



Lancaster City Council

Auditor's Annual Report for the years 2020/21, 2021/22 and 2022/23
February 2024

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Key Messages

Audit report on the financial statements

2020/21	We issued an unqualified opinion on the Council's financial statements on 12 December 2024. The certificate for this year has not been issued as a result of an outstanding objection. We will certify completion of our audit once the objection has been addressed.
2021/22 and 2022/23	We issued audit reports with a disclaimer of opinion on the 2021/22 and 2022/23 financial statements on 12 December 2024, in accordance with the national 'backstop' provisions established by the Accounts and Audit (Amendment) Regulations 2024, and National Audit Office's Code of Audit Practice. Our opinions reported material known misstatements in respect of: 1) the pension membership data used in the 31 March 2022 statement of accounts was not updated for the results of the 31 March 2022 triennial valuation; 2) the pension asset included in the 31 March 2023 statement of accounts has not been capped or considered whether the total value is recognisable; and 3) the pension asset included in the 31 March 2023 statement of accounts, any recognisable asset should be included in the assets section of the balance sheet as opposed to the liability section. The certificate for these years have not been issued as a result of an outstanding objection. We will certify completion of our audits once these objections have been addressed.

The Council's arrangements to secure Value for Money in the use of resources

Financial year	Risk assessment	Conclusion
2020/21	No risk of significant weakness	No significant weaknesses identified
2021/22	No risk of significant weakness	No significant weaknesses identified
2022/23	No risk of significant weakness	No significant weaknesses identified

Purpose of this report

Our Auditor's Annual Report presents our commentary on Lancaster City Council's ('the Council') arrangements to secure economy, efficiency and effectiveness in the use of resources ('Value for Money', 'VfM'), for the years ended 31 March 2021, 31 March 2022 and 31 March 2023.

We prepared this report in accordance with the National Audit Office's ("NAO") 2024 Code of Audit Practice, and its supporting Local Audit Reset and Recovery Implementation Guidance, and Auditor Guidance Notes ('AGNs'). These are available from the NAO website. This report fulfils the requirements of the Accounts and Audit Regulations for an Annual Audit Letter.

Our VfM commentary is based on our assessment of the adequacy of the arrangements the Council has put in place. The extent of our work is determined by our risk assessment, and whether we have identified any risks of significant weakness in arrangements. The commentary does not consider the adequacy of every arrangement the Council has in place, nor does it provide positive assurance that the Council is delivering, or its services represent, value for money.

We have not identified any significant weaknesses in the Council's VfM arrangements, and so have not reported any recommendations in respect of significant weaknesses. We have included in appendix 3 observations and recommendations from our work.

Explanation of the backstop arrangements and disclaimers of opinion

There is a significant backlog in the publication of audited accounts of local authorities in England. National bodies have been working together to address the backlog, as summarised in the Financial Reporting Council's accessible guide to the overall programme of work, [Local Audit Backlog - Rebuilding Assurance](#).

The government has introduced a legislative backstop date by which local authorities must publish their final accounts, including the audit report, even if the financial statement audit is not yet complete. For financial years up to 2022/23, the backstop date is 13 December 2024. The Financial Reporting Council has published an accessible guide to the overall programme of work to recover the backlog of local authority audits.

The backstop date limited the time available to complete our financial statement audit, and obtain sufficient, appropriate audit evidence to form an opinion for the financial years 2021/22 and 2022/23. These limitations are significant and pervasive in extent, and auditing standards therefore require us to issue a disclaimer of opinion in our audit reports for the financial years 2021/22 and 2022/23.

Auditor's work on Value for Money arrangements

The Section 151 Officer and the Council are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money.






The Council is required to annually review the effectiveness of the system of internal control, including VfM arrangements, and report upon this as part of their Annual Governance Statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources. The National Audit Office's Code of Audit Practice sets out three reporting criteria for the auditor to consider. Under the backstop provisions, the areas to consider in respect of these criteria have been amended, and we are not required to report against 'improving economy, efficiency and effectiveness'.

Financial Sustainability	<i>How the body plans and manages its resources to ensure it can continue to deliver its services</i>
Governance	<i>How the body ensures that it makes informed decisions and properly manages its risks</i>
Improving economy, efficiency and effectiveness	<i>How the body uses information about its costs and performance to improve the way it manages and delivers its services</i>

In this report, we set out the findings from the work we have undertaken. Where we have found significant weaknesses in arrangements, we make recommendations so that the Council can consider them and set out how it plans to make improvements. We have not identified any significant weaknesses in arrangements. In planning and performing our work, we consider the arrangements that we expect bodies to have in place, and potential indicators of risks of significant weaknesses in those arrangements. As a result of the COVID-19 pandemic, there have been changes in nationally led processes, changes in expectations around Council's arrangements, and events occurring outside of the Council's control, which affect the relevance of some of these indicators. We have still considered whether these indicators are present, but have considered them in the context of the circumstances of 2020/21 and 2021/22 in assessing whether they are indicative of a risk of significant weakness in those years.

We performed a range of procedures to inform our VfM commentary, including:

-  Interviews with key stakeholders within the organisation primarily the section 151 officer.
-  Review of Council and committee reports and attendance at audit committee meetings.
-  Reviewing reports from third parties including internal audit.
-  Considering the findings from our audit work on the financial statements for the year ended 31 March 2021.
-  Review of the Council's Annual Governance Statement.

VfM arrangements: Financial Sustainability

Approach and considerations

We have considered how the Council plans and manages its resources to ensure it can continue to deliver its services, including:

- How the Council ensures it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the Council plans to bridge its funding gaps and identifies achievable savings;
- How the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities; and
- How the Council identifies and manages risks to financial resilience, including challenge of the assumptions underlying its plans.

Commentary

The table below shows the Council's financial performance for each of the years covered by this report.

£'000	2020/21	2021/22	2022/23
(Surplus) / Deficit on provision of services	4,713	11,559	4,831
Cash and cash equivalents	25,100	43,775	24,251
Usable reserves	48,427	43,875	36,242
Net assets	157,907	185,662	293,079
Increase / (decrease) in General Fund	2,447	(1,776)	5,645
Increase / (decrease) in General Fund earmarked reserves	10,317	(2,784)	(9,778)

The Council has a series of policies and strategies which governs its operations. These include the budget and policy framework which include the treasury management and reserves strategy.

The Council has a Medium Term Financial Strategy (MTFS) which is refreshed at least annually. In January 2023 it published its Council Plan 2024 – 2027, which is underpinned by four principles, four themes and twenty four ambitions for the Council. The Council has commenced a two phase programme considering outcome based resourcing (OBR) and then making the Council fit for the future (FFTF). This programme considers the budgets assigned to each area and how they align to the ambitions of the Council. The MTFS articulates the expected reduction to budgets and the measures that the council is exploring, which is consistent with the information provided as part of the approval of the budget. We recommend that when the Council is making decisions throughout the year that the longer term impact of this decision and any wider impact on the MTFS is presented to members when decisions are being made to promote transparent decision making (Recommendation 1).

VfM arrangements: Financial Sustainability (continued)

Commentary

The Council has an established annual financing planning process in order to develop the annual budget, which is approved at Council in February annually. The Council's annual planning process and process around identification of significant pressures was significantly impacted by the COVID-19 pandemic. We saw evidence that the Council adapted its arrangements to respond and the revised approach was in line with our expectation in the operating environment during 2020/21. As part of the budget and MTFS preparation there is consultation with stakeholder groups where feedback is sought and incorporated into revised budgets and MTFS. The Council as part of its budget preparation includes a "perfect storm" scenario where it assumes all downside scenarios occur and then the associated impact on the general fund balance. As part of this the Council considers whether it has sufficient balances to meet all these risks in the short term.

The Council has identified the need to make savings both now and in the future. As part of the budget preparation it presents the identified savings and any gaps for the following year and the subsequent three years. As the Council has included in its forecast that it anticipates consuming reserves, it is important that it continues to report on any changes to the budget, identifies early any opportunity for savings, tracks where savings are realised and reports on this to the appropriate levels within the Council. Additionally, any decisions that are taken with an impact on finance should have the budgetary and reserves implications clearly detailed (Recommendation 2). The Council has also over the budgets for the period 2020/21 to 2023/24 increased its General Fund minimum balances from £2.5m to £5m.

The Council is a relatively high cost authority when compared to its CIPFA nearest neighbours and we recommend that the Council critically considers opportunities to make savings in areas where they appear to be an outlier (Recommendation 3).

The Council performs horizon scanning and considers the impact on the MTFS and budget. One of the identified risks is in relation to the nuclear power station and the uncertainty over any unplanned outages and ultimately any decommissioning and closure, due to the substantial value of non-domestic rates obtained from the power station whilst it is in operation. As part of the MTFS the Council models the pessimistic scenario and this is then updated as and when there are any changes to planned decommissioning dates. We understand that these dates based on the latest information in December 2024 are 2027 and 2028 respectively. The Council prepares formal quarterly reporting which includes reporting on performance, projects and also resources. This is underpinned by budget meetings between service accountants, budget holders and the Chief Executive where significant variances to budget are discussed as well as forward looking changes to policies or regulatory changes which may impact on year-end outturn or future periods. Outside of this, the Council considers changes to national guidance / policies, such as the change in PWLB criteria during 2020/21, and the associated impact on projects.

VfM arrangements: Governance

Approach and considerations

We have considered how the Council ensures that it makes informed decisions and properly manages its risks, including:

- How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed, including in relation to significant partnerships; and
- How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from the audit committee.

Commentary

The Council has a series of policies covering internal controls, including a whistleblowing and anti-money laundering policy. These policies are available on the Council's website. The Audit Committee is responsible for approving the annual internal audit plan and receives updates at Committee meetings throughout the year.

Management have detailed in their Annual Governance Statements covering the financial periods 2017/18 – 2021/22 that risk management is an area requiring a greater degree of embedding within the Council. This has been widely discussed at Cabinet, Council and Audit Committee meetings and the Council has taken steps to report and monitor risks within the organisation. During FY22/23 the Council have established a corporate project in relation to risk management to embed and establish the process for risk management. As the Council moves through this corporate project on risk management, we recommend that there is a regular review on the reporting undertaken and the processes and systems developed to ensure that they meet the needs of the various users / stakeholders (Recommendation 4).

The Council has two shared service arrangements in relation to revenue and benefits and the corporate enquiry team. These arrangements have in place since 2011 and 2015 respectively. Both of these arrangements ended on 30 June 2021, with Cabinet approving the extension of these arrangements formally on 13 July 2021. We recommend that where services are delivered under a shared service arrangement that the new contracts are approved in advance of the previous arrangements expiring (Recommendation 5).

VfM arrangements: Governance (continued)

Commentary

The Council has an Internal Audit Function to provide independent, objective assurance to enhance the controls in the organisation. The internal audit opinions for the years ended 31 March 2021, 2022 and 2023 were adequate, limited and moderate respectively. The Council until 31 March 2021 operated a shared arrangement with Wyre Borough Council for the provision of internal audit. This was supplemented by the Council via contracting arrangements with Lancashire County Council, Mersey Internal Audit Agency and Fylde Borough Council, along with activity being undertaken internally within the Council in order to be able to form an Head of Internal Audit opinion. When the arrangement ceased on 31 March 2021, the Council was without an internal audit function for six months prior to the appointment of Mersey Internal Audit Agency to fulfil the internal audit role. Internal audit have provided as part of their opinion areas of improvement and we recommend that management continues to ensure that the changes to the control environment are culturally embedded within the Council, and that the Council continues to consider the use of internal audit within the organisation. The Council should also ensure that it is performing root cause analysis of any control recommendations and then embedding this more widely throughout the organisation (Recommendation 6).

We have observed that the finance function is relatively small and therefore there is a degree of reliance on key team members. We understand from management that the Council has reviewed the capacity in the finance team and during 2024 has hired a number of trainee accountants. We recommend that the Council routinely reviews the capacity of the finance team to ensure that it is able to adequately support the Council in the delivery of the MTFS (Recommendation 7).

The Council adapted its arrangements in response to the COVID-19 pandemic, this included temporary management structures, revision of the scheme of delegation and the establishment of a Financial Resilience Group.

Members are invited to training sessions based on a schedule prepared by the Council. The training covers areas such as “what the budget does” / “the statement of accounts”. The Council has an appropriate blend of Councillors reflecting the political make up of the Council. The Council should consider the training needs of members annually and whether there are appropriate financial skills in order to challenge management on key financial assumptions and whether any additional training should be provided (Recommendation 8).

Purpose of our report and responsibility statement

What we report

Our report fulfils our obligations under the Code of Audit Practice to issue an Auditor's Annual Report that includes our commentary on arrangements to secure value for money, and recommendations in respect of identified significant weaknesses in the Council's arrangements.

What we don't report

Our audit was not designed to identify all matters that may be relevant to the Council.

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

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed under the Code of Audit Practice.

The scope of our work

Our observations are developed in the context of our audit work.

We described the scope of our work in our reports to the Audit Committee.

Use of this report

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

Deloitte LLP

Newcastle Upon Tyne | 19 February 2025

Appendix 1: Council's responsibilities

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer, as Section 151 Officer of the Council, is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting. In preparing the Statement of Accounts the Chief Financial Officer is required to select suitable accounting policies and make judgements and estimates that are reasonable and prudent. The Chief Financial Officer is required to confirm that the Statement of Accounts, taken as a whole, is fair, balanced, and understandable, and provides the information necessary for tax payers, regulators and stakeholders to assess the Council's performance, business model and strategy.

The Chief Financial Officer is required to comply with the CIPFA Code of Practice and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. In applying the going concern basis of accounting, the Chief Financial Officer has applied the 'continuing provision of services' approach set out in the CIPFA code of practice as it is anticipated that the services the Council provides will continue into the future.

The Chief Financial Officer and Council are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of the Council's resources, for ensuring that the use of public funds complies with the relevant legislation, delegated authorities and guidance, for safeguarding the assets of the Council, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Accounts and Audit (Amendment) Regulations 2024 establish a backstop date by which the Council is required to publish its Statement of Accounts (other than in specific circumstances).

Appendix 2: Auditor's responsibilities

Auditor's responsibilities relating to the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under the Code of Audit Practice and the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our work in accordance with the Code of Audit Practice, having regard to the guidance, published by the Comptroller & Auditor General in November 2024, as to whether the Council has proper arrangements for securing economy, efficiency and effectiveness in the use of resources. Under the 2024 Code of Audit Practice, our work for 2020/21, 2021/22 and 2022/23 has only considered arrangements in respect of two reporting criteria (financial sustainability and governance), in line with the national requirements for audits affected by the backstop arrangements.

The Comptroller & Auditor General has determined that under the Code of Audit Practice, we discharge this responsibility by reporting by exception if we have reported to the Council a significant weakness in arrangements to secure economy, efficiency and effectiveness in its use of resources for the year. Other findings from our work, including our commentary on the Council's arrangements, are reported in our Auditor's Annual Report.

Auditor's responsibilities for the audit of the financial statements

The objective of an audit is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Where it is not possible to complete the audit of the financial statements by the relevant "backstop" date established by the Accounts and Audit (Amendment) Regulations 2024, the auditor is required to issue an audit opinion with a limitation of scope or with a disclaimer of opinion (depending on the extent of assurance it is possible to obtain by that date).

A description of our responsibilities for the audit of the financial statements is located on the FRC's website at:

www.frc.org.uk/auditorsresponsibilities.

Auditor's other responsibilities

We are also required to report to you if we exercise any of our additional reporting powers under the Local Audit and Accountability Act 2014 to:

- make a written recommendation to the Council, copied to the Secretary of State;
- make a referral to the Secretary of State if we believe that the Council or an officer of the Council is: about to make, or has made, a decision which involves or would involve the Council incurring unlawful expenditure; or about to take, or has begun to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency; or
- issue a report in the public interest.

Appendix 3: Recommendation summary

Throughout our report we have included areas of improvement, which do not represent a significant weakness. We have summarised these below:

Number	Area	Recommendation
1	Financial sustainability	The Council should ensure that when it is making decisions throughout the year, that the longer term impact of decisions and any wider impact on the MTFS is considered and presented to members to promote transparent decision making.
2	Financial sustainability	The Council should report on any changes to the budget, identify early any opportunity for savings, tracks where savings are realised and report on this to the appropriate levels within the Council. Additionally, any decisions that are taken with an impact on finance should have the budgetary and reserves implications clearly detailed
3	Financial sustainability	The Council should critically consider the opportunities to make savings in areas where they appear to be an outlier in the CIPFA nearest neighbour benchmarking data.
4	Governance	As the Council moves through the corporate project on risk management, it should regularly review the reporting undertaken and the processes and systems developed to ensure that they meet the needs of the various users / stakeholders.
5	Governance	The Council should maintain a forward register of expiry dates on contracts and ensures that there is timely review and approval of new contracts where appropriate to ensure a consistency of service and that contracts are renewed prior to their expiry.
6	Governance	Management should continue to ensure that the changes to the control environment are culturally embedded throughout the Council, and that the Council continues to consider the use of internal audit within the organisation. The Council should also ensure that it is performing root cause analysis of any control recommendations and then embedding these more widely within the organisation where appropriate.
7	Governance	The Council should routinely review the capacity of the finance team to ensure that it is able to adequately support the council in the delivery of the MTFS.
8	Governance	The Council should consider whether there are appropriate financial skills in order to challenge management on key financial assumptions and whether any additional training should be provided.



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