cost of living crisis means will further exacerbate this.	Failure to deliver on the some of or all of the priorities of: A Sustainable District; An Inclusive and Prosperous Local Economy; Healthy and Happy Communities; A Co-operative, Kind and Responsible Council	Head of HR Chief Executive	4	3	Pay and Grading structure in Recruitment and Retention Policy Annual Appraisal Process	3	2	Accept	3	2	The pay and grading structure and job evaluation process ensures that all posts are objectively evaluated and then placed on a new pay and grading scale; recent experience suggests that this assisted in attracting applicants with the desired skills and values, and a People Strategy is also in development to ensure staff experience, development and management are aligned to support the success of the council's workforce
4	SR4 The use of council assets is not maximised leading to insufficient funding to meet the funding gap and deliver capital projects.	Failure to deliver the priority of An Inclusive and Prosperous Local Economy and the outcome of Investment and Regeneration.	Chief Executive Head of Property, Investment and Director for Economic Growth and Regeneration Head of Finance and Section 151 Officer	4	3	Capital Strategy Group	3	3	Reduce	3	2	Asset Management Plan will be completed in September 2022 to ensure its findings can be incorporated into the 2023/24 budget cycle

Rank	Risk	Risk to Corporate Plan	Owner(s)	Inherent Risk Score		Existing Control Measure(s)	Residual Risk Score		Response Category	Target Risk Level		Action Plan
				Impact	Likelihood		Impact	Likelihood		Impact	Likelihood	
5	SR5 Council services are disrupted and / or additional services are required and costs are incurred as a result of national emergencies	Failure to deliver on the some of or all of the priorities of: A Sustainable District; An Inclusive and Prosperous Local Economy; Healthy and Happy Communities; A Co-operative, Kind and Responsible Council	Corporate Director of Communities and Environment	3	3	Lancashire Resilience Forum Emergency Plans Business Continuity Plans Government Planning	3	2	Accept	3	2	<p>The Council continues to adequately resource it's emergency planning function, including maintaining it's team of out of appropriately trained emergency response officers.</p> <p>Adequate non earmarked reserves are maintained to allow for the impact of long term emergencies like the pandemic.</p> <p>The Council continues to invest in resilience measures eg technology to facilitate remote homeworking</p> <p>The Council continues to allocate resource to developing its key partnerships LRF, CSP and local resilience partners</p> <p>community resilience through CEPGs and FLAG groups etc</p> <p>The Council appraises and potentially invests in schemes and activities that provide adaptation (eg Lune river defence)</p>

Rank	Risk	Risk to Corporate Plan	Owner(s)	Inherent Risk Score		Existing Control Measure(s)	Residual Risk Score		Response Category	Target Risk Level		Action Plan
				Impact	Likelihood		Impact	Likelihood		Impact	Likelihood	
6	SR6 The Council fails to reduce its direct Co2 emissions to 'net zero' by 2030.	Failure to deliver on the priority of A Sustainable District, and the outcome of Carbon Zero.	Chief Executive	4	4	Delivery Plan in Place	4	2	Accept	4	2	<p>The Council continues to work on the delivery of its action plan</p> <p>The Council considers the recommendations of the Peoples Jury and builds recs that can be delivered directly by the Council into its plans</p>
7	SR7 The Council fails to deliver its key priorities due to the lack of an underpinning strategy setting out expected delivery / outcomes.	Failure to deliver on the some of or all of the priorities of: A Sustainable District; An Inclusive and Prosperous Local Economy; Healthy and Happy Communities; A Co-operative, Kind and Responsible Council	Chief Executive Director for Economic Growth Head of Finance and Section 151 Corporate Director of Communities Head of Legal Services and Monitoring Officer	3	3	Corporate Plan Carbon Zero + Medium Term Financial Strategy (MTFS) Programme Management Corporate Plan/Plan 2030	3	2	Reduce	2	2	Prosperity Plan Local Development Plan Community Wealth Building Strategy

Rank	Risk	Risk to Corporate Plan	Owner(s)	Inherent Risk Score		Existing Control Measure(s)	Residual Risk Score		Response Category	Target Risk Level		Action Plan
				Impact	Likelihood		Impact	Likelihood		Impact	Likelihood	
8	SR8 The Council fails to deliver its key projects due to the lack of staffing capacity and resources (financial) within the Council.	Failure to deliver on the some of or all of the priorities of: A Sustainable District; An Inclusive and Prosperous Local Economy; Healthy and Happy Communities; A Co-operative, Kind and Responsible Council	Director for Economic Growth and Regeneration	3	3	Local Plan	3	2	Reduce	3	1	Local Plan
						Medium Term Financial Strategy (MTFS)						Funding the Future Strategy
						Investment Strategy						The Council continues to resource key service teams in Planning, economic development, regeneration, property investment and facilities management
						Capital Programme: public private sector partnerships; shared working with other councils; formal partnerships with County Council; external funding via Govt agencies						Adequate reserves are maintained to allow, due diligence of property investment, regeneration projects and key strategic planning strategies
												HRBPs working with services where there are staffing capacity issues to find solutions, e.g. succession planning where there are hard to fill roles, more creative online campaigns for recruitment; service reviews to be undertaken as part of OBR. Wider People Strategy to support services to attract and retain staff
												Ensure capital programme is prioritised to facilitate match funding leverage and maximise the potential to attract external funding

Rank	Risk	Risk to Corporate Plan	Owner(s)	Inherent Risk Score		Existing Control Measure(s)	Residual Risk Score		Response Category	Target Risk Level		Action Plan
				Impact	Likelihood		Impact	Likelihood		Impact	Likelihood	
9	SR9 The Council's services are disrupted by a cybersecurity issue. Failure to prevent data loss and privacy incidents leading to financial/ data loss, disruption or damage to the reputation of the Council.	Failure to deliver on the some of or all of the priorities of: A Sustainable District; An Inclusive and Prosperous Local Economy; Healthy and Happy Communities; A Co-operative, Kind and Responsible Council	Head of Finance and Section 151 Officer	3	2	Business Continuity Plans	2	2	Reduce	2	2	Cyber treatment plan funding obtained to help achieve increase Council resilience and security
						Training of staff in cybersecurity						LGA training funding key officers trained in CISM & CISSP
						Vulnerability Testing						Staff trained in information security principles
						Cloud Hosted Immutable Backups						
						Anti virus devices						
						Network Monitoring						
						Use of firewalls						
NCSC active cyber defence services												
10	SR10 Changes in Government policy impact on our ability to deliver major projects and programmes that would benefit our communities.	Failure to deliver on the some of or all of the priorities of: A Sustainable District; An Inclusive and Prosperous Local Economy; Healthy and Happy Communities; A Co-operative, Kind and Responsible Council	Chief Executive	3	3	Continued monitoring and horizon scanning of Government policy	3	2	Reduce	3	2	Continue to develop Council strategic plans and documentation in light of emerging Government policy
						Clear and focused Council strategy to maximise alignment with Government policy and resourcing						

Rank	Risk	Risk to Corporate Plan	Owner(s)	Inherent Risk Score		Existing Control Measure(s)	Residual Risk Score		Response Category	Target Risk Level		Action Plan
				Impact	Likelihood		Impact	Likelihood		Impact	Likelihood	
11	SR11 International and national issues rapidly impact on the strategic and financial context of the Council and / or partners, businesses and communities.	Failure to deliver on the some of or all of the priorities of: A Sustainable District; An Inclusive and Prosperous Local Economy; Healthy and Happy Communities; A Co-operative, Kind and Responsible Council	Chief Executive	4	3	Retention of in-house expertise to provide agility and resilience in rapidly-emerging issues Strategic responsiveness through continued risk management review	3	3	Reduce	3	3	Continue to develop agility and resilience across the organisation Strategic risk management approach
12	SR12 Budgetary proposals are brought forward / agreed that are then challenged, causing delays or changes to implementation.	Failure to operate within financial resources could impact on each of the Council's priorities: A Sustainable District; An Inclusive and Prosperous Local Economy; Healthy and Happy Communities; A Co-operative, Kind and Responsible Council. In particular, a failure to provide Value for Money could inhibit the authority's aim of operating as a Co-operative, Kind and Responsible Council.	Chief Executive Head of Finance and Section 151 Officer	3	3	Comprehensive, robust and transparent approach to budget development and service delivery	3	2	Reduce	2	2	Outcomes-Based Resourcing (OBR) approach to focusing on where resources can have maximum impact on strategic priority areas

Rank	Risk	Risk to Corporate Plan	Owner(s)	Inherent Risk Score		Existing Control Measure(s)	Residual Risk Score		Response Category	Target Risk Level		Action Plan
				Impact	Likelihood		Impact	Likelihood		Impact	Likelihood	
13	SR13 The Council's reputation is damaged through local concerns or activities.	Issues of trust and credibility could impact on each of the Council's priorities: A Sustainable District; An Inclusive and Prosperous Local Economy; Healthy and Happy Communities; A Co-operative, Kind and Responsible Council. In particular, reputational damage could compromise the Council's ability to secure external funding and resource through collaboration, partnership and competitive processes.	Chief Executive	3	2	Pro-active communications and transparency	3	1	Reduce	3	1	Continue to manage and deliver services in a way that supports the authority's reputation as a Co-operative, Kind and Responsible Council
						Strategic management of all Council activities to ensure continued high reputation						Strategically communicate and engage with residents, partners and stakeholders to ensure actions align with reputation
14	SR14 Major, sudden unforeseen expenditure or income reduction arises, necessitating significant change or reduction to services.	Failure to deliver on the some of or all of the priorities of: A Sustainable District; An Inclusive and Prosperous Local Economy; Healthy and Happy Communities; A Co-operative, Kind and Responsible Council	Chief Executive	3	3	Budget and Performance Panel	3	3	Reduce	3	2	Continue financial forecasting and scenario planning e.g. for energy costs
			Head of Finance and Section 151 Officer			Reserves Policy						Minimise exposure to cost spikes such as energy by moving to sustainable solutions independent of external pressures

Rank	Risk	Risk to Corporate Plan	Owner(s)	Inherent Risk Score		Existing Control Measure(s)	Residual Risk Score		Response Category	Target Risk Level		Action Plan
				Impact	Likelihood		Impact	Likelihood		Impact	Likelihood	
15	SR15 The Council's infrastructure and assets fail to meet the future needs of the organisation and the residents of the district.	Failure to deliver on the some of or all of the priorities of: A Sustainable District; An Inclusive and Prosperous Local Economy; Healthy and Happy Communities; A Co-operative, Kind and Responsible Council	Chief Executive	3	3	Asset Management Plan	2	2	Reduce	1	2	Conduct a major review of Council infrastructure and assets, taking a future-focused approach to asset management
			Director for Economic Growth and Regeneration									Continuous review of assets and infrastructure
16	SR16 The Council's services fail to adapt to socio-economic and demographic trends within the district, resulting in failure to meet the needs of local residents and businesses.	Failure to deliver on the some of or all of the priorities of: A Sustainable District; An Inclusive and Prosperous Local Economy; Healthy and Happy Communities; A Co-operative, Kind and Responsible Council	Chief Executive	2	3	Corporate Plan	2	3	Reduce	1	3	Continuous review of strategy and policy, and alignment with service delivery
						Policy Framework						
17	SR17 Negligent or unlawful action by the Council, resulting in financial or other liabilities.	Failure to deliver on the some of or all of the priorities of: A Sustainable District; An Inclusive and Prosperous Local Economy; Healthy and Happy Communities; A Co-operative, Kind and Responsible Council	Chief Executive	2	3	Corporate Governance	2	3	Reduce	1	3	Continuous review of governance processes to ensure they are fit for purpose
			Head of Legal Services and Monitoring Officer									Training and development to ensure staff and members are equipped to follow governance requirements

Rank	Risk	Risk to Corporate Plan	Owner(s)	Inherent Risk Score		Existing Control Measure(s)	Residual Risk Score		Response Category	Target Risk Level		Action Plan
				Impact	Likelihood		Impact	Likelihood		Impact	Likelihood	
18	SR18 Failure of the South Lancaster Growth Catalyst programme to deliver high-quality homes and recoup financial investment.	Failure to deliver high-quality homes would limit the Council's ability to fulfil its priority of Healthy and Happy Communities; financial liabilities arising from the programme could compromise Value for Money across the Council's services	Director for Economic Growth and Regeneration	2	3	Programme Management	2	3		1	2	Continued development of partnership working with Lancashire County Council to successfully deliver the programme alongside engagement with local partners and residents
19	SR19 Failure of the Canal Quarter programme to deliver regeneration through use of the Council's assets in the area.	Failure to bring forward a coherent Canal Quarter programme would impact on the Council's priority of An Inclusive and Prosperous Local Economy, particularly in terms of Investment and Regeneration	Director for Economic Growth and Regeneration	2	2	Programme Management	2	2	Reduce	1	2	Development of a Canal Quarter Masterplan that sets out a route to successful regeneration of the area in line with local needs and the Council's priorities

AUDIT COMMITTEE

20th July 2022

Annual Report of the Head of Internal Audit and Assurance**PURPOSE OF REPORT**

The purpose of this Head of Internal Audit Opinion (HOIAO) is to contribute to the assurances available to the Accountable Officer and the Council which underpin the Council's own assessment of the effectiveness of the organisation's system of internal control. This Opinion will assist the Council in the completion of its Annual Governance Statement (AGS), along with considerations of organisational performance, regulatory compliance and the wider operating environment.

In October 2021, MIAA were requested to support Lancaster City Council, both in terms of providing a Head of Internal Audit service and delivery of the 2021/22 internal audit plan. The previous in-house internal audit provision had ceased and there had been little or no internal audit activity for the period April – October 2021. As such, the Internal Audit Plan developed by MIAA, focused upon mandated and core assurances and priority areas highlighted within Lancaster City Council's 2020/21 Annual Governance Statement.

Furthermore, this opinion is provided in the context that the Council like other organisations across the public sector has continued to face unprecedented challenges due to COVID-19.

This report is public

RECOMMENDATIONS

- (1) That the Audit Committee receive the HOIAO for year 2021/22.
- (2) **Options and Options Analysis (including risk assessment)**
 - 4.1 There are no other options available.

CONCLUSION OF IMPACT ASSESSMENT

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

Not applicable

FINANCIAL IMPLICATIONS

None directly arising from this report

SECTION 151 OFFICER'S COMMENTS

In accordance with the Accounts and Audit Regulations, Internal Audit (IA) is required to form an opinion on the adequacy and effectiveness of the council's internal control environment,

which includes consideration of any significant risk or governance issues and control failures that have been identified throughout the year.

In arriving at an opinion, consideration is given to;

- The findings from the audit work undertaken during the year;
- The amount of audit work undertaken in the year compared with work planned;
- The results of follow up action in respect of audit work;
- Whether or not any significant recommendations have not been accepted by management and the consequent risks; and
- The issues identified in the Annual Governance Statement.

As is highlighted in the report and the HoIA Opinion, the Council has without Internal Audit provision from April to October 2021. Although an amount of work has been undertaken to support the AGS, the lack of an IA function and significant issues in relation to risk management have impacted the assessment of the Councils control environment. Work is currently underway to ensure that improvements are made in the current financial year

LEGAL IMPLICATIONS

None directly arising from this report

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no comments to add

BACKGROUND PAPERS

Internal Audit Plan 2020/21

MIAA Internal Audit Progress Report – May 2022

Contact Officer: Jayne Wainwright

Telephone: 07500 782951

E-mail: jayne.wainwright@miaa.nhs.uk



Internal Audit Annual Report & Head of Internal Audit Opinion 2021/22

Lancaster City Council

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- 1 Introduction
- 2 2021/22 Internal Audit Service Delivery
- 3 Executive Summary
- 4 Head of Internal Audit Opinion
- 5 Internal Audit Coverage and Outputs
- 6 Areas for consideration - your Annual Governance Statement
- 7 Ensuring Quality

1 Introduction

The purpose of this Head of Internal Audit Opinion (HoIAO) is to contribute to the assurances available to the Accountable Officer and the Council which underpin the Council's own assessment of the effectiveness of the organisation's system of internal control. This Opinion will assist the Council in the completion of its Annual Governance Statement (AGS), along with considerations of organisational performance, regulatory compliance and the wider operating environment.

In October 2021, MIAA were requested to support Lancaster City Council, both in terms of providing a Head of Internal Audit service and delivery of the 2021/22 internal audit plan. The previous in-house internal audit provision had ceased and there had been little or no internal audit activity for the period April – October 2021. As such, the Internal Audit Plan developed by MIAA, focused upon mandated and core assurances and priority areas highlighted within Lancaster City Council's 2020/21 Annual Governance Statement.

Furthermore, this opinion is provided in the context that the Council like other organisations across the public sector has continued to faced unprecedented challenges due to COVID-19.

2 2021/22 Internal Audit Service Delivery

COVID-19 has continued to impact all public services and we have continued to work differently to provide a strong basis for the delivery of planned work in 2021/22. We have continued to act as a critical friend throughout the period, providing key assurances across a range of areas including governance and risk management. There has remained a strong focus on engagement with organisations and the Audit Committee.

The re-introduction of restrictions and increased levels of staff sickness (both internal audit and within the organisation) due to the Omicron variant and ongoing impact of the pandemic, has continued to provide additional challenges to the delivery of planned work. However, there has been a clear focus by both internal auditors and the organisation on requirements to deliver a HoIAO and to support year end reporting.

We would like to take this opportunity to thank the Audit Committee and all the staff at the Council for their ongoing support during the year.

3 Executive Summary

This annual report provides the 2021/22 Head of Internal Audit Opinion for Lancaster City Council, together with the planned internal audit coverage and outputs during 2021/22 and MIAA Quality of Service Indicators.

Key Area	Summary
Head of Internal Audit Opinion	<p>The overall opinion for the period 1st April 2021 to 31st March 2022 provides Limited Assurance that there is a compromised system of internal control as weaknesses in the design and/or inconsistent application of controls has impacted on the overall system of internal control and puts the achievement of the organisation's objectives at risk.</p> <p><i>The overall opinion has considered the outcomes of the focused work completed by MIAA, together with the limited internal audit activity undertaken during the first part of 2021/22.</i></p>
Planned Audit Coverage and Outputs	<p>The 2021/22 Internal Audit Plan has been delivered with the focus on the provision of your Head of Internal Audit Opinion. This position has been reported within the progress reports across the financial year. Review coverage has been focused on:</p> <ul style="list-style-type: none"> • The organisation's Risk Assurance Framework • Core reviews, including follow up; and • A range of individual risk based assurance reviews. <p>The delivery of the Internal Audit Plan has been impacted by the availability of key officers within the Council and also requests for reviews to be deferred. As such, the plan has been regularly re-prioritised to support the delivery of the Head of Internal Audit Opinion</p>
MIAA Quality of Service Indicators	<p>MIAA operate systems to ISO Quality Standards. The External Quality Assessment, undertaken by CIPFA (2020), provides assurance of MIAA's full compliance with the Public Sector Internal Audit Standards.</p>

4 Head of Internal Audit Opinion

4.1 Roles and responsibilities

The whole Council is collectively accountable for maintaining a sound system of internal control and is responsible for putting in place arrangements for gaining assurance about the effectiveness of that overall system.

The Annual Governance Statement (AGS) is an annual statement by the Leader of the Council and the Chief Executive, on behalf of the Council, setting out:

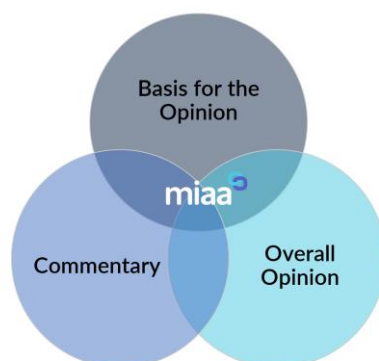
- how the individual responsibilities of the Accountable Officer are discharged with regard to maintaining a sound system of internal control that supports the achievements of policies, aims and objectives;
- the purpose of the system of internal control as evidenced by a description of the risk management and review processes, including the Risk Assurance Framework process; and
- the conduct and results of the review of the effectiveness of the system of internal control, including any disclosures of significant control failures together with assurances that actions are or will be taken where appropriate to address issues arising.

In accordance with Public Sector Internal Audit Standards, the Head of Internal Audit (HoIA) is required to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes (i.e. the organisation's system of internal control). This is achieved through a risk-based plan of work and approved by the Audit Committee, which can provide assurance, subject to the inherent limitations described below. The outcomes and delivery of the internal audit plan are provided in Section 4.

The opinion does not imply that Internal Audit has reviewed all risks and assurances relating to the organisation. The opinion is substantially derived, and produced on behalf of the Council, from the conduct of work undertaken by MIAA. Section 5 details internal audit coverage.

4.2 Opinion

Our opinion is set out as follows:



4.2.1 Basis

The basis for forming our opinion is as follows:

1	An assessment of the design and operation of the underpinning strategic governance, risk management arrangements and supporting processes.
2	An assessment of the range of individual assurances arising from our risk-based internal audit assignments that have been reported throughout the period. This assessment has taken account the relative materiality of systems reviewed and management's progress in respect of addressing control weaknesses identified.
3	An assessment of the organisation's response to Internal Audit recommendations, and the extent to which they have been implemented.

4.2.2 Overall Opinion

Our overall opinion for the period 1st April 2021 to 31st March 2022 is:

High Assurance, can be given that there is a strong system of internal control which has been effectively designed to meet the organisation's objectives, and that controls are consistently applied in all areas reviewed.	
Substantial Assurance, can be given that that there is a good system of internal control designed to meet the organisation's objectives, and that controls are generally being applied consistently.	
Moderate Assurance, can be given that there is an adequate system of internal control, however, in some areas weaknesses in design and/or inconsistent application of controls puts the achievement of some of the organisation's objectives at risk.	
Limited Assurance , can be given that there is a compromised system of internal control as weaknesses in the design and/or inconsistent application of controls impacts on the overall system of internal control and puts the achievement of the organisation's objectives at risk.	✓
No Assurance, can be given that there is an inadequate system of internal control as weaknesses in control, and/or consistent non-compliance with controls could/has resulted in failure to achieve the organisation's objectives.	

4.3.3 Commentary

The commentary below provides the context for our opinion and together with the opinion should be read in its entirety.

Our opinion covers the period 1st April 2021 to 31st March 2022 inclusive, and is underpinned by the work conducted through the risk based internal audit plan.

4.3.3.1 Risk Assurance Framework

Our work has consisted of:

- Conducting a Risk Management review to consider the design and operating effectiveness of the Council's risk management processes and this provided a 'no assurance' opinion.

The review identified that there was no or very limited central operational or strategic risk management oversight processes in operation throughout 2021/22. This has given rise to the policy being out of date, an absence of risk management training, the risk management (GRACE) system not being embedded and utilised which has resulted in no update to the Strategic Risk Register and risks and action plans held centrally during 21/22. Furthermore, there is no linkage between the corporate plan and the Strategic Risk Register.

It is acknowledged that there are small pockets of risk management in operation, including departmental risk registers and review of specific areas such as project risks and finance risks, However, these are managed in silo's and there is no central oversight and reporting.

The continuing impact of COVID, together with significant staff change within the risk management portfolio has significantly contributed to this position. This has also affected the use of the specifically purchased (2020) electronic risk management system GRACE, which is not yet embedded and utilised.

4.3.3.2 Core & Risk Based Reviews Issued

We issued:

0 high assurance opinion:	
3 substantial assurance opinions:	Main Accounting Systems* Treasury Management* Grants*
2 moderate assurance opinions:	Conflicts of Interest* P2P System*
0 limited assurance opinions:	
1 no assurance opinion:	Risk Management*
3 reviews without an assurance rating	DEFRA Air Quality Grant Submission Contained Outbreak Management Fund (COMF) Grant Submission Test & Trace Support Payments (TTSP) Grant Submission

* Draft report

Reviews on NNDR and Housing Benefit carried out under the shared services agreement with Preston Council

4.3.3.3 Follow Up

During the course of the year we have undertaken follow up reviews and can conclude that the organisation has made **limited** progress with regards to the implementation of recommendations. We will continue to track and follow up outstanding actions.

We have raised 18 recommendations as part of the reviews undertaken during 2021/22. All recommendations raised by MIAA have been accepted by management.

Of these recommendations: 1 were **critical** and 4 were **high risk recommendations** in relation to the review of Risk Management.

4.3.3.4 Wider organisation context

This opinion is provided in the context that the Council like other organisations across the public sector is facing a number of challenging issues and wider organisational factors particularly with regards to the ongoing pandemic response and wider system developments. The challenges for organisations have included continuing to ensure an effective pandemic response and delivering business as usual requirements.

In providing this opinion I can confirm continued compliance with the definition of internal audit (as set out in your Internal Audit Charter), code of ethics and professional standards. I also confirm organisational independence of the audit activity and that this has been free from interference in respect of scoping, delivery and reporting.

Chris Harrop

Managing Director, MIAA
July 2022

Louise Cobain

Assurance Director, MIAA
July 2022

5 Internal Audit Coverage and Outputs

The 2021/22 Internal Audit Plan has been delivered with the focus on the provision of your Head of Internal Audit Opinion. This position has been reported within the progress reports across the financial year. The completion of the Internal Audit Plan has been impacted by the availability of key officers within the Council and also requests for reviews to be deferred.

The audit assignment element of the Opinion is limited to the scope and objectives of each of the individual reviews. Detailed information on the limitations (including scope and coverage) to the reviews has been provided within the individual audit reports and through the Audit and Standards Committee Progress Reports throughout the year.

A summary of the reviews performed in the year is provided below:

	Review	Assurance Opinion	Recommendations Raised				
			Critical	High	Medium	Low	Total
1	Risk Management*	None	1	4	-	-	5
2	Main Accounting System*	Substantial	-	-	2	2	4
3	P2P System Assurance**	Moderate					
4	Treasury Management*	Substantial	-	-	1	4	5
5	Grants*	Substantial	-	-	1	3	4
6	Conflicts of Interest**	Moderate					
7	NNDR***	N/A					
8	Housing Benefits***	N/A					
9	DEFRA Grant Submission	N/A					
10	COMF Grant Submission	N/A					
11	TTSP Grant Submission	N/A					
		TOTAL	1	4	4	9	18

* Draft Report with Client

** Report being drafted

** Assurance provided via the Lancaster City & Preston City Council Shared Revenues & Benefits Service Agreement

All recommendations raised were accepted by management.

We will continue to follow up progress against all recommendations as part of the 2022/23 Internal Audit Plan.

ADVISORY SUPPORT AND GUIDANCE: Areas where MIAA have supported the organisation in strengthening arrangements in respect of governance, risk management and internal control.

- Money Laundering Advice
- Audit Committee Terms of Reference / CIPFA Code of Governance Review

CONTRIBUTION TO GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL ENHANCEMENTS: *Additional areas where MIAA have provided added value contributions.*

Detailed insight into the overall Governance and Assurance processes gained from liaison throughout the year with the S151 Officer and attendance at Audit Committee.

Ongoing discussion with lead Officers, throughout the year.

Effective utilisation of internal audit including in year communication, requests for support and changes to the audit plan in respect of the DEFRA, COMF and TTSP Grant submissions.

Engagement with MIAA Insights benchmarking, best practice and outcome reporting.

6 Areas for consideration – your Annual Governance Statement

The Head of Internal Audit Opinion is one source of assurance that the organisation has in providing its AGS other third party assurances should also be considered. In addition the organisation should take account of other independent assurances that are considered relevant.

We have identified a number of other strategic challenges that should be considered by the Council when drafting the AGS. Whilst the scope of the Internal Audit Plan would have considered elements of these, it is important that the Council reflects more widely on how these should be factored into the AGS. Areas for consideration include:

- Wider partnership/ collaborative working and engagement across the Lancashire Footprint.
- Continued establishment and delivery of cross-organisation arrangements for the Better Care Fund and other pooled budgets development (e.g. Education, Lancashire County Council)
- Impact of the revised financial regime on decision making, achieving financial duties, ongoing financial viability, delivery of savings, service pressures and key relationships/ performance of third parties.
- Changes to governance, risk management and internal control arrangements due to the ongoing COVID-19 response and the functioning of emergency responses structures (including the impact on decision making processes).
- Impact of the COVID-19 response on the ongoing delivery of services and compliance with legislative and regulatory requirements (e.g UK Corporate Governance Code). Maintenance and improvement of the quality of services alongside and overall organisation performance, including the delivery of targets.
- Council leadership, including any significant changes to the Council and Senior Management Team
- Workforce capacity, engagement, wellbeing and development.
- Ensuring there is a fit for purpose infrastructure.
- Cyber security, information governance risks and any associated reportable incidents to the Information Commissioner.
- Relationship and management of 3rd party providers upon which the organisation places reliance, and the provision of assurances from these (e.g. Preston Council – Fraud Services).

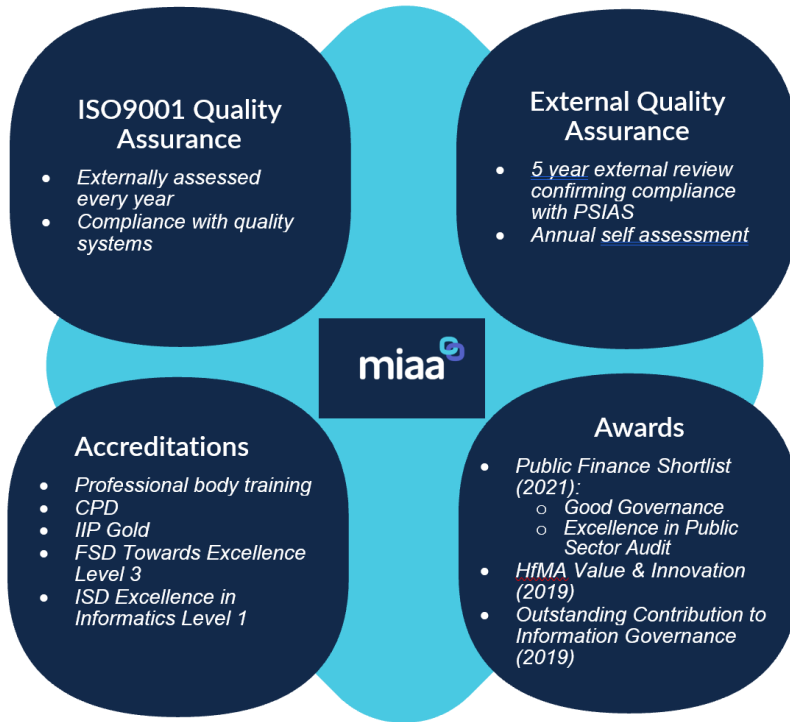
7 Ensuring Quality

MIAA’s strategy has quality at the heart of everything we do and our overall approach to quality assurance includes ISO9001:2015 accreditation, compliance with Public Sector Internal Audit Standards, the quality of our people and outcome measures.

7.1 Professional Standards and Accreditations

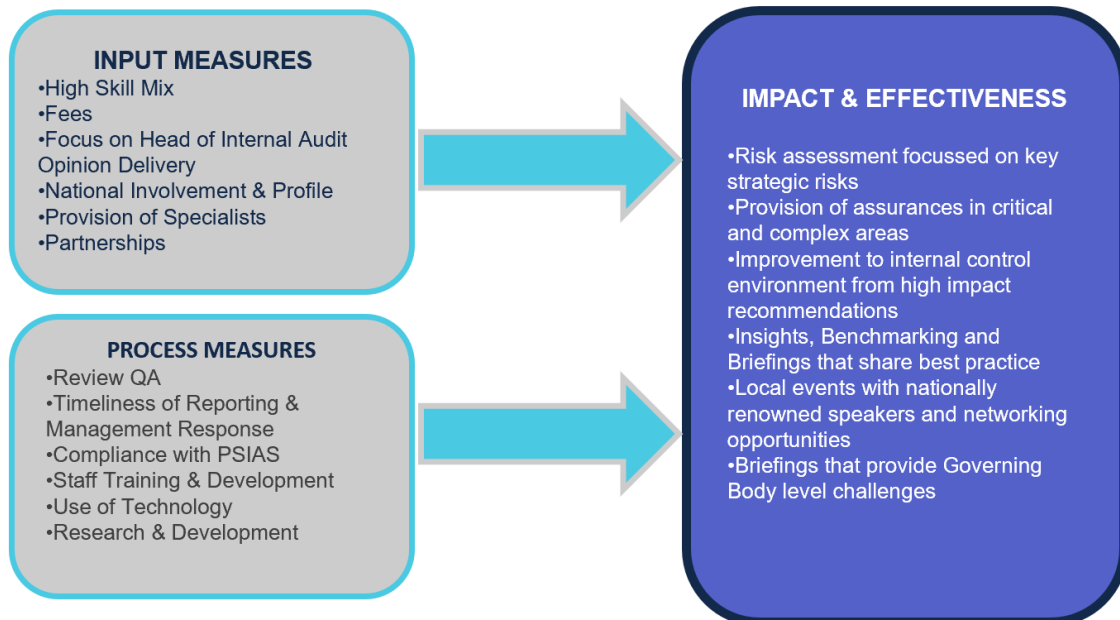
MIAA comply fully with professional best practice, internal audit standards and legal requirements. We assess our compliance with the Public Sector Internal Audit Standards (PSIAS) each year.





7.2 Service delivery and outcome measures

It is important that client organisations ensure an effective Internal Audit Service, and whilst input and process measures offer some assurance, the focus should be on outcomes and impact from the service. The figure below confirms the measures that we believe demonstrate an effective service to you.



MIAA regularly report on input and process KPIs as part of our Audit Committee Progress reports, and the impact and effectiveness measures can be assessed through the HOIA Opinion.

Chris Harrop

Managing Director

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