



Committee: AUDIT COMMITTEE
Date: WEDNESDAY, 20 MARCH 2024
Venue: MORECAMBE TOWN HALL
Time: 6.00 P.M.

A G E N D A

1. **Apologies for Absence**

2. **Minutes**

To receive as a correct record the Minutes of the meeting held on 22nd November 2023 (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. **Updated Risk Management Policy** (Pages 3 - 24)

Report of Chief Officer Resources

6. **Strategic Risk Management** (Pages 25 - 33)

Whilst this report is public, Appendix B is exempt, and notice is hereby given that the meeting is likely to move into private session if it is necessary to refer to the exempt appendix.

Report of the Chief Executive

7. **Internal Audit Progress Report** (Pages 34 - 53)

Report of the Head of Internal Audit

8. **Annual Review of the Internal Audit Charter** (Pages 54 - 64)

Report of the Head of Internal Audit

9. **Internal Audit Plan 2024/25** (Pages 65 - 81)

Report of the Head of Internal Audit

10. **AGS Action Plan** (Pages 82 - 84)

Report of the Monitoring Officer

Published 19th March 2024

11. **Statement of Accounts Update** (Pages 85 - 120)

Report of the Chief Finance Officer

Published 19th March 2024

12. **Proposed Accounting Policies and Critical Judgements used in the Preparation of the Statement of Accounts 2023/24** (Pages 121 - 140)

Report of the Chief Finance Officer

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

Councillors Paul Stubbins (Chair), Colin Hartley (Vice-Chair), Ruth Colbridge, Peter Jackson, Kate Knight, Sally Maddocks and David Whitaker

(ii) Substitute Membership

Councillors Gerry Blaikie (Substitute), Dave Brookes (Substitute), Tom Fish (Substitute) and Sandra Thornberry (Substitute)

(iii) Queries regarding this Agenda

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

(iv) Changes to Membership, substitutions or apologies

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

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

Published on 12th March 2024.

AUDIT COMMITTEE

Updated Risk Management Policy

20 March 2024

Report of Chief Officer Resources

PURPOSE OF REPORT

To request the Audit Committee approve the council's refreshed Risk Management Policy.
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This report is public.

RECOMMENDATIONS

- (1) The Audit Committee approve the refreshed Risk Management Policy, March 2024, shown as appendix A.

1.0 RISK MANAGEMENT POLICY

- 1.1 The Risk Management Policy has been re-drafted since the previous version was approved and published in March 2023 to include the following changes:
- Section 2.2 – timeframe added for how often the policy should be reviewed.
 - Section 3.1 – priorities now reworded to ambitions (following the adoption of the new Council Plan 24-27) and Risk Management Framework diagram and explanation included.
 - Section 5.3 – reworded.
 - Section 6.3 – added to include information about the adoption of the HM Treasury Orange Book risk appetite guidance.
 - Section 7.2 – minor rewording, removal of “PERFORMANCE” acronym for risk categories with inclusion of HM Treasury Orange Book risk categories.
 - Section 8.1 – inclusion of a sentence suggested by Cabinet, when endorsing the new risk appetite levels “The council recognises that it may be necessary to deviate from the adopted risk appetite for individual decisions when there is a good reason to do so”.
 - Section 8.2 – revised section on risk appetite.
 - Sections 9.2 and 9.3 – officer roles amended to reflect the new structure.
 - Section 10 – rewording for the following roles: Audit Committee, B&PP, Leadership Team, Risk Owners, Policy and Performance Team + inclusion of new diagram showing this.
 - Section 11 – minor rewording.
 - Section 13 – minor rewording to reflect new structure.
 - Former appendix 1 on “PERFORMANCE” removed and appendices renumbered.
 - Appendix 1 – minor formatting changes and removal of figures in financial impact measures
 - Appendix 3 – NEW – explains the risk appetite and new categories (A3 format)

2.0 DETAILS OF CONSULTATION

- 2.1 Leadership Team have been consulted on the changes.
- 2.2 The new risk categories and risk appetite levels have been set in conjunction with Leadership Team, Audit Committee and Cabinet.

3.0 OPTIONS AND OPTIONS ANALYSIS

- 3.1 The options that Audit Committee Members might consider are:
 - a) To approve the draft policy as submitted, or with any amendments suggested by the Committee
 - b) Not to approve the policy.
- 3.2 Options analysis, based on associated risks and opportunities are set out in the following table:

Risk / Opportunity	Option A – Approve Policy	Option B – Do not approve
Failure of the council to meet requirements in identifying and responding to risk management.	Adoption of the policy defines, in accordance with proper practice, the council’s approach to risk management.	The policy from March 2023 remains in place showing the old structure for roles and responsibilities, former risk categories and risk appetite guidance.
Failure of services and individuals to meet expectations around risk management.	The policy and guidance provide the framework for ensuring that services and individuals are aware of their own responsibilities in regard to risk management.	Individuals are unlikely to be aware of their personal responsibilities.
Significant risk of financial and reputational loss to the council from failure to manage its risks effectively.	The policy is aimed at establishing procedures within the Council to enable risks to be more fully understood and managed.	Exposure to the risk of financial loss is likely to be poorly understood and managed.

3.3 The preferred option is option A at paragraph 3.2.

4.0 CONCLUSION

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

APPENDICES

Appendix A – Risk Management Policy – DRAFT 2024

**CONCLUSION OF IMPACT ASSESSMENT
(including Health & Safety, Equality & Diversity, Human Rights, Community Safety,**

Sustainability and Rural Proofing):

No direct impact arising from this report, which provides a copy of the council's refreshed Risk Management Policy.

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 Chief Officer Resources, including responsibility for Internal Audit.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

N/A

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Ref: N/A



Risk Management Policy and Procedure

March 2024

Contents

1.0	Introduction	3
2.0	Scope.....	3
3.0	Risk Management Objectives.....	3
4.0	Benefits	4
5.0	Definitions	5
6.0	Risk Management Standards	5
7.0	Risk Management Approach	6
8.0	Risk Appetite.....	9
9.0	Risk Registers	10
10.0	Roles and Responsibilities	10
11.0	Embedding Risk Management.....	13
12.0	Culture	13
13.0	Training and Awareness.....	13
14.0	Summary.....	14
	Appendix 1 – Measures of Likelihood and Impact	15
	Appendix 2 - Risk Response Categories.....	17
	Appendix 3 – Risk Appetite	18

Version control

	Description	Date
V0.1	Draft submitted to Executive Team for comments	13 November 2019
V0.2	Draft submitted to Audit Committee	27 November 2019
V1.0	Approved by Audit Committee	27 November 2019
V1.1	Draft submitted to Audit Committee	24 March 2021
V1.2	Revisions submitted to the Senior Leadership Team for comments	18 January 2023
V1.2	Draft submitted to Audit Committee	March 2023
V1.2	Approved by Audit Committee	22 March 2023
V1.3	Revisions to reflect new structure of council, updated risk categories and risk appetite and clarity on roles and responsibilities.	15 December 2023
V1.4	Minor revisions made to roles and responsibilities	23 February 2024
V2.0		

Due for review every 2 years.

1.0 Introduction

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

2.0 Scope

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

3.0 Risk Management Objectives

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

- Ensure risk management continues to be a key and effective element of our Corporate Governance arrangements.

Risk Management Framework

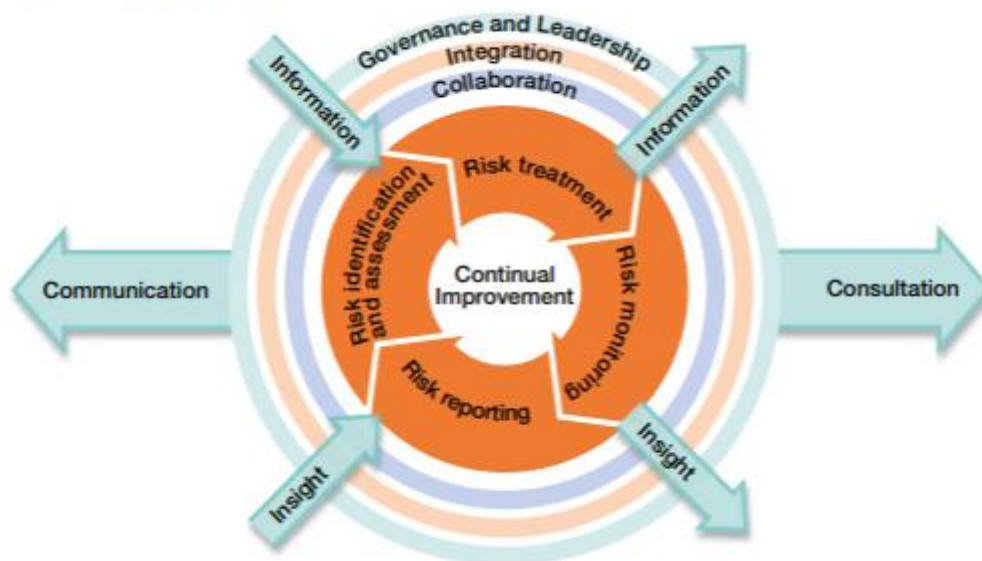


Figure 1 - Taken from HMT The Orange Book, Management of Risk - Principles and Concepts

Figure 1 shows a risk management framework. Working from the outer rings inwards it shows:

- Green ring – Risk management is an essential part of governance and leadership.
- Peach ring – Risk management is an integral part of all organisational activities to support decision-making in achieving objectives.
- Blue ring – Risk management is collaborative and informed by the best available information and expertise.
- Orange ring – process are in place to include:
 - Risk identification and assessment to determine and prioritise how the risks should be managed.
 - Selection, design and implementation of risk treatment options that support achievement of intended outcomes and manage risks to an acceptable level.
 - Design and operation of integrated, insightful and informative risk monitoring.
 - Timely, accurate and useful risk reporting to enhance the quality of decision-making and to support management and oversight bodies in meeting their responsibilities.
- General principle - Risk management will be continually improved through learning and experience.

4.0 Benefits

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

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

5.0 Definitions

5.1 Risk can be defined as:

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

Risk management can be defined as:

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

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

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

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

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

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

6.0 Risk Management Standards

6.1 Several standards have been developed worldwide to help organisations implement risk management systematically and effectively. These standards seek to establish a common view on frameworks, processes and practice, and are generally set by recognised international standards bodies or by industry groups.

6.2 Despite the publication of the global risk management standard in 2009; ISO 31000, the Institute of Risk Management (IRM) has decided to retain its support for the original ‘Risk Management Standard’ that was published in 2002 because it is a simple guide that outlines a practical and systematic approach to the management of risk. The standard is not prescriptive i.e. a box ticking exercise or a certifiable process. Instead, the standard represents best practice against which organisations can measure themselves. The council has reviewed this policy against this standard.

- 6.3 The HM Treasury Orange Book standard for risk categories and risk appetite has been adopted by the council as best practice. It sets out the council's risk appetite across a number of different risk categories. Further information on this can be found in "[Section 8 – Risk Management](#)" of this policy.

7.0 Risk Management Approach

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

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

Step 1 – Identifying risks

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

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

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

Each identified risk will sit within one primary risk category. Our categories are taken from the HM Treasury “Orange Book Risk Appetite Guidance Note”. The categories are listed in the table below. Full details and definitions can be found in [Appendix 3 - Risk Appetite](#).

Strategy	Property	Technology
Governance	Financial	Data Info and Management
Operations	Commercial	Security
Legal	People	Project / Programme

When describing risks, it helps to display the identified risk in a structured format to ensure a comprehensive risk identification, description and assessment process takes place. The Grace system prompts the risk owner to do this.

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

Step 2 – Analysing and Evaluating risk

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

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

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

Table 1

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

A “traffic light” approach is used to show high (red), medium (amber) and low (green) risks. It is important to note that different businesses use different models, therefore it is not always possible to compare our risks directly with those of other councils or businesses.

First Risk Score – Inherent (Gross) Risk Score

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

Second Risk Score – Residual Risk Score

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

Comparing the residual risk score to the guidance on risk appetite for the appropriate risk category will be the deciding factor as to whether further action is required (see the [guidance on risk appetite in appendix 3](#)). It is at this point that a risk response category is assigned by the risk owner to determine what, if any, action is to be taken e.g. reduce or accept the level of risk. ([See appendix 2 for further information on risk response categories](#)).

Third Risk Score – Target Risk (Retained Risk) Score

If a risk requires further mitigating action to reduce the risk score to within the recommended risk appetite, the risk owner needs to set a realistic target score and develop an action plan which when implemented will reduce the risk to within the target risk score. It is important to note, that for many risks a target score of 1, will be too low, due to budget, time or resource restrictions.

Step 3 – Treatment and Action Planning

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

Net risks are prioritised by applying the same criteria and matrix used for assessing the gross risk level (Step 2). It is the risk owner’s responsibility to ensure that the agreed net risk level for each risk is an accurate reflection of the likelihood and [impact measures detailed in Appendix 1](#).

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

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

Accept	A decision is taken to accept the risk.
Avoid	A decision is made not to take a risk.
Fallback	Put in place a fallback plan for the actions that will be taken to reduce the impact of the threat should the risk occur.
Reduce	Further additional actions are implemented to reduce the risk.
Transfer	All or part of the risk is transferred through insurance or to a third party.
Share	Share the risk with others on pain/gain basis.
Enhance	Proactive actions taken to enhance the likelihood of the event occurring or enhance the impact of the event should it occur.
Exploit	Whilst taking action to mitigate risks, a decision is made to exploit a resulting opportunity.
Reject	A deliberate decision is taken not to exploit or enhance the opportunity.

These are described in more detail in [Appendix 2](#). The managed approach to risk should always be documented in the risk register, for example, after assessment of the risk, a decision may be made to ‘transfer’ the risk, therefore no further mitigating controls are required.

Step 4 – Management and Reporting

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

Regular reporting enables senior managers and Councillors to have greater awareness of the extent of the risks and progression being made to manage them. The Grace Risk Management system will encourage risk owners to monitor and update identified risks on a regular basis. In line with our policy, the Grace risk system will issue risk review reminders as follows:

- Red risks – every 3 months
- Amber risks – every 6 months
- Green risks – every 12 months

Risk owners are encouraged to review and update their risks more frequently than this if events occur which mean an earlier review is beneficial.

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

Updates from the strategic risk register will be reported to the Audit Committee at each of their meetings. Strategic risks will also be seen by Cabinet and Budget and Performance Panel.

8.0 Risk Appetite

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

Risk appetite is not a single fixed concept; there are a range of appetites for different risks which the council need to be aligned and regularly reviewed as this will change/vary over time. The council recognises that it may be necessary to deviate from the adopted risk appetite for individual decisions when there is a good reason to do so.

8.2 Our risk appetite varies depending on the risk category assigned. Generally, the council’s appetite for risk can be described as “Cautious”. However, there are some exceptions to this. For Operation, Property, Commercial, Technology and Project/ Programme risks our risk appetite is “Open” which means we are willing to accept a slightly higher level of risk to maximise potential benefits.

The order our risk categories appear in, from most risk averse to least risk averse is:

1. Averse
2. Minimal
3. Cautious
4. Open
5. Eager

A table showing the council’s risk appetite can be found as [Appendix 3](#).

9.0 Risk Registers

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

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

9.2 Colleagues within the Policy and Performance Team (People and Policy Service) will oversee administration of both strategic and operational risk registers within the Grace Risk Management system. Identified risk owners will ultimately be responsible for monitoring and updating their risk scores and actions plans.

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

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

10.0 Roles and Responsibilities

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

All Employees

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

All Councillors

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

Cabinet

- Take a strategic view of risks in the organisation, specifically to:
 - Determine and continuously assess the risk appetite.
 - Review how management is responding to the principal risk.
 - Consider and challenge the risks involved in making any 'key decisions'.

Audit Committee

- Provide independent assurance to the council on the overall adequacy of the risk management framework, including review of proposed amendments to the Risk Management Policy prior to its presentation to Cabinet.
- Consider the Councils framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.
- Monitor the effective development and operation of risk management in the council and monitor progress in addressing risk-related issues reported to the committee.
- Review and challenge the content of the strategic risk register.
- Approve and review recommendations and amendments to the Risk Management Policy.

Budget and Performance Panel

- Consider risk management issues in reviewing and scrutinising performance.

Leadership Team / Chief Officers

- Champion an effective council-wide risk management culture.
- Risk manage their services in delivering the council's core purpose, priorities and outcomes. Ensuring colleagues are updating their risk registers as required.
- In conjunction with the appropriate risk owner, maintain the relevant risk registers ensuring all key risks are identified, managed and reviewed in line with the corporate risk management approach.
- Constructively review and challenge the risks involved in decision making.
- Ensure Councillors receive relevant risk information including discussing significant service risks with the relevant Portfolio Holders.
- Responsible for owning and managing Strategic Risks, which will be reviewed quarterly or more often when needed.
- Promptly escalate risks appropriately, including adding additional strategic risks where a service risk requires escalation.
- Encourage staff to be open and honest in identifying risks and opportunities.
- Ensure risk management process is an explicit part of transformation and all significant projects.
- Ensure that appropriate resources and importance are allocated to the risk management process.
- Provide assurance that the risks for which they are the risk owner are being effectively managed. This will be completed as part of the Annual Governance review process.

Risk Owners

- Take ownership of the risks they are responsible for by confirming control measures and/or implementing new actions.
- Promptly escalate risks to the appropriate Chief Officer.

Partners

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

Project Managers

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

- Promptly escalate risks in an appropriate way.

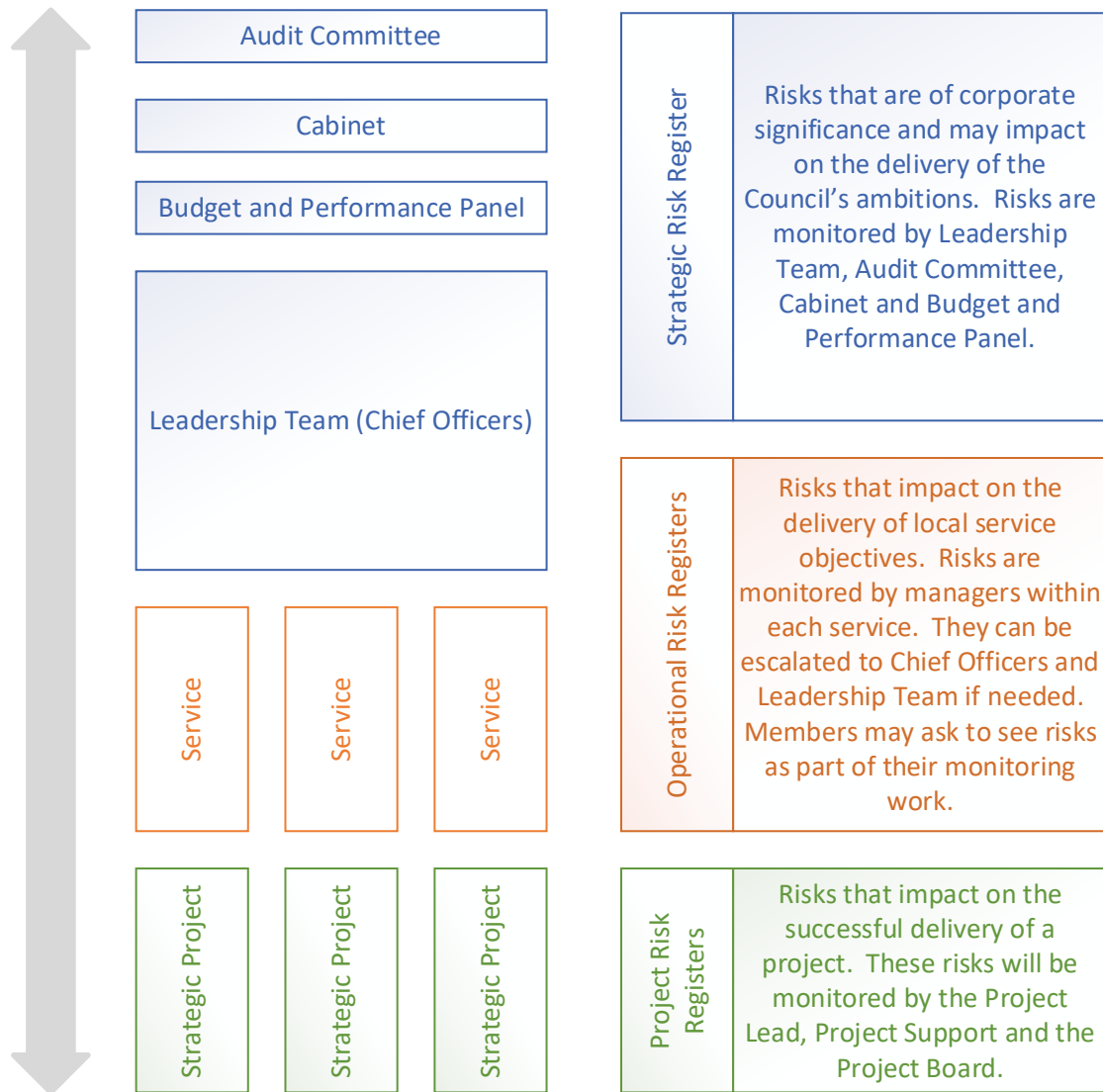
Policy and Performance Team (part of the People and Policy service)

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

Internal Audit

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

Risk Management at Lancaster City Council



11.0 Embedding Risk Management

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

- Corporate Decision Making – significant risks, which are associated with policy or action to be taken when making key decisions, are included in appropriate committee reports.
- Business / budget planning – this annual process includes updating the relevant risk registers to reflect current aims / outcomes.
- Project Management – all significant projects should formally consider the risks to delivering the project outcomes before and throughout the project. This includes risks that could influence service delivery, benefits realisation and engagement with key stakeholders (service users, third parties, partners etc.).
- Partnership Working – partnerships should establish procedures to record and monitor risks and opportunities that may impact the council and/or the partnership's aims and objectives.
- Procurement – all risks and actions associated with a purchase need to be identified and assessed, kept under review and amended as necessary during the procurement process.
- Contract Management – significant risks associated with all stages of contract management are identified and kept under review.
- Insurance – the council's Insurance Officer manages insurable risks and self-insurance arrangements.
- Health and Safety – the council has specific policies and procedures to be followed in relation to health and safety risks.

12.0 Culture

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

13.0 Training and Awareness

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

14.0 Summary

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

Appendix 1 – Measures of Likelihood and Impact

Table 1

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

Likelihood Measures

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

Impact Measures

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

Appendix 2 - Risk Response Categories

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

Appendix 3 – Risk Appetite

The boxes shaded in yellow, indicate the council's current risk appetite for each category. The score is the impact x likelihood score as generated at the residual risk stage of the risk management process.

Risk Category	Risk Appetite				
	Averse (Score 1-3)	Minimal (Score 4)	Cautious (Score 6-8)	Open (Score 9)	Eager (Score 12-16)
Strategy (Cautious, Score 6-8) Risks arising from identifying and pursuing a strategy, which is poorly defined, is based on flawed or inaccurate data or fails to support the delivery of commitments, plans or objectives due to a changing macro-environment (e.g. political, economic, social, technological, environment and legislative change).	Guiding principles or rules in place that limit risk in organisational actions and the pursuit of priorities. Organisational strategy is refreshed at 5+ year intervals	Guiding principles or rules in place that minimise risk in organisational actions and the pursuit of priorities. Organisational strategy is refreshed at 4-5 year intervals	Guiding principles or rules in place that allow considered risk taking in organisational actions and the pursuit of priorities. Organisational strategy is refreshed at 3-4 year intervals	Guiding principles or rules in place that are receptive to considered risk taking in organisational actions and the pursuit of priorities. Organisational strategy is refreshed at 2-3 year intervals	Guiding principles or rules in place that welcome considered risk taking in organisational actions and the pursuit of priorities. Organisational strategy is refreshed at 1-2 year intervals
Governance (Cautious, Score 6-8) Risks arising from unclear plans, priorities, authorities and accountabilities, and/or ineffective or disproportionate oversight of decision-making and/or performance.	Avoid actions with associated risk. No decisions are taken outside of processes and oversight / monitoring arrangements. Organisational controls minimise risk of fraud, with significant levels of resource focused on detection and prevention.	Willing to consider low risk actions which support delivery of priorities and objectives. Processes, and oversight / monitoring arrangements enable limited risk taking. Organisational controls maximise fraud prevention, detection and deterrence through robust controls and sanctions.	Willing to consider actions where benefits outweigh risks. Processes, and oversight / monitoring arrangements enable cautious risk taking. Controls enable fraud prevention, detection and deterrence by maintaining appropriate controls and sanctions.	Receptive to taking difficult decisions when benefits outweigh risks. Processes, and oversight / monitoring arrangements enable considered risk taking. Levels of fraud controls are varied to reflect scale of risks with costs.	Ready to take difficult decisions when benefits outweigh risks. Processes, and oversight / monitoring arrangements support informed risk taking. Levels of fraud controls are varied to reflect scale of risk with costs.
Operations (Open, Score 9) Risks arising from inadequate, poorly designed or ineffective/ inefficient internal processes resulting in fraud, error, impaired customer service (quality and/or quantity of service), non-compliance and/or poor value for money.	Defensive approach to operational delivery - aim to maintain/protect, rather than create or innovate. Priority for close management controls and oversight with limited devolved authority.	Innovations largely avoided unless essential. Decision making authority held by senior management.	Tendency to stick to the status quo, innovations generally avoided unless necessary. Decision making authority generally held by senior management. Management through leading indicators.	Innovation supported, with clear demonstration of benefit / improvement in management control. Responsibility for non-critical decisions may be devolved.	Innovation pursued – desire to 'break the mould' and challenge current working practices. High levels of devolved authority – management by trust / lagging indicators rather than close control.
Legal (Cautious, Score 6-8) Risks arising from a defective transaction, a claim being made (including a defence to a claim or a counterclaim) or some other legal event occurring that results in a liability or other loss, or a failure to take appropriate measures to meet legal or regulatory requirements or to protect assets (for example, intellectual property).	Play safe and avoid anything which could be challenged, even unsuccessfully.	Want to be very sure we would win any challenge.	Want to be reasonably sure we would win any challenge.	Challenge will be problematic; we are likely to win, and the gain will outweigh the adverse impact.	Chances of losing are high but exceptional benefits could be realised.
Property (Open, Score 9) Risks arising from property deficiencies or poorly designed or ineffective/ inefficient safety management resulting in non-compliance and/or harm and suffering to employees, contractors, service users or the public.	Obligation to comply with strict policies for purchase, rental, disposal, construction, and refurbishment that ensures producing good value for money	Recommendation to follow strict policies for purchase, rental, disposal, construction, and refurbishment that ensures producing good value for money.	Requirement to adopt arrange of agreed solutions for purchase, rental, disposal, construction, and refurbishment that ensures producing good value for money.	Consider benefits of agreed solutions for purchase, rental, disposal, construction, and refurbishment that meeting organisational requirements.	Application of dynamic solutions for purchase, rental, disposal, construction, and refurbishment that ensures meeting organisational requirements.
Financial (Cautious, Score 6-8) Risks arising from not managing finances in accordance with requirements and financial constraints resulting in poor returns from investments, failure to manage assets/liabilities or to obtain value for money from the resources deployed, and/or non-compliant financial reporting.	Avoidance of any financial impact or loss, is a key objective.	Only prepared to accept the possibility of very limited financial impact if essential to delivery.	Seek safe delivery options with little residual financial loss only if it could yield upside opportunities.	Prepared to invest for benefit and to minimise the possibility of financial loss by managing the risks to tolerable levels.	Prepared to invest for best possible benefit and accept possibility of financial loss (controls must be in place).
Commercial (Open, Score 9) Risks arising from weaknesses in the management of commercial partnerships, supply chains and contractual requirements, resulting in poor performance, inefficiency, poor value for	Zero appetite for untested commercial agreements. Priority for close management controls and oversight with limited devolved authority.	Appetite for risk taking limited to low scale procurement activity. Decision making authority held by senior management.	Tendency to stick to the status quo, innovations generally avoided unless necessary. Decision making authority generally held by	Innovation supported, with demonstration of benefit / improvement in service delivery. Responsibility for non-critical decisions may be devolved.	Innovation pursued – desire to 'break the mould' and challenge current working practices. High levels of devolved authority – management by trust / lagging

money, fraud, and/or failure to meet business requirements/objectives.			senior management. Management through leading indicators.		indicators rather than close control.
People (Cautious, Score 6-8) Risks arising from ineffective leadership and engagement, suboptimal culture, inappropriate behaviours, the unavailability of sufficient capacity and capability, industrial action and/or non-compliance with relevant employment legislation/HR policies resulting in negative impact on performance.	Priority to maintain close management control & oversight. Limited devolved authority. Limited flexibility in relation to working practices. Development investment in standard practices only	Decision making authority held by senior management. Development investment generally in standard practices.	Seek safe and standard people policy. Decision making authority generally held by senior management.	Prepared to invest in our people to create innovative mix of skills environment. Responsibility for noncritical decisions may be devolved.	Innovation pursued – desire to ‘break the mould’ and challenge current working practices. High levels of devolved authority – management by trust rather than close control.
Technology (Open, Score 9) Risks arising from technology not delivering the expected services due to inadequate or deficient system/ process development and performance or inadequate resilience.	General avoidance of systems / technology developments.	Only essential systems / technology developments to protect current operations.	Consideration given to adoption of established / mature systems and technology improvements. Agile principles are considered.	Systems / technology developments considered to enable improved delivery. Agile principles may be followed.	New technologies viewed as a key enabler of operational delivery. Agile principles are embraced.
Data Info and Management (Cautious, Score 6-8) Risks arising from a failure to produce robust, suitable and appropriate data/ information and to exploit data/information to its full potential.	Lock down data & information. Access tightly controlled, high levels of monitoring.	Minimise level of risk due to potential damage from disclosure.	Accept need for operational effectiveness with risk mitigated through careful management limiting distribution.	Accept need for operational effectiveness in distribution and information sharing.	Level of controls minimised with data and information openly shared.
Security (Cautious, Score 6-8) Risks arising from a failure to prevent unauthorised and/or inappropriate access to the estate and information, including cyber security and non-compliance with General Data Protection Regulation requirements.	No tolerance for security risks causing loss or damage to HMG property, assets, information or people. Stringent measures in place, including: <ul style="list-style-type: none"> Adherence to FCDO travel restrictions Staff vetting maintained at highest appropriate level Controls limiting staff and visitor access to information, assets and estate Access to staff personal devices restricted in official sites 	Risk of loss or damage to HMG property, assets, information or people minimised through stringent security measures, including: <ul style="list-style-type: none"> Adherence to FCDO travel restrictions All staff vetted levels defined by role requirements. Controls limiting staff and visitor access to information, assets and estate Staff personal devices permitted, but may not be used for official tasks 	Limited security risks accepted to support business need, with appropriate checks and balances in place: <ul style="list-style-type: none"> Adherence to FCDO travel restrictions Vetting levels may flex within teams, as required Controls managing staff and limiting visitor access to information, assets and estate Staff personal devices may be used for limited official tasks with appropriate permissions. 	Considered security risk accepted to support business need, with appropriate checks and balances in place: <ul style="list-style-type: none"> New starters may commence employment at risk, following partial completion of vetting processes Permission may be sought for travel within FCDO restricted areas. Controls limiting visitor access to information, assets and estate. Staff personal devices may be used for official tasks with appropriate permissions. 	Organisational willing to accept security risk to support business need, with appropriate checks and balances in place: <ul style="list-style-type: none"> New starters may commence employment at risk, following partial completion of vetting processes Travel permitted within FCDO restricted areas. Controls limiting visitor access to information, assets and estate. Staff personal devices permitted for official tasks.
Project / Programme (Open, Score 9) Risks that change programmes and projects are not aligned with strategic priorities and do not successfully and safely deliver requirements and intended benefits to time, cost and quality.	Defensive approach to transformational activity - aim to maintain/protect, rather than create or innovate. Priority for close management controls and oversight with limited devolved authority. Benefits led plans fully aligned with strategic priorities, functional standards.	Innovations avoided unless essential. Decision making authority held by senior management. Benefits led plans aligned with strategic priorities, functional standards.	Tendency to stick to the status quo, innovations generally avoided unless necessary. Decision making authority generally held by senior management. Plans aligned with strategic priorities, functional standards.	Innovation supported, with demonstration of commensurate improvements in management control. Responsibility for noncritical decisions may be devolved. Plans aligned with functional standards and organisational governance.	Innovation pursued – desire to ‘break the mould’ and challenge current working practices. High levels of devolved authority – management by trust rather than close control. Plans aligned with organisational governance.

AUDIT COMMITTEE**Strategic Risk Management****20 March 2024****Report of Chief Executive****PURPOSE OF REPORT**

To provide the Committee with an update on the authority's progress in updating the Strategic Risk Register.

This report is public, with appendix B being exempt by virtue of paragraph 3 of Schedule 12A the Local Government Act 1972.

RECOMMENDATIONS

- (1) The Audit Committee note the Strategic Risk Register, as shown as appendix A (public report) and appendix B (restricted report).

1.0 Report

- 1.1 Quarterly Strategic Risk Report as updated by Leadership Team to be seen by Audit Committee to be noted.

- 1.2 The attached appendices show the changes to the council's Strategic Risk Register since the report was last run on 10th November 2023. Changes are highlighted using red text in the appendices. A summary of the main changes are:

- The risk description has been updated to include links to the Council Plan 24-27 (previously the links were to Plan 2030).
- The risk categories have been updated to those from HM Treasury Orange Book, as set in December 2023.
- Control measures have been updated for individual risks.
- Action Plan items have been updates for individual risks.
- Action Plan Owners have been updated where needed.
- Risk reviews have been run and risk review comments added to help highlight the changes which have been made since the previous report was run.

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

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

LEGAL IMPLICATIONS

No direct legal implications arising from this report.

FINANCIAL IMPLICATIONS

No direct financial implications arising from this report.

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

No direct resource implications arising from this report.

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has contributed to this report in his role as Chief Officer Resources, including responsibility for Internal Audit.

MONITORING OFFICER'S COMMENTS

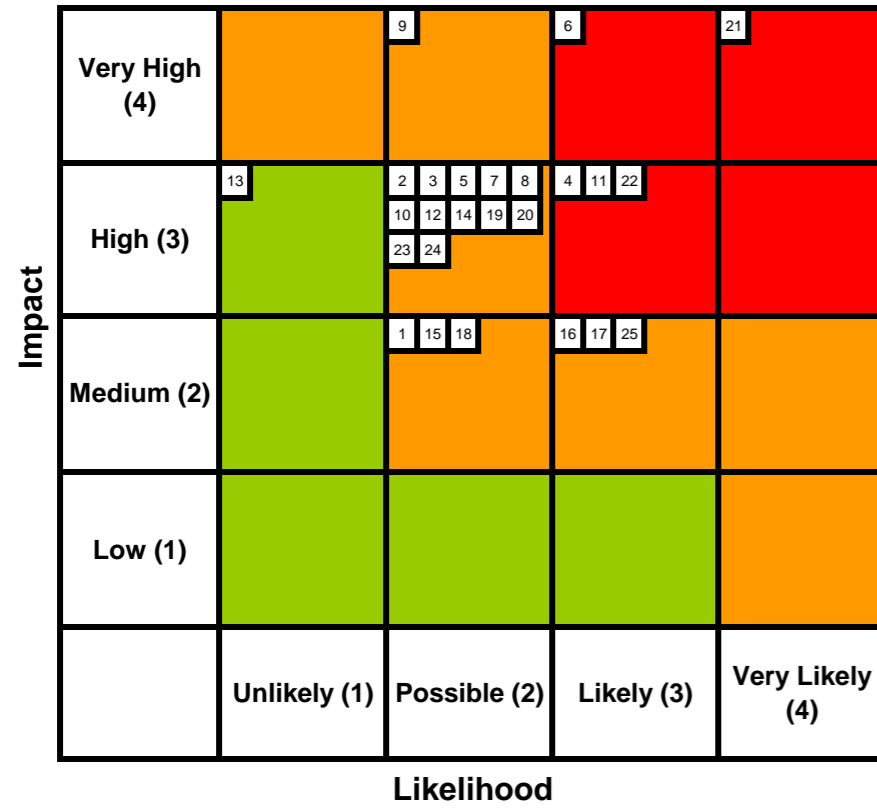
The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS

N/A

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Strategic Risk register - Risk Map 09.02.24



NOTE 1: All risks have been reviewed in the run up to 9th February 2024.

NOTE 2: Only risks which are unrestricted are shown.

NOTE 3: The numbers shown on the risk map relate to those on the next page in the first column, not the Strategic Risk (SR) numbers.

Strategic Risk Register, report created 09.02.24

Red text used to highlight changes since previous report

Risk No.	Risk	Risk Description	Residual Risk Score (impact x likelihood)	Risk Category	Existing Control Measure	Existing Control Measure Description	Target Risk Level (impact x likelihood)	Action Plan Title	Action Plan Description	Action Plan Owners	Action Plan Due Date	Review Date	Review Comment		
1	SR01 Central Government funding is insufficient to provide the current level of service leaving the council unable to deliver the financial resilience initiative and achieve financial stability.	Central Government funding and/or revenues collected are insufficient to provide the current level of service leaving the council unable to deliver the financial resilience initiative and achieve financial stability. Link to Council Plan 24-27: 4.1 Value for Money	4 (2x2)	Financial	Officer/Member Working Groups	Capital Assurance Group (CAG) and Financial Resilience Group (FRG)	2 (2x1)	Outcomes Based Resourcing	Review of existing budgets to identify areas for realignment/ refocusing or cessation to deliver efficiencies but ensuring that Services remain aligned with the Councils Priorities.	Mark Davies	30/12/2024	22/12/2023	Risks which contained a link to "Plan 2030" have now been updated to show links to the new "Council Plan 24-27" which replaces Plan 2030.		
					Council Strategies	Outcome Based Resourcing (OBR), Investment Strategy, Reserves Strategy and Medium Term Financial Strategy		Funding the Future Strategy	The Strategy contains 4 Pillars to achieve Financial Stability. 1) Investment to reduce costs; 2) Pursuing efficiencies with vigour; 3) Outcomes based resourcing; and 4) Commercialisation	Paul Thompson	31/03/2024				
					Monthly income monitoring by applicable services	Monthly income monitoring by applicable services		Business Plans for Investments	Develop business plans for investment particularly in relation to decarbonisation and renewable energy generation.	Paul Thompson	31/03/2024			04/12/2023	Significant uncertainties remain around the future of government funding, with current views that it is unlikely to improve in the short or medium term. The Council is developing a series of plans to reduce its forecast deficit via its OBR workstreams
					Quarterly reporting	Formal quarterly reporting to Cabinet and Budget and Performance Panel		Fees and Charges Income Monitoring	Regular monitoring and forecasting by services of all fees and charges. To be undertaken by Heads of Service and Managers.	Paul Thompson	31/03/2024				
					Commercialisation	Development of other alternative service delivery vehicles to deliver efficiencies and/ or operational surpluses which can be reinvested into Council Services.									
2	SR02 The Council fails to meet the 2024/25 funding gap as a result of ineffective delivery of the efficiency programme and failure to deliver on key projects.	The Council fails to meet the 2024/25 funding gap as a result of ineffective delivery of the efficiency programme and failure to deliver on key projects. Link to Council Plan 24-27: 4.1 Value for Money	6 (3x2)	Financial	Budget and Performance Panel	Budget and Performance Panel	2 (2x1)	Outcomes Based Resourcing	Outcomes-Based Resourcing (OBR) approach focusing on where resources can have maximum impact on strategic priority areas. NOTE: This is also listed as a control measure as the programme is phased so has already delivered some savings with further outcomes and savings to follow.	Mark Davies	31/12/2024	22/12/2023	Risks which contained a link to "Plan 2030" have now been updated to show links to the new "Council Plan 24-27" which replaces Plan 2030.		
					Reserves Policy	Reserves Policy									
					Project Managers	Project Managers - suitably skilled PMs assigned to lead strategic projects									
					Programme Managers	Programme Managers in place for specific programmes									
					Programme Delivery Board	Programme Delivery Board									
					Cabinet	Cabinet									
					Portfolio Holder	Portfolio Holder									
					Outcomes Based Resourcing for 23/24 financial year	Outcomes Based Resourcing for 23/24 financial year									
					Project Delivery Board	Project Delivery Board - Consisting of Leadership Team to monitor delivery via quarterly reports and provide support and challenge to each project as required.									
					Projects and Performance Manager	Established to provide a central co-ordination point for all the Council's projects and performance. Responsible for co-ordination and monitoring.									
Delivering Our Priorities Quarterly Monitoring Reports	Delivering Our Priorities Quarterly Monitoring Reports - Monitoring report linking Projects, Performance and Resources presented to Cabinet and Budget & Performance Panel.														
Quarterly Cabinet Meetings	Quarterly Cabinet Meetings - Project and Financial information present to Cabinet/ Portfolio providing an opportunity for review and discussion of performance. As part of the Funding the Future Strategy, the Outcomes Based Resourcing exercise is commencing July 2022 to identify revenue savings for 2023/24 and beyond.														
Outcomes Based Resourcing	Outcomes-Based Resourcing (OBR) approach focusing on where resources can have maximum impact on strategic priority areas.														
3	SR03 The Council fails to recruit and retain competent / key staff resulting in ineffective leadership, increased costs and failure to deliver	The Council fails to recruit and retain competent / key staff resulting in ineffective leadership, increased costs and failure to deliver effective services, projects and council priorities. Link to Council Plan 24-27: 4.3 Investing in Our Skills and Facilities	6 (3x2)	People	New 3-year People Plan (2023-2026) with key deliverables to mitigate this risk	New 3-year People Plan (2023-2026) with key deliverables to mitigate this risk	6 (3x2)					22/12/2023	Risks which contained a link to "Plan 2030" have now been updated to show links to the new "Council Plan 24-27" which replaces Plan 2030.		
					Annual Appraisal Process	Annual Appraisal Process embedded									

				Pay and Grading Structure	Pay and Grading Structure - The new 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.								
4	SR04 The use of council assets is not maximised leading to insufficient funding to meet the funding gap and deliver capital projects.	Future capital investment is dependent on capital receipts from the sale and utilisation of council assets. Link to Council Plan 24-27: 4.5 Innovative Public Service	9 (3x3)	Property, Financial	Use of Council Assets Use of Council Assets Use of Council Assets Use of Council Assets Use of Council assets Use of Council assets Use of Council Assets	Capital Strategy Group Ongoing OBR workstream reviewing assets Performance monitoring of leases implemented Budget Monitoring Implemented active asset management inc. financial modelling for stock rationalisation. Appointed Eckersleys to support the council in asset disposal. Stock Condition Surveys for property group underway.	6 (3x2)	Council Assets Council Assets Council Assets	To progress with disposals of council assets as outlined through 22/23 OBR process. Updated Asset Management Plan to be developed to incorporate property performance. Climate Strategy for Housing and Property to be developed	Joanne Wilkinson Paul Mackie, Joanne Wilkinson, Dan Wood Paul Mackie, Joanne Wilkinson	29/03/2024 31/10/2024 29/03/2024	22/12/2023	Risks which contained a link to "Plan 2030" have now been updated to show links to the new "Council Plan 24-27" which replaces Plan 2030.
5	SR05 Council services are disrupted and / or additional services are required and costs are incurred as a result of local and national emergencies	Council services are disrupted and / or additional services are required and costs are incurred as a result of local and national emergencies.	6 (3x2)	Financial	Resourcing the emergency response function District emergency Business Continuity Plans National Emergency (such as a pandemic) Financial Planning Business Resilience Partnerships County wide emergency (such as widespread loss of power and extreme weather events)	The Council continues to adequately resource its emergency planning function, including maintaining its team of out of appropriately trained emergency response officers. Lancaster District Emergency Plan and LRF (Lancashire Resilience Forum) plans that cover site or incident specific risks, including for example: an incident at Heysham Power Station, or a flooding/weather event. Business Continuity Plans LRF plans. Financial Planning - Adequate non earmarked reserves are maintained to allow for the impact of long term emergencies like the pandemic. Business Resilience - The Council continues to invest in resilience measures eg technology to facilitate remote working. Partnerships - The Council continues to allocate resource to developing its key partnerships LRF, CSP (Community Safety Partnership) and local resilience partners. The LERP (Lancashire Emergency Response Plan) and plans as required from box 2 and box 3 plans, held in resilience direct.	6 (3x2)	Financial Planning Community Resilience Adaptation Schemes	Adequate non earmarked reserves are maintained to allow for the impact of long term emergencies like the pandemic. The Council supports community resilience through CEPGs and FLAG groups etc The Council appraises and potentially invests in schemes and activities that provide adaptation (eg Lune river defence)	Paul Thompson Alex Kinch Paul Blakeley, Jonathan Noad	31/03/2024 31/03/2024 31/03/2024	09/02/2024	Strategic Risk report discussed at Leadership Team on 06/02/24.
6	SR06 The Council fails to reduce its direct Co2 emissions to 'net zero' by 2030.	In January 2019 the Council declared a 'climate change emergency' and have now sought endorsement of an approach to reduce the Council's direct Co2 emissions to 'net zero' by 2030. Whilst an action plan is in place, costs associated with implementing the actions are considerable and are constantly under review. Link to Council Plan 24-27: 1.1 Carbon Zero	12 (4x3)	Financial	Delivery plan in place Peoples Jury	Delivery plan in place Peoples Jury - The Council considers the recommendations of the Peoples Jury and builds recs that can be delivered directly by the Council into its plans	8 (4x2)	Delivery Plan Local area energy plan	The Council continues to work on the delivery of its action plan. More details can be found on our website: https://www.lancaster.gov.uk/sites/climate-emergency/new-and-updates Local area energy plan (LAEP) has proceeded through procurement (Energy Systems Catapult, June 2023). This document will provide a high-level, costed roadmap to net zero for the district. The LAEP is a 12-month project that will involve Member, stakeholder and public engagement.	Mark Davies Mark Cassidy	31/03/2024 30/06/2024	22/12/2023	Risks which contained a link to "Plan 2030" have now been updated to show links to the new "Council Plan 24-27" which replaces Plan 2030.
7	SR07 The Council fails to deliver its key priorities due to the lack of an underpinning strategy setting out expected delivery / outcomes.	On the 29 January 2019, Full Council approved the Council's strategic priorities for the purpose of informing budget decisions for 2020-21 and future years. Link to Council Plan 24-27: Whole document.	6 (3x2)	Strategy	Carbon Zero + Medium Term Financial Strategy (MTFS) Programme Management Corporate Plan / Plan 2030	More details can be found on our website: https://www.lancaster.gov.uk/sites/climate-emergency/new-and-updates MTFS - in place to set out how the council proposes to manage its financial resources in line with corporate priorities. Programme Management - in place to ensure strategy is followed and monitored on a regular basis. Corporate Plan / Plan 2030 - Updated in December 2021 to lay out the councils vision.	4 (2x2)	Local Development Plan	Local Development Plan	Mark Davies	30/09/2024	09/02/2024	Strategic Risk report discussed at Leadership Team on 06/02/24.
8	SR08 The Council fails to deliver its key projects due to the lack of capacity and resources.	The Council has a number of key projects (Canal Quarter, Eden Project Morecambe, OBR, My Mainway, Heysham Gateway, Frontierland etc) all of which have detailed strategies for implementation. In order to deliver these key projects it is essential they are properly prioritised	6 (3x2)	People, Financial	Local Plan Medium Term Financial Strategy (MTFS)	Local Plan Medium Term Financial Strategy (MTFS)	3 (3x1)	Local Plan Funding the Future Strategy Reserves	Local Plan Funding the Future Strategy Adequate reserves are maintained to allow, due	Mark Davies Mark Davies Mark Davies,	31/03/2024 31/03/2024 31/03/2024	06/02/2024 22/12/2023	Staffing Capacity Action closed and replaced with People Plan action. Risks which contained a

	projects it is essential they are properly prioritised and resourced. Link to Council Plan 24-27: 4.5 Innovative Public Services			Investment Strategy Investment Strategy Capital Programme Capital Programme The Council continues to resource key service teams in Planning, economic development, regeneration, property investment Collaborative Working Partnership Working	Investment Strategy Investment Strategy Capital Programme Capital Programme The Council continues to resource key service teams in Planning, economic development, regeneration, property investment and facilities management. We work in collaboration with other stakeholders. For example, on the Eden Project we are working closely with the County Council. Many of our projects involve working in collaboration with other partners. For example, working with the County Council for the Eden Project Morecambe.			diligence of property investment, regeneration projects and key strategic planning strategies. Capital Programme Ensure capital programme is prioritised to facilitate match funding leverage and maximise the potential to attract external funding. People Plan 3-Year People Plan in place and being delivered, which includes emphasis on upskilling and staff development, as well as initiative to support recruitment and retention.	Paul Thompson Mark Davies, Paul Thompson Alex Kinch	 31/03/2024 31/03/2026		link to "Plan 2030" have now been updated to show links to the new "Council Plan 24-27" which replaces Plan 2030.
10	SR10 Changes in Government policy impact on our ability to deliver major projects and programmes that would benefit our communities. Link to Council Plan 24-27: 4.1 Value for money	6 (3x2)	Strategy	Continued monitoring and horizon scanning of Government policy Clear and focused Council strategy to maximise alignment with Government policy and resourcing Strategic Plans Strategic Plans - Continue to develop Council strategic plans and documentation in light of emerging Government policy	Continued monitoring and horizon scanning of Government policy Clear and focused Council strategy to maximise alignment with Government policy and resourcing Strategic Plans - Continue to develop Council strategic plans and documentation in light of emerging Government policy	6 (3x2)					22/12/2023	Risks which contained a link to "Plan 2030" have now been updated to show links to the new "Council Plan 24-27" which replaces Plan 2030.
11	SR11 International and national issues rapidly impact on the strategic and financial context of the Council and / or partners, businesses and communities. This risk is outside of the control of the Council. It can not be fully mitigated against but should still be recorded on the strategic risk register.	9 (3x3)	Strategy, Financial	Retention of in-house expertise to provide agility and resilience in rapidly-emerging issues Strategic responsiveness through continued risk management review Agility and Resilience Agility and Resilience - Continue to develop agility and resilience across the organisation Strategic risk management approach	Retention of in-house expertise to provide agility and resilience in rapidly-emerging issues Strategic responsiveness through continued risk management review Agility and Resilience - Continue to develop agility and resilience across the organisation Strategic risk management approach	9 (3x3)					09/02/2024	Strategic Risk report discussed at Leadership Team on 06/02/24.
12	SR12 Budgetary proposals are brought forward / agreed that are then challenged, causing delays or changes to implementation. Link to Council Plan 24-27: 4.5 Innovative Public Service	6 (3x2)	Strategy, Financial	Budget Development Comprehensive, robust and transparent approach to budget development and service delivery.	Comprehensive, robust and transparent approach to budget development and service delivery.	4 (2x2)	OBR	Outcomes-Based Resourcing (OBR) approach to focusing on where resources can have maximum impact on strategic priority areas.	Mark Davies	31/12/2024	22/12/2023	Risks which contained a link to "Plan 2030" have now been updated to show links to the new "Council Plan 24-27" which replaces Plan 2030.
13	SR13 The Council's reputation is damaged through its own actions or actions of others in the District. Link to Council Plan 24-27: 3.4 Community Engagement	3 (3x1)	Strategy, People	Communications Pro-active communications and transparency Strategic Management of Activities Strategic management of all Council activities to ensure continued high reputation Delivery of Services Delivery of Services - Continue to manage and deliver services in a way that supports the authority's reputation as a Co-operative, Kind and Responsible Council. Strategic communication Strategically communicate and engage with residents, partners and stakeholders to ensure actions align with reputation	Pro-active communications and transparency Strategic management of all Council activities to ensure continued high reputation Delivery of Services - Continue to manage and deliver services in a way that supports the authority's reputation as a Co-operative, Kind and Responsible Council. Strategically communicate and engage with residents, partners and stakeholders to ensure actions align with reputation	3 (3x1)					22/12/2023	Risks which contained a link to "Plan 2030" have now been updated to show links to the new "Council Plan 24-27" which replaces Plan 2030.
14	SR14 Major, sudden unforeseen expenditure or income reduction arises, necessitating significant change or reduction to services. Link to Council Plan 24-27: 4.1 Value for money	6 (3x2)	Operations, Financial	Budget and Performance Panel Budget and Performance Panel Reserves Policy Reserves Policy	Budget and Performance Panel Budget and Performance Panel Reserves Policy Reserves Policy	6 (3x2)	Move to sustainable solutions	Minimise exposure to cost spikes such as energy by moving to sustainable solutions independent of external pressures	Mark Davies, Paul Thompson	31/12/2024	22/12/2023	Risks which contained a link to "Plan 2030" have now been updated to show links to the new "Council Plan 24-27" which replaces Plan 2030.

				Social Housing Regulation	Annual self assessment undertaken against current standards								
				Social Housing Regulation	Member advisory group for continued / wider input into the housing service established.								
22	SR23 Procurement of Health and Safety Consultations and recruitment to new role	H&S Consultations engaged since September '23, audit completed and action plan being implemented. Recruitment to new post of Senior Corporate H&S Manager in Q4. Link to Council Plan 24-27: 4.3 Investing in Our Skills and Facilities	9 (3x3)	Legal	Health and Safety Checklist for New Starters	Health and Safety Checklist for New Starters	4 (2x2)	Procurement of Health and Safety Consultants	H&S consultants being procured to assess as is and implement changes to address shortfalls and support create of culture of collective ownership of Health and Safety.	Alex Kinch	29/02/2024	06/02/2024	Risk title and description amended at the request of the risk owner.
					Intranet guidance	Intranet guidance							
					Health and Safety Policy	Health and Safety Policy							
					Risk assessments	Risk assessments							
					H&S Training Courses	H&S Training Courses							
					DSE assessments	DSE assessments							
					H&S Committee established	Health and Safety Committee set up. First meeting took place in October 2023, the next meeting is due in December 2023.							
23	SR24 ICT Data Centre	Data Centre is dated and improvements needed to satisfy future demand. Link to Council Plan 24-27: 4.3 Investing in Our Skills and Facilities	6 (3x2)	Technology	Air conditioning in place to keep the data centre at optimal temperature		2 (2x1)	Full Fibre Project		Nick Goulden	28/06/2024	10/11/2023	Reviewed by individual Chief Officers and discussed at Leadership Team on 7/11/23
					Back up Date Centre at SALC								
					Regular fire safety servicing carried out								
					Water ingress alerts	To alert all ICT senior managers to any water detected in data centre							
24	SR25 LCC Property Portfolio (non housing) does not meet its Health and Safety compliance obligations	The Council fails to effectively manage Property portfolio health and safety / compliance and meet statutory requirements. Risk is not managed and steps are not taken to protect workers and others from harm. A structure is not in place to ensure that compliance is prioritised and a proactive culture does not exist. Link to Council Plan 24-27: 4.3 Investing in Our Skills and Facilities	6 (3x2)	Property, Financial	Property Group Compliance	Regular reports shared with SLT highlighting current position.	1 (1x1)	Property Group compliance	New Asset Management Strategy to be developed	Paul Mackie, Joanne Wilkinson, Dan Wood	31/10/2024	27/01/2024	Significant progress being seen. Regular reports in place showing positive trend. Stock condition surveys now commenced. Asset OBR group to continue to meet to review property group work / property requirements. Budget included within 24/25 programme for compliance and capital works. Dedicated team established combining expertise from housing alongside property group team.
					Property Group Compliance	Dedicated Team established - combining expertise from Council Housing Compliance Team to monitor and address compliance within the service.							
					Property Group Compliance	Team employs sector expert to support overall approach to health and safety and compliance.							
					Property Group compliance	Establish accurate data recording and position statement through individual workbooks for assets.							
					Property Group Compliance	Full Stock Condition Survey authorised and being completed.							
					Property Group compliance	Budget secured within General Fund for compliance / asset management work.							
					Property Group compliance	OBR - Assets group established							
25	SR26 - Increasing costs of temporary accommodation for the homeless	In 23-24 we are forecasting the Council will be required to contribute an additional £500k towards the cost of B+B accommodation for homeless residents. Increase in costs is linked to increasing homelessness, reduced subsidy recovery from HB and reduced grant availability. Costs of accommodation also increasing and increase in larger families needing to be accommodated for longer. The subsidy can be met from within budgets this year, however this will need to be factored into future budgets moving forward. Funding temporary accommodation for those who need it is a stat requirement. Link to Council Plan 24-27: 3.1 Access to Quality Housing	6 (2x3)	Financial	Increasing homeless temporary accommodation costs	Budget reviews ongoing with service accountant.	2 (1x2)	Increasing homeless temporary accommodation costs	Letter to registered provider chief execs to be sent reminding of responsibility around consumer regulation and responsibilities to supporting local authorities around homelessness.	Joanne Wilkinson	29/03/2024	31/01/2024	Continue to see increasing numbers of residents presenting as homeless and requiring B+B accommodation due to lack of alternative accommodation. B+B reduction plan for DLUHC produced, new homelessness strategy approved by Cabinet. To look at more rigorous monitoring of costs and cost of spaces from providers.
					Increasing homeless temporary accommodation costs	Some access to grant funding to off-set costs (although limited and unpredictable).		Increasing homeless temporary accommodation	To work with finance to develop weekly spend sheets monitoring spend on accommodation	Sharon Parkinson	08/03/2024		
					Increasing homeless temporary accommodation costs	Bed and breakfast plan developed for DLUHC		Increasing homeless temporary accommodation	To review costs of accommodation with each provider to ensure reaching VFM	Sharon Parkinson	15/03/2024		
					Increasing homeless temporary accommodation costs	Regular case work management in team of cases in bed and breakfast							
					Increasing homeless temporary accommodation costs	All B+B placements passed by manager for approval							
					Increasing homeless temporary accommodation costs	New Homelessness Strategy approved by Cabinet Oct 2024							
26	SR27 - Waste Strategy	Increased revenue cost burden to the authority and failure to deliver in line with milestones set out by government (31st March 2026).		Strategy, Financial							09/02/2024		Strategic Risk report discussed at Leadership Team on 06/02/24.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

AUDIT COMMITTEE

20 March 2024

Internal Audit Progress Report

Report of Head of Internal Audit

PURPOSE OF REPORT

To advise Members of the latest monitoring position regarding the Internal Audit plans 2022/23 and 2023/24

This progress report provides a summary of Internal Audit activity and complies with the requirements of the Public Sector Internal Audit Standards.

This report is public

RECOMMENDATIONS

(1) That the latest monitoring position in relation to the 2022/23 and 2023/24 audit plans be noted.

1.0 Audit Plan monitoring

1.1 An Internal Audit Plan is agreed on an annual basis and is continually reviewed during the year for appropriateness.

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

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

2.0 Options and Options Analysis (including risk assessment)

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

3.0 Conclusion

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

CONCLUSION OF IMPACT ASSESSMENT

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

Not applicable

FINANCIAL IMPLICATIONS

None directly arising from this report

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

None directly arising from this report

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments

BACKGROUND PAPERS

Internal Audit Plan 2022/23

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

Internal Audit Plan 2023/24

[Agenda for Audit Committee on Wednesday, 22nd March 2023, 6.10 p.m. - Lancaster City Council](#)

MIAA Internal Audit Progress Reports

[Agenda for Audit Committee on Wednesday 24th May 2023, 6.10pm - Lancaster City Council](#)

[Agenda for Audit Committee 26 July 2023 6pm](#)

[Agenda for Audit Committee on Wednesday 22 Nov 2023 6pm - Lancaster City Council](#)

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Internal Audit Progress Report Audit Committee (March 2024)

Lancaster City Council

Contents

1 Introduction

2 Key Messages for Audit Committee Attention

Appendix A: Contract Performance

Appendix B: Performance Indicators

Appendix C: Key Areas and Actions to be Delivered

Appendix D: Follow-up of Previous Internal Audit Recommendations

Appendix E: Assurance Definitions and Risk Classifications

Public Sector Internal Audit Standards

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

Executive Summary

This report provides an update to the Audit Committee in respect of the progress made in against the Internal Audit Plans for 2022/23 and 2023/24 and brings to your attention matters relevant to your responsibilities as members of the Audit Committee.

This progress report provides a summary of Internal Audit activity and complies with the requirements of the Public Sector Internal Audit Standards.

Comprehensive reports detailing findings, recommendations and agreed actions are provided to the organisation, and are available to Committee Members on request. In addition a consolidated follow up position is reported on a periodic basis to the Audit Committee.

This progress report covers the period December 2023 to March 2024.

3 Executive Summary

Since the last meeting of the Audit Committee, there has been the focus on the following areas:

Audit Reviews

The following reviews have been finalised:

- IKEN Management System (Moderate Assurance)
- Contract Management Review (Limited Assurance)
- Defra Food Waste Management Capital Grant

Refer to Appendix C for details of Key Areas and Actions to be Delivered

The reviews below are currently in progress:

- Mobile Device Management Solution (draft report)
- National Non Domestic Rates (NNDR) (draft report)
- Climate Change (fieldwork)
- Payroll inc additional payments (fieldwork)

- Risk Management (fieldwork)
- Budget Management (planning)
- Reactive Maintenance (planning)

Follow Ups

A summary of the current status of all follow-up activity is included in Appendix D, however, we would draw the committee's attention to the following: There has been good progress with the implementation of recommendations since the previous Audit Committee in November 2023. 30 recommendations have been completed with 61 actions either in progress or are not yet due.

Audit Plan Changes

Audit Committee approval will be requested for any amendments to the original plan and highlighted separately below to facilitate the monitoring process.

The current proposals to amend the approved audit plan are as follows:

- To defer the Corporate Health & Safety Review until Q1/2 2024, due to improvements being made and the recruitment of a new Health & Safety Officer.
- To perform a Budgetary Management Review using the time assigned to Key Financial Systems, as this will be more beneficial to the Council.
- To replace the Housing Inspections Review with a Reactive Maintenance Review, as legal obligations are changing with regard to landlords.

Added Value

Briefings

Our latest briefings/events are:






Events

- [Coaching & Mentoring: Say Less, Ask More! \(14th March 2024\)](#): In this session, designed from a middle-manager perspective rather than leadership perspective, will help you use coaching questions in your day-to-day conversations with colleagues to enable them to take responsibility for their own work and help to embed a positive culture in the workplace.

Appendix A: Contract Performance

The Public Sector Internal Audit Standards (PSIAS) state that ‘The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.’








Below sets out the position regarding the outstanding 2022/23 Internal Audit reviews. Please note, reviews which were not included in the 2022/23 Head of Internal Audit Opinion*, will be included in the opinion for 2023/24.

HOIA Opinion Area	TOR Agreed	Status	Assurance Level	Audit Committee Reporting
2022/23 Reviews				
CCTV Compliance		Completed	Limited	November 2023
Key Financial Controls		Completed	Moderate	November 2023
Recruitment		Completed	Moderate	November 2023
Contract Management*		Completed	Limited	March 2024
Climate Change*		In progress		

Below sets out the overview of delivery for your Head of Internal Audit Opinion for 2023/24

2023/24 Reviews

Core/Mandated Assurances

Risk Management		In progress		
Key Financial Controls (Budget Management)		Planning		
NNDR		Draft Report		
Risk Based Reviews				
Eden Project Governance	Internal Audit time to be used by MIAA Solutions Team to provide advisory services on Governance and other key risk areas.			
Eden Funding Claims				
Efficiency Savings		Completed	Substantial	November 2023
Corporate Health & Safety		Review deferred to Q1/2 2024		
Iken Case Management System		Completed	Moderate	March 2023
Reactive Maintenance (was Housing Inspections)		Planning		
Payroll (inc. Additional Payments)		Fieldwork		
Mobile Device Management Solution		Draft Report		
Follow Up				

Quarter 1		Completed	N/A	
Quarter 2		Completed	N/A	
Quarter 3		Completed	N/A	
Quarter 4		Completed	N/A	
Added Value / Support & Guidance				
Changing Places Grant Award Assurance	N/A	Completed	N/A	
Food Waste Capital Grant Award	N/A	Completed	N/A	
Management				
Head of Internal Audit Opinion/Annual Report/Annual Governance Statement		Ongoing	N/A	
Planning and Management		Ongoing	N/A	
Reporting and Meetings		Ongoing	N/A	
Contingency		Ongoing	N/A	

If due to circumstances beyond our control we are unable to achieve sufficient depth or coverage, we may need to caveat opinions and explain the impact of this and what will be done to retrieve the position in future.

Appendix B: Performance Indicators

The primary measure of your internal auditor’s performance is the outputs deriving from work undertaken. The following provides performance indicator information to support the Committee in assessing the performance of Internal Audit.

Element	Reporting Regularity	Status	Summary
Delivery of the Head of Internal Audit Opinion (Progress against Plan)	Each Audit Committee	Green	There is ongoing engagement and communications regarding delivery of key reviews to support the Head of Internal Audit Opinion.
Issue a Client Satisfaction Questionnaire following completion of every audit.	Ongoing	Green	Link to questionnaire included within each audit report.
Qualified Staff	Annual	Green	MIAA have a highly qualified and diverse workforce which includes 75% qualified staff. The Senior Team delivering the Internal Audit Service to the Council are CCAB/IIA qualified.
Quality	Annual	Green	MIAA operate systems to ISO Quality Standards. The External Quality Assessment, undertaken by CIPFA, provides assurance of MIAA’s compliance with the Public Sector Internal Audit Standards. MIAA conforms with the Public Sector Internal Audit Code of Ethics.

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

Report Title	IKEN System			
Executive Sponsor	Chief Officer Governance			
Objective	The overall objective of the review was to assess the design and operation of the processes and controls in place for the IKEN system.			
Recommendations	0 x Critical	1 x High	3 x Medium	2 x Low
Summary	<p>Overall, there were controls in place; however, they require improvement in monitoring and managing the information held on the IKEN system to ensure it is being used effectively.</p> <p>At the time of the review the IKEN system had a large number of open matters across users. It was noted that two of these users were not current employees but could not be deleted from the system as the information and documents attributed to their usernames would also be deleted.</p> <p>Despite the contract with IKEN Business Ltd containing clear Support Service specification, performance management is not monitored by either party. Service support requests (tickets) and the responses do not have a clear date visible as to when they are resolved, but use a system, of weeks and months in the narrative, making the identification of when tickets are resolved difficult to identify.</p> <p>The authorisation of user access to IKEN is not evidenced and retained.</p> <p>Training has been provided to all users either by IKEN Business Ltd, or by video tutorials or in person training by an experienced IKEN user at the Council.</p> <p>IKEN is not always kept up to date with the information and documentation relating to each case.</p> <p>Monthly Legal and Information Governance Managers meetings are not always minuted or have actions and tasks recorded.</p>			

Report Title	Contracts Review			
Executive Sponsor	Chief Officer Governance			
Objective	The overall objective of the review was to assess the design and operation of processes and controls in place for the management of contracts.			
Recommendations	0 x Critical	3 x High	6 x Medium	2 x Low
Summary	<p>The review found that whilst procedures/rules were in place, although they were not generally operating effectively. Improvements are required to strengthen the control environment including central oversight of the contracts site and input from both the Procurement and Legal departments, along with training being provided to those dealing with contracts.</p> <p>The Council had documented the procurement approval thresholds for officers in the Councils Constitution which was updated in June 2023. In addition, there were Contract Procedures Rules (CPR) in place, which were last updated in November 2020. There was no guidance or training provided to those officers with contract responsibilities on the content or implementation of the CPR.</p> <p>The Council recorded contracts on online public sector contracts register referred to as “the Chest” which allows companies to bid for tenders and offer quotations for work. However, there was no central ownership or oversight of the register at the Council. Audit review of the information held on the site identified some issues with the accurate recording of the contracts in place.</p> <p>From a sample of contracts reviewed all had designated budget holders and Responsible Spending Officers (RSO) and were authorised in accordance with the approval thresholds.</p> <p>Procurement and Legal Teams were not engaged in the contract due diligence process unless specifically requested to do so. Additionally, the requirement for contracts to be retained by the Legal department was not being followed.</p> <p>The Council were in the process of moving Procurement responsibilities into the Legal department to improve systems and processes. It is anticipated that many of the areas covered in the report will cross over into the Planning and Procurement Solicitor role, and the Property and Contracts Solicitor role and as such this should address the points raised.</p>			

Appendix D: Follow up of previous internal audit recommendations

The status of the actions is as at March 2024.

Previous Lancaster City Council Audit Team Recommendations from Limited Reports. No risk ratings were assigned to recommendations.

AUDIT TITLE (YEAR)	NO OF RECS MADE	ASSURANCE LEVEL	PROGRESS ON IMPLEMENTATION				COMMENTS
			✓/S	P	X	Not due	
Insurance (2019/20)	11	Limited	11	-	-	-	All recommendations completed or superseded.
Debt Legal Recovery Services (2021/22)	5	Limited	5	-	-	-	All recommendations completed or superseded.
TOTALS	16		16	-	-	-	

Page 47

MIAA Internal Audit Recommendations

AUDIT TITLE (YEAR)	NO OF RECS	ASSURANCE LEVEL	PROGRESS ON IMPLEMENTATION				OUTSTANDING RECOMMENDATIONS				COMMENTS
			✓/S	P	X	Not due	C	H	M	L	
2021/22											

AUDIT TITLE (YEAR)	NO OF RECS	ASSURANCE LEVEL	PROGRESS ON IMPLEMENTATION				OUTSTANDING RECOMMENDATIONS				COMMENTS
			✓/S	P	X	Not due	C	H	M	L	
Treasury Management	5	Substantial	5	-	-	-	-	-	-	1	All recommendations complete.
Council Tax	8	Moderate	5	3	-	-	-	-	3	-	All recommendations in progress or completed.
P2P System	4	Limited	1	1	2	-	-	2	1	-	Two remaining recommendations overdue and one in progress.
Conflicts of Interest	9	Substantial	5	4	-	-	-	-	-	4	All remaining recommendations in progress.
Property Investment Strategy	2	Substantial	2	-	-	-	-	-	-	-	All recommendations completed.
Collection of Income and Reconciliations	4	Limited	2	2	-	-	-	2	-	-	All remaining recommendations in progress.
2022/23											
Budgetary Controls	3	Substantial	-	3	-	-	-	-	1	2	All remaining recommendations in progress.
Externally Managed Events	7	Substantial	1	-	6	-	-	-	1	5	Remaining recommendations overdue.
Cyber Security	Confidential										
Data Protection: Policy and Process Follow up	Confidential										

AUDIT TITLE (YEAR)	NO OF RECS	ASSURANCE LEVEL	PROGRESS ON IMPLEMENTATION				OUTSTANDING RECOMMENDATIONS				COMMENTS
			✓/S	P	X	Not due	C	H	M	L	
Resilience and Emergency Preparedness	7	Limited	1	6	-	-	-	2	3	1	All remaining recommendations in progress.
Time Recording Systems	7	Moderate	2	5	-	-	-	1	2	2	All remaining recommendations in progress.
Risk Management	5	Moderate	5	-	-	-	-	-	-	-	Recommendations superseded with 2023/24 Risk Review currently in progress.
Project Management	10	Moderate	8	2	-	-	-	-	2	-	All remaining recommendations in progress.
Financial Controls	10	Moderate	4	-	-	6	-	1	4	1	Remaining recommendations not yet due.
CCTV	4	Limited	-	4	-	-	-	4	-	-	All recommendations are in progress with revised completion date of June 2024.
Recruitment	5	Moderate	-	-	-	5	-	1	1	3	Recommendations not yet due.
Contracts	11	Limited	-	1	-	10	-	3	6	2	Recommendations in progress or not yet due.
2023/24											
Efficiency Savings	4	Substantial	-	4	-	-	-	-	3	1	Recommendations in progress.
IKEN Review	6	Moderate	1	5	-	-	-	1	2	2	All remaining recommendations in progress.
TOTALS	111		42	40	8	21	-	17	29	23	

Key to recommendations:

✓/S	Implemented or Superseded	C	Critical priority recommendation	L	Low priority recommendation
P	Partially implemented/recommendation in progress	H	High priority recommendation		
X	Recommendation not implemented/awaiting update	M	Medium priority recommendation		

Appendix E: Assurance Definitions and Risk Classifications

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

Risk Rating	Assessment Rationale
Critical	Control weakness that could have a significant impact upon, not only the system, function or process objectives but also the achievement of the organisation's objectives in relation to: <ul style="list-style-type: none"> the efficient and effective use of resources the safeguarding of assets the preparation of reliable financial and operational information compliance with laws and regulations.
High	Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall organisation objectives.
Medium	Control weakness that: <ul style="list-style-type: none"> has a low impact on the achievement of the key system, function or process objectives; has exposed the system, function or process to a key risk, however the likelihood of this risk occurring is low.
Low	Control weakness that does not impact upon the achievement of key system, function or process objectives; however implementation of the recommendation would improve overall control.

Limitations

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regards to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

Responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Reports prepared by MIAA are prepared for your sole use and no responsibility is taken by MIAA or the auditors to any director or officer in their individual capacity. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose and a person who is not a party to the agreement for the provision of Internal Audit and shall not have any rights under the Contracts (Rights of Third Parties) Act 1999.

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AUDIT COMMITTEE

20 March 2024

Annual Review of the Internal Audit Charter

Report of Head of Internal Audit

<p>PURPOSE OF REPORT</p> <p>Annual Review of the Internal Audit Charter</p>
<p>This report is public</p>

RECOMMENDATIONS

(1) That the Audit Committee agree the Internal Audit Charter at Appendix A

1.0 Background

- 1.1 Specific requirements detailed in the Accounts and Audit Regulations 2015 require a relevant body to ‘undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account Public Sector Internal Audit Standards (PSIAS) or guidance’. From 1 April 2013 the standards and guidance were defined in the PSIAS and CIPFA’s Application Note which provides guidance on the specific requirements for local government internal audit services.
- 1.2 The Application Note documents a number of specific local government requirements, including the requirement to complete an extensive checklist for assessing compliance with PSIAS. One of the mandatory requirements within the checklist is to have an Internal Audit Charter in place which is reviewed periodically.
- 1.3 In addition to annual reviews by the Audit Committee, the PSIAS external peer review process also provides for an independent assessment of this document.

2.0 Audit Charter

- 2.1 The Internal Audit Charter was last re-approved at the Audit Committee meeting in March 2023. The Charter has been reviewed and no changes are deemed necessary for 2024/25.

3.0 Details of Consultation

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

4.0 Options and Options Analysis (including risk assessment)

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

5.0 Conclusion

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

CONCLUSION OF IMPACT ASSESSMENT

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

Not applicable

FINANCIAL IMPLICATIONS

None directly arising from this report

SECTION 151 OFFICER'S COMMENTS

The Internal Audit Charter is a key part of the framework in which Internal Audit operates, it formally defines the Service's purpose, authority, responsibility and reinforces the emphasis on core principles around objectivity and independence. The proposed Charter reflects current best practice as defined by PSIAS and CIPFA and so the benefits of any departure, or deviation would need to be clearly defined and articulated and subject to formal agreement by s151 Officer and the Audit Committee.

LEGAL IMPLICATIONS

None directly arising from this report

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments

BACKGROUND PAPERS

Public Sector Internal Audit Standards
 Local Government Application Note for the UK PSIAS - (CIPFA, in collaboration with the Chartered Institute of Internal Auditors)
 CIPFA - The Role of the Head of Internal Audit

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Internal Audit Charter

Lancaster City Council

Contents

- 1 Introduction & Background
- 2 Standard 1000 – Purpose, Authority and Responsibility
- 3 Standard 1100 – Independence and Objectivity
- 4 Standard 1200 – Proficiency and Due Professional Care
- 5 Standard 1300 – Quality Assurance and Improvement Programme
- 6 Standard 2000 – Managing the Internal Audit Activity
- 7 Standard 2100 – Nature of Work
- 8 Standard 2200 – Engagement Planning
- 9 Standard 2300 – Performing the Engagement
- 10 Standard 2400 – Communicating Results
- 11 Standard 2500 – Monitoring Progress
- 12 Standard 2600 – Communicating the Acceptance of Risks
- 13 Definitions

1 Introduction

The Internal Audit Charter is mandated through the Public Sector Internal Audit Standards (2017) and is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

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

Public Sector Internal Audit Standards – Attribute Standards
1000 - Purpose, Authority and Responsibility 1100 - Independence and Objectivity 1200 - Proficiency and Due Professional Care 1300 - Quality Assurance and Improvement Programme
Public Sector Internal Audit Standards – Performance Standards
2000 - Managing the Internal Audit Activity 2100 - Nature of Work 2200 - Engagement Planning 2300 - Performing the Engagement 2400 - Communicating Results 2500 - Monitoring Progress 2600 - Communicating the acceptance of risks

MIAA confirms ongoing compliance with the Public Sector Internal Audit Standards.

¹ The Definition of Internal Auditing Copyright © 2009 by The Institute of Internal Auditors, Inc., 247 Maitland Avenue, Altamonte Springs, Florida 32710-4201 U.S.A. Reproduced with permission.

2 Standard 1000 – Purpose, Authority and Responsibility

Internal auditing is “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes¹”.

The provision of assurance services is the primary role for internal audit in the public sector. This role requires the internal auditor to provide an independent opinion based on an objective assessment of the framework of governance, risk management and control. The main purpose of internal audit activity within the Council is therefore to provide the Chief Executive with an objective evaluation of, and opinion on, the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control. The Director of Internal Audit’s opinions is a key element of the framework of assurance that the Chief Executive needs to inform the completion of the Annual Governance Statement (AGS).

Internal audit also provides an independent and objective consultancy service which is advisory in nature, and generally performed at the specific request of the organisation. Such consultancy work is separate from but contributes to the opinion which internal audit provides on risk management, control and governance. When performing consulting services, the internal auditor will maintain objectivity and not take on management responsibility.

The above functions drive MIAA's Mission to support 'the transformation and effective delivery of public services by being a trusted partner in the provision of assurance and solution services that improve outcomes and really make a difference'.

Assurance Reviews will provide individual audit opinions to support the annual Director of Internal Audit Opinion. Formal agreement will be sought for the provision of third party assurances to other bodies in respect of the services provided by the Council.

The Internal Audit Section derives authority from the Audit Committee, the Council and statute (Section 151 Local Government Act 1972 and the Accounts and Audit Regulations 2015).

In accordance with the organisation's Financial Regulations, Internal Auditors will (without necessarily giving prior notice) have access to all records (including those of a confidential nature) and employees of the organisation.

3 Standard 1100 – Independence and Objectivity

The internal audit activity must be independent, and internal auditors must be objective in performing their work. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the Director of Internal Audit will have direct and unrestricted access to senior management and the Audit Committee.

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

The Director of Internal Audit will report functionally to the Audit Committee. and establish effective communication with, and have free and unfettered access to, the Chief Executive and the Chair of the Audit Committee. In addition the Director of Internal Audit also has direct access to the Council's Monitoring Officer, the S151 Officer and all senior

management. This will include communicating and interacting directly with the Audit Committee.

Internal audit activity will be free from interference in determining the scope of internal auditing, performing work and communicating results. Internal auditors will have an impartial, unbiased attitude and avoid any conflict of interest. Conflicts of interest may arise where an auditor provides services other than internal audit to the organisation. Steps will be taken to avoid or manage transparently and openly such conflicts of interest, so that there is no real or perceived threat or impairment to independence in performing the audit role.

All internal auditors will complete an annual declaration of interest identifying possible conflicts of interest and the actions taken to mitigate them. This process, and its outcomes, will be communicated to the Audit Committee annually through the Director of Internal Audit Opinion and Annual Report.

MIAA will also periodically review the specific audit manager assigned to the organisation to ensure that both parties are satisfied that relationships remain independent and objective.

If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

4 Standard 1200 – Proficiency and Due Professional Care

Engagements will be performed with proficiency and due professional care. Internal auditors will possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively will possess or obtain the knowledge, skills and other competencies needed to perform its responsibilities. The Director of Internal Audit is professionally qualified and is

responsible for ensuring access to the full range of knowledge, skills, qualifications and experience to meet the requirements of the Internal Audit Standards. MIAA internal auditors will ensure Continuing Professional Development and compliance with professional standards.

Internal auditors will apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

5 Standard 1300 – Quality Assurance and Improvement Programme

The Director of Audit will develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. The quality assurance and improvement programme will include both internal and external assessments.

- Internal assessment will include;
- Ongoing monitoring of the performance of the internal audit activity; and
- Periodic self-assessments or assessment by other persons within the organisation with sufficient knowledge of internal audit practices.

External assessments will also be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organisation. The results of external quality reviews and any consequent improvement plans will to be reported to the Chief Executive and Audit Committee.

6 Standard 2000 – Managing the Internal Audit Activity

The Director of Internal Audit will develop and maintain an Internal Audit strategy designed to meet the main purpose of the internal audit activity and its service provision needs. This strategy will advocate a systematic and prioritised review, outlining the resources and skills required to meet the assurance needs of the Chief Executive, Full Council and Audit Committee. The strategy will take into account the relative risk maturity of the organisation, taking due regard of the assurance framework.

The Director of Internal Audit will establish risk based plans to determine the priorities of the internal audit activity consistent with the organisation's goals.

The Director of Internal Audit will include in the internal audit strategy the approach to using other sources of internal and external assurance. Periodic plans will include any work associated with placing reliance upon such work.

The Director of Internal Audit will agree the strategy and periodic plans with the Chief Executive and Audit Committee.

Where the Director of Internal Audit believes that the level of agreed resources will prevent the Chief Executive being provided with an opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control, the consequences will be brought to the attention of the Audit Committee.

The Director of Internal Audit will agree arrangements for interim reporting to the Chief Executive and Audit Committee in the course of the year and produce an annual report that incorporates his opinion.

The Director of Internal Audit will provide to the Chief Executive an opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control, timed to support the Annual Governance Statement.

7 Standard 2100 – Nature of Work

The internal audit activity will evaluate and contribute to the improvement of governance, risk management and control processes, using a systematic and disciplined approach.

The internal audit activity will also evaluate the potential for the occurrence of fraud and consider how the organisation manages fraud risk. CIPFA has issued a *Code of Practice on Managing the Risk of Fraud and Corruption*. While compliance with the code is voluntary, CIPFA strongly recommends that it is used as the basis for assessment of how an organisation manages its fraud risk. The Director of Internal Audit should be notified of all suspected or detected fraud, corruption or impropriety in order to inform the annual opinion and risk based plans. The Director of Internal Audit will liaise on a regular basis with the nominated Corporate Fraud Manager (CFM) for the organisation to identify any potential risk of fraud and ensure that any potential or actual frauds identified through internal audit activity are referred to the CFM for investigation.

The Director of Internal Audit will also liaise with the organisation's external auditors and other review bodies to facilitate the effective co-ordination of audit resources and assurances.

8 Standard 2200 – Engagement Planning

The Director of Internal Audit will establish a risk based Internal Audit Plan in conjunction with the client and with the agreement of the Audit Committee. The plan will set out the priorities for Internal Audit activity, consistent with the organisation's goals and objectives.

Internal auditors will develop and document a terms of reference for each engagement, including the engagement's objectives, scope, timing and resource allocations, based on an evaluation of the nature and complexity of each engagement, time constraints and available resources. A work

plan will be developed and documented that achieves the engagement objectives.

Internal audit will meet regularly with the external auditor to consult on audit plans and discuss matters of mutual interest.

9 Standard 2300 – Performing the Engagement

Internal audit will identify, analyse, evaluate and document sufficient information to achieve the engagement's objectives. Internal auditors will base conclusions and engagement results on appropriate analyses and evaluations. Internal auditors will document relevant information to support the conclusions and engagement results.

Engagements will be properly supervised to ensure objectives are achieved, quality is assured and staff are developed.

10 Standard 2400 – Communicating Results

Internal auditors will communicate the engagement results with appropriate parties, including the engagement's objectives and scope, as well as applicable conclusions, recommendations and action plans.

Working with the organisation, the Director of Internal Audit will ensure that communications are accurate, objective, clear, concise, constructive, complete and timely.

The Director of internal Audit will deliver an annual internal audit opinion and report that can be used by the organisation to inform its Annual Governance Statement.

The annual internal audit opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report will incorporate;

- The opinion;
- A summary of the work that supports the opinion; and
- A statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

11 Standard 2500 – Monitoring Progress

The Director of Internal Audit will establish and maintain a follow-up process to monitor that management actions have been effectively implemented or that senior management has accepted the risk of not taking action. This will be operated to support the organisation in ensuring the implementation of actions, and reporting progress to the Audit Committee.

12 Standard 2600 – Communicating the Acceptance of Risks

When the Director of Internal Audit believes that senior management has accepted a level of residual risk that may be unacceptable to the organisation, the Director of Internal Audit will discuss the matter with senior management. If the decision regarding residual risk is not resolved, the Director of Internal Audit will report the matter to the Audit Committee for resolution.

Code of Ethics

MIAA will operate within the definition of Internal Auditing and ensure that the Code of Ethics (Institute of Internal Auditors, 2017) underpins the internal audit services provided to the organisation.

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

13 Definitions

Board	The governing body of the organisation with overall responsibility for governance. For the local authority this role is performed by the Audit Committee and Full Council.
Chief Executive	Officer responsible and accountable for funds entrusted to the organisation.
Audit Committee	A sub-committee of the Full Council with overall responsibility for overseeing the establishment of an effective system of

	integrated governance, risk management and control across the organisation's activities.
Director of Internal Audit	Acts as the Chief Audit Executive as the independent corporate executive with overall responsibility for internal audit.
Senior Management	The overall lead director agreed by the organisation for each audit engagement.

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AUDIT COMMITTEE

20 March 2024

Internal Audit Plan 2024/25**Report of Head of Internal Audit****PURPOSE OF REPORT**

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

This report is public

RECOMMENDATION

The Committee is asked to:

1. **Approve the 2024/25 Annual Internal Audit Plan and draft Strategic Plan to 2025/26**
2. **Note that reports dealing with both progress against the Plan and outcomes achieved will be submitted to each meeting; and**
3. **Note that Plan changes will be reported during the year.**

1.0 Introduction

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

2.0 Proposal Details

Draft Internal Audit Plan 2024/25

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

3.0 Financial Considerations

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

4.0 Details of Consultation

- 4.1 The 2023/24 Plan is Year One of a Three Year Strategic Audit Plan covering 2023/24 – 2025/26. It will be subject to a review and refresh during year in consultation with Senior Leadership Team. Later in 2024/25 further consultations will be held with Chief Officers to ensure that the Plan continues to meets the stated objectives. Any significant changes to reflect new developments, changes to priorities and/or resources will be reported to this Committee.
- 4.2 Ongoing consultations will take place with Chief Officers during 2024/25 to ensure that specific Terms of Reference are prepared for each planned audit that reflect the detailed key risks relevant to each area.

5.0 Options and Options Analysis (including risk assessment)

- 5.1 The options available are to either accept the internal audit plan 2024/25 which will provide the Council and its internal audit function with the basis for continued compliance with established Internal Audit standards or recommend alternative proposals if necessary. There are no alternative options to be considered at this point in time.

6.0 Conclusion

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

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

Not applicable

FINANCIAL IMPLICATIONS

The draft audit plan priorities for 2024/25 can be delivered within the overall budget for the internal audit service.

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

None directly arising from this report

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments

BACKGROUND PAPERS

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

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Lancaster City Council

Internal Audit Plan 2024/2025

Contents

1. Executive Summary
2. Your Assurance, Anti-Fraud and Solutions Service
3. Supporting you through Adding Value
4. Understanding Your Vision, Objectives & Risks
5. Internal Audit Risk Assessment
6. Internal Audit Plan On A Page
7. Operational Internal Audit Plan 2024/25

Appendix A: Strategic Three Year Internal Audit Plan

Appendix B: Internal Audit Key Performance Indicators

Your Internal Audit Team



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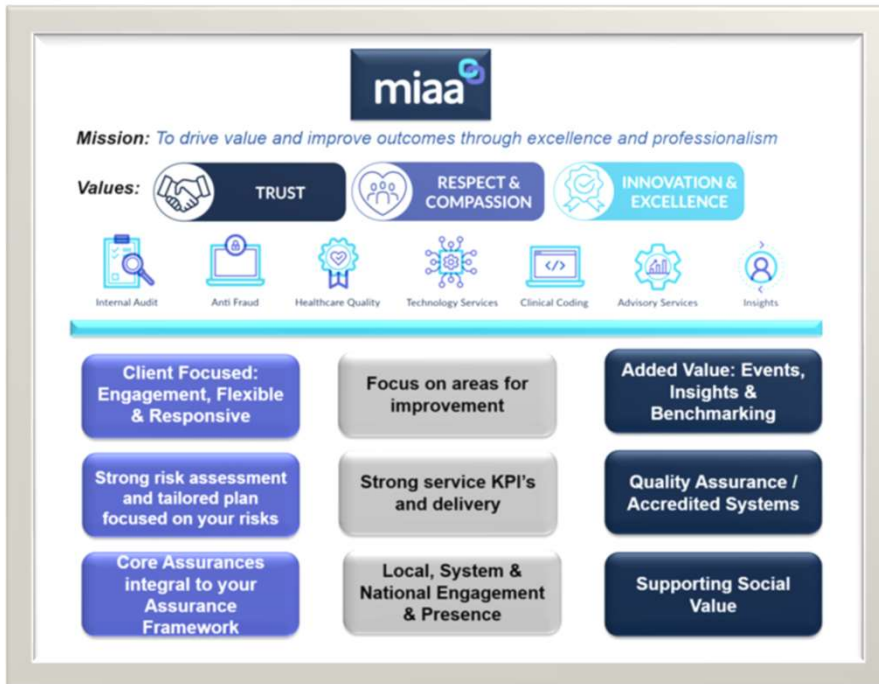


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1 Executive Summary

1.1 Working in partnership with you

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



Mission: To drive value and improve outcomes through excellence and professionalism

Values: TRUST, RESPECT & COMPASSION, INNOVATION & EXCELLENCE

Internal Audit, Anti Fraud, Healthcare Quality, Technology Services, Clinical Coding, Advisory Services, Insights

Client Focused: Engagement, Flexible & Responsive	Focus on areas for improvement	Added Value: Events, Insights & Benchmarking
Strong risk assessment and tailored plan focused on your risks	Strong service KPI's and delivery	Quality Assurance / Accredited Systems
Core Assurances integral to your Assurance Framework	Local, System & National Engagement & Presence	Supporting Social Value

1.2 Your Risk Assessment

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

1.3 Your Internal Audit Plan

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

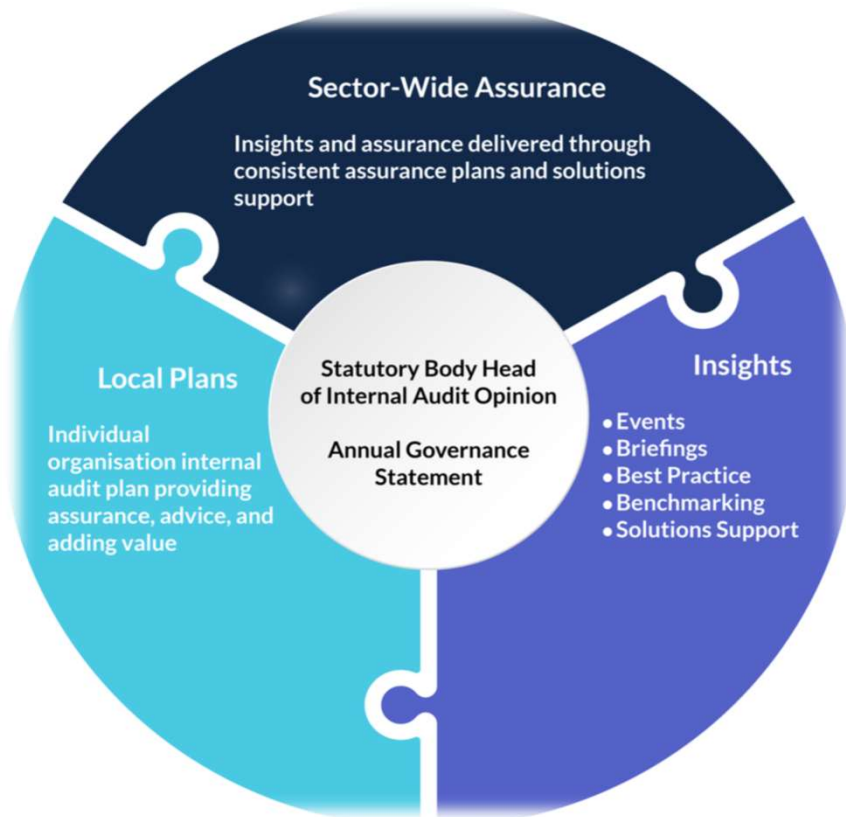
Your operational annual plan in Section 5 forms part of the Council's three year Strategic Plan (shown in Appendix A). This will be reviewed as part of our ongoing risk assessment process to ensure that it remains focused on the Council's key risks and challenges and adds value.

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

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

This draft plan is based upon 23/24 fees. Fees will be lifted in line with planning guidance.

2 Your Assurance, Anti-Fraud and Solutions Services



Internal Audit, Assurance and Solution Plans

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

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

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

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

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

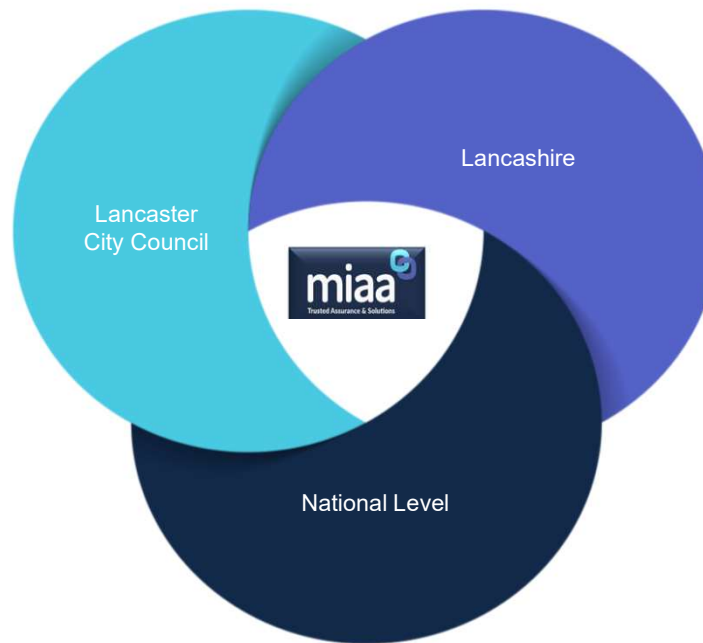
3 Supporting you through Adding Value

Insights & Benchmarking

- Topical Briefings
- Assurance Checklists
- Through the Audit Committee Lens
- Benchmarking, shared learning & best practice

Events, Groups & Networks

- TIAN: The Internal Audit Network
- GARNET: Governance, Assurance Risk Network
- System Audit Chairs Forums
- Collaborative Masterclasses
- Representation at local, regional and national level across range of networks & professional bodies



Specialist Services

- Included within the Core IA Plan:
 - ✓ Digital
 - ✓ Capital & Estates
 - ✓ Business Intelligence & Data Analytics
- Highly experienced, professional and qualified teams
- Extensive Solutions Consultancy service

Accreditations



4 Understanding Your Vision, Objectives & Risks

Understanding Your Vision, Objectives and Risks

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

Assurance Built Around Your Risks

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

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

1 A Sustainable District	2 An Inclusive and Prosperous Local Economy	3 Happy and Healthy Communities	4 A Co-operative, Kind and Responsible Council
Climate Emergency Making Lancaster a net-zero carbon district by 2030, and achieving net-zero by 2040.	Community Wealth-Building (Placewise Bay Model) Building a sustainable local economy that benefits all from the local area.	Increasing Wellbeing Reducing inequality and improving the quality of life for all.	Deliver Effective Services, Take Responsibility Working in partnership with our partners to deliver effective services and take responsibility for our actions.
1.1 Carbon Zero Reducing our carbon footprint and achieving net-zero by 2030.	2.1 Social Use of Resources Maximising the use of resources and promoting local businesses.	3.1 Access to Quality Housing Ensuring everyone has access to a good quality home.	4.1 Value for Money Ensuring we get the best value for money from our services.
1.2 Sustainable Energy Increasing the use of renewable energy and reducing energy consumption.	2.2 Sustainable Innovation Encouraging innovation and entrepreneurship in the local area.	3.2 Quality Public Spaces Improving the quality of our public spaces and green infrastructure.	4.2 Partnership Working in partnership with our partners to deliver effective services.
1.3 Climate Resilience Preparing for and responding to the impacts of climate change.	2.3 Sustainable Skills Supporting the development of new skills and employment opportunities.	3.3 Access to Culture and Leisure Providing access to cultural and leisure activities for all.	4.3 Involvement in Our Skills and Facilities Encouraging our residents to get involved in our skills and facilities.
1.4 Respecting Nature Protecting and enhancing our natural environment and biodiversity.	2.4 Investment and Regeneration Investing in our infrastructure and regeneration projects.	3.4 Community Engagement Encouraging our residents to get involved in our community.	4.4 Licensing and Equality Ensuring our licensing and equality policies are fair and effective.
1.5 Reduced Waste Reducing our waste and increasing recycling.	2.5 Inclusive Ownership Supporting the development of inclusive ownership models.	3.5 Reducing Inequality and Promote Wellbeing Reducing inequality and promoting wellbeing for all.	4.5 Innovative Public Services Exploring innovative ways of providing public services.
1.6 Low carbon Active Transport Encouraging walking, cycling and other active transport.	2.6 Fair Work Supporting the development of fair work and employment.	3.6 Early Intervention Supporting early intervention services for children and young people.	4.6 Openness Being open and transparent in our decision-making.



5 Internal Audit Risk Assessment

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

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

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

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



6 Internal Audit Plan on a Page

For Lancaster City Council, this is the planning approach we will adopt:

Planning Approach

- Risk Assessment of the external environment, system and organisation (including your Strategic Risk Register).
- Engagement of Audit Committee, Executive Directors and management.
- Use of MIAA’s client risk database to inform planning.
- Coverage of Critical Business Systems to support organisation’s objectives through the strategic internal audit plan.
- Provision of sufficient resources and expertise.
- Compliance with Public Sector Internal Audit Standards (PSIAS).

Your Plan

The outcome of your risk assessment is summarised below:

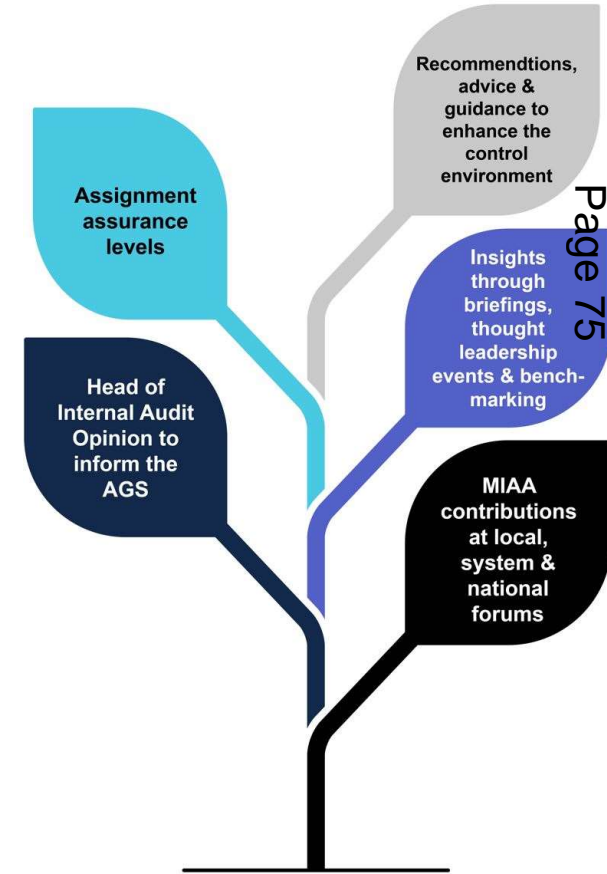
Organisational Reviews
Provision of assurances across core and risk based reviews

- Risk Management
- Key Financial Systems
- IT Asset Management
- Appraisals
- Revenues and Benefits – Preston Shared Service
- Statutory Compliance – Buildings
- Energy Costs
- Air Quality Duty
- Markets – Festival Market
- Homelessness
- Environmental Enforcement
- Food Standards
- Community Engagement

Follow Up and Contingency

Outcomes

Added Value



7 Operational Internal Audit Plan 24/25

Review & Scope	Rationale	Planned Delivery	Executive Lead
Governance & Leadership			
Risk Management - Core Controls: To provide assurance that core risk management controls have established and maintained.	HOIA Opinion Requirement/ PSIAS requirement	Q4	Chief Officer - Resources
Statutory Compliance - Buildings: To provide assurance that building compliance is recorded and maintained in line with statutory guidance.	Risk Assessment/Management Request	Q4	Chief Officer - Housing and Property
Finance & Sustainability			
Key Financial Controls - To provide assurance that the most significant key controls are appropriately designed and operating effectively in practice.	Core Assurance	Q3	Chief Officer - Resources
Revenues and Benefits (Area TBC with Preston Shared Service) - To provide assurance that the most significant key controls are appropriately designed and operating effectively in practice.	Core Assurance	Q2	Chief Officer - Resources
Energy Costs – To provide assurance that there are strong internal controls in place for the processing of energy invoices.	Risk Assessment/Management Request	Q2	Chief Officer – Housing and Property
Service Delivery			
Air Quality Duty - To provide assurance on processes and controls that are established and operated to identify and manage risks in relation to compliance with Air Quality Duty.	Risk Assessment/Brought Forward 2023 24	Q1	Chief Officer – Planning and Climate Change
Festival Market – To provide assurance on the key controls and processes relating to the festival market including rent collection, debt management and trader engagement.	Risk Assessment/Management Request	Q2	Chief Officer – Sustainable Growth
Homelessness – To provide assurance around the management and control of homelessness payments and the accuracy of homelessness placements.	Risk Assessment/Management Request	Q1	Chief Officer – Housing and Property
Environmental Enforcement – To provide assurance around the controls and operating effectiveness of fly tipping procedures.	Risk Assessment/Management Request	Q3	Chief Officer – Environment and Place
Food Standards – To provide assurance that the council is complying with food standards and operating effectively to manage the statutory obligations of the Council.	Risk Assessment/Management Request	Q2	Chief Officer – Environment and Place
Community Engagement - To provide assurance that the council has appropriate arrangements to ensure effective engagement with key stakeholders	Risk Assessment/Management Request	Q4	Chief Officer – People and Policy

Review & Scope	BAF Risk / Rationale	Planned Delivery	Executive Lead
People			
Appraisals - To provide assurance as to whether the Councils appraisal process is operating effectively.	Core Assurance	Q2	Chief Officer – People and Policy
Information Technology			
Information Technology/Cyber (IT Asset Management) - To provide assurance on the level and effectiveness of IT asset management controls operated by the Council.	Core Assurance	Q3	Chief Officer - Resources
Follow up & Contingency			
Follow up and Contingency	PSIAS requirement	Q1 - Q4	
Planning & Reporting			
Planning, Management, Reporting & Meetings	PSIAS requirement	Q1 - Q4	

The Internal Audit Risk assessment and plan will be reviewed on an ongoing basis throughout the year and any requests for change discussed and approved via the Audit Committee. A formal 6 month review of the plan will also take place.

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

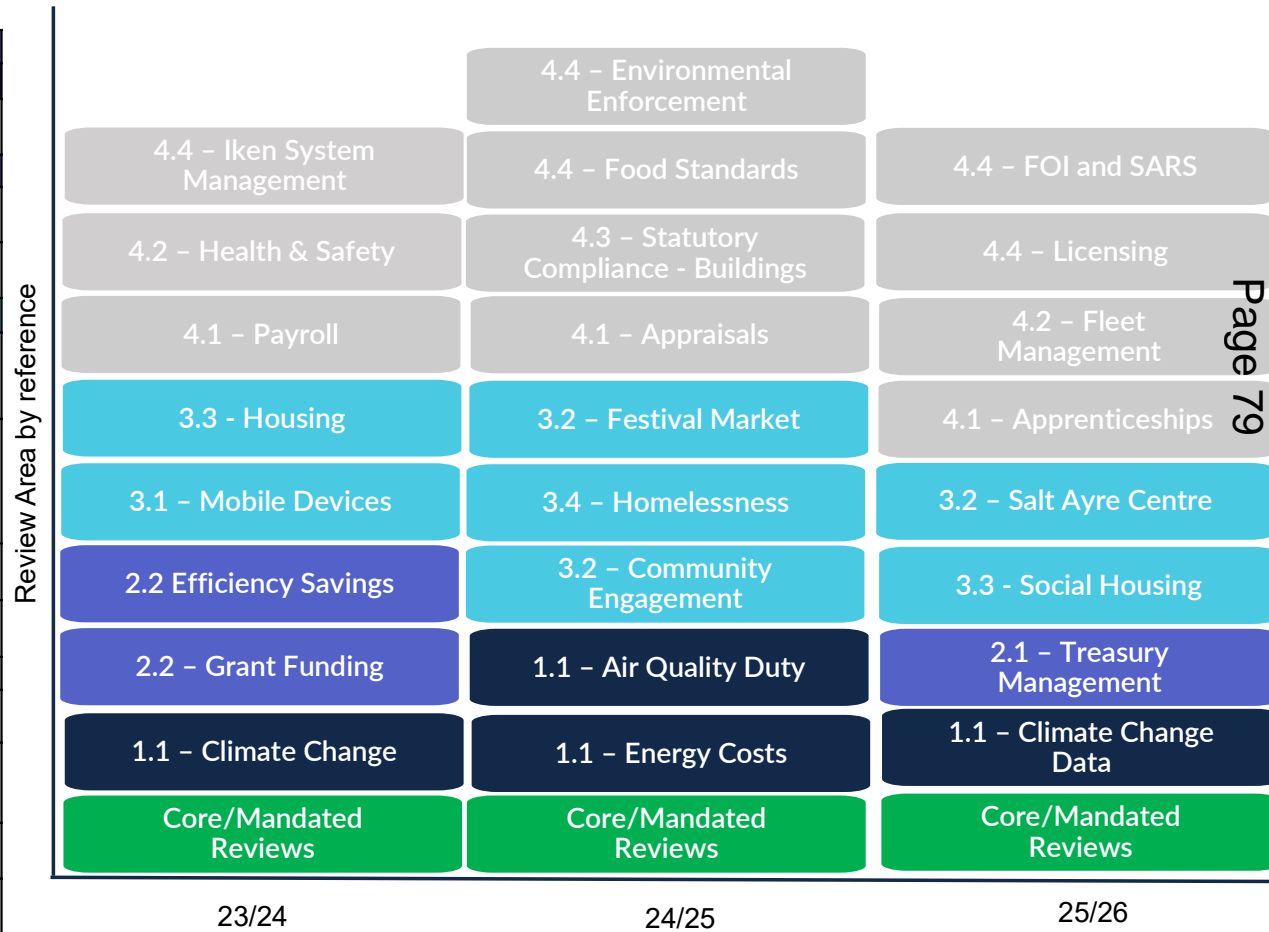
Risk Area	Review Origin	Rationale
Data Sharing Agreement	Management Request	Not considered a priority
Insurance	Risk Assessment & Management Request	Not considered a priority
Freedom of Information Requests and Subject Access Requests	Risk Assessment & Management Request	Not considered a priority
Incident Response Management	Management Request	Not considered a priority
Recruitment	Risk Assessment	Recently been completed
Workforce Planning	Risk Assessment	Not considered a priority
Non-compliance with Regulator of Social Housing Standards	Risk Assessment	Proposed review in 25/26 when the new rules have been introduced and embedded during 24/25

The Internal Audit Risk assessment and plan will be reviewed on an ongoing basis throughout the year and any requests for change discussed and approved via the Audit Committee. A formal 6 month review of the plan will also take place.

Appendix A – 3 Year Strategic Internal Audit Plan

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

REF	Strategic Risk	Risk Score
Principal Objective: A sustainable district		
1.1	The Council fails to reduce its direct Co2 emissions to 'net zero' by 2030.	12
Principal Objective: An inclusive and prosperous local economy		
2.1	Council services are disrupted due to local or national emergencies.	6
2.2	The Council fails to deliver its key projects due to the lack of capacity and resources.	6
Principal Objective: Healthy and Happy Communities		
3.1	Changes Government policy impact the Councils ability to deliver major projects and programmes that would benefit communities.	6
3.2	The Council's services fail to adapt to socioeconomic and demographic trends within the district, resulting in failure to meet the needs of local residents and businesses.	6
3.3	Non-compliance with Regulator of Social Housing Standards	6
3.4	Increasing costs of temporary accommodation for the homeless	8
Principal Objective: A co-operative, kind and responsible Council		
4.1	The Council fails to recruit and retain competent / key staff	6
4.2	The use of council assets is not maximised leading to insufficient funding to meet the funding gap and deliver capital projects.	9
4.3	LCC Property Portfolio (non housing) does not meet its Health and Safety compliance obligations	9
4.4	Negligent or unlawful action by the Council, resulting in financial or other liabilities.	6



Appendix B – Internal Audit Key Performance Indicators

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

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

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

Public Sector Internal Audit Standards

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

Limitations

Our work does not provide absolute assurance that material errors, loss or fraud do not exist. Responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Reports prepared by MIAA are prepared for your sole use and no responsibility is taken by MIAA or the auditors to any director or officer in their individual capacity. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose and a person who is not a party to the agreement for the provision of Internal Audit and shall not have any rights under the Contracts (Rights of Third Parties) Act 1999.

AUDIT COMMITTEE**Annual Governance Statement Action Plan****20 March 2024****Report of Monitoring Officer****PURPOSE OF REPORT**

To provide Members with an update on the Action Plan referred to in the AGS in connection with other governance issues identified.

This report is public

RECOMMENDATIONS

- (1) That the progress and steps yet to be taken on the Action Plan be noted.

1.0 Introduction

- 1.1 In November 2023 the Audit Committee received a report on progress and steps taken on the Annual Governance Statement (AGS)'s Action Plan with regards to 'other governance' issues identified in the July 2023 ASG. As Members will be aware the Council issued its AGS following the Audit Committee's consideration of the document on 26th July 2023. The AGS identified various issues to be addressed. These are split into two categories – (a) Other Governance Issues and (b) Significant Challenges for 2022/23 and beyond. This report provides an update on the first category. That is the issues identified as "Other Governance Issues".
- 1.2 As set out in the AGS, an Action Plan has been put together to address the areas identified. The issues covered by the Action Plan include:
- (a) Policy review/updating
 - (b) The Corporate Complaints Policy and other service complaint procedures
 - (c) Publication of Information
 - (d) Information on the Council's website
 - (e) Better Publication of Officer roles
 - (f) Review of Festival Market Management

- 1.3 In November 2023 the Audit Committee was informed that actions under (c) and (e) have been completed. This report details with the remaining actions.
- 1.4 Good progress is being made against the Action Plan. Although, more work is yet to be done.

Work undertaken/to be completed

Policy Review / Updating

- 1.5 As previously reported many policies lacked sufficient audit trail of review and amendment. This creates weakness in ensuring that policies are kept up-to-date and are kept properly under review.
- 1.6 A central list of Council Policies has been created from looking at LCC's website and intranet. Managers were contacted in August 2023 and asked to supply the following for each policy:
 - a. date of creation,
 - b. date of review and
 - c. details of the decision maker.
- 1.7 Updates were requested by the end of November 2023 and this has resulted in further policies being updated. Previously there were 114 policies on the list. Further policies have been added bringing the total to 149. Work is underway within individual services to bring the policies up to date. Further reminders were issued to policy owners on 4th March 2024, requesting updates by 3rd May 2024.

Corporate Complaints Policy and Procedure

- 1.8 Council Housing had a published complaints process policy that did not refer to in the Corporate Complaints Policy.
- 1.9 A large consultation has recently taken place around complaints that are dealt with by both the housing and general ombudsman. This was completed in November 2023. The Council's central complaints policy and process has been reviewed and amended. The amended policy and process was sent to the Council's Senior Leadership Team in January 2024 for comment. Following this the Council has now adopted a new central policy and procedure for complaints and training to staff is currently being rolled out.

Information on Website

- 1.10 As previously reported, it has been noted that Information is sometimes difficult to find on the Council's website. This is a vague observation in the Minor Governance Issues Action Plan and has therefore been difficult to make specific improvements.
- 1.11 The Council's Communication Team continue to investigate replacing the technology/system which underpins the website. When this is done the content could also be reviewed. There are no timescales set for this work currently.

Review of Festival Market Management

- 1.12 Again, as previously reported, following a matter raised under the Raising Concerns Policy the Monitoring Officer has requested that a review of the festival market trading practices be undertaken by the Chief Officer Sustainable Growth to ensure suitable financial management has been, and is being, undertaken.
- 1.13 Unfortunately, this work has been delayed due to staffing issues. However, the review is now mid-way through and is due to conclude during Q1 24-25.

2.0 Conclusion

- 2.1 Audit Committee members are asked to note the progress and work yet to be done under the Action Plan on the other governance issues identified in the AGS.

<p>CONCLUSION OF IMPACT ASSESSMENT (including Health & Safety, Equality & Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing): The Council must keep its governance processes under review and must ensure that it take steps to ensure that its processes are kept up-date and relevant. Good governance ensures that resources are properly used for the community it serves. Implementing the action plan on other governance issues helps ensure the Council's good governance.</p>	
<p>LEGAL IMPLICATIONS There are no direct legal implications arising from this report.</p>	
<p>FINANCIAL IMPLICATIONS No direct financial implications arising from this report.</p>	
<p>OTHER RESOURCE IMPLICATIONS, such as Human Resources, Information Services, Property, Open Spaces No direct resource implications arising from this report.</p>	
<p>SECTION 151 OFFICER'S COMMENTS The S151 officer has seen this report and has no further comments.</p>	
<p>MONITORING OFFICER'S COMMENTS The Deputy Monitoring Officer has helped draft this report.</p>	
<p>BACKGROUND PAPERS Annual Government Statement – July 2023</p>	<p>Contact Officers: Monitoring Officer Email: igorst@lancaster.gov.uk Ref: N/A</p>

AUDIT COMMITTEE

Statement of Accounts Update

22 November 2023

Report of Chief Finance Officer

PURPOSE OF REPORT
To provide the Committee with an updated position regarding the conclusion of the audits of the 2019/20, 2020/21, 2021/22 and 2022/23 Statement of Accounts, and the preparations for production of the 2023/24 Financial Statements.
This report is public.

RECOMMENDATIONS

The Audit Committee is recommended to note the following areas.

1. The progress of the audit of the 2019/20, 2020/21, 2021/22, 2022/23 Statement of Accounts
2. Preparation for production of the 2023/24 Statement of Accounts
3. The s151 Officers proposal for the submission of the draft statement of accounts for 2023/24
4. The current proposals for addressing the significant issues within the Public Sector Audit regime.

1.0 INTRODUCTION

- 1.1 The position remains broadly **unchanged** from previous updates in relation to the 2019/20, 2020/21, 2021/22 and 2022/23 Statement of Accounts. This paper seeks to remind Members of the current opposition in regard to those Financial Statements, updating Members of the status of the 2023/24 Financial Statements and providing some details of the current proposals to address the national audit backlog.
- 1.2 Details of the outstanding works for each of the financial years together with a summary of the progress and impact of the work currently outstanding is included in the paragraphs below.

2.0 2019/20 STATEMENT OF ACCOUNTS POSITION

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

3.0 2020/21 STATEMENT OF ACCOUNTS POSITION

3.1 As noted previously all audit matters that have been brought to officers' attention and requests for additional information to date have been addressed and any required revisions made to the draft 2020/21 financial statements.

3.2 The Committee will also be aware that, as with 2019/20 statement, Note 42: Contingent Liabilities, was once again subject to formal objections by a local Council Taxpayer. The External Auditor is still considering the objections in accordance with regulatory guidance. As noted above the impact of the national infrastructure assets issue will impact the 2020/21 Statements.

4.0 2021/22 STATEMENT OF ACCOUNTS POSITION

4.1 The draft 2021/22 Statement of Accounts were published on the Council's website ahead of the 31 July 2022 deadline. A link was sent to Council Members, and paper copies are available on request.

4.2 The Committee should also note that, as with the 2019/20 & 2021/20 Statement of Accounts, Note 42: Contingent Liabilities, is subject to formal objections by local Council Taxpayer. The External Auditor is still considering the objections in accordance with regulatory guidance, but it is hoped that the information supplied will assist in resolving all outstanding matters in this area. Further discussion is provided below.

4.3 No audit work has been undertaken on the 2021/22 Financial Statements

5.0 2022/23 STATEMENT OF ACCOUNTS POSITION

5.1 The draft 2022/23 Statement of Accounts were published on the Council's website ahead of the 31 July 2023 deadline as agreed with Audit Committee at its meeting 22nd March 2023. A link was sent to Council Members, and paper copies are available on request.

5.2 In accordance with regulation the Council published a notice on its website advising of the delay and has now published the formal Notice of the Commencement of the Period for the Exercise of Public Rights. This is the 30-day period during which any person interested, or any journalist may, on reasonable notice, inspect and make copies of the accounts or any Local Government Elector may raise an objection to any item of account.

5.3 The Committee should also note that, as with the 2019/20, 2020/21 and 2021/22 Statement of Accounts, Note 42: Contingent Liabilities, is subject to formal objections by local Council Taxpayer. The External Auditor is still considering the objections in accordance with regulatory guidance. Further discussion is provided below.

5.4 No audit work has been undertaken on the 2022/23 Financial Statements

6.0 OUTSTANDING MATTERS

6.1 The following paragraphs provide a summary of the significant issues that still remain outstanding, which should on completion allow the 2019/20 and 2020/21 audits to be concluded.

Objections to the Financial Statements

6.2 The Committee will recall that the 2019/20, 2020/21, 2021/22 and the 2022/23 Statement of Accounts are subject to formal objections by a local Council Taxpayer. In order to finally conclude the audit, the External Auditors requested that the Council seek assurance from a number of external third parties. Officers from Legal and Economic Growth and Regeneration services have collated this information with two of the assurances requested having been presented to the External Auditors for consideration and, without any information to the contrary, are assumed to have been accepted by them.

6.3 Despite a positive meeting early February with the legal representatives, progress on this issue remains painfully slow. In light of the proposals to address the audit backlog this is and always has been, a priority area for resolution.

Infrastructure Assets Restatement

6.5 As initially reported to the Committee 25th May 2022 and subject of several updates, CIPFA was made aware of issues relating to the derecognition of parts of infrastructure assets. Specifically, where Councils have incurred on the replacement, or enhancement of existing infrastructure assets they may not be readily able to identify the cost and accumulated depreciation relating to the original asset components being replaced or enhanced.

6.6 This has been a long running and contentious issue and has caused significant delays to a considerable number of Councils across the Country, which now appears to have been resolved. The restatement exercise has now been completed and was presented to the auditors for review in August 2023.

Work to Support the Value for Money Conclusions

6.7 In addition to providing an opinion of the Council's Financial Statements the External Auditor is required to consider and report on the Council's arrangements for securing economy, efficiency, and effectiveness in the use of resources.

6.8 Information requested by the External Auditor to support their consideration is being collated across the Council. However, as the assessments relate to both 2019/20 and 2020/21 the information requested can stretch back to 2017/18 and earlier. Reporting on VFM arrangements remain a high priority and is part of the Audit Code consultation. Whilst work has been undertaken to support the VFM opinion clarification has been sought in regard to any new or revised requirements

Statement of Accounts 2021/22 & 2022/23

6.9 Although a substantial amount of work has been undertaken to address the 2019/20 and 2020/21 Statement of Accounts neither the s151 Officer nor key members of the finance team are aware of any audit work having been undertaken on the 2021/22 Financial Statements to date.

7.0 PREPARTION FOR 2023/24 STATEMENT OF ACCOUNTS

7.1 In preparation for the production of the 2023/24 Statement of Accounts finance staff have undertaken a number of actions including.

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

7.2 Although subject to consultation, the deadline for submission of the draft 2023/24 statement of accounts remains 31st May 2024. In light of the lack of progress in addressing the outstanding audit work and the additional work required to address to audit backlog across the sector the s151 Officer would ask the Committee to consider the benefit of stretching the already limited capacity of the finance team to achieve the earlier submission deadline. Although disappointing, if not achieved the 31st May deadline does not carry any penalty for the Council. The Council must however publish a notice on its website advising of the delay and once available they must publish the formal Notice of the Commencement of the Period for the Exercise of Public Rights. This is the 30-day period during which any person interested, or any journalist may, on reasonable notice, inspect and make copies of the accounts or any Local Government Elector may raise an objection to any item of account.

7.3 An agreed flexing of the deadline would allow the team some capacity to assist the auditors in concluding the outstanding audit work, whilst working on the production of the 2023/24 Statements. This approach has been discussed with the Chief Executive and the Finance Portfolio Holder who are supportive of the suggestion, given the on-going delays and frustrations. The Department for Levelling Up, Housing and Communities are currently consulted on the extending this deadline, with an announcement due shortly.

8.0 ADDRESSING THE AUDIT BACKLOG

8.1 The proposals for addressing the audit backlog and embedding timely audit have been published for consultation (**See Appendix C**). They comprise of:

- DLUHC's intentions for amending the Accounts and Audit Reg, including a joint statement providing context and explanation of the proposals and how their various elements are intended to interact.
- NAO intentions for amending the Code of Audit Practice
- CIPFA LASAAC proposals for temporary changes to the Accounting Code to reduce burdens on those who prepare and audit local body accounts (not yet issued)

8.2 The proposals confirm that the backlog will be resolved by backstop dates by which the Statement of Accounts must be published. These backstop dates are irrespective of whether the auditors have been able to complete the work required by Auditing Standards. **The proposed date for accounts up to 2022/23 is 30 September 2024.** As it will take auditors some time to rebuild assurance for Authorities that do not receive a clean opinion as a result of the backstop, there will be further backstop dates for all financial years up to 2027/28.

- 8.3 The overall proposals have 3 stages but currently provide substantial discretion to auditors to determine how to prioritise their work in the run-up to each backstop date.
- Phase 1: Reset - clearing the backlog of audit opinions up for 2022/23 and earlier years by **30 September 2024**
 - Phase 2: Recovery – preventing a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.
 - Phase 3: Reform – addressing systemic challenges in the system and embedding timely financial reporting and audit.

Phase 1 – Reset

- 8.4 The backstop dates are deadlines by which Council's must publish audited accounts, and auditors would be required to issue an opinion based on the work they have been able to complete to enable authorities to meet the publication deadline. Auditing standards already provide for the impact of backstop dates. System partners will provide clear explanations of what the different types of audit opinions mean, especially to clarify that modified/ disclaimed opinions attributable to the backstop date do not necessarily indicate significant financial reporting or financial management issues in the audited body.
- 8.5 There does not appear to be any minimum expectations for the work that auditors would need to carry out at individual authorities, so that there would be a minimum level of assurance provided by the auditor. However, the Joint Statement promises an expectation that auditors will complete as much audit work as possible by the backstop date.
- 8.6 Reporting on VFM arrangements remain a high priority. The Audit Code consultation is largely about enabling auditors to produce a single commentary on VFM arrangements covering all outstanding periods for 2022/23 and earlier years and whilst work has been undertaken to support the VFM opinion clarification has been sought in regard to any new or revised requirements.
- 8.7 The Government will publish a list of local bodies and their auditors which do not meet the backstop date.
- 8.8 It is likely that the measures will result in a significant number of modified or disclaimed audit opinions during both Phase 1 and Phase 2. ***The s151 Officer would like to inform Members of the Committee that given the long-established and reported issues with the audit of our financial statements the Council will receive either a modified or disclaimed opinion as part of Phase 1.*** To be clear any modified/ disclaimed opinions attributable to the backstop date do not necessarily indicate significant financial reporting or financial management issues.

Phase 2 – Recovery

- 8.9 As previously reported the issue with the Reset phase is that for Councils such as us who are impacted by the backstop, auditors will not have the assurance from closing balances that would normally support opening balances for 2023/24. To further exacerbate this issue Members will recall that Public Sector Audit Appointments Ltd (PSAA) have appointed KPMG as the Council's External Auditors for the 5-year period 2023/24 – 2027/2028.
- 8.10 KPMG will therefore need to perform sufficient testing on opening balances to rebuild assurance. To prevent this recovery work causing delays to future audits, the proposals involve further backstop dates for all years up to and including 2027/28, so that recovery work might take a number of years as modified opinions/ disclaimers are rolled forward: The following are the current proposed audit deadlines.

Financial Years Statements	Audit Deadline
2023/24	31 May 2025
2024/25	31 March 2026
2025/26	31 January 2027
2026/27	30 November 2027
2027/28	30 November 2028

8.11 In an attempt to ensure Phases 1 and 2 are delivered the following expectations are placed on Council's and Auditors.

- Councils should raise concerns about specific financial risk resulting from the proposals with their auditors and engage with the Government at the earliest opportunity.
- Auditors and local bodies should work together to ensure that as many audits can be completed in full as possible.
- The potential introduction of backstops does not preclude the legal responsibilities for the publication of the unaudited accounts and the public inspection period - where an authority believes it will not be able to publish unaudited accounts and complete the inspection period in sufficient time ahead of the backstop date, this should be flagged to the Government.
- In the absence of a clean audit opinion for the prior year, s151 officers should have sufficient internal controls and processes to comply with their responsibilities to prepare unaudited accounts and confirm they show a true and fair view.
- Auditors will need to make prioritisation decisions about the work they complete - when making these decisions, auditors should consider the impact on other bodies' audits, e.g., by prioritising audit work on pension funds to provide IAS 19 assurances to auditors of other bodies.
- Finance teams should ensure they provide high-quality evidence requested by auditors in a timely manner.
- Auditors should clearly communicate the reasons for modified or disclaimed opinions in the auditor's report and explain in reports to the audit committee if the modified opinion is attributable to the backstop dates and what work they have been able to carry out.
- Auditors will need to conclude and report significant weaknesses in VFM arrangements in the audit report ahead of the backstop date as VFM reporting duty cannot be disclaimed.

Phase 3 – Reform

8.12 There are no concrete proposals put forward for Phase 3, but commitments are made in the following areas:

- the government remains committed to establishing the Audit, Reporting and Governance Authority as system leader for local audit when Parliamentary time allows.
- CIPFA LASAAC's has a workstream looking at long-term reforms to financial reporting based on the needs of accounts users.
- HM Treasury will shortly be setting out the outcome of the thematic review into the valuation of non-investment assets.
- the FRC intends to publish its Local Audit Workforce Strategy during 2024, including plans to increase the supply of suitably skilled auditors, including changes to Key Audit Partner requirements.
- the government has successfully procured the development of a Local Audit Qualification which will shortly be launched by CIPFA.
- CIPFA and the Local Government Association are working on a workforce strategy for local government finance teams.

Consultation Summary

- 8.13 Consultation on amendments to the Accounts and Audit Regulations is open until 7 March. The Regulations will be amended so that the statutory dates for the publication of the audited accounts are set at the backstop dates for the years from 2023/24 to 2027/28.
- 8.14 Views requested in the consultation include whether:
- the proposed backstop dates for Phases 1 and 2 are appropriate.
 - there are any exceptional circumstances under which authorities should be exempt from the backstop (especially in relation to outstanding objections)
 - there should be consequences for authorities or audit firms if they do not comply with the backstop dates, apart from being included on the Government naughty list.
 - the 31 May deadline for publication of the unaudited accounts remains appropriate for 2024/2025 to 2027/2028
 - whether the particular coincidence of 31 May 2025 as the publication date for the unaudited 2024/25 statement of accounts and as the backstop date for 2023/24 will give practitioners particular problems
 - noting the need to rebuild assurance following a modified/disclaimed opinion, the backstop dates for Phase 2 are feasible.

Accounting Code Amendments 2023/24 & 2024/25

- 8.15 In order to assist Phase 1 there are a number of temporary changes proposed to the Accounting Codes for 2023/24 and 2024/25, these will cover:
- Extending the override relating to the measurement and disclosure requirements for infrastructure assets
 - Simplifying the revaluation of operational property to permit the use of indexation.
 - Reducing the requirements for disclosures around net defined benefit pension liabilities/assets for 2 years to align with the simplified requirements in FRS 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland.

9.0 DETAILS OF CONSULTATION

- 9.1 The report provides the Committee with an update on the progress of the audit of the Statement of Accounts 2019/20 to 2022/23 Statement production and so consultation has been limited to discussion with the current and incoming External Auditors.

10.0 OPTIONS AND OPTIONS ANALYSIS

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

11.0 CONCLUSION

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

<p>CONCLUSION OF IMPACT ASSESSMENT (including Health & Safety, Equality & Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing): No implications directly arising.</p>
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<p>LEGAL IMPLICATIONS S27 of the Local Audit and Accountability Act 2014 makes provision for an elector of the Council's area to make an objection to the local auditor in respect of the grounds set out at</p>

paragraph 3.4 of this Report. On receipt of an objection the local auditor must decide (a) whether to consider the objection, and (b) if the auditor does so, whether to take action within paragraph (a) and (b) of s27(1) in response.

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

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

FINANCIAL IMPLICATIONS

There are no financial implication flowing directly from this report.

However, Member's should be aware of the additional audit fees that may accrue because of the objection to the financial statements.

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

No implications directly arising.

SECTION 151 OFFICER'S COMMENTS

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

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

Statement of Accounts 2019/20

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

Statement of Accounts 2020/21

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

Statement of Accounts 2021/22

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

Statement of Accounts 2022/23

[Statement of Accounts - Lancaster City Council](#)

External Audit Plan 2020/21

Contact Officer: Paul Thompson

Telephone: 01524 582603

Email: pthompson@lancaster.gov.uk

Ref:

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

Statement of Accounts Updates

[Agenda for Audit Committee on Wednesday, 26th July 2023, 6.00 p.m. - Lancaster City Council](#)

[Agenda for Audit Committee on Wednesday, 24th May 2023, 6.10 p.m. - Lancaster City Council](#)

[Agenda for Audit Committee on Wednesday, 22nd March 2023, 6.10 p.m. - Lancaster City Council](#)

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

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

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

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

Budget Holder Guidance Notes

Closure of Accounts 2023/24



Introduction

These closure notes have been written to assist you in your role as Budget Holder to understand the accounts closure process and in particular the impact it has on you in terms of processes and deadlines.

Please ensure that ALL members of staff involved in the matters covered are familiar with the dates and deadlines listed.

It should be noted that Accountancy staff will be checking the validity of year-end adjustments in respect of debtors, creditors etc. Please liaise with your Service Accountant if you are unsure about any of the instructions given below.

Key Deadlines

DEADLINE	DESCRIPTION
20 March	Last date for creditor invoices for defrayal by 31 March
28 March	SWL and DWL purchase order invoices relating to 2023/24 to be processed in TOTAL by 2.00pm
4 April	Training and Travel Expenses, Overtime Claims submitted and Authorised on My View
4 April	Staff Time Allocations – Capital – March 01 quarter
4 April	Last date for authorising Purchase Card Transactions
5 April	Postage Recharges
7 April	Last date for entering and finalising Creditor invoices for processing into 2023/24
7 April	Last date for entering Debtors invoices chargeable to 2023/24
7 April	All Authority Financials modules to close 5.00pm for year-end processing and will remain closed Monday 8th April
9 April	All Authority Financials modules reopen
12 April	Capital Slippage Forms to be returned to Financial Services
12 April	Sundry Creditors Lists, Sundry Debtors Lists, Payments in Advance and Income Received in Advance forms to be returned Financial Services
12 April	Production of final Rechargeable Works analysis including related debtor and work in progress lists

Expenditure

Accounting Rules

Where goods and services were "RECEIVED" by 31 March the cost of those goods and services **MUST** be charged to the **OLD** financial year (2023/24).

Where goods and services were "RECEIVED" on or after 1 April the costs **MUST** be charged to the **NEW** financial year (2024/25).

This applies to both revenue and capital payments.

Sundry Creditors

The following section sets out the procedures for creditors relating to revenue and capital expenditure.

Creditors

Payments made via purchase 2 pay are generated in creditors with the due date given on the invoice. However, it is important to regularly review and finalise transactions in creditors so that all invoices due for payment are processed and paid.

This will ensure suppliers are paid on time but will also mean that we can efficiently complete the year end closedown and significantly reduce the amount of work required to produce an accruals list at year end.

After 7 April 2024, Authority Financials creditors will be in closedown:

Capital Invoices

Any capital invoices received that relate to the old year (2023/24) should be entered on the capital slippage forms that will be circulated to relevant responsible financial officers. Slippage forms must be completed and returned by **Friday 12 April 2024**

Revenue Invoices

Any revenue invoices received that relate to the old year (2023/24) can only be charged into that year by entering them on a Sundry Creditors Form.

After Sunday 7 April 2024, you should review any outstanding orders relating to 2023/24 for appropriateness and provide a ledger code for each outstanding order where goods and services **greater than £1,000** were ordered and received prior to 1 April 2024. Under no circumstances will items on the Sundry Creditors list for a lesser amount than this or composite amounts greater than £1,000 be charged to the old year.

This information should then be used to populate the Sundry Creditors Form and must be completed and returned by **Friday 12 April 2024**. It must include the creditor name, brief details of the supply, the relevant order number, expenditure code to charge the amount to and a value, **net** of Value Added Tax. If the amount is not known because the invoice has not yet been received, a tick should be entered in the column headed "E" to indicate that an estimate has been used. The end two columns are for Accountancy use and should be left blank.

Templates are available in the Accountancy Services pages of the Intranet.

TASK/TOTAL Purchase Orders

All Stores SWL purchase orders and Direct DWL purchase orders relating to 2023/24 need to be processed in TOTAL, by **2pm on Thursday 28 March 2024**

Purchase Card Transactions

On entering Purchase Card transactions, the transaction date determines the year and period a transaction is recorded in the General Ledger. This should be the date the transaction took place (it is essential that transactions are entered immediately).

It is important that you log onto the Bank website and check your account routinely throughout March. Early detection of a transaction that is wrong will allow you the opportunity to remedy the issue within the transacting month and subsequently the statement will balance.

Please ensure you enter your Purchase Card transactions as they occur and attached the relevant evidence. Any transactions shown on the NatWest website on the **21 March** should be included in the bank tape, transactions made after this date may not appear on the bank tape for March.

The bank tape for March transactions will most probably be available on the **2 April**. This will allow purchase card transactions to be **compared and authorised by 4 April** to ensure those transactions are recorded in 2023/24.

(Please Note: Although an item may be purchased and the card details given on a particular day, the date it appears on the NatWest website and subsequent statements may be different to this due to the Merchants processing cycle and is out of our control).

It should be noted that any supplier paid historically by procurement card must not be set up as a creditor on Authority Financials in order to avoid these procedures.

Any purchases made before the end of March, over the £1,000 limit, can be added to the creditors list in the same way as creditor's invoices.

If you are on leave during the window for comparing transactions, ensure you have told your nominated person (another cardholder within your service) that they will have to compare your transactions. Additionally, an authoriser who plans to be absent should let Procurement know before the 18 March in order to nominate an alternative to ensure that all transactions are compared and authorised before the deadline of the 4 April.

Defrayed Expenditure to Qualify for Grant

In some circumstances, Government departments and agencies may still require expenditure to have been cleared at the bank by 31 March for goods and services received before 31 March.

If the failure to make such a payment by 31 March will result in a loss of grant, then in order to ensure that these invoices are cleared at the bank before 31 March, it will be necessary to ensure that they are input to the accounts payable system and included as a BACS transmission by the 21 March payment run at the latest.

To achieve this all invoices must be completed and authorised by 5pm Wednesday 20 March.

Payments in Advance

A payment in advance occurs when revenue expenditure, wholly or partially attributable to the next financial year (2024/25) has of necessity been incurred in the current financial year (2023/24).

You are reminded that the criteria for deciding which year an invoice should be charged to is the date on which the goods or services were received. Under no circumstances should this be viewed as an opportunity to transfer overspends into the next financial year.

Templates for Payments in Advance lists are available in the Accountancy Services pages of the Intranet. These forms must be completed and returned to Finance by **Friday 12 April 2024**.

Income

Accounting Rules

Where goods and services were "SUPPLIED" to the Council's customers by 31 March the income **MUST** be accounted for in the **OLD** financial year (2023/24).

Where goods and services were "SUPPLIED" to the Council's customers on or after 1 April the income **MUST** be accounted for in the **NEW** financial year (2024/25).

Sundry Debtors

Invoices can be raised for either financial year, 2023/24 or 2024/25, by entering the appropriate date in the "GL Date" field on the invoice entry screen (either Fast Track or Standard). Please check that once the date has been entered, the appropriate year and period displayed in the field immediately below the date field is the one you expect it to be charged into. **NB If you have any problems when trying to enter the correct year i.e. it is not accepted, please contact finance system support.**

Entering a date prior or equal to **31 March 2024** will show the income in the old financial year (2023/24). A date of **1 April 2024** or later will show it in the new financial year (2024/25).

This facility will be available for **seven days** until **5.00pm Sunday 7 April 2024**, at which time any invoices relating to the old year, not yet raised, must be entered onto a Sundry Debtors List.

For each debtor raised in the new year but relating to the old year, the appropriate details must be entered on the form i.e. debtor name, brief details, the Authority Financials invoice number, the classification of the debtor, the income code and an amount, net of Value Added Tax (where the amount owing is greater than £1,000). Under no circumstances will items on the Sundry Debtors list for a lesser amount than this or composite amounts greater than £1,000 be charged to the old year. These forms must be completed and returned to Finance **by Friday 12 April 2024**.

There may be instances where income is owing to the Council as at 31 March 2024, but an Authority Financials invoice has not/will not be issued, e.g. in respect of grant claims etc. Wherever possible, details of such outstanding income should also be included on the debtors form. If you feel this is not possible, for whatever reason, please discuss the matter with your Service Accountant.

Income in Advance

Income in Advance covers income received in 2023/24, which relates to services etc., which will be provided in the new year. Again, this facility should not be viewed as an opportunity to transfer additional income / underspends into the next year.

These will only be considered where the amount is greater than £1,000. Under no circumstances will items for a lesser amount than this or composite amounts greater than £1,000 be charged to the old year.

Any requests to roll forwards grant income into the new financial year must be supported by evidence such as a funding agreement or confirmation from the funding body that they give their approval to do this.

Templates for Sundry Debtors and Income in Advance lists are available in the Accountancy Services pages of the Intranet. These forms must be completed and returned to Finance **by Friday 12 April 2024**.

Stock Certificates

Stocks (inventories) of goods and materials which are chargeable to revenue, but which have not been used at the year-end should be carried forward so they can be charged in the year when they are used.

Stock certificates must be supported by itemised schedules showing individual prices per item at cost price exclusive of VAT. If in doubt about the basis of valuation, please consult the relevant Service Accountant.

Each Department must provide certificates signed by the relevant RSO for stock held at 31 March 2024 together with the appropriate back up information.

A standard stock certificate is available in the Accountancy Services pages of the intranet.

The following stocks should be included:-

STOCK	SERVICE AREA
Platform Bars	Environment & Place
Printroom Café	Environment & Place
Salt Ayre	Environment & Place (Leisure)
Williamson Park	Environment & Place
Civic Gifts	Governance
Taxi Plates	Governance (Licensing)
Wines and Spirits	Governance
Lifeline	Housing & Property (HRA)
Radar Keys	Housing & Property
RMS Van Stocks	Housing & Property (RMS)
Museums	Sustainable Growth

All stock takes **MUST** take place between 31 March and 1 April 2024.

All stock certificates together with the detailed stock lists and calculations where relevant must be returned to Financial Services by **4 April 2024**.

Training and Travel Expenses, Overtime Claims

As part of the year end processing, it is imperative that training and travel expenses together with overtime claims relating to the Financial Year 2023/24 are charged into that year.

It is therefore crucial that **all claims** relating to the 2023/24 financial year are received in Financial Services by the payroll deadline, which is **4 April 2024**.

Travel and subsistence claims submitted via the MyView Dashboard (Employee Gateway) must be approved by **4 April 2024**.

Any claims received after this date will be paid in May and will be charged to your 2024/25 budget.

**Financial Services
List of Contacts**

SERVICE AREA	CONTACT	TELEPHONE NUMBER
Environment & Place – all except: AONB, Hospitality & Events Management Food Safety, Pest Control & Salt Ayre Leisure Centre	Andrew Kipling Diane Wright Mal Hetherington	2143 2305 2126
Governance	Mal Hetherington	2126
Housing & Property (inc. HRA)	Rebecca Lord/Jill Jenner	2270/2834
Customer Services and Facilities	Mal Hetherington	2126
People & Policy	Mal Hetherington	2126
Planning & Climate Change	Diane Wright	2305
Resources	Mal Hetherington	2126
Sustainable Growth	Diane Wright	2305
ACCOUNTANCY		
Chief Resources & S151 Officer	Paul Thompson	2603
Accountancy Manager	Elaine Dowling	2721
Principal Accountant (Service Support)	Andrew Kipling	2143
Principal Accountant (Housing)	Rebecca Lord	2270
Accountant	Shona Lee	2012
Accountant	Lucie Peters	2119
Assistant Accountant	Sakub Hussain-Waite	2434
Accountancy Assistant	Heather Knowles	2324
Trainee Accountant	Liz Howarth	2279
Trainee Accountant	Louise Roberts	2398
FINANCE SYSTEMS SUPPORT		
financesystems@lancaster.gov.uk		
EXCHEQUER SERVICES		
Exchequer Services Manager	Dorret Conway	2168
creditors@lancaster.gov.uk	Tel: 2130	
debtors@lancaster.gov.uk	Tel: 2137	
cashiers@lancaster.gov.uk	Tel: 2263	
PAYROLL		
payroll@lancaster.gov.uk	Tel: 2128	
PROCUREMENT		
procurement@lancaster.gov.uk	Tel: 2570	

Glossary of Terms

Accruals Basis

Accounting for income and expenditure during the financial year in which they are earned or incurred, not when money is received or paid.

Capital Expenditure

Expenditure on the acquisition or creation of a tangible asset or expenditure which adds to and not merely maintains the value of an existing tangible fixed asset.

Capital Slippage

A delay in the progress of a capital scheme resulting in expenditure moving (slipping) to future periods.

Creditor

Creditor is a person, company, or other entity that has delivered a product, service or loan, and is owed money by the Council.

Debtor

A debtor is a person, company, or other entity that has received a product or service and owes the Council money.

Income in Advance

Income received in the old year (2023/24), which relates to services etc., which will be provided in the new year (2024/25)

Payment in Advance

When revenue expenditure, wholly or partially attributable to the next financial year (2024/25) has of necessity been incurred in the current financial year (2023/24).

31st May deadline

Month	DATE 2023/24	External Deadline	Accountancy	Engineer	Other	DATE WP COMPLETED	DATE JOURNAL DONE	WP REFERENCE	Accounting Guidance
April 24		Fixed element of SLAs allocated	AK						
		IAS19 info request sent to Services (A/L & Flexi Balances) - Holiday Accrual	All						
03-Apr		Bad Debt/ Write Off's Ensure all write offs have been approved & actioned in 2022/23 List all write offs in year and supporting rationale		DC/ST					
		Print runs for unrepresented cheques and outstanding debtors as at 31/03/2024		DC/LTuck					
		Period 12 capital monitoring and slippage forms sent to Services (GF) Deadline: 12/04/2024	SL						
03-Apr		Period 12 capital monitoring and slippage forms sent to Services (HRA) Deadline: 12/04/2024	RL						
		Period 12 monitoring information sent to Services (to inform Variance Analysis) Deadline:	All						
		Circulate Capital Commitments information to services for return within one week Deadline:	SL/LP						
03-Apr		Stock Certificates returned to Accountancy	All						
		IAS19 info returned from Services (A/L & Flexi Balances) - Holiday Accrual	All						
03-Apr		Final Internal Recharges :							
		Photocopying	MH						
		Telephony	MH						
04-Apr		Postage	MH						
		Last date for authorising purchase card transactions							
04-Apr		Staff Capital Allocations returned to Accountancy (Engineers)	DW						
04-Apr		Staff Capital Allocations returned to Accountancy (HRA/RMS)	RL						
04-Apr		Cash banking/receipting journals (Cash Routed Back)	LP/SL						
05-Apr		Last date for entering Old Year invoices onto AF Creditors for processing	All						
		Last date for processing Old Year transactions on TOTAL	All						
05-Apr		Last date for processing Old Year transactions on OHMS							
		Last date for entering Old Year Debtors accounts including rechargeable works	All						
05-Apr		Last date for normal run of invoices directly entered on to AF chargeable to 2023/24	All						
08-Apr		Systems down to allow year-end processes to be run		DC					
11-Apr		Fixed Assets:Review of Heritage Assets	SL/LP						
11-Apr		Fixed Assets:Review of Assets under Construction	SL/LP						
11-Apr		Fixed Assets:Review of Asset Held for Sale	SL/LP						
11-Apr		Fixed Assets:Process Asset Reclassifications	SL/LP						
11-Apr		Related Party Transactions - Send out Related Party Transaction letter to Members + MT - Send out Partnership Spreadsheet to Services	HM/PT						
		April Salary Accruals	AK						
12-Apr		Year End Bank Reconciliation	SL/LP						
12-Apr		Revenue Sundry Debtor / Creditor lists returned to Accountancy	All						
12-Apr		Completed capital slippage forms returned to Accountancy	SL						
12-Apr		Stock Certificates entered onto and reconciled to ledger:							
		RMS Van Stocks	RL						
19-Apr		Storey Printrooms	MH						
		Paper/Envelope Stocks	MH						
		Lancaster & Morecambe VICS	DW						
		Museums	DW						
		Eric Morecambe Statues	DW						
		Platform Bars	DW						
		Salt Ayre	MH						
		Taxi Plates	JJ						
		Williamson Park	AK						
		Lifeline Equipment	RL						
		Staff Capital Allocations Completed on ledger (Engineers)	DW						
		Staff Capital Allocations Completed on ledger (HRA/RMS)	RL						
		Capital Receipts Creditor - RTB - DCLG	RL						
		RMS Staff Salary Allocations Completed (on ledger)	RL						
		All Capital Receipts identified	LP						
		Period 12 monitoring information returned to Accountancy (to inform Variance Analysis)	All						
		Note 32 Members Allowances Final Members Allowances claims Update notes (P1-10) + P12 totals above Deductions from pay (F7100) cleared and creditor raised NI Holding Account (F7102)cleared and creditor raised Superannuation Holding Account (F7103)cleared and creditor raised Apprenticeship Levy Holding Account (F7111) cleared Income Tax Holding Account (F7105) cleared and creditor raised Cycle Scheme Holding Account (F7110) cleared and creditor raised Insurance Premiums Holding Account cleared	MH SL/LP SL/LP SHW SL/LP MH MH						
		Review and issue instructions re. Working paper requirements, content, and responsibilities for Statement of Accounts production.	PT						
		Accrue for Investment Interest due to 31 March	SHW						
		Interest payable to HRA to be calculated	SHW						
	Unidentified Cash Income Account & suspense cleared (LT500 & LT501)	LP/SL	DC/KG						
	Reconcile Investment and Borrowing and production of Statements/ Notes	LP/SL							
	Provisional reconciliation statement produced for all financial systems		DC						
	P60's produced and distributed		DC/EB						
	HRA Capital Receipts Pooling finalise	RL							
	HRA Central Control recharges	RL							
	Historic Buildings Grants	RL							
	RMS Internal Accrual (Client/Contractor)	RL	DG/KA						
	Work in Progress valued	RL	DG/KA						
	Stock Enhancement Account cleared	RL	DG/KA						
	Stores Oncost Accounts cleared	RL	DG/KA						
	Stores System reconciled to Ledger	RL	DG/KA						
	Stores Stock Certificate received (WLD/VMU)	RL	CD/LM						
19-Apr		Finalise GF Capital Creditors / Debtors / IIA / PIA (including Externally Funded Initiatives)	SL						
19-Apr		Finalise HRA Capital Creditors / Debtors / IIA / PIA (including Externally Funded Initiatives)	RB						
19-Apr		Finalise capital expenditure on REFCLUS and non current assets NO FURTHER CAPITAL INCOME OR EXPENDITURE JOURNALS BEYOND THIS POINT Related Party Transactions - Run disclosures for Members + MT against AP/ AR systems to confirm values - Consider materiality for both parties Payroll Analysis Pay totals 11-13 to auditors FTE: NCoS List of starters/ leavers and amendments	SL PT						

31st May deadline

Month	DATE 2023/24	External Deadline		Accountancy	Engineering	Other	D/TE W/P COMPLETED	DATE JO JOURNAL DONE	W/P REFERENCE	Accounting Guidance
			Outstanding "live" commitments on purchasing system reviewed and rolled forward	ALL	DC					
19-Apr			Collection Fund Accounts completed – Provisional, subject to final NNDR3	ED						
			Finalise internal debtors/creditors reconciliation	RL/AK						
22-Apr			Process non current asset additions in GL and on RAM	SL						
22-Apr			Process REFCUS entries in GL	SL						
22-Apr			Period 13 monitoring / provisional outturn sent to Services (to inform Variance Analysis)	All						
22-Apr			Finance Lease accounting entries completed							
			Confirm values to draft Note	LP						
23-Apr			External Revenue Sundry Creditor/Debtor/Payments in Advance/Income in Advance lists actioned (including Externally Funded Initiatives)							
			People & Policy	MH						
			Resources	MH						
			Governance	MH						
			Sustainable Growth	DW						
			Planning & Climate Change	DW						
			AONB	DW						
			Hospitality & Events Management	DW						
			Environment & Place	AK						
			RMS	RL						
			Housing Services (GF)	JJ						
			Housing Services (HRA)	RL						
			Corporate Accounts	LP/SL/ED						
			RMS Rechargeable Repairs balanced	RL						
			RMS Insurance Debtor actioned	RL						
			Trusts, Bequests and Prize Funds completed (not required in SoA now) - <u>Jnls for interest still required</u>	LP						
			HRA OHMS (Anite) Reconciliation balanced to Tenants income account (H7101)	RL						
			HRA OHMS (Anite) interface feeders reconciliation (Rent debit holding account/Revenue accounts)	RL						
			HRA Leasehold costs journalled and income accrued	RL						
			HRA Wheatfield Court (Leasehold for the Elderly) costs journalled and income accrued	RL						
			HRA Wheatfield Court lease sales/purchases (agree transactions to balance sheet)	RL						
			Process General Fund Revaluations in GL & RAM	LP						
			Process HRA Dwelling & Non-Dwelling Revaluations in GL & RAM	LP						
			IAS 19 pension Journals processed in ledger	LP						
			IAS 19 Pensions:							
			Evidence of review of Actuarial Assumptions used by Senior Management	LP						
			Financial Instruments : Reconciled and Journals Completed	ED						
			Officer Emoluments : Information Completed and SoA updated	MH	DC/EB					
			Members Allowances : Information Completed and SoA updated	MH	DC/EB					
			Vehicle Accounts cleared (following completion of accruals)	AK						
			Promenade Bonds	AK						
			Cycle Locker Deposits	DW						
			Other Holding Accounts cleared (including externally funded initiatives)	All						
			Reconciliation of Holding Accounts reviewed	AK						
			Review Balance Sheets (ensure previous year Debtors / Creditors have been cleared first)	AK						
			Cash Books Reconciled and Statement produced:							
			Payments No. 1	HK						
			Payments No. 2	HK						
			Collection Fund	SL/LP						
			General Account	SL/LP						
			Consolidated Bank Reconciliation Statement	SL/LP						
			Calculate gains/losses on disposal of non-current assets	ED						
			Process asset disposals in RAM	SL/LP						
			Related Party Transactions							
			- Run disclosures against ledger system to confirm values							
			- Update Partnership spreadsheet for values							
			- Consider materiality	PT						
			Confirm Impairment Memo and update RAM if required	ED						
22-Apr		??	CPR 4 completed	SHW/ED						
23-Apr			NNDR3 reconciled to Collection Fund Accounts	ED						
24-Apr			GF Depreciation Charges allocated	SL						
24-Apr			HRA Depreciation Charges allocated	SL						
29-Apr			HRA Capital Expenditure finalised	RL						
29-Apr			HRA Capital Financing finalised	RL/ED						
30-Apr		30-Apr	NNDR3 completed	ED						
May 24	02-May		GF & HRA Reserves & Appropriation & DRF journals completed: CAPITAL	All						
	02-May		Finalise GF capital expenditure and financing spreadsheet	SL						
			Process MRP Charges in GL	ED						
			Period 13 Adjustments / Accruals Finalised	All						
	03-May		Deadline for Return of Related Companies Accounts (NB: Draft, if audited accounts not ready)	PT						
			GF Asset register reconciled to balance sheet and RAM (before M& A cleared)	SL/LP						
			REVENUE MANAGEMENT & ADMIN ACCOUNTS CLEARED	AK						
			Depot Allocations completed (following completion of capital charges and M&A clearance)	AK						
			Grids Mtce, VMU Allocations completed	AK						
			Bldg Clean Allocations completed	MH						
			Waste Collection Consolidation Account cleared	AK						
			RMS Accounts cleared to HRA	RL						
			HRA non-dwellings asset register reconciled to balance sheet & RAM	SL/LP						
			HRA council dwellings asset register reconciled to balance sheet & RAM	SL/LP						
			H&H Externally funded Initiatives balanced (e.g. Homelessness, HIA, TCA, SRP, ASB, etc)	JJ						
			AONB Balanced	DW						
			HRA Welfare Account grounds maintenance and management allocations	RL						
			GF contribution to HRA grounds maintenance costs	RL						
			Amortisation of premia and discounts to be processed in GL	ED						
			Current Cost vs Historic Cost Depreciation Adjustment Posted	SL/LP						
	08-May		GF & HRA capital financing requirement updated	ED/RL						
	10-May		Review Provisions: Collection Fund	ED/PT						
			General Fund Bad Debts	ED						
			HRA Bad Debts	RL						
			Insurance	LP/SL						
			Legal	MH						
			Environmental Services Provisions (Stock Write-Off)	AK						
			Housing Benefits reconciled (to ledger)	MH						
			Updated systems reconciliation statement for all financial systems		DC					

31st May deadline

Month	DATE 2023/24	External Deadline	Accountancy	Engineer	Other	DATE WIP COMPLETED	DATE JOURNAL DONE	WP REFERENCE	Accounting Guidance		
10-May		GF & HRA Reserves and Appropriation journals completed: REVENUE	All								
		External Audit Costs: Data Reconciled and SoA Updated	MH								
		Contingent Liabilities memo issued to Management Team (due back by 11 May)	AK								
		Subsidiary Companies/Group a/c's/Partnerships completed & SoA updated	PT								
		RUN VARIANCE ANALYSIS REPORTS	AK/ALL								
		RUN CONTROLLABLE OVERSPENDS OVER £5K REPORT	AK/ALL								
		Agree VA feedback date with PT									
		15-May		Variance Analysis finalised (incl comments agreed with Services)	All						
				Controllable Overspends over £5K finalised (incl comments agreed with Services)	All						
				Journals							
				Excel download all Journals raised P11-13							
				Add to P1-10	AK						
				Rerun report P1-13 in front of auditor (Completeness)							
				Update Prudential Indicators	ED						
				Review of potential Carry Forward requests	All						
Provisional Outturn (revenue & capital) figures to Chief Officer (Resources)	All										
Balance Sheets run off and reviewed	ED/AK										
20-May		VA Feedback actioned									
		NO FURTHER JOURNAL POSTINGS									
20-May		Produce Cash Flow Statement	ED								
		Review of Contingent Liabilities completed to inform SOA	AK								
20-May		Final reconciliation statement and documentation produced for all financial systems		DC							
		Balance Sheets Cash Allocations Completed	???								
		All Working Papers reviewed and Certified by Accountants	ED/AK								
24-May		Review of Post Balance Sheet events completed to inform SOA	All								
		Statement of Accounts finalised	All		PT						
		31-May	Statement of Accounts Approved by Paul & Published (Unaudited)			PT					
June 24	??	Whole of Government Accounts	LP								
		Closedown Report to Cabinet (**/** Meeting)			PT						
		P11D deadline		DC/EB							
July 24		RO Forms Completed	SL/LP								
		CO Forms Completed	SHW/ED								
		Closedown Report to Budget & Performance Panel (**/07/2024)			PT						
		Papers to Audit Committee (Report, SoA & ISA 260)									
		Statement of Accounts & Annual Governance Statement approved by Audit Committee (**/07/2024 Meeting)			PT						
		Statement of Accounts publication deadline (31st July 2024)			PT						
		31-Jul	31-Jul	Team Wash Up Meeting Lessons learnt for future years							



Simon Hoare MP
Minister for Local Government
2 Marsham Street
London
SW1P 4DF

To All Chief Executives, Chief Financial Officers,
Local Authority Leaders and Local Audit Firm
Partners

8 February 2024

Dear Colleagues,

Local Audit Consultation

I am delighted that today the Government is launching a consultation and Joint Statement, progressing the commitments made by the previous Minister for Local Government to work with the Financial Reporting Council (FRC), and other organisations in the local audit system on cross-system proposals to clear the backlog and put the local audit system on a sustainable footing.

Local audit is both a vital and independent source of assurance and a key element of the checks and balances within the local accountability framework. A significant number of local audits in England are outstanding. The issues facing local audit are widely recognised as multi-faceted and complex. Delays are to an extent affecting Scotland and Wales as well as England. They also impact different sectors, not just local government. It is widely recognised that many organisations in the local audit system have contributed to the delays experienced since 2017/2018 and that audits have become more challenging, with firms responding to a changing regulatory environment. In addition, pressures on the system were compounded during the COVID-19 pandemic and by an aging workforce.

The consultation seeks views on proposed legislative changes to the Accounts and Audit Regulations 2015 (the 2015 Regulations). We have published a draft statutory instrument alongside the consultation which covers the core elements of the proposed amendments. These, along with the Joint Statement are available at www.gov.uk/government/consultations/addressing-the-local-audit-backlog-in-england-consultation.

These cross-system proposals have been developed and agreed by the Department for Levelling-Up Housing and Communities (DLUHC), the FRC, the National Audit Office (NAO), the Chartered Institute of Public Finance and Accountancy (CIPFA), the Institute of Chartered Accountants in England and Wales (ICAEW), and Public Sector Audit Appointments (PSAA).

These are not proposals we take lightly, but these are exceptional times. Key organisations across the local audit system, including the Government, share the conviction that bold steps are necessary to reset the system.

The Joint Statement provides vital context, and explains the package of measures and how the various elements are intended to interact and explains that the wider package of measures consists of three stages:

- Phase 1: Reset involving clearing the backlog of historical audit opinions up to and including financial year 2022/23 by 30 September 2024.
- Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.
- Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

The consultation itself covers questions on:

- Phase 1: 'Backstop' Proposals for Financial Years 2015/2016 to 2022/2023 and
- Phase 2: 'Backstop' Proposals for the Recovery Period, Financial Years 2023/2024 - 2027/2028

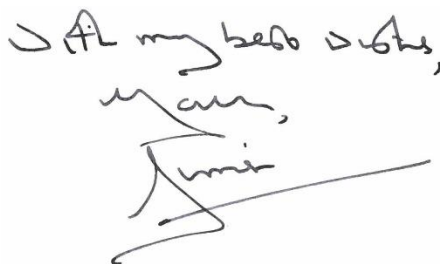
This consultation will run for four weeks from 8 February 2024 to 7 March 2024. This is an open consultation, and we welcome the views of any individual or entity interested in the proposals, including all Category 1 authorities and their Section 151 officers, audit firms, and other organisations which form part of the local audit framework. You can respond to this call for evidence through our online consultation platform Citizen Space: <https://consult.levellingup.gov.uk/local-audit-and-conduct/addressing-the-local-audit-backlog-in-england>.

The NAO is also consulting in parallel to this consultation, on related changes to the Code of Audit Practice. A link to the NAO consultation can be found here: www.nao.org.uk/code-of-audit-practice-consultation. Further detail on the NAO's proposals can also be found in the Joint Statement. The CIPFA LASAAC Board will be consulting shortly on related changes to the Code of Practice for Local Authority Accounting.

While I recognise the challenges there have been I would like to encourage you to continue undertaking existing work to produce and audit local authority financial statements while the consultations take place. Any slowdown in activity would lead to further issues in the future and, ahead of the first proposed backstop date. Please do continue to work together to ensure that as many audits can be completed in full as possible.

These proposals are an important step in restoring timely and high-quality financial reporting and audit for local bodies and I am grateful for the hard work and collaboration of system organisations in developing these measures. Please let us know your views so that we can work closely together to refine and implement measures to clear the backlog of local audit opinions, and develop the long-term reforms required to prevent a backlog recurring.

I look forward to seeing your responses.



With my best wishes,
Yours,
Simon

SIMON HOARE MP
Minister for Local Government

Addressing the local audit backlog in England: Consultation

Published 8 February 2024

Topic of this consultation:

Local audit is both a vital and independent source of assurance and a key element of the checks and balances within the local accountability framework. The backlog in the publication of audited accounts of local bodies in England has grown to an unacceptable level.

This consultation seeks views on amending the Accounts and Audit Regulations 2015 as part of a package of cross-system measures to clear the backlog and put the system on a sustainable footing.

This document should be read in conjunction with the [Joint Statement](#) from system partners, including the Department for Levelling Up, Housing and Communities.

Scope of this consultation:

The proposals covered by this consultation relate specifically to 'Category 1' Authorities. Category 1 bodies encompass local authorities, but also police and fire bodies, as well as bodies such as National Parks Authorities, waste authorities and Passenger Transport Authorities.

More specifically, in accordance with the [Accounts and Audit Regulations 2015](#), a "Category 1 authority" means a relevant authority that either—

(a) is not a smaller authority; or

(b) is a smaller authority that has chosen to prepare its accounts for the purpose of a full audit in accordance with the Local Audit (Small Authorities) Regulations 2015.

For the definition of "relevant authority", see [section 2 of the Local Audit and Accountability Act 2014](#).

For the definition of a "smaller authority", see [section 6 of the Local Audit and Accountability Act 2014](#).

Geographical scope:

The questions in this consultation relate to local bodies in England, as defined above.

Basic information

In accordance with section 32 of the Local Audit and Accountability Act 2014, there is a statutory duty to consult the following entities in relation to amendments to the Accounts and Audit Regulations 2015:

- the Comptroller and Auditor General,
- such representatives of relevant authorities as the Secretary of State thinks appropriate, and
- the recognised supervisory bodies

This is an open consultation, and we welcome the views of any individual or entity interested in the proposals, including all Category 1 authorities (as defined above), audit firms, and other organisations which form part of the local audit framework.

Body/bodies responsible for the consultation:

The Local Government Performance Division in the Department for Levelling-Up Housing and Communities is responsible for conducting this consultation.

Duration:

This consultation will be open from 8 February. It will be open for 4 weeks for public participation and will close on 7 March 2024.

Enquiries:

For enquiries about the consultation please contact: localaudit@levellingup.gov.uk

How to respond:

You can respond to this consultation through our [online consultation platform](#). We strongly encourage responses via the online survey. Using the online survey greatly assists our analysis of the responses, enabling more efficient and effective consideration of the issues raised for each question.

Alternatively you can email your response to the questions in this consultation to localaudit@levellingup.gov.uk

If you are responding in writing, please make it clear which questions you are responding to.

Written responses should be sent to:

Consultation on Addressing the Local Audit Backlog
FAO Elizabeth Parckar/Local Audit Team
Department for Levelling Up, Housing and Communities
Local Government Performance Division
Fry Building
2 Marsham Street
London, SW1P 4DF

When you reply it would be very useful if you confirm whether you are replying as an individual or submitting an official response on behalf of an organisation and include:

- your name
- your position (if applicable)
- the name of organisation (if applicable)
- an address (including postcode)
- an email address
- a contact telephone number

Introduction

Local audit is both a vital and independent source of assurance and a key element of the checks and balances within the local accountability framework.

A significant number of local audits in England are outstanding. The government, working with the Financial Reporting Council (FRC) and other system partners, is taking steps to clear the backlog and put the system on a sustainable footing moving forward.

This consultation seeks views on proposed legislative changes to the Accounts and Audit Regulations 2015 (the 2015 Regulations). These are central to cross-system proposals agreed by the Department for Levelling-Up Housing and Communities (DLUHC), the FRC, the National Audit Office (NAO), the Chartered Institute of Public Finance and Accountancy (CIPFA), the Institute of Chartered Accountants in England and Wales (ICAEW), and Public Sector Audit Appointments (PSAA).

Given the requirement for concerted action, system partners have published a joint statement explaining the package of measures and how the various elements are intended to interact. This [Joint Statement](#) provides vital context for this consultation and should be reviewed before responding to the questions below.

As the Joint Statement explains, the wider package of measures consists of 3 stages:

- Phase 1: Reset involving clearing the backlog of historical audit opinions up to and including financial year 2022/23 by 30 September 2024
- Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles
- Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit

These are not proposals we take lightly, but these are exceptional times. All system partners, including the government, share the conviction that bold steps are necessary to reset the system.

The [NAO is also consulting](#), in parallel to this consultation, on related changes to the Code of Audit Practice. Further detail on the NAO's proposals can also be found in the [Joint Statement](#).

CIPFA LASAAC will consult on temporary changes to the Code of Practice on Local Authority Accounting for 2023/24 and 2024/25 to reduce burdens on the finance teams and auditors. Further detail on CIPFA LASAAC's proposals can also be found in the [Joint Statement](#).

The government has published a [draft statutory instrument](#) (PDF, 179 KB) alongside this consultation. As explained further below, this covers the core elements of the proposed amendments to the 2015 Regulations.

Phase 1: 'Backstop' proposals for financial years 2015/2016 to 2022/2023

The proposed changes to the 2015 Regulations would require Category 1 authorities to ensure that (subject to consideration of potential exceptional circumstances – see below) by 30 September 2024 they have published audited accounts for financial years 2015/2016 to 2022/2023.

An authority's ability to meet the requirement above would be contingent on an audit opinion being issued in time. For this reason, the NAO is proposing that the Code of Audit Practice be amended so that auditors are required (unless specific circumstances apply – see below) to issue their opinion in time for the authority to publish its accounts by the specified date in the 2015 Regulations (in this case, 30 September 2024).

Regulation 10(2) currently imposes a duty on authorities to publish a delay notice if an audit of accounts has not been concluded before the date specified. We propose to disapply this duty for accounts with outstanding audits for financial years 2015/2016 to 2022/2023. This is because, under these proposals, authorities would be required to publish audited accounts by the backstop date.

The proposal to set the backstop date at 30 September 2024 reflects the need to ensure sufficient time for auditors to issue opinions, including modified or disclaimed opinions due to the backstop, and for bodies to publish accounts containing those audit opinions once the legislation has come into force.

The NAO's consultation proposes that the Code of Audit Practice would introduce exemptions from the proposed statutory deadline for auditors in certain circumstances. These would include, for example, if the auditor is unable to issue their opinion where there are outstanding objections to the accounts that could be material to that opinion.

Where there is an outstanding objection of this nature, we consider it may be desirable to create an equivalent exemption for Category 1 authorities. This consultation also seeks views on other exceptional circumstances in which Category 1 authorities might be exempted from the 30 September 2024 backstop date.

Our intention is to publish a list of Category 1 authorities and audit firms which meet statutory deadlines for the publication of audited accounts and those which do not, making it clear any instances where unaudited accounts had also not been published by the required date.

Under these proposals, the existing requirements in the 2015 regulations relating to the publication of unaudited accounts and to public inspection periods would continue to apply in their current form (see 'Part 5' of the Regulations).

Under these proposals, the published, audited accounts must also be approved in accordance with regulation 9(2) and therefore the approval must be given before the backstop date.

Further context on these aspects of the proposals can be found in the [Joint Statement](#) (especially paragraphs 5 to 14 and 25 to 46) as well as the [draft regulations](#) (PDF, 179 KB).

Questions

Q1. Notwithstanding the possibility of exemptions in exceptional circumstances (covered by questions 3 and 4 below), do you agree that Category 1 authorities should be required to have published audited accounts for all financial years up to and including financial year 2022/2023 by 30 September 2024? (agree, disagree, unsure)

Do you have any comments on this issue?

Q2. Do you agree that the requirement at Regulation 10(2) for Category 1 authorities to publish a delay notice should be disapplied in relation to any outstanding audits covering financial years 2015/2016 to 2022/2023? (agree, disagree, unsure)

Do you have any comments on this issue?

Q3. Do you think it would be appropriate for Category 1 authorities to be exempt from the statutory backstop date of 30 September in circumstances where the auditor is unable to issue their opinion due to outstanding objections to the accounts that could be material to that opinion? (agree, disagree, unsure)

Please explain your response.

Q4. Do you think there would be any other exceptional circumstances which might create conditions in which it would be appropriate for Category 1 authorities to be exempt from the 30 September backstop date? (agree, disagree, unsure)

Please explain your response, including, where relevant, details of exceptional circumstances you consider would justify an exemption.

Q5. We intend to publish a list of local bodies and audit firms which meet statutory deadlines for the publication of audited accounts and those which do not. Do you think there should be additional consequences for Category 1 authorities or audit firms (excluding an authority or firm covered by an exemption) if they do not comply with the statutory deadline of 30 September 2024? (agree, disagree, unsure)

Please explain your response and, where relevant, include any suggested consequences.

Phase 2: 'Backstop' proposals for the recovery period, financial years 2023/2024 to 2027/2028

The proposed changes to the 2015 Regulations would require (subject to consideration of potential exceptions – see below) Category 1 authorities to publish audited accounts by the following dates for financial years 2023/2024 to 2027/2028:

- 2023/24: 31 May 2025
- 2024/25: 31 March 2026
- 2025/26: 31 January 2027
- 2026/27: 30 November 2027
- 2027/28: 30 November 2028

As per the Phase 1 backstop proposals, the NAO is proposing that the Code of Audit Practice would require auditors (unless specific circumstances apply) to issue their opinion in time for the authority to publish its accounts by the specified dates.

As per the Phase 1 backstop proposals, we propose to disapply regulation 10(2), which requires authorities to publish a delay notice if the audit of accounts has not been concluded before the date specified.

Also to maintain consistency with the proposals for phase 1, the NAO's consultation proposes that the Code of Audit Practice would introduce exemptions from the proposed statutory deadlines for auditors in certain circumstances. These would include, for example, if the auditor is unable to issue their opinion where there are outstanding objections to the accounts that could be material to that opinion.

Where there is an outstanding objection of this nature, we consider it may be desirable to create an equivalent exemption for Category 1 authorities. This consultation also seeks views on other exceptional circumstances in which Category 1 authorities might be exempted from the backstop dates for this period.

Our intention is to publish a list of local bodies and audit firms which meet statutory deadlines for the publication of audited accounts and those which do not, making it clear any instances where unaudited accounts had also not been published by the required date.

Questions 10 and 11 below seek views on whether, in light of the proposed deadlines for the publication of audited accounts, the existing 31 May deadline for the publication of unaudited accounts (see regulation 15(1)(a)) remains appropriate for financial years 2024/2025 to 2027/2028. (Note that the deadline of 31 May 2024 for the publication of unaudited accounts for the current financial year is not under consideration.)

Under these proposals, the existing requirements in the 2015 regulations relating to public inspection periods would continue to apply in their current form (see 'Part 5' of the Regulations).

Under these proposals, the published, audited accounts must also be approved in accordance with regulation 9(2) and therefore the approval must be given before the backstop date.

Further context on these aspects of the proposals can be found in the [Joint Statement](#) (especially paragraphs 15 to 46), as well as the [draft regulations](#) (PDF, 179 KB).

Questions

Q6. Notwithstanding the possibility of exemptions in exceptional circumstances (covered by questions 7 and 8 below), do you agree that Category 1 local authorities should be required to publish audited accounts for financial years 2023/2024 to 2027/2028 by the following dates (agree, disagree, unsure)?

- 2023/24: 31 May 2025
- 2024/25: 31 March 2026
- 2025/26: 31 January 2027
- 2026/27: 30 November 2027
- 2027/28: 30 November 2028

Do you have any comments on these dates?

Q7. Do you think it would be appropriate for Category 1 authorities to be exempt from the statutory backstop dates for Phase 2 in circumstances where the auditor is unable to issue their opinion due to outstanding objections to the accounts that could be material to that opinion? (agree, disagree, unsure)

Please explain your response.

Q8. Do you think there would be any other exceptional circumstances which might create conditions in which it would be appropriate for Category 1 authorities to be exempt from the backstop dates for Phase 2? (agree, disagree, unsure)

Please explain your response, including, where relevant, details of exceptional circumstances you consider would justify an exemption.

Q9. We intend to publish a list of local bodies and audit firms which meet statutory deadlines for the publication of audited accounts and those which do not. Do you think there should be additional consequences for Category 1 authorities or audit firms (excluding an authority or firm covered by an exemption) if they do not comply with the statutory deadlines for Phase 2? (agree, disagree, unsure)

Please explain your response and, where relevant, include any suggested consequences.

Q10. The Accounts and Audit Regulations 2015 (regulation 15(1)(a)) currently requires Category 1 local authorities to publish unaudited accounts by the 31 May following the end of the financial year. In light of the proposed deadlines for the publication of audited accounts, do you think the 31 May deadline remains appropriate for financial years 2024/2025 to 2027/2028? (agree, disagree, unsure)

Please explain your response.

Q11. The existing annual deadline for the publication of unaudited accounts is 31 May. As set out above, we are proposing a backstop date for the publication of audited accounts for the financial year 2023/2024 of 31 May 2025. This would mean that 31 May 2025 would be the statutory deadline for both the publication of audited accounts for financial year 2023/2024 and unaudited accounts for financial year 2024/2025. Do you expect this would create any significant issues? (agree, disagree, unsure)

Please explain your response.

Q12. The government anticipates that the Phase 1 backstop proposals will result in modified or disclaimed opinions. A modified or disclaimed opinion at the end of Phase 1 would require auditors to subsequently rebuild assurance. The Phase 2 backstop dates are intended to enable this work to be spread across multiple years. Given this additional work, and noting the further explanation at paragraphs 15 to 46 of the [Joint Statement](#), do you have any views on the feasibility of audited accounts being published by the proposed statutory backstop dates for Phase 2?

Publication of an audit letter

Regulation 20 of the 2015 Regulations places a duty on Category 1 authorities to consider and then publish any audit letter received from the auditor “following completion of an audit.”

The NAO’s Code of Audit Practice currently specifies that an auditor’s annual report meets the definition of an ‘audit letter’ in the 2015 Regulations. In practice, therefore, Category 1 authorities have a duty to consider and publish annual audit reports in accordance with Regulation 20.

The 2020 Code of Audit Practice states that an auditor’s annual report brings together all of the auditor’s work over the year. This should be presented at an appropriate forum at the body (e.g. Audit Committee or Full Council) and be made available on the authority’s website.

A core element of the auditor’s annual report is a commentary on the organisation’s arrangements to secure value for money through the economic, efficient and effective use of its resources. The commentary should be clear, readily understandable and highlight any issues that the auditor wishes

to draw to the attention of the body or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

These arrangements previously allowed for timely and reasonably predictable public reporting of local auditors' audit letters. The recent backlog issues have, however, resulted in both delays to this public reporting and much less predictability in terms of when the auditors' letters would be published.

Under the proposed changes to the NAO's Code of Audit Practice, aimed at helping with clearing the backlog of local audit opinions and restoring more timely reporting of auditors' work on arrangements to secure value for money, the NAO plans to consult on a fixed annual deadline of 30 November for production and subsequent publication of the auditor's annual report.

A fixed cycle may mean that, due to the proposed deadlines for publication of audited accounts for financial years 2023/2024 to 2027/2028, the auditor would issue their annual report before they have completed all of their work. However, it is hoped that these changes will enable the auditor to report the outcome of the majority of their work on financial sustainability and governance in a more timely and predictable way.

It may therefore be helpful for the 2015 Regulations to require reports categorised as 'audit letters' to be considered and published by Category 1 authorities whenever they are issued, rather than limiting this to circumstances in which an audit has been completed.

Further context on these proposals can be found in the [NAO's consultation](#).

Question

Q13. Do you agree that it would be beneficial for the 2015 Regulations be amended so that Category 1 bodies would be under a duty to consider and publish audit letters received from the local auditor whenever they are issued, rather than, as is currently the case, only following the completion of the audit? (agree, disagree, unsure)

Do you have any comments on this issue?

Equality impacts

In considering new legislation, under section 149 of the Equality Act 2010 (the Act), the government is required to:

- eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act;
- advance equality of opportunity between people who share a protected characteristic and those who do not; and
- foster good relations between people who share protected characteristics and those who do not.

Under the Act, protected characteristics refer to:

- age
- disability

- sex
- gender reassignment
- marriage or civil partnership
- pregnancy and maternity
- race
- religion or belief
- sexual orientation.

Question

Q14. Do you have any comments on whether any of the proposals outlined in this consultation could have a disproportionate impact, either positively or negatively, on people with protected characteristics or wish to highlight any other potential equality impacts?

Further feedback

Question

Q15. Finally, do you have any further comments on the proposed changes to the 2015 Regulations not covered by the questions so far, including relating to any unintended consequences?

(Where possible, please limit your response to 500 words)

About this consultation

This consultation document and consultation process have been planned to adhere to the Consultation Principles issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Environmental Information Regulations 2004 and UK data protection legislation. In certain circumstances this may therefore include personal data when required by law.

If you want the information that you provide to be treated as confidential, please be aware that, as a public authority, the Department is bound by the information access regimes and may therefore be obliged to disclose all or some of the information you provide. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Department for Levelling Up, Housing and Communities will at all times process your personal data in accordance with UK data protection legislation and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. A full privacy notice is included below.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact us via the [complaints procedure](#).

Personal data

The following is to explain your rights and give you the information you are entitled to under UK data protection legislation.

Note that this section only refers to personal data (your name, contact details and any other information that relates to you or another identified or identifiable individual personally) not the content otherwise of your response to the consultation.

1. The identity of the data controller and contact details of our Data Protection Officer

The Department for Levelling Up, Housing and Communities (DLUHC) is the data controller. The Data Protection Officer can be contacted at dataprotection@levellingup.gov.uk or by writing to the following address:

Data Protection Officer
Department for Levelling Up, Housing and Communities
Fry Building
2 Marsham Street
London SW1P 4DF

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

We will collect your IP address if you complete a consultation online. We may use this to ensure that each person only completes a survey once. We will not use this data for any other purpose.

Sensitive types of personal data

Please do not share [special category](#) personal data or criminal offence data if we have not asked for this unless absolutely necessary for the purposes of your consultation response. By 'special category personal data', we mean information about a living individual's:

- race
- ethnic origin
- political opinions
- religious or philosophical beliefs
- trade union membership
- genetics
- biometrics

- health (including disability-related information)
- sex life; or
- sexual orientation.

By 'criminal offence data', we mean information relating to a living individual's criminal convictions or offences or related security measures.

3. Our legal basis for processing your personal data

In accordance with section 32 of the Local Audit and Accountability Act 2014, there is a statutory duty to consult the following entities in relation to amendments to the Accounts and Audit Regulations 2015:

- the Comptroller and Auditor General,
- such representatives of relevant authorities as the Secretary of State thinks appropriate, and
- the recognised supervisory bodies

The collection of your personal data is lawful under article 6(1)(e) of the UK General Data Protection Regulation as it is necessary for the performance by DLUHC of a task in the public interest/in the exercise of official authority vested in the data controller. Section 8(d) of the Data Protection Act 2018 states that this will include processing of personal data that is necessary for the exercise of a function of the Crown, a Minister of the Crown or a government department i.e. in this case a consultation.

Where necessary for the purposes of this consultation, our lawful basis for the processing of any special category personal data or 'criminal offence' data (terms explained under 'Sensitive Types of Data') which you submit in response to this consultation is as follows. The relevant lawful basis for the processing of special category personal data is Article 9(2)(g) UK GDPR ('substantial public interest'), and Schedule 1 paragraph 6 of the Data Protection Act 2018 ('statutory etc and government purposes'). The relevant lawful basis in relation to personal data relating to criminal convictions and offences data is likewise provided by Schedule 1 paragraph 6 of the Data Protection Act 2018.

4. With whom we will be sharing your personal data

The data collected may be shared with other government departments and arms length bodies.

For any other bodies all data shared will be anonymised.

DLUHC may appoint a 'data processor', acting on behalf of the Department and under our instruction, to help analyse the responses to this consultation. Where we do we will ensure that the processing of your personal data remains in strict accordance with the requirements of the data protection legislation.

5. For how long we will keep your personal data, or criteria used to determine the retention period

Your personal data will be held for 2 years from the closure of the consultation, unless we identify that its continued retention is unnecessary before that point.

6. Your rights, e.g. access, rectification, restriction, objection

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right:

- a. to see what data we have about you
- b. to ask us to stop using your data, but keep it on record
- c. to ask to have your data corrected if it is incorrect or incomplete
- d. to object to our use of your personal data in certain circumstances
- e. to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

Please contact us at the following address if you wish to exercise the rights listed above, except the right to lodge a complaint with the ICO: dataprotection@levellingup.gov.uk or

Knowledge and Information Access Team
Department for Levelling Up, Housing and Communities
Fry Building
2 Marsham Street
London SW1P 4DF

7. Your personal data will not be sent overseas

8. Your personal data will not be used for any automated decision making

9. Your personal data will be stored in a secure government IT system

We use a third-party system, Citizen Space, to collect consultation responses. In the first instance your personal data will be stored on their secure UK-based server. Your personal data will be transferred to our secure government IT system as soon as possible, and it will be stored there for 2 years before it is deleted.

AUDIT COMMITTEE**Proposed Accounting Policies and Critical Judgements used in the Preparation of the Statement of Accounts 2023/24****Report of Chief Finance Officer****24 March 2024****PURPOSE OF REPORT**

The report sets out the Council's proposed accounting policies and critical judgements to be adopted in completing the 2023/24 Statement of Accounts.

This report is public

RECOMMENDATIONS

It is recommended that the Audit Committee:

1. Approves the Council's proposed accounting policies to be adopted in completing the 2023/24 Statement of Accounts, as set out in Appendix 1
2. Notes the critical judgements made by management when producing the Statement of Accounts. as set out in Appendix 2

1.0 INTRODUCTION

- 1.1 This report presents the significant accounting policies and critical judgements that will be used in the preparation of the 2023/24 Statement of Accounts and summarises the changes from 2022/23 that have been introduced because of amendments to the Code of Practice on Local Authority Accounting 2023/24 (the Code), or as part of the Council's annual review process. They should contain only policies that are relevant to the circumstances of the Council and address material transactions. In line with best practice both should be subject to annual review and agreement by those charged with governance

2.0 ACCOUNTING POLICES

- 2.1 In preparing the statement of accounts, the Chief Finance Officer is responsible for selecting suitable accounting policies and ensuring that they are applied consistently. The Council's accounting policies are the specific principles, conventions, rules and practices that are applied in the production and presentation of the annual Statement of Accounts. These policies must be disclosed as a note to the annual accounts, and a copy of the policies can be found at Appendix 1.

3.0 CHANGES TO ACCOUNTING POLICIES

3.1 There has been no changes from the policies used to prepare the 2022/23 Statement of Accounts.

4.0 CRITICAL JUDGEMENTS

4.1 In line with IFRS and the Code, the Council is required to disclose those judgements that management have made in the process of applying the Council's accounting policies that have the most significant effect on the amounts recognised in the financial statements. These are shown at Appendix 2.

5.0 DETAILS OF CONSULTATION

5.1 Consultation has taken place with the Council's external advisors.

6.0 OPTIONS AND OPTIONS ANALYSIS

6.1 The options that Audit Committee Members might consider in relation to the contents of this report are:

- a) not to approve any of the accounting policies or note the critical judgements.
- b) not to approve some of the accounting policies or note the critical judgements.
- c) to approve all the accounting policies and note the critical judgements

6.2 The preferred option is option C at paragraph 5.1 - to approve all the accounting policies and note the critical judgements

7.0 CONCLUSION

7.1 Revisions have been made to the Council's accounting policies for 2023/24 to reflect the new accounting standards and the Council's material transactions.

APPENDICES

Appendix 1 – Proposed Accounting Policies 2023/24

Appendix 2 – Critical Judgements 2023/24

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

Not Applicable

FINANCIAL IMPLICATIONS

None directly arising from this report

SECTION 151 OFFICER'S COMMENTS

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

LEGAL IMPLICATIONS

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

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

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

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

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

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

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1. ACCOUNTING POLICIES

1.1 Basis of Preparation

The Statement of Accounts summarises the Council's transactions for the 2023/24 financial year and its position on 31 March 2024. The accounts of the Council have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), taking account of the supplementary guidance notes issued by CIPFA on the application of the Code to local authorities, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The accounts have been prepared on a going concern basis, under the assumption that the Council will continue in existence for the foreseeable future.

Unless otherwise stated the convention used in this document is to round to amounts to the nearest thousand pounds. All totals are the rounded totals of unrounded figures and, therefore, may not be the strict sums of the figures presented in the text or tables. Throughout the Statements all credit balances are shown with parentheses e.g. (£1,234).

1.2 Revenue Recognition and Accruals of Income and Expenditure

Revenue is defined as income arising as a result of the Council's normal operating activities and where income arises from contracts with service recipients it is recognised when or as the Council has satisfied a performance obligation by transferring a promised good or service to the service recipient.

Revenue is measured as the amount of the transaction price which is allocated to that performance obligation. Where the Council is acting as an agent of another organisation the amounts collected for that organisation are excluded from revenue.

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Interest receivable on investments is accounted for as income based on the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income has been recognised but cash has not been received, a debtor for the relevant amount is recorded in the balance sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where expenditure has been recognised but cash has not been paid, a creditor for the relevant amount is recorded in the Balance Sheet.

1.2 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature or are available for recall in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. This category includes cash on call and 3 months or less term deposit and instant access money market funds.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

1.3 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of the transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

1.4 Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement which is calculated on a prudent basis in accordance with statutory guidance. This contribution is known as the minimum revenue provision (MRP). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the MRP, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

1.5 Council Tax and Non-Domestic Rates

Billing authorities act as agents, collecting council Tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council Tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (the Collection Fund) for the collection and distribution of amounts due in respect of Council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of Council Tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The Council Tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, regulations determine the amount of Council Tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the year end balances in respect of Council Tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable payments), the asset is written down and a charge made to the Collection Fund. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

1.6 Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end, as employees can carry this forward into the next financial year. The accrual is made at the salary rate applicable in the following accounting year, being the period in which the employee takes the benefit.

The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the Pension Fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the Pension Fund and pensioners and any such amounts payable but unpaid at the year-end.

The Local Government Pension Scheme

Generally, employees of the Council are members of the Local Government Pension Scheme, which is administered on our behalf by Lancashire County Council. It is accounted for as a defined benefits scheme.

Defined benefit scheme - the scheme rules define the benefits independently of contributions payable, and the benefits are not directly related to the investments of the scheme.

scheme. The scheme may be funded or unfunded.

The liabilities of the Lancashire Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projections of projected earnings for current employees.

The liabilities of the Lancashire County Pension Fund attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method. Liabilities are discounted to their value at current prices using a discount rate.

The assets of Lancashire Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

Quoted securities	Current bid price
Unquoted securities	Professional estimate
Unitised securities	Current bid price
Property	Market value

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

Component	Description	Treatment
Service Costs		
Current service costs	Measures the future service costs of the employer estimated to have been generated in the year.	Charged to the comprehensive income and expenditure statement to the services for which employees worked.
Past service costs	The increase in liabilities as a result of a current year scheme amendment or curtailment whose effect relates to years of service earned in previous years.	Charged to comprehensive income and expenditure statement as past non-distributed costs.
Interest costs	The expected increase in the present value of liabilities as members of the plan are one year closer to receiving their pension. The provisions made at present value in previous years for their retirement costs need to be uplifted by a year's discount to keep pace with current values.	Charged to the financing income and expenditure line of the comprehensive income and expenditure statement.
Re-measurements		
Return on plan assets	This is a measure of the return on investment assets held by the plan during the year.	Charged to the pensions reserve or other comprehensive income and expenditure.
Actuarial gains and losses	These arise where actual events do not coincide with the actuarial assumptions made for the valuations or the actuarial assumptions have been changed.	Charged to the pensions reserve or other comprehensive income and expenditure.
Contributions		
Contributions paid to pension fund	Cash paid as employer's contribution to the pension fund in settlement of liabilities.	These are not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be

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

Discretionary Benefits

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

1.7 Events after the Balance Sheet Date

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

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

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

1.8 Financial Instruments

Financial Liabilities

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

The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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

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

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

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

Financial Assets

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

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

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

Financial Assets measured at Amortised Cost

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

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

There is no recognition of gains or losses on fair value until reclassification or derecognition of the asset. Any gains or losses that arise on the de-recognition of the asset are charged to the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

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

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

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

For these financial assets held by the Council, this means that the amount presented in the balance sheet is the fair value of the financial instrument and the interest credited to the

comprehensive income and expenditure statement is the amount receivable for the year in the loan agreement.

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

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

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

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

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

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

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

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

Fair value gains and losses due to changes in fair value are charged to the financing and investment income and expenditure line in the comprehensive income and expenditure statement as they arise.

Expected credit loss model

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

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

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

1.10 Government Grants and Contributions

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

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

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied.

Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or the future economic benefits or service potential must be returned to the transferor.

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

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

1.11 Business Improvement Districts

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

1.12 Heritage Assets

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

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

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

1.13 Intangible Assets

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

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

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

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

1.14 Inventories and Long-term Contracts

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

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

1.15 Investment Property

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

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

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

1.16 Leases

Leases are classed as finance leases, where the terms of the lease transfer the majority of the risks and rewards incidental to ownership from the lessor to the lessee. All other leases are classified as operating leases.

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the balance sheet as a disposal and replaced by a long term debtor in the balance sheet at an amount equal to the net investment in the lease. Finance income in respect of these debtors is recognised at a constant rate of return on the net

investment outstanding in respect of that finance lease.

1.17 Overheads and Support Services

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

1.18 Property, Plant and Equipment (excluding infrastructure)

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

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

Recognition

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

Componentisation

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

Category	Measurement Basis
Community assets	Depreciated historical cost

Dwellings	Current value, determined using the basis of existing use value social housing (EUV-SH)
Operational Property, Plant and Equipment	Current value, determined as the amount that would be paid for asset in its existing use (existing use value – EUV), except for offices that are situated close to the Council’s housing properties where there is no market for office accommodation, and that are measured at depreciated replacement cost which is used as an estimate of current value
Surplus assets	Fair value – highest and best
All other assets	Existing use value

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

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

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

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

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

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

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

Valuations are provided as at 1st April and are undertaken internally by Lancaster City Council's Property Service department in accordance with the methodologies and basis for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors (RICS).

1.19 Impairment

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

Where impairment losses are identified, they are accounted for by:

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

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

1.20 Depreciation

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

Depreciation is calculated on the following basis:

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

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

Disposals and Non-current Assets Held for Sale

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

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

- Their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale.

- Their recoverable amount at the date of the decision not to sell.

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

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

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

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

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

1.21 Infrastructure Assets

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

Recognition

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

Measurement

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

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

Depreciation

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

Annual depreciation is the depreciation amount allocated each year.

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

Asset Type	Useful Life
Sea & River Defences	40 years
Environmental Improvement Works	40 years
Street Furniture, lighting & landscaping	40 years
Footways & Cycleways	20 years

Disposal and derecognition

When a component of an infrastructure asset is disposed of or decommissioned, the carrying amount of the component in the Balance Sheet is written off to the "Other operating expenditure" line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement, also as part of the gain or loss on disposal.

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

1.22 Minimum Revenue Provision

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual charge to revenue towards the reduction in its overall borrowing requirement, which is calculated on a prudent basis determined in accordance with statutory guidance. This contribution is known as the minimum revenue provision (MRP).

1.23 Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

Contingent Liabilities

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

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

Contingent Assets

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

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

1.24 Reserves

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

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

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council. These reserves are explained in the relevant notes.

1.25 Revenue Expenditure Funded from Capital under Statute

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

1.26 Value Added Tax (VAT)

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

1.27 Fair Value Measurement

The Council measures some of its assets and liabilities at fair value at the end of the reporting period. Fair value is the amount that would be received to sell an asset or paid to transfer a liability at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability; or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council uses external valuers to provide a valuation of its non-financial assets and liabilities, for recognition or disclosure as appropriate, in line with the highest and best use definition within IFRS 13 Fair Value Measurement. The highest and best use of the asset or liability being valued is considered from the perspective of a market participant. Inputs to the valuation techniques in respect of the Council's fair value measurement of its assets and liabilities are categorised within the fair value hierarchy as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability

1.28 Group Accounts

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

2.0 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1 the council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

Property Plant & Equipment

The Council's non-current assets within its general fund are valued on the balance sheet in accordance with the statement of asset valuation principles and guidance notes issued by the Royal Institute of Chartered Surveyors. The council carries out a rolling programme that ensures all Plant, Property and Equipment required to be measured at fair value is revalued within a three-year cycle. All assets reviewed had a valuation date of 1 April 2021. Any material changes after the valuation date have been accounted for.

Council Dwellings

The Council's Housing Stock is valued on the balance sheet at Existing Use Value for Social Housing (EUV-SH) as defined by the Royal Institution of Chartered Surveyors (RICS) Valuation – Professional Standards January 2014. Council dwellings are formally revalued every 5 years in accordance with MHCLG's the "Beacon Principal" with desktop reviews in the intervening years.

Investment Properties

The Council has reviewed all assets in accordance with the accounting policy for investment properties confirming they are being held for rental income or for capital appreciation. Properties have been assessed using these criteria, which is subject to interpretation to determine if there is an operational reason for holding the property, such as regeneration.

Provisions

The Council has made judgements about the likelihood of pending liabilities and whether a provision should be made or whether there is a contingent liability. This includes appeals against the rateable value of business properties and legal claims that may result in the payment of compensation or other settlement. The judgements are based on the degree of certainty around the results of pending cases, experience in previous years or in other local authorities.