



Committee: AUDIT COMMITTEE
Date: WEDNESDAY, 18 MARCH 2026
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 19th November 2025 (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. **Strategic Risk Management (Pages 4 - 21)**

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

6. **Internal Audit Progress Report (Pages 22 - 48)**

Report of the Head of Internal Audit

7. **Internal Audit Charter (Pages 49 - 58)**

Report of the Head of Internal Audit

8. **Internal Audit Strategy and Risk Based Plan 2026/27** (Pages 59 - 76)

Report of the Head of Internal Audit

9. **Review of Anti-Fraud & Corruption Policies**

Report of the Chief Finance Officer

Report to follow

10. **KPMG - Annual Audit Report 2024/25**

Report of KPMG

Report to follow

11. **KPMG ISA 260 2024/25**

Report of KPMG

Report to follow

12. **Statement of Accounts Update**

Report of the Chief Finance Officer

Report to follow

13. **Proposed Accounting Policies and Critical Judgements used in the Preparation of the Statement of Accounts 2025/26** (Pages 77 - 98)

Report of the Chief Finance Officer

Published 13 March 2026

ADMINISTRATIVE ARRANGEMENTS

(i) Membership

Councillors Paul Stubbins (Chair), David Whitaker (Vice-Chair), Ruth Colbridge, Brett Cooper, Peter Jackson, Colin Hartley and Isabella Metcalf-Riener

(ii) Substitute Membership

Councillors Gerry Blaikie (Substitute), Dave Brookes (Substitute), Martin Gawith (Substitute), Sally Maddocks (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 10th March 2026.

AUDIT COMMITTEE

Strategic Risk Management

18 March 2026

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 Report

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

1.1 There are currently 25 Strategic Risks open on the register.

1.1 There is one red risk (SR29 LGR, score 15) with 6 amber risks across the restricted and unrestricted risk registers. The only risk outside of the Council’s risk appetite is SR29.

1.2 The attached appendices show the changes to the council’s Strategic Risk Register made during the reporting period 6th November 2025 to 16th February 2026. Changes are highlighted using red text. A summary of the main changes is as follows:

- Risk reviews have been run against 18 Strategic Risks.
- Action plan due dates have been updated for risks SR01, SR02, SR06, SR19 and SR22.
- Action plan descriptions have been updated or added for risks SR01, SR02 and SR06.
- Control measure details have been updated or added for risks SR01, SR02, SR03, SR07, SR16, SR29.
- A control measure has been closed for risk SR02 as it is no longer relevant.

- The gross, residual and target risks scores for SR29 have been increased. The 'likelihood' score being 5, the highest rating. It is the only strategic risk that sits above our risk appetite.

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

Contact Officer: Claire Dubelbeis, Projects and Performance Manager

Telephone: 01524 582505

Email: CDubelbeis@lancaster.gov.uk

Ref: N/A

Strategic Risk Register - Risk Map 16.02.26

| | | | | | | |
|--------|-------------------|------------|-----------------------------------|--------------|-------------------|--------------------|
| Impact | Catastrophic (5) | | | | | |
| | Major (4) | | 6 | | | |
| | Moderate (3) | 12 13 | 2 3 4 7 8 10 14 16 19 20 22 | 5 11 24 | | 25 |
| | Minor (2) | | 1 15 18 | 17 23 | | |
| | Insignificant (1) | | | | | |
| | | Remote (1) | Unlikely (2) | Possible (3) | Highly Likely (4) | Almost Certain (5) |
| | | Likelihood | | | | |

NOTE 1: All risks have been reviewed in the run up to 16th February 2026.
 NOTE 2: The numbers shown on the risk map relate to those on the next page in the first column, not the Strategic Risk (SR) numbers.
 NOTE 3: Only risks which are unrestricted are shown.

| Risk No. | Risk & Owner | Risk Description | Residual Risk Score (Impact x Likelihood) | Risk Category | Existing Control Measure | Existing Control Measure Description | Target (Retained) 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 Mark Davies Paul Thompson | 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 / Fit for the Future | Two in-delivery phases with phase three currently being scoped. | Mark Davies Claire Dubelbeis Alex Kinch | 31/03/2027 | 16/02/2026 | Reviewed in conjunction with the risk owner (Mark Davies) and new control measure added |
| | | | | | Council Strategies | Outcome Based Resourcing (OBR), Investment Strategy, Reserves Strategy and Medium Term Financial Strategy | | | | | | | |
| | | | | | Monthly income monitoring by applicable services | Monthly income monitoring by applicable services | | | | | | | |
| | | | | | Quarterly reporting | Formal quarterly reporting to Cabinet and Budget and Performance Panel | | | | | | | |
| | | | | | Commercialisation | Development of other alternative service delivery vehicles to deliver efficiencies and/ or operational surpluses which can be reinvested into Council Services. | | | | | | | |
| | | | | | Business Plans for Investments | Develop business plans for investment particularly in relation to decarbonisation and renewable energy generation. | | | | | | | |
| | | | | | 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. | | | | | | | |
| | | | | | Fit for the Future Strategy | The Strategy contains a number of principles to achieve Financial Stability. | | | | | | | |
| | | | | | Balanced Budget | To be presented to Council on 25th Feb. 26/27 | | | | | | | |
| 2 | SR02 The Council Mark Davies Paul Thompson | The Council fails to meet the 2026/27 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 | Reserves Policy | Reserves Policy | 2 (2x1) | Outcomes Based Resourcing / Fit for the Future | Two in-delivery phases with phase three currently being scoped. | Mark Davies Claire Dubelbeis Alex Kinch | 31/03/2027 | 16/02/2026 | Reviewed in conjunction with the risk owner (Mark Davies) and new control measure added |
| | | | | | 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 | | | | | | | |

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|---|--|--|---------|---|---|--|---------|----------------|---|--|--|
| | | | | Outcomes Based Resourcing for 23/24, 24/25 and 25/26 financial years. | Outcomes Based Resourcing for 23/24, 24/25 and 25/26 financial years | | | | | | |
| | | | | 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 / Fit for the Future | Outcomes-Based Resourcing (OBR) approach focusing on where resources can have maximum impact on strategic priority areas. | | | | | | |
| | | | | Balanced budget for 26/27 | To be presented to Council on 25th Feb. | | | | | | |
| 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 Annual Appraisal Process Pay and Grading Structure Recent experience suggests that this assisted in attracting applicants with the desired skills and values. Workforce planning exercise being rolled out cross-service | New 3-year People Plan (2023-2026) with key deliverables to mitigate this risk. 25-26 is year 3 of the People Plan. Annual Appraisal Process embedded Pay and Grading Structure - The pay and grading structure and 2019 job evaluation process ensures that all posts are objectively evaluated and then placed on a new pay and grading scale. | 6 (3x2) | | | 16/01/2026 Reviewed on instruction from Alex Kinch. Scores unchanged but new control measure added. | |
| 4 | SR04 The use of council assets is not maximised leading to insufficient funding to meet the funding gap and deliver | 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 | 6 (3x2) | Property Financial | Use of Council Assets Use of Council Assets | Capital Strategy Group Ongoing OBR workstream reviewing assets | 4 (2x2) | Council Assets | To progress with disposals of council assets as outlined through 22/23 OBR process. | Joanne Wilkinson 31/03/2026 02/07/2025 | Limited change. Ongoing review of assets being undertaken and presented to OBR assets. Information |

capital projects.
Joanne Wilkinson

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|--------------------------|--|
| Use of Council Assets | Performance monitoring of leases implemented |
| Use of Council Assets | Budget Monitoring |
| Use of Council assets | Implemented active asset management inc. financial modelling for stock rationalisation. |
| Use of Council assets | Appointed Eckersleys to support the council in asset disposal. |
| Use of Council Assets | Stock Condition Surveys for property group completed |
| Use of Council Assets | Asset Management Strategy in place, |
| Use of Council Assets | Officer energy fit for the future group completed recommendations and report produced presented at OBR Assets |
| Use of Commercial Assets | Commercial Manager post recruited to. |
| Use of Commercial Assets | Estates Improvement Plan developed |
| Use of Council Assets | 10 year capital programme developed and fed through the budget |
| Use of Council Assets | Energy Officer recruited to support reductions in utility costs awaiting start date. |
| Use of Council Assets | Project Officer recruited to - to support delivery of increased capital / revenue projects for next three years. |
| Council Assets | Climate Statement finalised and published with clear actions around improvements. |
| Use of Council Assets | Utilising external support through HPA |
| Use of Council Assets | Repairs Service Improvement plan for property portfolio |

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|----------------------|---|---|------------|
| Council Assets | Updated Asset Management Strategy to be developed to incorporate property performance, as well as Estates and FM areas. | Paul Mackie Joanne Wilkinson Dan Wood | 31/03/2026 |
| Council Assets | Upgrade Asset Management system to CPM this should assist with better property management - fully interfaced system | Paul Mackie Joanne Wilkinson Dan Wood | 31/03/2026 |
| Council Assets | Consideration of commercialisation Plan - aligned with with Estates Imp Plan | Paul Mackie | 31/03/2026 |
| Community Resilience | The Council supports community resilience through CEPGs and FLAG groups etc. The local CEPG own and update their own plans in liaison with the Resilience Officer | Alex Kinch | 31/08/2026 |

presented to B+P in Q1. New CPM system being implemented and this will further assist with better property management functionality.

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|---|---|--|---------|-----------|--|---|---------|----------------------|---|------------|------------|------------|--|
| 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. | 9 (3x3) | Financial | Resourcing the emergency response function | The Council continues to adequately resource its emergency planning function, including maintaining its team of out of appropriately trained emergency response officers. | 6 (3x2) | Community Resilience | The Council supports community resilience through CEPGs and FLAG groups etc. The local CEPG own and update their own plans in liaison with the Resilience Officer | Alex Kinch | 31/08/2026 | 16/02/2026 | Routine review - no changes at this time |
|---|---|--|---------|-----------|--|---|---------|----------------------|---|------------|------------|------------|--|

emergencies.

Kirstie Banks-Lyon
Alex Kinch

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|---|---|
| District emergency | 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 | Business Continuity Plans |
| National Emergency (such as a pandemic) | LRF plans. |
| Financial Planning | Financial Planning - Adequate non earmarked reserves are maintained to allow for the impact of long term emergencies like the pandemic. |
| Business Resilience | Business Resilience - The Council continues to invest in resilience measures eg technology to facilitate remote working. |
| Partnerships | Partnerships - The Council continues to allocate resource to developing its key partnerships LRF, CSP (Community Safety Partnership) and local resilience partners. |
| County wide emergency (such as widespread loss of power and extreme weather events) | The LERP (Lancashire Emergency Response Plan) and plans as required from box 2 and box 3 plans, held in resilience direct. |
| Financial Planning | Adequate non earmarked reserves are maintained to allow for the impact of long term emergencies like the pandemic. |
| Corporate Resilience Exercises - January 2025 | The LGA held two corporate resilience exercises with managers w/c 20th January 25. |

Adaptation Schemes
The Council appraises and potentially invests in schemes and activities that provide adaptation (eg Lune river defence). This will be undertaken through the emerging Our Future Coast programme.
Paul Blakeley
Jonathan Noad
01/07/2026

| | | | | | | | | | | | | | |
|---|--|---|---------|------------------------------|------------------------|---|---------|---|---|--------------|------------|------------|--|
| 6 | SR06 The Council fails to reduce its direct Co2 emissions to 'net zero' by 2030. Mark Cassidy | 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 | 8 (4x2) | Strategy Project / Programme | Delivery plan in place | Climate Change Action Plan - the Climate and Nature Strategy will supersede this | 8 (4x2) | (i) Climate and Nature Strategy (pending) (ii) Annual Climate Report (published December 2025) | (i) The Council continues to work on the delivery of its CaNS. (ii) the Annual Climate Report was presented to Cabinet and subsequently published. | Mark Davies | 01/04/2026 | 05/01/2026 | Risk score remaining unchanged. Recent positive planning decision to decarbonise Williamson Park is a positive; but the refusal at The Storey will require alternatives to be found to ensure the 2030 target can still be met. The recent (initial) Annual Review of our Journey to Net Zero and Energy |
| | | | | | Peoples Jury | 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 | | (ii) Local Area Energy Plan | The LAEP has set out a long-term vision for decarbonising the district by 2040 and | Mark Cassidy | 01/04/2026 | | |

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|---|--|--|---------|--|--|--|---------|-------------------------|--|---|------------------------------|--|---|--|
| | | | | Development of the Local Area Energy Plan and the emergence of the Climate and Nature Strategy | Local Area Energy Plan (LAEP)has been adopted by Cabinet (Oct 2024) and it set out the district's most cost-effective pathways to net zero. Climate and Nature Strategy (CaNS) is funded by a UKSPF award and will be the Council's Climate and Nature Action Plan, bringing together all climate and biodiversity workstreams under one document with realistic ambitions that align with the Council Plan. | | | | | | | looks beyond the council's own 2030 target for its direct activities. The LAEP sets out the changes required to transition the Lancaster district energy system and built environment to net zero while also addressing fuel poverty. It details what changes are required, where, when and by whom. The LAEP has been formally adopted. Implementation via individual projects is ongoing. | Local Area Energy Self-Sufficiency indicates that we are currently on track. | |
| 7 | SR07 The Council fails to deliver its key priorities due to the lack of an underpinning strategy setting out expected delivery / outcomes. Mark Davies Luke Gorst Paul Thompson | 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 Operations Financial | Carbon Zero + Medium Term Financial Strategy (MTFS) Programme Management Fit for the Future Council Plan 2024/27 | 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. Fit for the Future is a strategic programme that assists in the balance of Council plan and MTFS Being refreshed in spring 2026 to include recent progress, following its creation and approved in January 2024. | 4 (2x2) | Priority Policies 24-27 | Council Plan | Mark Davies | 31/03/2027 | 16/02/2026 | Reviewed in conjunction with the risk owner (Mark Davies), new control measure added regarding the Council Plan and old control measure closed. | |
| 8 | SR08 The Council fails to deliver its key projects due to the lack of capacity and resources. Mark Davies | 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 and resourced. Link to Council Plan 24-27: 4.5 Innovative Public Services | 6 (3x2) | People Financial | Local Plan Medium Term Financial Strategy (MTFS) Investment Strategy Capital Programme The Council continues to resource key service teams in | Local Plan Medium Term Financial Strategy (MTFS) Investment Strategy Capital Programme The Council continues to resource key service teams in Planning, economic development, regeneration, property investment and facilities management | 3 (3x1) | Local Plan | Local Plan, due to be adopted in June 28 | Mark Cassidy Mark Davies | 30/06/2028 | 16/02/2026 | Reviewed in conjunction with the risk owner (Mark Davies) and no changes required. | |
| | | | | | | | | | Reserves | Adequate reserves are maintained to allow, due diligence of property investment, regeneration projects and key strategic planning strategies. | Mark Davies Paul Thompson | 30/01/2026 | | |

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|----|---|--|---------|---|---|--|---|------------|--|
| | | | | service teams in management. Planning, economic development, regeneration, property investment | | 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. | Alex Kinch | 31/03/2026 |
| | | | | Collaborative Working | We work in collaboration with other stakeholders. For example, on the Eden Project we are working closely with the County Council. | | | | |
| | | | | Partnership Working | Many of our projects involve working in collaboration with other partners. For example, working with the County Council for the Eden Project Morecambe. | | | | |
| | | | | Capital Programme | Ensure capital programme is prioritised to facilitate match funding leverage and maximise the potential to attract external funding. | | | | |
| | | | | Funding the Future Strategy | Funding the Future Strategy | | | | |
| 10 | SR10 Changes in Government policy impact on our ability to deliver major projects and programmes that would benefit our communities. Mark Davies | 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 Governance Operations People Project / Programme Financial | Continued monitoring and horizon scanning of Government policy | Continued monitoring and horizon scanning of Government policy | 6(3x2) | | 16/02/2026 Reviewed in conjunction with the risk owner (Mark Davies) and no changes required. |
| | | | | | Clear and focused Council strategy to maximise alignment with Government policy and resourcing | 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 | | | |
| 11 | SR11 International and national issues rapidly impact on the strategic and financial context of the Council and / or partners, businesses and communities. Mark Davies | 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 Operations Technology Security Financial | Retention of in-house expertise to provide agility and resilience in rapidly-emerging issues | Retention of in-house expertise to provide agility and resilience in rapidly-emerging issues | 9 (3x3) | | 16/02/2026 Reviewed in conjunction with the risk owner (Mark Davies) and no changes required. |
| | | | | | Strategic responsiveness through continued risk management review | 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 | Strategic risk management approach | | | | | | | |
|----|--|---|---------|------------------------------------|---|---|---------|-------------------------------|---|------------------------------|------------|--|
| 12 | SR12 Budgetary proposals are brought forward / agreed that are then challenged, causing delays or changes to implementation. Mark Davies Paul Thompson | 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 | 3 (3x1) | Strategy Financial | Budget Development OBR / Fit for the Future | Comprehensive, robust and transparent approach to budget development and service delivery. Outcomes-Based Resourcing (OBR) approach to focusing on where resources can have maximum impact on strategic priority areas. | 3 (3x1) | | | | | 16/02/2026 Reviewed in conjunction with the risk owner (Mark Davies) and no changes required. |
| 13 | SR13 The Council's reputation is damaged through its own actions or actions of others in the District. Mark Davies | 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 Strategic Management of Activities Delivery of Services Strategic communication | 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) | | | | | 16/02/2026 Reviewed in conjunction with the risk owner (Mark Davies) and no changes required. |
| 14 | SR14 Major, sudden unforeseen expenditure or income reduction arises, necessitating significant change or reduction to services. Mark Davies Paul Thompson | 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 Reserves Policy Continue financial forecasting | Budget and Performance Panel Reserves Policy Continue financial forecasting and scenario planning e.g. for energy costs | 6 (3x2) | Move to sustainable solutions | Minimise exposure to cost spikes such as energy by moving to sustainable solutions independent of external pressures Council has approved the construction of a Solar Farm at Burrow Beck and also the development of a new Data Centre at Salt Ayre. Both will have a positive impact on the Council's sustainability ambitions but also income generation and cost reduction | Mark Davies Paul Thompson | 31/03/2026 | 16/02/2026 Reviewed in conjunction with the risk owner (Mark Davies) and no changes required. |

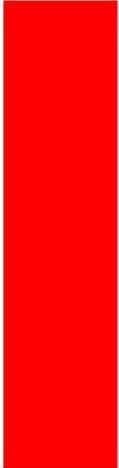
| | | | | | | | | | | | | |
|----|---|--|---------|----------|--|---|-------------------|---|------------------|------------|------------|---|
| | | | | | | | Level of Reserves | As part of the annual budget cycle the s151 Officer is required to make a statement of the adequacy of the Council's reserves, provision and balances and set a minimum level of reserves. This ensures that it is able to mitigate variations in the short to medium term. | Paul Thompson | 31/03/2026 | | |
| 15 | SR15 The Council's infrastructure fails to meet the future needs of the organisation and the residents of the district. Joanne Wilkinson | SR15 The Council's infrastructure fails to meet the future needs of the organisation and the residents of the district. Link to Council Plan 24-27: 4.5 Innovative Public Services; 4.1 Value for money | 4 (2x2) | Strategy | Asset Management Plan Continuous review of assets and infrastructure Councils infrastructure | Asset Management Plan Continuous review of assets and infrastructure OBR Assets group in place. | 2 (1x2) | Asset Management Plan Conduct a major review of Council infrastructure and assets, taking a future focused approach to asset management. | Joanne Wilkinson | 31/03/2026 | 15/07/2025 | Risk re-scored following update to matrix on behalf of Mark Davies. Owner transferred to Jo Wilkinson |
| 16 | SR16 The Council's services fail to adapt to socioeconomic and demographic trends within the district, resulting in failure to meet the needs of local residents and businesses. Mark Davies Alex Kinch | SR16 The Council's services fail to adapt to socioeconomic and demographic trends within the district, resulting in failure to meet the needs of local residents and businesses. Link to Council Plan 24-27: 4.5 Innovative Public Services | 6 (3x2) | Strategy | Corporate Plan Policy Framework Continuous review of strategy and policy LGA Workshop with Members CPC review and action plan. CPC Action Plan progress reported to O&S | Corporate Plan Policy Framework Continuous review of strategy and policy, and alignment with service delivery. These took place in September 2023. CPC review and action plan. Action Plans have now been added into Service Plans. CPC Action Plan progress reported to O&S in October 2025 as a control measure | 2 (1x2) | | | | 16/01/2026 | Reviewed on instruction from Alex Kinch. Scoring remains as is, new control measure added |
| 17 | SR17 Negligent or unlawful action by the Council, resulting in financial or other liabilities. Mark Davies Luke Gorst | SR17 Negligent or unlawful action by the Council, resulting in financial or other liabilities. Link to Council Plan 24-27: 4.6 Openness | 6 (2x3) | Legal | Corporate Governance Continuous review of governance processes | Corporate Governance Continuous review of governance processes to ensure they are fit for purpose | 6 (2x3) | | | | 16/02/2026 | Reviewed in conjunction with the risk owner (Mark Davies) and no changes required. |

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|----|---|--|---------|--|--|--|---------|---|---|---------------|------------|------------|--|
| | | | | Annual Governance Statement and Code of Corporate Governance | The Accounts and Audit Regulations (2015), as amended by the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020, require the Council to conduct a review, at least once a year, on the effectiveness of its system of internal control and include an Annual Governance Statement reporting on the review with the Statement of Accounts. The Council has reviewed and adopted an amended Code of Corporate Governance (dated April 2022). The Preparation and publication of this Annual Governance Statement is in accordance with the principles set out in the CIPFA/SOLACE Framework Delivering Good Governance in Local Government (2016) (The Framework). | | | | | | | | |
| | | | | Training and development | Ongoing training and development to ensure staff and members are equipped to follow governance requirements. | | | | | | | | |
| 18 | SR19 Failure of the Canal Quarter programme to deliver regeneration through use of the Council's assets in the area. Jonathan Noad | SR19 Failure of the Canal Quarter programme to deliver regeneration through use of the Council's assets in the area. Link to Council Plan 24-27: 2.4 Investment and Regeneration | 4 (2x2) | Project / Programme | Programme Management | Programme Management | 2 (1x2) | Development of a Canal Quarter Masterplan | Development of a Canal Quarter Masterplan that sets out a route to successful regeneration of the area in line with local needs and the Council's priorities. This now needs to be updated to preparing a business case for investment options to deliver adopted masterplan. | Jonathan Noad | 31/12/2026 | 19/01/2026 | CQ action updated to reflect status |
| 19 | SR20 Non compliance with Building Safety Executive for LCC owned high-rise buildings. Dennis Graham Paul Mackie Joanne Wilkinson | LCC has three high rise buildings which now fall under the Building Safety Act 2022, and require registration with the Building Safety Executive (BSE). There are numerous risks around non-compliance. Link to Council Plan 24-27: 3.1 Access to Quality Housing | 6 (3x2) | Property Financial | Registration with BSE for high rise blocks Registration with BSE for high rise blocks | Fortnightly senior housing management meetings updating on risks and plans around <u>building safety review</u> . Fire safety works being completed. Fire door audits being undertaken Monthly Compliance Steering Group comprising staff from across the Housing Service meet to <u>discuss issues and tasks that are needed</u> . Tenants Voice group and Building Safety Group established Registration of blocks with BSE complete On-going and regular campaigns on fire safety undertaken with residents. Cabinet (Feb 24) approved decommissioning Bridge House - Housing team now progressing <u>decision</u> . Building Safety Case files prepared ready for call in. | 2 (2x1) | Non-compliance with BSE | To review Building Safety Case files following EWI survey results | Paul Mackie | 31/12/2025 | 02/07/2025 | Limited change - safety case files not yet called in, but will be reviewed following cladding survey results which should be due in next quarter. Bridge House now has 16 residents residing in it as the decant strategy is underway. Work to remove the front cladding on one elevation of Bridge House is commencing in July. |

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|----|--|--|---------|-----------------------|--|---|---------|-------------|---|-------------------------------|---|--|
| | | | | | Non compliance with BSE | Commissioned external cladding survey for Park House - draft report received shows low risk tolerable conclusion. | | | | | | |
| | | | | | Non compliance with BSE | Information updated on improved intranet pages | | | | | | |
| | | | | | Non-compliance with BSE | Resident engagement strategy for building safety approved | | | | | | |
| | | | | | Non-compliance with BSE | Ongoing and regular dialogue with LFRS including site visits | | | | | | |
| 20 | SR21 Non compliance with Regulator of Social Housing Standards. Dennis Graham Joanne Wilkinson | The Social Housing White Paper and subsequent amendments through to the introduction of the Social Housing Regulation Act have highlighted a significant shift in requirements for social housing providers. This will be the biggest shift in a generation, with changes to standards and expectations. Failure to keep up with changes could result in unlimited fines / DLUHC, Regulator or Ombudsman intervention / bad publicity. However clearly the Regulator has laid out that it is unlikely that Councils will meet the required new standards fully and expect to work with landlords to improve performance against new requirements. Link to Council Plan 24-27: 3.1 Access to Quality Housing | 6 (3x2) | Property Financial | Social Housing Regulation | Attendance at benchmarking groups with the Regulator / Ombudsman to stay abreast of updates / developments / best practice / learning | 2 (2x1) | | | 02/07/2025 | Limited change. Continue to keep abreast of what's going on through the sector. Recent announcements include - details of professionalisation, changes to electrical safety requirements, updates on Awaabs Law etc... Annual meeting with the regulator booked for middle of July. | |
| | | | | | Social Housing Regulation | Action planning within the service occurs in preparation for changes | | | | | | |
| | | | | | Social Housing Regulation | Quarterly reports available for portfolio holder outlining changes in the previous quarter produced. | | | | | | |
| | | | | | Social Housing Regulation | Service Improvement Plan well established | | | | | | |
| | | | | | 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. | | | | | | |
| | | | | | Social Housing Regulation | Various external audits utilised e.g. TPAS, Resolve, Pennington Choices | | | | | | |
| | | | | | Social Housing Regulation | Breaches Policy in place | | | | | | |
| | | | | | Social Housing Regulation | Internal Audit to be completed Q3 25/26 | | | | | | |
| | | | | | Social Housing Regulation | Engagement meetings taking place with the Regulator. | | | | | | |
| 22 | SR24 ICT Data Centre. Paul Thompson | 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 | | 6 (3x2) | Data Centre | Business case to be presented to CAG 15th May. Once considered the aim is for it be presented to June/ July Cabinet for formal approval and release from the Development Pool | Nick Goulden Paul Thompson | 31/07/2025 16/07/2025 | Risk rescored and further control measure added. |
| | | | | | 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 | | | | | | |
| | | | | | Cabinet have approved money for the build of a new data centre at SALC | Cabinet have approved money for the build of a new data centre at SALC | | | | | | |

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|----|---|--|----------|---|--|--|----------|--|---|--|--|------------|--|
| 23 | SR27 Waste Strategy. Will Griffith | Increased revenue cost burden to the authority and failure to deliver in line with milestones set out by government (31st March 2026). Link to Council Plan 24-27: 1.5 Reduced Waste | 6 (2x3) | Strategy Financial | Fit for Future Waste Group and Waste Implementation Officer Working Group. | Regular meeting with officers and members taking place to ensure milestones are met. | 2 (1x2) | Waste Strategy Implementation | Officer working groups and relevant sub groups have started in order to develop a project delivery plan. | Will Griffith | 31/03/2026 | 16/01/2026 | Risk reviewed and no change for the time being, until we move past implementation phase in Q1 of next year |
| 24 | SR28 Delivery of Mainway Project. Joanne Wilkinson | Delivery of the Mainway project is not executed as planned. Potential Consequences - Reputational risk and loss of trust from residents, risk around finances and health and safety implications. Delays could also put pressure on staff resources. This risk is on the Housing Risk Register as "H02 Delivery of Mainway Project" (9th Dec 2024) | 9 (3x3) | Project / Programme | Mainway project Mianway project Mainway project | Reports completed on a quarterly basis to update on project progress at a corporate level. Fortnightly project team meetings reviewing progress. Additional resource put into the project by way of Andrew Whittaker moving into a dedicated Lancaster City Council Development Manager post to support the success of this over the course of 23/24 Demolition of school site completed Regular meetings with Homes England taking place to keep them abreast of developments Financial model put forward to Link Planning application approved for Phase 1a and b Various and ongoing engagement events / information sessions with residents and councillors New governance structure with Project Board, Scrutiny Group and sub-groups established. MIAA audit review completed MIAA supporting with PBC for Mainway. Report to Cabinet seeking preferred way forward through seeking partnership (as well as gaining cost for the scheme). | 4 (2x2) | Mainway project Mainway project Mainway project Mainway project | Procurement of next stages to be completed Lune and Derby Houses to be disposed of Masterplan to be completed Applications for funding to be submitted where relevant. | Joanne Wilkinson Joanne Wilkinson Joanne Wilkinson | 31/03/2027 31/12/2025 31/03/2026 | 20/10/2025 | MIAA have nearly completed PBC for Mainway / Skerton case. Ongoing engagement with Homes England now further details of AHP funding has been released. Regular meeting of Programme Board. Unfortunately application for Council Housebuilding Support Fund - unsuccessful. Report scheduled for October Cabinet seeking way forward through partnership / as well as seeking price for Council to complete build. |
| 25 | SR29 Local Government Reorganisation. Mark Davies | In December 2024 the government told local authorities across the UK that Local Government Reorganisation (LGR) will be brought in for geographical areas who have not yet participated. The aim being to create Council's with a population of 500k, or more, in most cases to provide efficiency benefits in the delivery of services. In the short term, whilst these changes are being implemented, this can lead to a number of risks to the delivery of local services. The main concerns being delivering the Ambitions as stated in the Council Plan 24-27 and the risk of staff leaving the Council | 15 (3x5) | Strategy Governance Operations Legal Property Commercial People Technology Security Project / Programme Financial Data Info and Management | Regular discussions at LT and with Members, Lancashire Leaders / CEX groups Council have agreed an x party working group LGR Steering Group | Regular discussions at LT and with Members, Lancashire Leaders / CEX groups Council have agreed an x party working group Set up LGR steering group for Cabinet and senior officers | 10 (2x5) | | | | | 16/02/2026 | Reviewed in conjunction with the risk owner (Mark Davies) and two new control measures added. All 3 risk scores amended. Minor amendments made to a control measure. |

27 and the risk of staff leaving the Council causing problems in the delivery of services.



management

Liaise with Elected Members and Management from nearby Lancashire Authorities

Liaise with Elected Members and Management from nearby Lancashire Authorities to understand their thinking and positions.



PMO in place including all Lancashire authorities

PMO in place including all Lancashire authorities

Strategic delivery partner for LGR selected

Ernst and Young selected as the strategic delivery partner

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

Document is Restricted

AUDIT COMMITTEE

18th March 2026

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 2024/25 and 2025/26.

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 2024/25 and 2025/26 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 2024/25

[Agenda for Audit Committee 20 March 2024 6pm](#)

Internal Audit Plan 2025/26

[Agenda ofr Audit Committee 19 March 2025 6pm](#)

MIAA Internal Audit Progress Reports

[Agenda for Audit Committee 22 May 2024 6pm](#)

[Agenda for Audit Committee 27 November 2024](#)

[Agenda for Audit Committee 30 Jan 2025](#)

[Agenda for Audit Committee 19 March 2025](#)

[Agenda for Audit Committee 21 May 2025](#)

[Agenda for Audit Committee 30 July 2025](#)

[Agenda for Audit Committee 19 Nov 2025](#)

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Internal Audit Progress Report

Audit Committee (18th March 2026)

Lancaster City Council

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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

Global Internal Audit Standards (UK public sector)

Our work was completed in accordance with Global Internal Audit Standards (UK public sector).

1 Introduction

This report provides an update to the Audit Committee in respect of the progress made in against the Internal Audit Plan for 2024/25 and 2025/26 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 Global Internal Audit Standards (UK public sector).

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

This progress report covers the period November 2025 to March 2026.

2 Key Messages for Audit Committee Attention

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

Audit Reviews

The final review from the 24/25 audit plan has been finalised:

- IT Asset Management (Moderate)

The following reviews have been finalised from the 25/26 audit plan:

- Food Safety (Substantial Assurance)
- Treasury Management (Substantial Assurance)
- Social Housing Regulator (Substantial Assurance)
- Revenues & Benefits – Council Tax (Limited Assurance)
- Risk Maturity

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

The following 2025/26 audit reviews are at draft report stage, in progress or are being planned as follows:

- Key Financial Controls (draft report)
- Insurance (fieldwork)
- IT Review - M365 (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 progress with the implementation of recommendations since the previous Audit Committee in November 2025. 28 recommendations have been completed since November 2025, 1 recommendation has been superseded and 2 recommendations have been closed as they are no longer applicable. 7 reports have had all actions completed or superseded, Risk Management, Risk Management – Core Controls., Food Safety, Resilience Emergency Preparedness, Council Tax, Fleet Stock, Reactive Repairs and Maintenance. There are 54 actions either in progress or not yet due. There are 9 actions which are overdue, and we are awaiting updates from management on progress.

Management are working with MIAA to ensure that actions are implemented.

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 Building Compliance Review to be carried forward from Q4 2025/26 to Q2 2026/27. This is due to the Council receiving an inspection notification from the Building Safety Regulator to take place in April 2026.

MIAA – Assured provider to the NCSC Cyber Resilience Audit Scheme

We are proud to announce that MIAA has been officially recognised as an Assured provider under the National Cyber Security Centre's (NCSC) Cyber Assessment Framework (CAF).

This accreditation marks a major milestone for MIAA and reflects our ongoing commitment to helping organisations strengthen their cyber resilience and safeguard critical systems and services.

This achievement, which is the result of a rigorous assessment process, demonstrates our credentials in auditing against the NCSC's Cyber Assessment Framework and, highlights the exceptional skills and experience of our staff as well as our organisational commitment to the highest cyber security standards. While this recognition is a tremendous achievement for MIAA, its greatest value lies with our clients, who can be confident they are engaging highly skilled individuals and a trusted, high-quality audit provider.

The Cyber Resilience Audit (CRA) scheme provides assurance for organisations delivering independent cyber audits, with a strong focus on the Cyber Assessment Framework (CAF). By becoming an NCSC Assured Provider, MIAA has demonstrated:

- Expertise in auditing against the CAF.
- Independence and integrity in delivering high-quality assessments.
- Dedication to helping organisations manage cyber risks in an ever-changing threat landscape.

Added Value

Briefings

Our latest briefings/blogs/podcasts are:

- [Celebrating 10 Years of the MIAA Internship Programme: Reflections from Our 2024 Interns](#)

- [Andy Maloney Blog: Neighbourhoods First: Transforming Local Health and Care Together](#)
- [25/26 MIAA Insight - AI Governance Checklist](#)
- [25/26 MIAA Insight - Local Authority Audit Committee Members Roles and Responsibilities](#)
- 25/26 MIAA Insight – Audit Committee Briefing – Global Internal Audit Standards UK Public Sector

Appendix A: Contract Performance

The Global Internal Audit Standards (UK public sector) state that 'In the UK public sector, a chief audit executive must prepare such an overall conclusion at least annually in support of wider governance reporting, mindful of any specific sector obligations or processes. This overall conclusion must encompass governance, risk management and control.'

Below sets out the overview of delivery for your Head of Internal Audit Opinion for 25/26:

| HOIA Opinion Area | TOR Agreed | Status | Assurance Level | Audit Committee Reporting |
|-------------------------------------|---|--------------|-----------------|---------------------------|
| Core Reviews | | | | |
| Key Financial Controls |  | Draft Report | | |
| Risk Management – Risk Maturity |  | Draft Report | Not applicable | March 2026 |
| Treasury Management |  | Completed | Substantial | March 2026 |
| Revenues and Benefits – Council Tax |  | Completed | Limited | March 2026 |
| Mandatory Training |  | Completed | Moderate | November 2025 |
| IT Review – M365 | | Planning | | |
| Risk Based Reviews | | | | |
| Fleet Stock |  | Completed | Moderate | November 2025 |

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|--|---|------------------|-------------|---------------|
| Food Safety |  | Completed | Substantial | March 2026 |
| Car Parks |  | Completed | Substantial | November 2025 |
| Insurance |  | In progress | | |
| Corporate Health and Safety |  | Completed | Moderate | November 2025 |
| Social Housing Regulator |  | Complete | Substantial | March 2026 |
| Building Statutory Compliance (moved from Q2) | | Cfwd to Q2 26/27 | | |
| Follow Up | | | | |
| Quarter 1 | N/A | Complete | N/A | July 2025 |
| Quarter 2 | N/A | Complete | N/A | November 2025 |
| Quarter 3 | N/A | Complete | N/A | March 2026 |
| Quarter 4 | N/A | Complete | N/A | March 2026 |
| Added Value / Support & Guidance | | | | |
| Audit Committee & Internal Audit Effectiveness Briefing | N/A | Completed | N/A | |

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|--|---|-----------|-------------|---------------|
| Social Housing Wave 3 – Chief Auditor Declaration | N/A | Completed | N/A | |
| 2024/25 Reviews | | | | |
| IT Asset Management* |  | Complete | Moderate | March 2026 |
| Environmental Enforcement – Fly-tipping* |  | Complete | Substantial | November 2025 |
| 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.

*These reviews were/will be delivered during 2024/25 as requested by the Council, and as such will be included in the 2025/26 Head of Internal Audit Opinion.

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. |
| 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. |
| Percentage of recommendations raised which are agreed | Each Audit Committee | Green | 100% |
| Percentage of recommendation which are implemented | Each Audit Committee | Amber | There is a total of 160 recommendations made as at Appendix D. 23 of these are not due for follow up, as the implementation date |

| Element | Reporting Regularity | Status | Summary |
|---------|----------------------|--------|---|
| | | | <p>has not passed. Of the remaining 137 recommendations, 97 (71%) have been actioned or superseded and 31 (23%) are in progress. There are 9 overdue (6%). There are 13 high priority actions outstanding.</p> <p>MIAA are working with management to ensure actions are completed.</p> |

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

| | | | | |
|---------------------|---|----------|------------|---------|
| Report Title | IT Asset Management | | | |
| Executive Sponsor | Chief Officer - Resources | | | |
| Objective | To provide an opinion on the level and effectiveness of IT asset management controls operated by the IT team over the Council's computer hardware and software assets and identify opportunities for improvement, where appropriate. | | | |
| Assurance Rating | Moderate | | | |
| Recommendations | 0 x Critical | 1 x High | 2 x Medium | 0 x Low |
| Summary | <p>The review identified that there was an adequate system of internal control operated on the IT asset management controls at the Council. However, it was identified that there was some areas of weakness identified.</p> <p>Whilst the review identified several areas of good practice, there were also opportunities to strengthen controls in several key areas including; policies, procedures, reporting and governance controls, contract(s) in place for decommissioning / recycling of IT equipment / devices and staff and reconciliation process in place to update, review, reconcile assets to maintain and confirm accuracy of inventories and identify potentially dormant, duplicate, or missing assets.</p> <p>The organisation utilised Freshworks for the management of assets across the estate, Freshworks contained relevant heading relating to the management of assets. A sample test revealed that different assets across the organisation all had associated information asset owners (IAO) attached</p> <p>The Council were able to mark assets as stolen or lost on the information asset register (IAR) and laptops were able to be wiped / disabled within Active Directory (AD). Mobile devices were managed via InTune – this allowed them to be remote locked, reset passcode and remote wiped.</p> | | | |

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| | During the review, we identified the organisation did not have a process for the management of dormant devices across the estate, furthermore, assets across the organisation that were known to cause issues to the service desk team were not reported anywhere for review. It was identified that the last audit of devices across the organisation took place at the end of 2024 completed by the Council and conducted on an ad hoc basis, however there was no documentation relating to lessons learnt from the audit, there was no evidence that the reconciliation activities had become business as usual. |
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|---------------------|--|----------|------------|---------|
| Report Title | Food Safety | | | |
| Executive Sponsor | Chief Officer – Environment and Place | | | |
| Objective | To provide assurance on the controls in place and that they are appropriately designed and operating effectively in relation to Food Safety. | | | |
| Assurance Rating | Substantial | | | |
| Recommendations | 0 x Critical | 0 x High | 0 x Medium | 2 x Low |
| Summary | <p>Overall, there was an adequate system of internal control, however there is an opportunity to further strengthen the controls in place in relation to ensuring that the council is responding and informing people who have made complaints in relation to food safety.</p> <p>Areas of good practice related to the Council having a 2025/26 Food Service Plan in place along with supporting procedures in relation to food safety. It was confirmed that all training and qualifications are maintained and stored with the shared drive. The Council produces several reports in relation to food safety from monthly KPIs, annual achievement reports to submissions to the Food Standards Agency. Primary Authorities for which the Council are responsible for have been defined and appropriate documentation such as summary frameworks are maintained.</p> <p>Sample testing conducted on registrations, inspections, follow up inspections, recommendations and complaints confirmed that a full audit trail is available through the Civica system and on the shared drive.</p> | | | |

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| | This included all relevant documentation and events such as allergen testing, food sampling audits, inspections, notices etc. |
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|---------------------|---|----------|------------|---------|
| Report Title | Treasury Management | | | |
| Executive Sponsor | Chief Officer - Resources | | | |
| Objective | The overall objective of the review was to provide assurance that the most significant key controls are appropriately designed and operating effectively in practice in relation to Treasury Management. | | | |
| Assurance Rating | Substantial | | | |
| Recommendations | 0 x Critical | 0 x High | 0 x Medium | 1 x Low |
| Summary | <p>Overall, there was an adequate system of internal control, however there is an opportunity to further strengthen the controls in place in relation to the annual training / refresher training provided to council members to ensure that they have the required knowledge and skills to undertake their roles or any decisions being made.</p> <p>Areas of good practice related to Treasury Management Strategy in place which was up to date and had been approved by the Council. The Cabinet and Council received appropriate reports throughout the year on treasury management activities as outlined within the CIPFA Code of Practice for Treasury Management 2021. These included quarterly and mid-year reports along with an annual report at the end of year.</p> <p>Sample testing conducted on five days' worth of investments or redemptions identified that a full audit trail was maintained by the Council, including showing the initial recommendation the appropriate approval and then subsequent deal note detailing all the information and approval. It was confirmed that all the days tested were in line with the Strategy. Cash flow was updated and reviewed on a daily basis with a full audit trail and reconciliation provided by the council.</p> | | | |

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|---------------------|--|----------|------------|---------|
| Report Title | Social Housing Regulator | | | |
| Executive Sponsor | Chief Officer – Housing and Property | | | |
| Objective | The overall objective was to review and evaluate the governance arrangements the Council has in place to comply with the Regulator of Social Housing Consumer Standards. | | | |
| Assurance Rating | Substantial | | | |
| Recommendations | 0 x Critical | 0 x High | 3 x Medium | 2 x Low |
| Summary | <p>On 1 April 2024 Regulator of Social Housing introduced new consumer standards for social housing landlords, designed to drive long-term improvements in the sector. It also began a programme of landlord inspections. The Council has been notified that an inspection by the Regulator of Social Housing is due in April 2026. Prior to the introduction of the consumer standards the Council developed an annual rolling programme of self-assessments, which have been updated against the new four standards (Tenancy, Neighbourhood and Community, Safety and Quality, and Transparency, Influence and Accountability), as well as against the rent standard.</p> <p>Lancaster City Council’s suite of policies generally provides good coverage for the Consumer Standards. There are some gaps where roles and responsibilities are unclear with a lack of explicit role titles and have limited clarity on contractor responsibilities.</p> <p>The evidence to support the self-assessments is not held in a single location, but in multiple locations, making it harder for the evidence to be monitored and kept up to date.</p> <p>The Council has identified 422 pieces of evidence listed across the four consumer standards. Within each standard there are a number of sub sections, but all the evidence is recorded for each under one of four categories, Council evidence, Tenant Voice evidence, Governance and Future Actions. Reviewing the evidence supplied, there were five unique (and eight in total) items that did not have evidence to support the assessment.</p> | | | |

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| | <p>The Council Housing Advisory Group (CHAG) has three Cabinet members as part of its membership as well as being chaired by the portfolio holder for Housing. Although no escalation process is defined the membership of the groups ensures suitable influence and escalation if required. A review of the minutes of the CHAG for 2025, identified that there were some discussions regarding the self-assessments and the presentation of the Service Improvement and Assurance Plan at the CHAG. Whilst the minutes evidence discussions taking place, they are not sufficiently detailed to confirm robust and substantive discussions and decisions.</p> |
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|---------------------|---|----------|------------|---------|
| Report Title | Revenues and Benefits – Council Tax | | | |
| Executive Sponsor | Chief Officer – Resources | | | |
| Objective | To provide assurance that the key controls in relation to Council Tax are appropriately designed and operating effectively in practice. | | | |
| Assurance Rating | Limited | | | |
| Recommendations | 0 x Critical | 2 x High | 0 x Medium | 2 x Low |
| Summary | <p>The approved budget by the Council for 2025/26 reflects an increase in the Council Tax of 2.99%. the full Council Tax proposal was input onto the Council Tax system, with the parameters agreed and confirmation of accurate input was provided to the Council.</p> <p>The review provides limited assurance in that 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.</p> | | | |

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| | <p>There are a variety of discounts available for council taxpayers to apply for, which are detailed on the Councils website including the application process. All exemptions and discounts should have review dates applied to ensure that the discount applied remains appropriate with a regular system of obtaining confirmation that the discounts and exemptions should remain in place. As of October 2025, there were 31,864 discounts applied, 8.5% had no date recorded for reviewing the discount and 65% had review dates that had passed, but the discount was still in place.</p> <p>The Council Tax suspense accounts have historic entries from 2011 onwards, which should be investigated and cleared or written off.</p> <p>Council Tax arrears were recovered in accordance with the Council Tax and Business Rates Recovery Policy. A review of a sample of defaulted accounts including first, second and final reminders along with court liability orders were reviewed and all were found to be supported by evidence of the letters being issued and in the correct sequence.</p> |
|--|---|

| Report Title | Risk Maturity |
|-------------------|---|
| Executive Sponsor | Chief Officer – People & Policy/Chief Officer - Resources |
| Objective | To undertake a review of the Councils self-assessment of the Council's risk maturity against the IIA risk maturity model, considering the actions already taken/planned by the Council and to determine appropriate actions to progress the Council, if necessary, from its current position to a status of risk enabled. |
| Assurance Rating | <p>Approaching Level 3 – Risk defined:</p> <p>The organisation has considered risk management and put in place strategies led from a risk management team/ strategy and policies in place and communicated. Risk appetite defined.</p> <p>This is the overall rating derived from the following thematically assessed maturity:</p> |

| | | |
|---------|---|------------------------------------|
| | Culture | Approaching Level 3 – Risk Defined |
| | Roles & Responsibilities | 3 – Risk Defined |
| | Processes | 3 – Risk Defined |
| | Monitoring & Feedback | 2 – Risk Aware |
| Summary | <p>We have assessed the level as ‘approaching’ level 3 as although some controls are in place for each of the themes, there are some gaps/process improvements required to fully attain level 3.</p> <p>The Council have made significant improvements to their risk management over the last few years from a poor starting position in which a no assurance was provided for risk management in 2021/22.</p> <p>Our assessment places the Council at close to attaining Level 3 (of the 5 level IIA model), a mid-point in its improvement journey towards a fully risk mature organisation.</p> <p>Particular strengths are a well written policy based on good risk management principles, and a strong GRACE system for documenting and monitoring risk registers.</p> <p>The Council faces a resourcing challenge in its continued pursuit of improved risk maturity and a challenge to improve the quality and content of risk registers. This could be achieved with increased training and a greater accountability on risk owners to relive some of the resource pressures.</p> | |

Appendix D: Follow up of previous internal audit recommendations

The status of the actions is as at 9th March 2026.

| 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 | | | | | | | | | | | |
| Council Tax | 8 | Moderate | 7/1 | - | - | - | - | - | - | - | Remaining recommendation superseded with the 25/26 Council Tax review |
| 2022/23 | | | | | | | | | | | |
| Budgetary Controls | 3 | Substantial | 2 | - | - | 1 | - | - | - | 1 | Remaining recommendation in progress with a revised deadline. |
| Cyber Security | Confidential | | | | | | | | | | 2 recommendations implemented and all remaining recommendations in progress. |
| Data Protection: Policy and Process Follow up | Confidential | | | | | | | | | | All recommendations in progress. |
| Resilience and Emergency Preparedness | 7 | Limited | 7 | - | - | - | - | - | - | - | All recommendations implemented. |
| CCTV | 4 | Limited | - | 4 | - | - | - | 4 | - | - | All recommendations are in progress. |
| Contracts | 11 | Limited | 7 | 4 | - | - | - | 1 | 2 | 1 | Remaining recommendations in progress. |
| 2023/24 | | | | | | | | | | | |

| AUDIT TITLE (YEAR) | NO OF RECS | ASSURANCE LEVEL | PROGRESS ON IMPLEMENTATION | | | | OUTSTANDING RECOMMENDATIONS | | | | COMMENTS |
|-------------------------------------|------------------|--------------------|-------------------------------|---|---|------------|--------------------------------|---|---|----------------------------------|---|
| | | | ✓/S | P | X | Not due | C | H | M | L | |
| Payroll | 6 | Limited | 5 | 1 | - | - | - | 1 | - | - | High recommendation in progress, delays due to resourcing issues. |
| Risk Management | 6 | Substantial | 6 | - | - | - | - | - | - | - | All recommendations implemented. |
| Climate Change | 5 | Substantial | 4 | - | - | 1 | - | - | 1 | - | Final recommendation not yet due. |
| Reactive Repairs and Maintenance | 9 | Limited | 9 | - | - | - | - | - | - | - | All recommendations implemented. |
| Budgetary Control | 7 | Substantial | 5 | 1 | - | 1 | - | - | 1 | 1 | Medium recommendation not yet due and low recommendation in progress. |
| Mobile Device Management | Confidential | | | | | | | | | All recommendations in progress. | |
| 2024/25 | | | | | | | | | | | |
| Air Quality Duty Review | 5 | Substantial | 2/2* | 1 | - | - | - | - | - | 1 | Remaining recommendation in progress. 2 recommendations unable to be taken forward. |
| Procurement Cards | 10 | No | 6 | 4 | - | - | - | - | 4 | - | Critical and high recommendation implemented. 4 medium recommendations in progress. |
| Homelessness | 7 | Limited | 5 | - | - | 2 | - | 1 | 1 | - | Recommendations not yet due. |
| Markets | 7 | Moderate | 4 | 3 | - | - | - | - | 2 | 1 | Recommendations not yet due. |
| Appraisals | 6 | Moderate | 5 | - | 1 | - | - | - | 1 | - | 1 medium recommendation awaiting update. |

| AUDIT TITLE (YEAR) | NO OF RECS | ASSURANCE LEVEL | PROGRESS ON IMPLEMENTATION | | | | OUTSTANDING RECOMMENDATIONS | | | | COMMENTS |
|--------------------------------|------------------|--------------------|-------------------------------|---|---|------------|--------------------------------|---|---|---|--|
| | | | ✓/S | P | X | Not due | C | H | M | L | |
| Social Housing Rent Setting | 3 | Substantial | 1 | 2 | - | - | - | - | 2 | - | Recommendations in progress. |
| Risk Management | 4 | Moderate | 4 | - | - | - | - | - | - | - | All recommendations implemented. |
| Environmental Fly Tipping | 5 | Substantial | 3 | 2 | - | - | - | - | 1 | 1 | Recommendations in progress. |
| Key Financial Systems | 9 | Limited | 2 | 5 | 2 | - | - | 1 | 4 | 2 | Recommendations are being followed up in the 25/26 Financial Controls Review. |
| IT Asset Management | 3 | Moderate | - | 3 | - | - | - | 1 | 2 | - | Recommendations in progress. |
| 2025/26 | | | | | | | | | | | |
| Mandatory Training | 6 | Moderate | - | - | 2 | 4 | - | 1 | 4 | 1 | Recommendations not yet due or awaiting update. |
| Fleet Stock | 7 | Moderate | 5/2* | - | - | - | - | - | - | - | Recommendations implemented. *2 low recommendations cannot be implemented by the Council, as they require developments to inhouse systems which are unachievable. |
| Car Parks | 6 | Substantial | - | - | 3 | 3 | - | - | 4 | 2 | Recommendations not yet due or awaiting update. |
| Corporate Health and Safety | 4 | Moderate | 1 | 1 | 1 | 1 | - | 1 | 2 | - | Recommendation in progress, awaiting update or not yet due. |
| Food Safety | 2 | Substantial | 2 | - | - | - | - | - | - | - | All recommendations implemented. |

| 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 | 1 | Substantial | - | - | - | 1 | - | - | - | 1 | Recommendation not yet due. |
| Social Housing Regulator | 5 | Substantial | - | - | - | 5 | - | - | 3 | 2 | Recommendations not yet due. |
| Council Tax | 4 | Limited | - | - | - | 4 | - | 2 | - | 2 | Recommendations not yet due. |
| TOTALS | 160 | | 92/5 | 31 | 9 | 23 | 0 | 13 | 34 | 16 | |

Key to recommendations:

✓/S Implemented or Superseded

P Partially implemented/recommendation in progress

X Recommendation not implemented/awaiting update

C Critical priority recommendation

H High priority recommendation

M Medium priority recommendation

L Low priority recommendation

* Unable to take forward

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

18 March 2026

Annual Review of the Internal Audit Charter**Report of Head of Internal Audit****PURPOSE OF REPORT**

Annual Review of the Internal Audit Charter

This report is public**RECOMMENDATIONS****(1) That the Audit Committee agree the Internal Audit Charter at Appendix A****1.0 Background**

1.1 The Internal Audit Charter is mandated through Global Internal Audit Standards (UK public sector) and is a formal document that defines the internal audit activity's purpose, mandate 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.

2.0 Audit Charter

2.1 The Internal Audit Charter was last re-approved at the Audit Committee meeting in May 2025. The Charter has been reviewed and no changes are deemed necessary for 2026/27.

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 Global Internal Audit Standards (UK public sector) 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

Global Internal Audit Standards (UK public sector)

The Accounts and Audit Regulation 2015

CIPFA - The Role of the Head of Internal Audit

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Internal Audit Charter

Lancaster City Council

Contents

- 1 Introduction & Background
- 2 Purpose, Mandate and Responsibility
- 3 Independence and Objectivity
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- 6 Managing the Internal Audit Activity
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- 8 Engagement Planning
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- 10 Communicating Results
- 11 Monitoring Progress
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- 13 Definitions

1 Introduction

The Internal Audit Charter is mandated through Global Internal Audit Standards (UK public sector)¹ and is a formal document that defines the internal audit activity's purpose, mandate 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 complies with the Global Internal Audit Standards (UK public sector), CIPFA's *Code of Practice for the Governance of Internal Audit in UK Local Government* and MIAA confirms ongoing compliance with these standards and code.

2 Purpose, Mandate 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 processes²”.

The Accounts and Audit Regulation 2015 sets out the mandate for internal audit in local government in England:

‘Internal Audit

5.(1) A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risks management, control and

governance processes, taking into account public sector internal auditing standards or guidance.

(2) Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit –

a) make available such documents and records; and

b) supply such information and explanations;

as are considered necessary by those conducting the internal audit.

(3) In this regulation “documents and records” includes information recorded in an electronic source.’

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

¹ This consists of the Global Internal Audit Standards (GIAS) of the IIA and the Application Note: Global Internal Audit Standards in the UK public sector

² The Definition of Internal Auditing, The Institute of Internal Auditors, January 2024

services, the internal auditor will maintain objectivity and not take on management responsibility.

The above functions drive MIAA's Mission 'To drive value and improve outcomes through excellence and professionalism'.

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 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. Your MIAA Internal Audit Team does not currently provide other services to the organisation. If this changes 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. These steps will be documented in the charter where required.

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 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 a CCAB qualified Accountant 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 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 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 Accountable/Accounting Officer and Audit Committee.

The Director of Internal Audit will work with senior management and client staff who will support MIAA in the delivery of the audit plan.

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 Nature of Work

The internal audit activity will evaluate and contribute to the improvement of governance, risk management and control processes (including value for money), 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 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 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 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 Global Internal Audit Standards (UK Public Sector), CIPFA's *Code of Practice for the Governance of Internal Audit in UK Local Government* and the results of the quality assurance and improvement programme.

11 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 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 the requirements of the Global Internal Audit Standards (UK Public Sector). This includes compliance with the Seven Principles of Public Life.

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 |
|------------------------|

18 March 2026

Internal Audit Plan 2026/27

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 2026/27 Annual Internal Audit Plan and draft Strategic Plan to 2026/27**
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 Global Internal Audit Standards (GIAS) of the Institute of Internal Auditors and Application Note specify that '*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.*'
- 1.3 The Internal Audit Plan defines 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 2025/26

- 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 GIAS; 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 The current draft audit plan priorities for 2026/27 will be delivered within the overall budget for the internal audit service with the exception of an additional bespoke review included in the plan regarding Decent Homes Policy, this review has been requested as an additional to plan review. As such, the costs for this review are outside of the core plan and will be invoiced separately.

4.0 Details of Consultation

4.1 The 2026/27 Plan is Year Three of a Three Year Strategic Audit Plan covering 2026/27 – 2028/29. It will be subject to a review and refresh during year in consultation with Senior Leadership Team. Later in 2026/27 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 2026/27 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 2026/27 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 2025/26 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

Global Internal Audit Standards (GIAS) and CIPFA's Local Government Application Note (LGAN)

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Lancaster City Council

Internal Audit Plan 2026/27

Contents

1. Internal Audit Plan On A Page
2. Executive Summary
3. Supporting you through Adding Value
4. Understanding Your Vision, Objectives & Risks
5. Internal Audit Risk Assessment
6. Operational Internal Audit Plan 2026/27

Appendix A: Strategic Three Year Internal Audit Plan

Appendix B: Internal Audit Key Performance Indicators

Your Internal Audit Team



Louise Cobain
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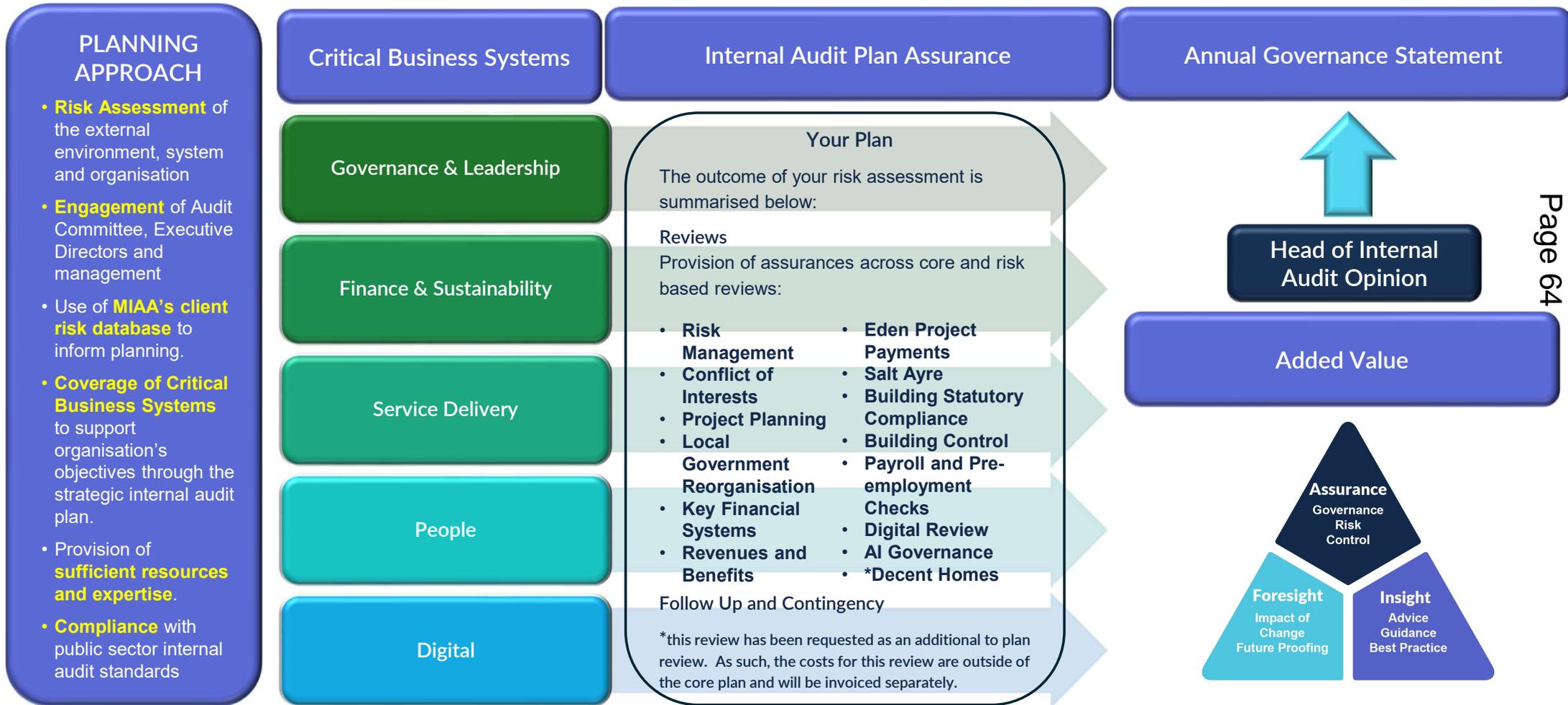
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1 Internal Audit Plan on a Page

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



2 Executive Summary

2.1 MIAA's Strategy - 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. Our current MIAA wide strategy is summarised below:

| | | | | | | |
|---------------------------------|---|---|---|---|--|--|
| Our Vision | MIAA will be the provider of choice of public and 3 rd sector clients, supporting them to deliver value and improve services for the benefit of the people and communities they serve. | | | | | |
| Our Mission | To drive value and improve outcomes through excellence and professionalism | | | | | |
| Our Values |  TRUST | |  RESPECT & COMPASSION | |  COMMITMENT TO INNOVATION & EXCELLENCE | |
| Our Strategic Objectives | FINANCE Ensure MIAA is sustainable and continues to grow its client base, products and service offers | QUALITY & ADDED VALUE SERVICES Ensure MIAA demonstrates added value, delivers quality and professional services for our clients | PEOPLE Continue to recruit, develop, support, retain and reward our people to maximise their potential | GOVERNANCE & ACCOUNTABILITY Ensure we demonstrate effective and appropriate governance and accountability to our stakeholders | INNOVATION Continue to lead and innovate across all our services | |

2.2 Your Risk Assessment

A strong risk assessment underpins the Internal Audit Plan. This has focused upon your Strategic Risks as this represents **Lancaster City Councils**, 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.

Where available and appropriate we have considered the work of other assurance providers in developing your plan.

2.3 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 6 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.

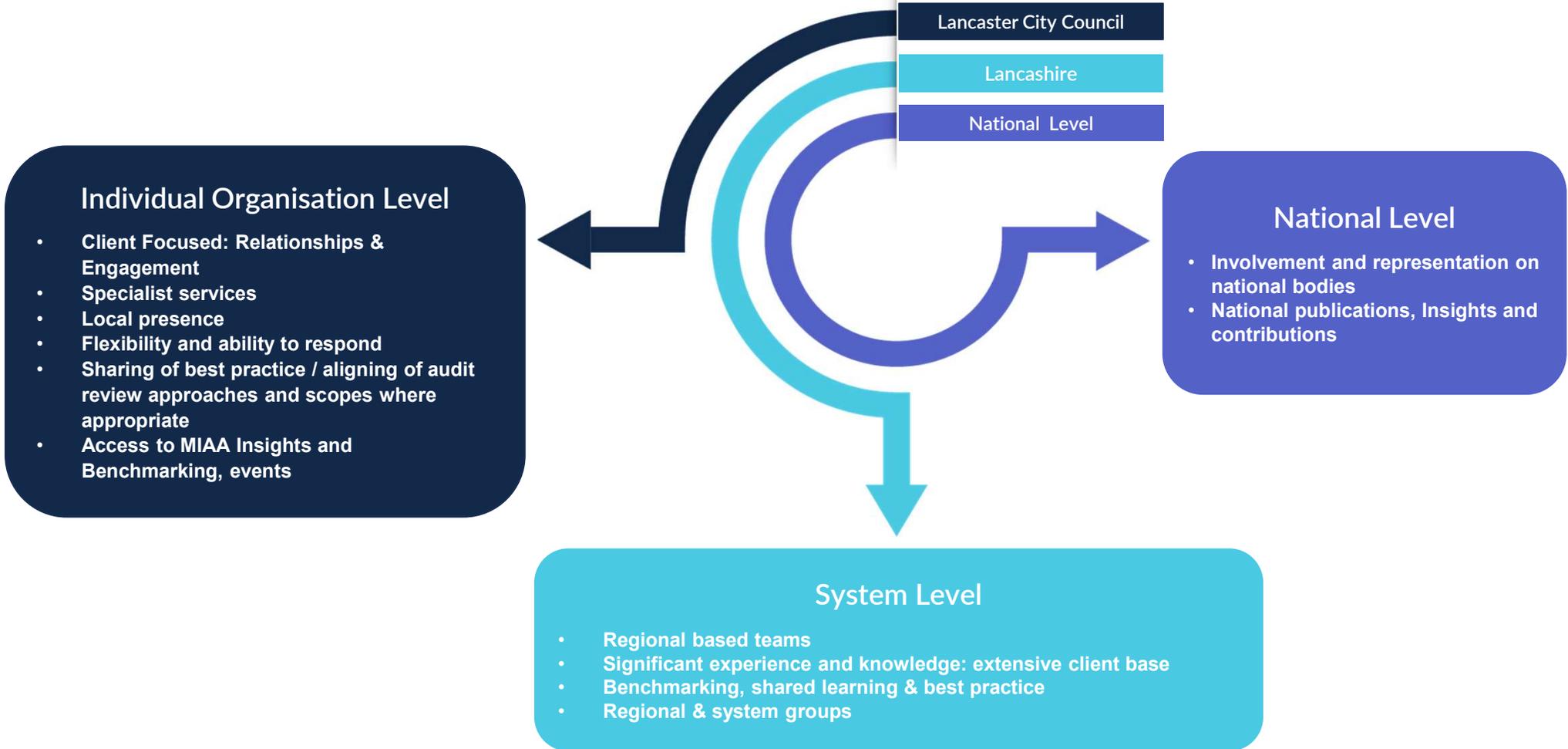
We will actively engage across the organisation to ensure we have a full and detailed understanding of your risks and can ensure we focus our work to best effect.

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

Fees for 26/27 are yet to be confirmed but will be based on 25/26 fees uplifted in line with the NHS pay award.



3 Supporting you through Adding Value



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*
- *Programmes and Projects*
- *Local Government Reorganisation*
- *Workforce*
- *Digital IT*

We map your strategic objectives and strategic risks to the 3 Year Strategic Internal Audit Plan (Appendix A).



| 1 A Sustainable District | 2 An Inclusive and Prosperous Local Economy | 3 Happy and Healthy Communities | 4 A Co-operative Responsible |
|---|---|--|---|
| Climate Emergency Taking action to meet the challenge of the climate emergency. | Community Wealth-Building (Morecambe Bay Model) Building a sustainable and just local economy that benefits people and organisations. | Increasing Wellbeing, Reducing Inequality Improving and supporting the quality of living and working for the people of Lancaster. | Deliver Effective Results Identifying, assessing and managing risks to our core business objectives. |
| 1.1 Carbon Zero Minimising our carbon footprint, reducing energy use and increasing energy efficiency to reach net zero. | 2.1 Social Use of Resources Using our land, property, resources and infrastructure to benefit local communities and organisations, including through shared and other initiatives to do the same. | 3.1 Access to Quality Housing Providing a range of quality, affordable housing to meet the needs of our community, and ensuring it is accessible and well-located. | 4.1 Value Providing value for the money we spend, and ensuring we are transparent. |
| 1.2 Sustainable Energy Ensuring the efficient use of energy, energy performance in the district and meeting the district's energy use. | 2.2 Sustainable Innovation Encouraging a sustainable, innovative economy to support new and existing companies, creating jobs and growing prosperity. | 3.2 Quality Public Spaces Improving our district's environment, public spaces and public realm, and ensuring it is accessible and well-located. | 4.2 Part Working in partnership with our partners, including the district's governing bodies, to deliver our objectives. |
| 1.3 Climate Resilience Reducing our vulnerability to climate change and the impact of climate change. | 2.3 Sustainable Skills Supporting the development of our skills and workforce through the district, which are environmentally sustainable local economy. | 3.3 Access to Culture and Leisure Providing a range of cultural and leisure activities, including through our district's governing bodies, to support the district's economy and well-being. | 4.3 Invest Skills and Investing in our people, including through our district's governing bodies, to support the district's economy and well-being. |
| 1.4 Respecting Nature Protecting, enhancing and restoring our natural environment, including through our district's governing bodies, to support the district's economy and well-being. | 2.4 Investment and Regeneration Investing in our district's infrastructure, including through our district's governing bodies, to support the district's economy and well-being. | 3.4 Community Engagement Engaging our community, including through our district's governing bodies, to support the district's economy and well-being. | 4.4 Listening Listening to our community, including through our district's governing bodies, to support the district's economy and well-being. |
| 1.5 Reduced Waste Reducing our waste, including through our district's governing bodies, to support the district's economy and well-being. | 2.5 Inclusive Ownership Promoting business ownership models that support the local economy, such as co-operatives, social enterprises and community ownership. | 3.5 Reducing Inequality and promote wellbeing Supporting the development of our skills and workforce through the district, which are environmentally sustainable local economy. | 4.5 Innovative Identifying, assessing and managing risks to our core business objectives. |
| 1.6 Low carbon Active Transport Promoting the use of active transport, including through our district's governing bodies, to support the district's economy and well-being. | 2.6 Fair Work Supporting the development of our skills and workforce through the district, which are environmentally sustainable local economy. | 3.6 Early Intervention Identifying, assessing and managing risks to our core business objectives. | 4.6 Identifying, assessing and managing risks to our core business objectives. |

5 Internal Audit Risk Assessment

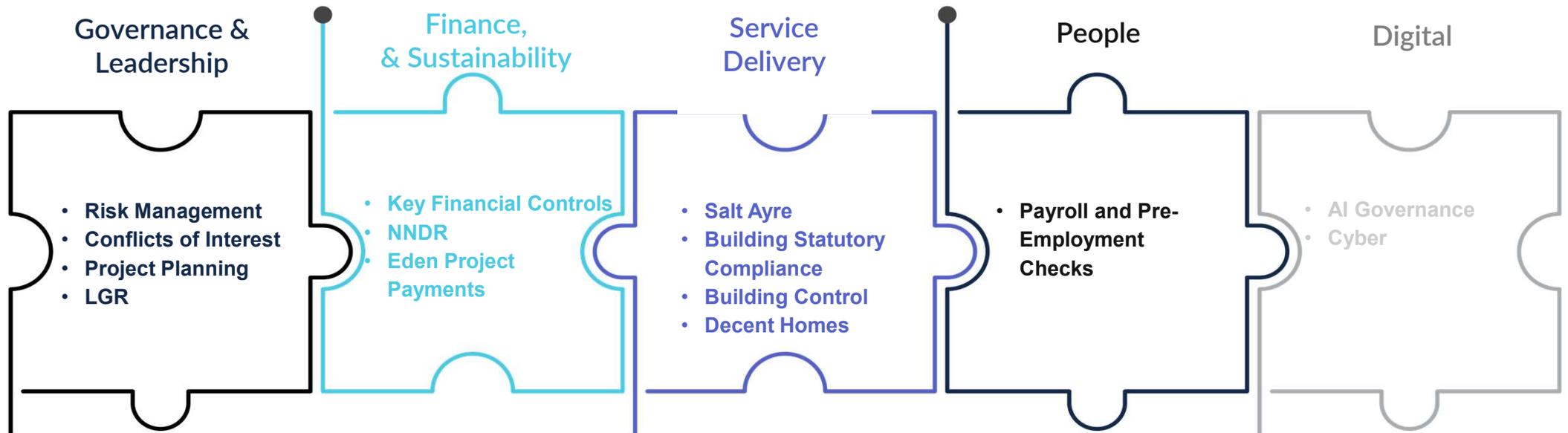
The Lancaster City Council internal audit plan is built from a risk assessment which has considered national and local system risks, place based developments and your local strategic risk assessment, along with our breadth of experience and understanding of the challenges you face.

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. Where relevant, we have considered expected third party assurances to enable coordination of services and minimise duplication.
- **Previous Internal Audit coverage** – we have reviewed your previous Internal Audit coverage to ensure the proposed plan does not duplicate coverage.
- **Mandated assurance** – including core systems assurances and public sector internal audit standards requirements.
- **Follow Up** – Internal Audit coverage will also include follow up of outstanding internal audit actions.

Prioritised risks are presented below. Non-prioritised risk areas are detailed in Section 6 of this document



6 Operational Internal Audit Plan 2026/27

| Review & Scope | Risk / 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/ Internal audit standards requirement | Q4 | Chief Officer – Resources/Chief Officer- People & Policy |
| Conflicts of Interest: To evaluate the design and operating effectiveness of the arrangements that the Council has in place to manage conflicts of interest and gifts and hospitality. | Management Request | Q2 | Chief Officer - Governance |
| Project Planning: To review the design and operating effectiveness of the arrangements that the Council has in place regarding Project Planning | Management Request | Q1 | Chief Officer - Resources |
| LGR Preparedness: To evaluate the processes in place to prepare the Council for LGR. | Management Request/Strategic Risk SR29 | TBC | Chief Officer - Resources |
| Finance & Sustainability | | | |
| Key Financial Controls Deep Dive – Debt Collection: To evaluate the design and operating effectiveness of the arrangements that the Council has in place to manage Debt Collection. | Core Assurance/Strategic Risk SR01 | Q3 | Chief Officer - Resources |
| Revenues & Benefits – NNDR: To evaluate the design and operating effectiveness of the arrangements that the Council has in place to manage NNDR. | Core Assurance | Q2 | Chief Officer - Resources |
| Eden Project Payment Process: To provide assurance that the controls and processes around payments for the EDEN project are operating effectively.. | Management Request/Strategic Risk SR22 | Q3 | Chief Officer- Sustainable Growth |

| Review & Scope | Risk / Rationale | Planned Delivery | Executive Lead |
|--|---|-------------------------|--|
| Service Delivery | | | |
| Salt Ayre Leisure Centre: To provide assurance that the controls and processes at Salt Ayre are operating effectively. | Core Assurance/Management Request | Q2 | Chief Officer – Environment & Place |
| Building Statutory Compliance: To provide assurance that the Councils buildings and investment properties are statutory compliance including Health and Safety Regulations. | Core Assurance/Management Request/ Strategic Risk SR20 | Cfwd from 2025/26 Q2 | Chief Officer – Housing & Property |
| Building Control: To provide assurance that the Councils Building Control Service is compliant with the Building Regulator. | Management Request | Q1 | Chief Officer – Planning & Climate Change |
| Decent Homes Standard* : To provide assurance that the Council is compliant with Decent Homes Standard, including confidence in data. | Management Request | Q3 | Chief Officer – Housing & Property |
| People | | | |
| Payroll & Pre-employment Checks: To provide an assessment of the systems of payroll and pre-employment check controls are operating effectively. | Core Assurance | Q2 | Chief Officer – Resources/Chief Officer- People & Policy |

* This review has been requested as an additional to plan review. As such, the costs for this review are outside of the core plan and will be invoiced separately.

| Review & Scope | Risk / Rationale | Planned Delivery | Executive Lead |
|--|---|------------------|---------------------------|
| Digital | | | |
| Information Technology/Cyber: Scope of the review to be confirmed. | Core Assurance/Strategic Risk SR09 | Q3 | Chief Officer - Resources |
| AI Governance: To benchmark the Council's AI maturity using checklist questions, and evidence requirements. | Core Assurance/Strategic Risk SR09 | Q3/4 | Chief Officer - Resources |
| Follow up & Contingency | | | |
| Follow up and Contingency | Internal audit standards requirement | Q1 - Q4 | |
| Planning, Reporting and Added Value | | | |
| Planning, Management, Reporting & Meetings | Internal audit standards requirement | Q1 - Q4 | |
| Added Value including Events and MIAA Insights programme | | | |

Exclusion from the Internal Audit Plan 2026/27

The following audits have been recommended by MIAA for review in 2026/27 but not included in the plan

| Recommended Review | Reason for non-inclusion in the plan |
|-----------------------|--|
| Regeneration Projects | These are not at a stage where they would benefit from a review. To be considered in future years. |
| Licencing | There is a consultation for taxi licences to be moved to a Central Transport Authority. |

Risks in the Strategic Risk Register not covered by reviews in the plan

| Strategic Risk Reference | Reason for non-inclusion in the plan |
|--------------------------|--|
| SR28 Mainway | External Advisory Work is being completed. |
| SR06 Climate Change | Air Quality and Climate Change reviewed in prior years. Included in the Strategic Plan |

Areas requested by Audit Committee members or Council officers which have not been included in the plan

| Review Area | Reason for non-inclusion in the plan |
|-------------|---|
| Museums | Other risk areas prioritised/limited resources |
| Complaints | Other areas prioritised. Included in the Strategic Plan |
| Trade Waste | Other areas prioritised. Included in the Strategic Plan |

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 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 (not including any confidential risk information) to the 3 Year Strategic Internal Audit Plan. This aligns to our overarching strategy referenced in Section 2. 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 | 2026/27 | 2027/28 | 2028/29 |
|--|---|------------|-----------------------------------|-----------------------|---|
| Principal Objective: A Sustainable District | | | | | |
| SR06 | The Council fails to reduce its direct Co2 emissions to 'net zero' by 2030. | 8 | | | Climate Change |
| SR02 | Failure to meet 2026/27 Funding gap | 6 | Project Planning | | Treasury Management |
| SR03 | Failure to recruit and retain staff | 6 | Payroll & Pre-employment checks | | Workforce Management |
| SR08 | Failure to deliver key projects due to lack of capacity and resources | 6 | Project Planning Eden Payments | | |
| SR27 | Waste Strategy - Increased revenue cost burden | 6 | | Trade Waste | |
| Principal Objective: An Inclusive and Prosperous Local Economy | | | | | |
| SR05 | Council services are disrupted because of local and national emergencies | 9 | Risk Management | Business Continuity | Partnerships |
| Principal Objective: Happy and Healthy Communities | | | | | |
| SR29 | Local Government Reorganisation | 12 | LGR Preparedness | LGR Governance | LGR Governance |
| SR20 | Non compliance with Building Safety Executive | 6 | Building Control | | |
| SR21 | Non compliance with Regulator of Social Housing Standards | 6 | Decent Homes Standard | Housing Complaints | |
| Principal Objective: A Co-operative, Kind and Responsible Council | | | | | |
| SR11 | International and national issues rapidly impact Council and/or partners, businesses and communities. | 9 | Key Financial Systems | Key Financial Systems | Key Financial Systems Community Engagement |
| SR28 | Delivery of Mainway Project | 9 | | | |

Appendix B – Internal Audit Key Performance Indicators

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

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

| Operational KPI | Target | Measurement and Frequency |
|---|--------|---|
| Agreement of Annual Plan prior to the start of the year | 100% | Annual (measured as per agreed Audit Committee date / Audit Committee Workplan) |
| Completion of annual plan within agreed timetable and budget | 100% | Annual (measured through HOIA opinion) plus in year reporting to Audit Committee |
| Presentation of the Head of Internal Audit Opinion to the Audit Committee | 100% | Annual (measured as per agreed Audit Committee date / Audit Committee Workplan) |
| Delivery of audit reports to audit committee as per the plan | 100% | Quarterly (measured as per annual operational delivery plan) |
| Draft reports issued within 10 days of completion meeting | 100% | Quarterly (measured as per MIAA's EWP system) |
| Final audit report issued within 10 days of receiving management response | 100% | Quarterly (measured as per MIAA's EWP 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 MIAA's EWP 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) |

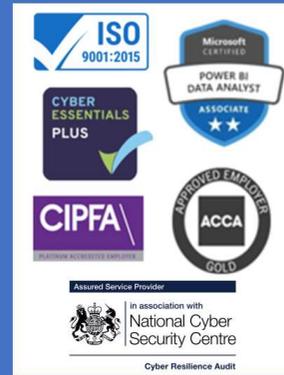
Global Internal Audit Standards in the UK Public Sector

This Plan is compliant with the requirements of the Global Internal Audit Standards as they apply in the UK Public Sector which came into effect on 1st April 2025.

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**Proposed Accounting Policies and Critical Judgements used in the Preparation of the Statement of Accounts 2025/26****Report of Chief Finance Officer****18 March 2026****PURPOSE OF REPORT**

The report sets out the Council's proposed accounting policies and critical judgements to be adopted in completing the 2025/26 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 2025/26 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 2025/26 Statement of Accounts and summarises the changes from 2024/25 that have been introduced because of amendments to the Code of Practice on Local Authority Accounting 2025/26 (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 The accounting policies proposed for 2025/26 are largely unchanged from prior years. However, the CIPFA/LASAAC Code has been updated following HM Treasury's Thematic Review of Non-Investment Assets. The principal changes introduce a revaluation expedient for property, plant and equipment, requiring valuations at least every five years, on a rolling basis and adjusted by the application of an appropriate index in the years that an asset is not subject to valuation. In limited circumstances where suitable indices are unavailable, a desktop valuation may be undertaken in year three.
- 3.2 The Council has historically revalued General Fund non-investment assets on a three-year rolling programme, supplemented by desktop reviews of material assets outside the annual cycle, to ensure carrying values are not materially misstated at year end.
- 3.3 The Council has discretion over the indices applied; however, these must be provided by the Council's valuers in accordance with their professional judgement. Discussions are ongoing across the region to identify the most appropriate indices. The Code provides transitional arrangements, with the changes applied prospectively and no restatement of prior-year figures. The accounting policy will be amended accordingly.
- 3.4 Should it be necessary to amend an accounting policy during the preparation of the Statement of Accounts to adopt a more appropriate treatment, the change and the reasons for it will be reported to the Audit Committee at the next available meeting and/or highlighted when the Statement of Accounts are presented for approval. Full details of the proposed accounting policies for 2025/26 are set out in **Appendix 1**.

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 - 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 2025/26 to reflect the accounting standards and the Council's material transactions.

APPENDICES

Appendix 1 – Proposed Accounting Policies 2025/26

Appendix 2 – Critical Judgements 2025/26

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

Contact Officer: Paul Thompson
 (Chief Finance Officer)

Telephone: 01524 582603

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Ref:

1. ACCOUNTING POLICIES

1.1 Basis of Preparation

The Statement of Accounts summarises the Council's transactions for the 2025/26 financial year and its position on 31 March 2026. The accounts of the Council have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), taking account of the supplementary guidance notes issued by CIPFA on the application of the Code to local authorities, supported by International Financial Reporting Standards (IFRS).

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

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

1.2 Revenue Recognition and Accruals of Income and Expenditure

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

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

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

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

1.2 Cash and Cash Equivalents

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

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

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

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

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

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

1.4 Charges to Revenue for Non-Current Assets

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

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

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

1.5 Council Tax and Non-Domestic Rates

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

Accounting for Council Tax and NDR

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

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

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

1.6 Employee Benefits

Benefits Payable during Employment

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

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

Termination Benefits

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

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

The Local Government Pension Scheme

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

Defined benefit scheme - the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

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

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

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

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

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

| Component | Description | Treatment |
|------------------------------------|---|---|
| Service Costs | | |
| Current service costs | Measures the future service cost of employer estimated to have 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 year are uplifted by a year's discount to 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 over the year. | Charged to the pensions reserve or other comprehensive income and expenditure. |
| Actuarial gains and losses | These arise where actual events do not coincided 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 date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

1.16 Leases

The Council classifies contracts as leases based on their substance. Contracts and parts of contracts, including those described as contracts for services, are analysed to determine whether they convey the right to control the use of an identified asset, through rights both to obtain substantially all the economic benefits or service potential from that asset and to direct its use. The Code expands the scope of IFRS 16 Leases to include arrangements with nil consideration, peppercorn or nominal payments.

The Council as Lessee

Initial Measurement

Leases are recognised as right-of-use assets with a corresponding liability at the date from which the leased asset is available for use (or the IFRS 16 transition date, if later). The leases are typically for fixed periods in excess of one year but may have extension options. Lease liabilities are initially measured at the present value of lease payments, discounting by applying the Council's incremental borrowing rate wherever the interest rate implicit in the lease cannot be determined. Lease payments included in the measurement of the lease liability include:

- fixed payments, including in-substance fixed payments
- variable lease payments that depend on an index or rate, initially measured using the prevailing index or rate as at the adoption date
- amounts expected to be payable under a residual value guarantee
- the exercise price under a purchase option that the Council is reasonably certain to exercise
- lease payments in an optional renewal period if the Council is reasonably certain to exercise an extension option
- penalties for early termination of a lease, unless the Council is reasonably certain not to terminate early.

Right-of-use assets are measured at the amount of the lease liability, adjusted for any prepayments made, plus any direct costs incurred to dismantle and remove the underlying asset or restore the underlying asset on the site on which it is located, less any lease incentives received. However, for peppercorn, nominal payments or nil consideration leases, the asset is measured at fair value.

Subsequent measurement

Right-of-use assets are subsequently measured using the fair value model. The Council considers the cost model to be a reasonable proxy except for:

- assets held under non-commercial leases
- leases where rent reviews do not necessarily reflect market conditions
- leases with terms of more than five years that do not have any provision for rent reviews
- leases where rent reviews will be at periods of more than five years.

For these leases, the asset is carried at a revalued amount. In these financial statements, right-of-use assets held under index-linked leases have been adjusted for changes in the relevant index, while assets held under peppercorn or nil consideration leases have been valued using market prices or rentals for equivalent land and properties. The right-of-use asset is depreciated straight-line over the shorter period of remaining lease term and useful life of the underlying asset as at the date of adoption.

The lease liability is subsequently measured at amortised cost, using the effective interest method. The liability is remeasured when:

- there is a change in future lease payments arising from a change in index or rate
- there is a change in the group's estimate of the amount expected to be payable under a residual value guarantee
- the Council changes its assessment of whether it will exercise a purchase, extension or termination option, or
- there is a revised in-substance fixed lease payment.

When such a remeasurement occurs, a corresponding adjustment is made to the carrying amount of the right-of-use asset, with any further adjustment required from remeasurement being recorded in the income statement.

Low value and short lease exemption

As permitted by the Code of Practice On Local Authority Accounting, the Council excludes leases:

- for low-value items that cost less than £10,000 when new, provided they are not highly dependent on or integrated with other items, and
- with a term shorter than 12 months (comprising the non-cancellable period plus any extension options that the authority is reasonably certain to exercise and any termination options that the authority is reasonably certain not to exercise).

Lease Expenditure

Expenditure in the Comprehensive Income and Expenditure Statement includes interest, straightline depreciation, any asset impairments and changes in variable lease payments not included in the measurement of the liability during the period in which the triggering event occurred. Lease payments are debited against the liability. Rentals for leases of low-value items or shorter than 12 months are expensed. Depreciation and impairments are not charges against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the capital adjustment account from the General Fund balance in the Movement in Reserves Statement.

The Council as Lessor

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

Finance 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. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the other operating expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet. Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund balance to the capital receipts reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund balance to the deferred capital receipts reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the capital receipts reserve. The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the capital adjustment account from the General Fund balance in the Movement in Reserves Statement.

Operating Leases

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

1.17 Overheads and Support Services

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

1.18 Property, Plant and Equipment (excluding infrastructure)

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

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

Recognition

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

Componentisation

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

| Category | Measurement Basis |
|---|--|
| Community assets | Depreciated historical cost |
| Dwellings | Current value, determined using the basis of existing use value 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 re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year end, but as a minimum every five years and adjusted by the application of an appropriate index in the years that an asset is not subject to valuation. Increases in valuations and indexation adjustments 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).

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 31st March 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).

The Council's HRA assets are formally valued every 5 years. This valuation is undertaken by the Council's in-house RICS qualified property services team utilising the Beacon Methodology. A desktop revaluation is undertaken each year, with the next full revaluation currently being

undertaken

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 |

For the HRA, each dwelling is broken down into components, as follows

| Component | Assumed useful life |
|-------------------|---------------------|
| Kitchen | 20-25 years |
| Bathroom | 30 years |
| Internal services | 30 years |
| Windows | 40 years |
| Roof | 50 years |
| Rendering | 60 years |
| External walls | 80 years |
| Land | 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 five-year cycle.

All assets reviewed had a valuation date of 31 March 2026. 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.