



Year End Report to the Audit Committee

Lancaster City Council

Year end report for the year ended 31 March 2024

—

19 November 2025

Introduction

To the Audit Committee of Lancaster City Council

We are pleased to have the opportunity to meet with you on 19 November 2025 to discuss the results of our audit of Lancaster City Council as at and for the year ended 31 March 2024.

This report should be read in conjunction with our audit plan, presented on 27 November 2024. We will be pleased to elaborate on the matters covered in this report when we meet.

The engagement team

We expect to be in a position to sign our audit opinion on the approval of the financial statements and auditor's representation letter, provided that the outstanding matters noted on page 6 of this report are satisfactorily resolved.

We will be issuing a disclaimer audit opinion for the reasons outlined on pages 4-5.

We draw your attention to the important notice on page 3 of this report, which explains:

- The purpose of this report
- Limitations on work performed
- Status of our audit and the implications of the statutory backstop.

Yours sincerely,



Richard Lee

Director

19 November 2025

How we deliver audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define 'audit quality' as being the outcome when audits are:

- Executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality management and
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

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Important notice

This report is presented under the terms of our audit under Public Sector Audit Appointments (PSAA) contract.

The content of this report is based solely on the procedures necessary for our audit.

Purpose of this report

This Report has been prepared in connection with our audit of the financial statements of Lancaster City Council (the 'Council/Authority'), prepared in accordance with [International Financial Reporting Standards ('IFRSs')] as adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, as at and for the year ended 31 March 2024.

This Report has been prepared for the Council's Audit Committee, a sub-group of those charged with governance, in order to communicate matters that are significant to the responsibility of those charged with oversight of the financial reporting process as required by ISAs (UK), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report, or for the opinions we have formed in respect of this Report.

This report summarises the key issues identified during our audit.

Limitations on work performed

This Report is separate from our audit report and does not provide an additional opinion on the Council's financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors.

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report.

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit and implications of the statutory backstop

Page 4 'Our audit and the implications of the statutory backstop' explains the impact of the statutory backstop and our resulting conclusion to issue a disclaimer opinion on the financial statements.

Our audit is not yet complete and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status. Page 6 'Our Audit Findings' outlines the outstanding matters in relation to the audit. Our conclusions will be discussed with you before our audit report is signed.

This report is addressed to Lancaster City Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

Our audit and the implications of the statutory backstop

Measures to resolve the backlog

The Government has introduced measures to resolve the local government financial reporting and audit backlog. Amendments have been made to the Accounts and Audit Regulations and NAO's Code of Audit Practice which have allowed auditors to give disclaimed opinions over any open, incomplete audits up to the period ending 31 March 2023. These were required to be delivered by 13th December 2024. For Lancaster City Council this has resulted in a disclaimed audit opinion for two financial years up to and including 2022/23.

Those same amendments to the Accounts and Audit Regulations required the Council to publish its audited 2023/24 financial statements and accompanying information on or before 28 February 2025. This deadline was not achieved by Lancaster City Council.

The Appendix 'Local Audit - Reset and Recovery' provides more detailed information regarding this. The appendix also provides more detail on the implication of this in future audits, in respect of rebuilding assurance.

Impact on our audit of the financial statements

The impact of the above means that for the financial year 2023/24 we have not been able to obtain sufficient appropriate audit evidence in respect of the 2023/24 opening balances and the comparatives balances relating to 2022/23. The work we have performed in 2023/24 is explained on the next page.

As explained in the previously referenced appendix, the level of rebuilding assurance has been limited in 2023/24 as we were not provided with information on timely basis to allow us to complete our audit and to obtain sufficient appropriate audit evidence. In our view, this is pervasive to the financial statements as a whole.

As a result of the above and irrespective of the level of work completed on 2023/24 balances, we intend to issue a disclaimer opinion on the financial statements.

Other matters

As required by the ISAs (UK) when we are disclaiming our audit opinion, our audit report will not report on other matters that we would usually report on, most notably the use of the going concern assumption in the preparation of the financial statements; the extent to which our audit was considered capable of detecting irregularities, including fraud; and whether there are material misstatements in the other information presented within the Statement of Accounts.

Although we are disclaiming our audit opinion we have, in this report, reported matters that have come to our attention and, where appropriate, we intend to include in our audit report.

Value for Money

The amendments to the Accounts and Audit Regulations do not impact on our responsibilities in relation to the Council's Value for Money arrangements. We are responsible for forming a view on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. Page 14 provides a summary of our findings. Further details are also available in our Auditor's Annual Report for 2023/24.

Our audit and the implications of the statutory backstop

Work completed in 2023/24

Our audit plan, presented to you on 27 November 2024 set out our audit approach including our significant risks and other audit risks. We have updated our response to those significant risks, in the pages overleaf, identifying the work we have and have not been able to complete.

Although we are disclaiming our audit opinion, we have reported matters that have come to our attention during the audit and, where appropriate, we intend to include in our audit report.

Specifically in relation to 2023/24 we have completed our work on the following areas in addition to our planning and risk assessment work:

Significant risks

- Valuation of post retirement benefit obligations

Other areas

- Cash, Investments, Borrowings, Staff cost

We have been unable to complete our work on the following areas:

- Opening balances;
- Movements in usable and unusable reserves for the year ended 31 March 2024;
- Work associated with significant risks on:
 - Valuation of land and buildings
 - Valuation of investment property
 - Management override of controls
- Other work areas include, but were not limited to: short term debtors; short term creditors; other services expenses; fees, charges and other service income; net income from council tax, non-domestic rates, district rate income; government grants and contributions; disclosures of related party transactions, the Housing Revenue Account and Collection Fund Statements.

Significant challenges with progressing work

Matters which led to significant challenges in performing the audit included the following:

- Delay in production of the accounts – the accounts were published in August 2024 and therefore did not meet the end of June timetable.
- During the audit, we encountered significant challenges primarily due to a lack of timely and effective engagement from management. There were substantial delays in the provision of planning and risk assessment information, which, when combined with the late production of the financial statements, created a severe knock-on effect. These delays hindered the timely completion of planning and risk assessment procedures and ultimately postponed the commencement of the final phase of the audit.
- In addition, management's responsiveness to audit queries and emails was persistently slow, further compounding the delays. Of particular concern was the provision of information required to support the Value for Money (VFM) conclusion. Despite initial requests being made in November 2023, the necessary responses and supporting evidence were not made available for auditor review until April 2025.

These deficiencies in engagement and coordination have resulted in significant delays to our work on both the financial statements and VFM assessment. More critically, they have prevented the audit team from obtaining sufficient appropriate audit evidence, leading to a disclaimer of audit opinion on the financial statements.

We are in process of considering the impact on our audit fees as a result of these challenges.

Our audit findings

We have set out below the status of our work and key findings from the work we were able to perform before the backstop date. On page 4 we have discussed the reasons for the disclaimer audit opinion.

Significant audit risks	Page 8-10
Significant audit risks	Our findings
Valuation of land and buildings	As outlined on page 5, we were unable to complete our work on this significant risk.
Valuation of investment property	As outlined on page 5, we were unable to complete our work on this significant risk.
Management override of controls	As outlined on page 5, we were unable to complete our work on this significant risk.
Valuation of post retirement benefit obligations	We assessed the assumptions underpinning the valuation as reasonable. We identified a material misstatement in relation to the requirements of IFRIC 14 across the current and prior period. We identified misstatements in relation to the pension's detailed and narrative disclosures. We have also raised some required improvements to the pensions process.
Key accounting estimates	Page 11
Valuation of land and buildings	As outlined on page 5, we were unable to complete our work on this estimate.
Valuation of investment property	As outlined on page 5, we were unable to complete our work on this estimate.
Valuation of post retirement benefit obligations	We assessed the assumptions underpinning the valuation as optimistic relative to our central rates but within our reasonable range.

Number of Control deficiencies	Page 34-37
Significant control deficiencies	1
Other control deficiencies	6

Outstanding matters

Our audit is substantially complete except for the following outstanding matters:

- Revised disclosures review
- Technical Accounting and Audit Consultations
- Subsequent events updates
- Finalisation of VFM work
- Final quality reviews
- Draft annual report to KPMG
- Management representation letter
- Finalise audit report and sign

Significant risks and Other audit risks

We discussed the significant risks which had the greatest impact on our audit with you when we were planning our audit.

Our risk assessment draws upon our knowledge of the business, the industry and the wider economic environment in which Lancaster City Council operates.

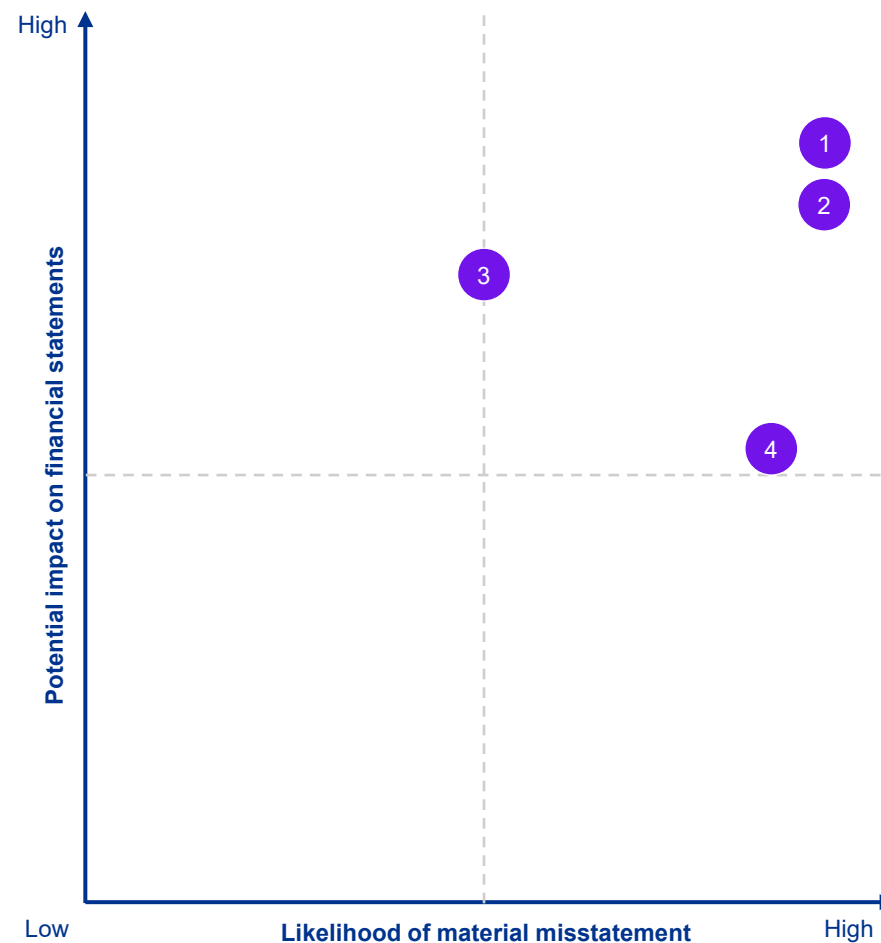
We also use our regular meetings with senior management to update our understanding and take input from local audit teams and internal audit reports.

In the pages overleaf we have reported the work we have completed on significant risks and other audit risks. Where work has not been completed in line with page 5 – we have not re-produced the slides that we presented in the audit plan.

Significant risks

1. Valuation of land and buildings
2. Valuation of investment property
3. Management override of controls
4. Valuation of post retirement benefit obligations

Key: # Significant financial statement audit risks



Audit risks and our audit approach

4

Valuation of post retirement benefit obligations

An inappropriate amount is estimated and recorded for the defined benefit obligation



Significant audit risk

- The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Council's pension liability could have a significant effect on the financial position of the Council.
- The effect of these matters is that, as part of our risk assessment, we determined that post retirement benefits obligation has a high degree of estimation uncertainty. The financial statements disclose the assumptions used by Council in completing the year end valuation of the pension deficit and the year on year movements.
- We have identified this in relation to the following pension scheme memberships: Local Government Pension Scheme
- Also, recent changes to market conditions have meant that more councils are finding themselves moving into surplus in their Local Government Pension Scheme (or surpluses have grown and have become material). The requirements of the accounting standards on recognition of these surplus are complicated and requires actuarial involvement.



Our response

We have performed the following procedures :

- Understood the processes the Council have in place to set the assumptions used in the valuation;
- Evaluated the competency, objectivity of the actuaries to confirm their qualifications and the basis for their calculations;
- Performed inquiries of the accounting actuaries to assess the methodology and key assumptions made;
- Agreed the data provided by the audited entity to the Scheme Administrator for use within the calculation of the scheme valuation;
- Evaluated the design and implementation of controls in place for the Council to determine the appropriateness of the assumptions used by the actuaries in valuing the liability;
- Challenged, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data;
- Confirmed that the accounting treatment and entries applied by the Group are in line with IFRS and the CIPFA Code of Practice;
- Considered the adequacy of the Council's disclosures in respect of the sensitivity of the net position to these assumptions; and
- Where applicable, assessed the level of surplus or minimum funding that should be recognised by the entity

Audit risks and our audit approach (cont.)

4 Valuation of post retirement benefit obligations (cont.)

An inappropriate amount is estimated and recorded for the defined benefit obligation



! Significant audit risk

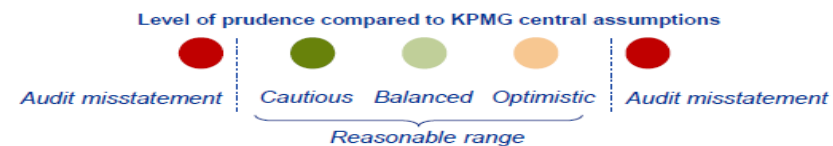
- The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Council's pension liability could have a significant effect on the financial position of the Council.
- The effect of these matters is that, as part of our risk assessment, we determined that post retirement benefits obligation has a high degree of estimation uncertainty. The financial statements disclose the assumptions used by Council in completing the year end valuation of the pension deficit and the year on year movements.
- We have identified this in relation to the following pension scheme memberships: Local Government Pension Scheme
- Also, recent changes to market conditions have meant that more councils are finding themselves moving into surplus in their Local Government Pension Scheme (or surpluses have grown and have become material). The requirements of the accounting standards on recognition of these surplus are complicated and requires actuarial involvement.









Our findings

- Our assessment of the actuary found them to be independent, objective and of appropriate expertise.
- Upon review of the process and after discussions with management, we noted that there are no key controls in place around the assumptions. Although reviewed, management do not challenge the assumptions used or review the reasonableness of the calculations performed. We have also made some recommendations to management for improved and earlier engagement with the LGPS actuary.
- We have assessed the overall assumptions used by management as optimistic relative to our central rates but within our reasonable range. We identified that CPI was optimistic but still within reasonable range. All other individual assumptions were balanced and within our reasonable range.
- We identified that the Council had not appropriately considered IFRIC 14 (which provides guidance on how much of the Define benefit Asset can be recognised) in the current or previous year. We therefore critically challenged this position and the IAS 19 results were revised for the current and previous year. We therefore raised a current year corrected audit misstatement to cap the recognisable surplus from £47.3m to £nil; and a prior year corrected audit misstatement to cap the recognisable surplus from £33.9m to £nil.
- We identified some small inconsistencies between the Council's full pensions notes and the reconciliations per the actuary's IAS 19 reporting.
- Following the Court of Appeal's dismissal of the Virgin Media appeal, we recommended that the Council makes appropriate narrative disclosure that it is currently not clear if there is any impact on the benefits in LGPS Funds, therefore it is not possible for employers to quantify the DBO impact, if any.

Audit risks and our audit approach (cont.)

UK assumptions



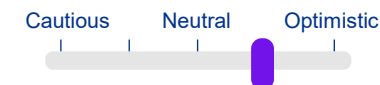
Overall assessment of assumptions for audit consideration							 <i>Optimistic</i>	
Underlying assessment of individual assumptions		Methodology	Consistent methodology to prior year?	Compliant methodology with accounting standard?	Employer	KPMG central	Assessment	Significant assumption
Discount rate		AA yield curve		✓	4.90%	4.81%		✓
CPI inflation		Deduction to inflation curve	✓	✓	2.70%	2.85%		✓
Pension increases		In line with CPI + 0.1%	✓	✓	2.80%	2.79%		
Salary increases		Employer best estimate	✓	✓	CPI + 1.50%	In line with long-term remuneration policy		✓
Mortality	Base tables	In line with most recent Fund valuation, with adjusted scaling factors due to the adoption of updated model for mortality improvements	✓	✓	Male: 108%/113% (pensioners/non-pensioners) of the SAPS Series 3 base tables Female: 101% of the SAPS Series 3 Middle base tables	In line with best-estimate Fund experience		✓
	Future improvements	In line with most recent Fund valuation, updated to use latest available CMI model	✓	✓	CMI 2022, 1.5% long-term trend rate and default other parameters	CMI 2022, 1.25% long-term trend rate and default other parameters		✓
Other demographics		In line with most recent Fund valuation	✓	✓	In line with most recent Fund valuation	In line with Fund experience		

Key accounting estimates and management judgements – Overview



Our view of management judgement

Our views on management judgments with respect to accounting estimates are based solely on the work performed in the context of our audit of the financial statements as a whole. We express no assurance on individual financial statement captions.



Asset/liability class	Our view of management judgement	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates	Further comments
LGPS gross DBO Gross defined benefit obligations	Cautious Neutral Optimistic 	193.4	3.1	Needs improvement Neutral Best practice 	Our actuarial specialists have assessed the overall and individual assumptions used by management in valuing the pension liabilities as optimistic and within our reasonable range. No issues were noted in the judgements made in the valuation of pension liabilities.

Other matters

Narrative report

While we are disclaiming our audit opinion and not reporting on the narrative report, we have identified the following based on the work performed:

- We have not identified any inconsistencies between the contents of the Narrative Report and the financial statements.
- We have not identified any material inconsistencies between the knowledge acquired during our audit and the statements of the Council.

As Audit Committee members you confirm that you consider that the Narrative Report and financial statements taken as a whole are fair, balanced and understandable and provides the information necessary for regulators and other stakeholders to assess the Council's performance, model and strategy.

However, we note that we have not obtained sufficient appropriate audit evidence to issue an unmodified audit opinion. Due to this, and the possible consequential effect on the related disclosures in the Narrative Report, we are unable to determine whether there are material misstatements in the Narrative Report.

Annual Governance Statement

While we are disclaiming our audit opinion and not reporting on the Annual Governance Statement, we have identified the following based on the work performed:

- We have not completed the work to consider it complies with Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE; and
- It is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

However note that we have not obtained sufficient appropriate audit evidence to issue an unmodified audit opinion. Due to this, and the possible consequential effect on the related disclosures in the Annual Governance Statement, we are unable to determine whether there are material misstatements in the Annual Governance Statement.

Whole of Government Accounts

As required by the National Audit Office (NAO) we carry out specified procedures on the Whole of Government Accounts (WGA) consolidation pack.

We have confirmed that, for Lancaster City Council, the threshold at which detailed testing is required has not been exceeded. We have not completed our work in respect of the WGA consolidation pack, until we have completed this work, we are unable to certify the we have completed the audit of the financial statements.

Independence and Objectivity

ISA 260 also requires us to make an annual declaration that we are in a position of sufficient independence and objectivity to act as your auditors, which we completed at planning and no further work or matters have arisen since then.

Audit Fees

Our PSAA 2023/24 audit scale fee for the audit was £161,380 plus VAT.

In addition to our core fee, additional fee variations will be requested to reflect the significant delays experienced, ISA 315R, additional work required over VFM significant risks, additional work over pensions (including prior year adjustment) and responding to elector challenge issues.

We have also completed non audit work at the Council during the year on Housing Benefits grant certification and pooling for housing capital receipts return. We have included in appendix on page 30 confirmation of safeguards that have been put in place to preserve our independence.

Value for money

The background of the slide features a light blue gradient. A large, solid blue rectangle is positioned on the left side, containing the title text. To the right of this rectangle, there are decorative, wavy, ribbon-like lines in shades of blue, pink, and purple that curve across the top and right edges of the slide.

Value for money

We are required under the Audit Code of Practice to confirm whether we have identified any significant weaknesses in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources irrespective of the statutory backstop as explained on page 4.

In discharging these responsibilities we include a statement within the opinion on your accounts to confirm whether we have identified any significant weaknesses. We also prepare a commentary on your arrangements that is included within our Auditor's Annual Report, which is required to be published on your website alongside your annual report and accounts.

Commentary on arrangements

We have prepared our Auditor's Annual Report and a copy of the report is included within the papers for the Committee alongside this report. The report is required to be published on your website alongside the publication of the annual report and accounts.

Response to risks of significant weaknesses in arrangements to secure value for money

As noted on the right, we have identified three risks of a significant weakness in the Council's arrangements to secure value for money. On the pages overleaf we have set out the risks, our response and findings.

As a result of the work we have identified two significant weaknesses.

Performance improvement observations

As part of our work we have identified two Performance Improvement Observations, which are suggestions for improvement but not responses to identified significant weaknesses. Please see details on pages 21-22.

Summary of findings

We have set out in the table below the outcomes from our procedures against each of the domains of value for money:

Domain	Risk assessment	Summary of arrangements
Financial sustainability	2 significant risks identified	1 significant weakness identified
Governance	2 significant risks identified	2 significant weaknesses identified
Improving economy, efficiency and effectiveness	No significant risks identified	No significant weaknesses identified

We have identified recommendations to significant weaknesses on page 20.

Significant Value for Money Risk



Drawdown of General Fund Reserves

Risk that value for money arrangements may contain a significant weakness linked to financial sustainability

Significant Value for Money Risk

Background and value for money risk

The 2023/24 budget relied on a planned drawdown of £0.6 million from General Fund (GF) reserves to achieve balance, indicating structural reliance on reserves to fund recurring expenditure. This approach posed a risk to long-term financial resilience, particularly if reserve usage exceeded planned levels or if unforeseen events further depleted reserves.

Our response

- We reviewed the Council's outturn position for 2023/24, focusing on actual reserve movements compared to budgeted plans.
- We examined explanations for variances, including any exceptional or unforeseen costs.
- We held detailed inquiries with management to understand the reasons for the higher-than-planned drawdown and the extent of any underlying structural financial pressures.
- We evaluated the adequacy of the Council's MTFS and reserve management policies.
- We considered whether the Council had developed plans to replenish reserves and reduce structural dependency.
- We assessed compliance with minimum reserve thresholds and the potential impact on financial resilience.

Our findings

We identified:

- In 23/24, the Council drew down £1.3m from General Fund (GF) reserves, compared to a planned drawdown of £0.6m, resulting in a variance of £0.7m. The variance was primarily driven by a major one-off incident (a fire at the former Supa Skips building in December 2023) which required additional funding of £649k after external contributions. Other minor variances included £214k for solar scheme costs. Management provided clear explanations for these variances in the budget outturn report and actively monitored overspending areas. The additional reserve use was largely exceptional, and overall, the Council did not materially deviate from its financial plan.
- Despite this variance, the Council's reserves position remains strong. At year-end, GF reserves stood at £10.3m, significantly above the minimum threshold of £5m recommended by the Section 151 Officer. In addition, the Council held £17m in GF earmarked reserves, bringing total GF reserves to £27.4m—an increase of 10% from £24.7m in 22/23. This demonstrates that the Council has maintained a healthy level of financial resilience while managing unforeseen pressures.

Significant Value for Money Risk

1

Drawdown of General Fund Reserves (Continued)

Risk that value for money arrangements may contain a significant weakness linked to financial sustainability

Significant Value for Money Risk

Background and value for money risk

The 2023/24 budget relied on a planned drawdown of £0.6 million from General Fund reserves to achieve balance, indicating structural reliance on reserves to fund recurring expenditure. This approach posed a risk to long-term financial resilience, particularly if reserve usage exceeded planned levels or if unforeseen events further depleted reserves.

Our response

- We reviewed the Council's outturn position for 2023/24, focusing on actual reserve movements compared to budgeted plans.
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- We held detailed inquiries with management to understand the reasons for the higher-than-planned drawdown and the extent of any underlying structural financial pressures.
- We evaluated the adequacy of the Council's MTFS and reserve management policies.
- We considered whether the Council had developed plans to replenish reserves and reduce structural dependency.
- We assessed compliance with minimum reserve thresholds and the potential impact on financial resilience.

Our findings

- The Council continues to take steps to strengthen its financial sustainability. In 23/24, it delivered £2.2m of savings against a target of £2.4m and initiated Outcomes Based Resourcing (OBR), which reduced forecast budget requirements by approximately £2.7m.
- The Council has approved a Flexible Use of Capital Receipts Strategy to support revenue expenditure while maintaining long-term sustainability. The MTFS acknowledges significant future pressures and highlights the need to manage reliance on reserves to address forecast overspends.

Conclusion

Based on the findings above we have not identified any significant weaknesses in arrangements.

Significant Value for Money Risk

2

HRA Sustainability and Mainway Estate Regeneration

Risk that value for money arrangements may contain a significant weakness linked to financial sustainability and governance

Significant Value for Money Risk

Background and value for money risk

There is a risk that the Council's declining HRA reserves, coupled with the absence of a clear strategy for the Mainway Estate regeneration project, will undermine its ability to deliver statutory housing services, maintain housing stock, and achieve sustainable HRA objectives. The lack of defined plans and financial alignment increases exposure to escalating costs, inefficient resource use, and long-term financial instability.

Our response

- Reviewed the movement in HRA general and earmarked reserves over the last three years.
- Evaluated the Council's HRA Business Plan, including assumptions on income, expenditure, and capital investment.
- Assessed whether the plan incorporated stress testing for future risks and realistic cost pressures.
- Considered compliance with minimum reserve thresholds.
- Examined whether strategies existed to rebuild reserves and prioritise essential works.
- Reviewed Cabinet and Committee meeting minutes and project reports relating to Mainway Estate regeneration.
- Examined expenditure to date and evaluated alignment with agreed objectives.
- Considered reporting mechanisms and governance arrangements for the regeneration project.
- Discussed with management the current status of Mainway Estate plans and future options.

Our findings

We identified:

- The Council's Housing Revenue Account (HRA) reserves have declined sharply over the past three years, with general reserves reducing from £2.5m in 2021/22 to £0.7m in 2023/24, falling below the minimum threshold. Earmarked reserves also dropped from £10.3m to £2.8m over the same period. We understand that this deterioration reflects external pressures such as rising depreciation charges linked to property values, cost-of-living impacts including energy inflation, escalating repairs costs and increased compliance expenditure to meet national requirements.
- Further strain on reserves has resulted from decisions to fund regeneration-related costs, including the Mainway Estate project, acquisition of the former Skerton School site, and buy-back of leasehold properties. These commitments have significantly reduced the financial buffer available to manage unforeseen repairs, compliance obligations, or emergency housing needs, creating a material risk to the delivery of statutory housing services and essential capital works. The current reserve position is not supported by a clear recovery strategy or stress-tested financial planning within the HRA Business Plan and MTFs as at year-end 23/24.

Significant Value for Money Risk

2

HRA Sustainability and Mainway Estate Regeneration (Continued)

Risk that value for money arrangements may contain a significant weakness linked to financial sustainability and governance

Significant Value for Money Risk

Background and value for money risk

There is a risk that the Council's declining HRA reserves, coupled with the absence of a clear strategy for the Mainway Estate regeneration project, will undermine its ability to deliver statutory housing services, maintain housing stock, and achieve sustainable HRA objectives. The lack of defined plans and financial alignment increases exposure to escalating costs, inefficient resource use, and long-term financial instability.

Our response

- Reviewed the movement in HRA general and earmarked reserves over the last three years.
- Evaluated the Council's HRA Business Plan, including assumptions on income, expenditure, and capital investment.
- Assessed whether the plan incorporated stress testing for future risks and realistic cost pressures.
- Considered compliance with minimum reserve thresholds.
- Examined whether strategies existed to rebuild reserves and prioritise essential works.
- Reviewed Cabinet and Committee meeting minutes and project reports relating to Mainway Estate regeneration.
- Examined expenditure to date and evaluated alignment with agreed objectives.
- Considered reporting mechanisms and governance arrangements for the regeneration project.
- Discussed with management the current status of Mainway Estate plans and future options.

Our findings

- This challenge is compounded by the Mainway Estate regeneration project, where approximately £3.7m has been spent to date on site acquisition and master planning, yet there remains no clear delivery plan, defined milestones, or robust governance arrangements. The absence of a comprehensive plan means that financial implications of redevelopment options are not understood or reflected in the HRA Business Plan, preventing the Council from aligning housing priorities with long-term financial sustainability.
- While management has begun considering measures such as revising asset valuation methodology, reassessing useful lives, reviewing loan funding arrangements, and strengthening governance for Mainway through a Cross-Party Councillor Board and pre-market engagement, these actions have commenced after the year end, remain at an early stage and as such do not reflect robust arrangements as at year-end 23/24.

Conclusion

Based on the findings above we have determined that there is a significant weakness in arrangements relating to financial sustainability and governance.

Significant Value for Money Risk

3

Compliance with statutory financial reporting deadlines

Risk that value for money arrangements may contain a significant weakness linked to governance

Significant Value for Money Risk

Background and value for money risk

The Council faced the challenge of concluding multiple years of accounts and audits simultaneously (2020/21 through 2023/24), which posed a significant risk to timely completion and the ability to meet statutory requirements. This situation also raised concerns about whether sufficient experienced resources were assigned to manage the accounts and audit process effectively.

Our response

Through our audit we have evaluated the arrangements the Council has put in place to ensure compliance with its statutory financial reporting responsibilities.

Our findings

We identified:

- The Government has introduced measures to address the national backlog in local government financial reporting, including amendments to the Accounts and Audit Regulations and the NAO Code of Audit Practice, allowing auditors to issue disclaimed opinions for incomplete audits up to 31 March 2023. These were required to be delivered by 13 December 2024.
- Despite these mitigations, the Council experienced delays in providing information necessary for audit completion, primarily due to the significant administrative burden of preparing multiple years' accounts and managing queries from two audit firms concurrently.
- While these operational challenges explain the delays, they highlight a significant weakness in arrangements to allocate sufficient experienced staffing and maintain robust governance over financial reporting.

Conclusion

Based on the findings above we have determined that there is a significant weakness in arrangements relating to governance.

Value for Money: Recommendations

The recommendations raised as a result of our work in respect of significant value for money weaknesses in the current year are as follows:

#	Grading	Issue, Impact and Recommendation	Management Response/Officer/Due Date
1	Other	<p>The Council's Housing Revenue Account (HRA) reserves have fallen significantly over the past three years, dropping below the minimum threshold and reducing financial resilience. This decline is compounded by the expenditure on the Mainway Estate regeneration project, which lacks a clear delivery plan, defined milestones, and robust governance. The absence of an integrated strategy linking regeneration plans to HRA financial planning has hindered the development of a sustainable reserve strategy and alignment with long-term housing objectives.</p> <p>Without a clear and integrated approach, the Council faces heightened financial risk within the HRA. Current reserves provide minimal flexibility to manage unforeseen repairs, compliance obligations, or emergency housing needs. Uncertainty around Mainway Estate regeneration options means financial consequences are not understood or reflected in the HRA Business Plan and MTFS, exposing the Council to escalating costs, inefficient resource use, and potential failure to deliver statutory housing services and strategic regeneration goals.</p> <p>The Council should develop a comprehensive strategy that integrates HRA financial planning with regeneration priorities. This should include:</p> <ul style="list-style-type: none"> • A clear delivery plan for Mainway Estate with milestones, governance, and measurable outcomes. • Evaluation of financial implications for all redevelopment options and incorporation into the HRA Business Plan and MTFS. • A sustainable reserve recovery strategy supported by stress-tested financial planning. 	<p>The Council faces ongoing financial pressures within the HRA, including rising depreciation costs, inflationary impacts on repairs and compliance, capped rent increases, and regeneration commitments. These challenges mirror national trends where expenditure has exceeded income, reducing reserves.</p> <p>To maintain resilience, the s151 Officer raised the minimum HRA reserve to £0.750M in 2023. However, strategic investments—such as Mainway regeneration, Skerton School acquisition, and leasehold buybacks—have further depleted reserves. Active measures include reviewing asset valuations, funding strategies, and loan repayment options, feeding into the 2026/27 budget for a sustainable medium-term plan.</p> <p>Mainway Estate Progress: Despite inflation and funding constraints, key milestones have been achieved: site acquisition and clearance, masterplan completion, and strengthened governance through cross-council meetings, quarterly reporting, and a Cross-Party Board. Pre-market engagement is underway to secure a delivery partner. The Council remains committed to balancing financial resilience with strategic regeneration priorities.</p>
2	Other	<p>The Council faced significant challenges in meeting statutory financial reporting deadlines due to the simultaneous preparation and audit of multiple years' accounts (2020/21 to 2023/24). This indicates weaknesses in governance and resource allocation within the finance function.</p> <p>Delays in completing accounts and audits undermine compliance with statutory requirements, reduce transparency, and increase the risk of modified or disclaimed audit opinions. They also erode stakeholder confidence and expose the Council to external scrutiny.</p> <p>The Council should strengthen governance and financial reporting capacity by assigning sufficient experienced resources, implementing contingency plans for statutory deadlines, and enhancing oversight of the accounts and audit process to ensure timely compliance.</p>	<p>Delays in finalising year-end accounts reflect sector-wide issues caused by failures in the public audit regime, resulting in significant backlogs nationally. The Council has kept Audit Committee informed through regular updates since 2021. In March 2024, the Committee approved prioritising clearance of three outstanding Statements of Accounts (2020/21–2022/23) ahead of the February 2025 backstop deadline, deferring 2023/24 publication to August 2024.</p> <p>This approach ensured statutory duties for budget setting and financial planning were met while resolving historic audits. Additional staff have been recruited to strengthen resilience, and every effort will be made to meet future deadlines. However, if conflicts arise, statutory budget-setting will remain the priority over audit completion.</p>

Performance Improvement Observations

We raised the following performance improvement observations identified in our value for money procedures.

#	PIO	Domain	Management Response
1	<p>During our review, we have noted that the Council's 'Anti fraud, bribery and corruption policy' is outdated and have not been subject to review since February 2020.</p> <p>An outdated policy exposes the Council to increased risk of undetected or unaddressed fraudulent activity, bribery, or corruption. This can undermine the Council's ability to prevent, detect, and respond effectively to fraud and corruption, and may result in financial loss, reputational damage, and regulatory scrutiny.</p> <p>It is recommended that the Council undertakes a review and update of its 'Anti-fraud, bribery and corruption policy' to ensure alignment with current legal requirements, sector best practice, and the Council's risk profile. The updated policy should be clearly communicated to all staff and members, supported by regular training. Additionally, the Council should establish a schedule for periodic review of the policy to ensure it remains effective and responsive to evolving risks.</p>	Governance	<p>The Audit Committee's Terms of Reference state they have responsibility to "monitor counter fraud, actions and resources and review the assessment of fraud risks and potential harm to the Council from fraud and corruption."</p> <p>Council has a number of policies which fall within the Committee's remit.</p> <ol style="list-style-type: none"> Anti-Fraud, Corruption and Bribery Policy, Money Laundering, and Sanctions Policy <p>Each of the above policies was subject to different review frequency's and so at its meeting 19th November 2024 agreed to the s151 Officer's request to harmonise the various review dates and bring these policies annually to its March meeting.</p> <p>Agenda for Audit Committee on Wednesday, 27th November 2024, 6.00 p.m. - Lancaster City Council</p> <p>Agenda for Audit Committee on Wednesday, 19th March 2025, 6.00 p.m.</p> <p>In addition to these well-established specific counter fraud policies there are a number of documents which sit alongside and support the Council's anti-fraud and corruption framework each with differing approval routes, these include.</p> <ul style="list-style-type: none"> Raising Concerns Policy Officers and Members Codes of Conduct. Contract Procedure Rules Financial Procedure Rules <p>This approach enables the Committee to have fuller oversight over all the applicable policies that form the Council's Anti-Fraud and Corruption Framework and allows Audit Committee to discharge its duty as Those Charged with Governance in a more efficient and effective manner.</p> <p>Although not reviewed within the stated timeframe the Audit Committee were made aware of the situation and the supporting rational. An Anti-Fraud, Corruption and Bribery policy was in place across the Council during the period. In 2022/23 the Council established a central record of its policies and quarterly emails are sent to the relevant Officers</p>

Performance Improvement Observations (Continued)

#	PIO	Domain	Management Response
2	<p>During our review, we noted that the Council does not maintain a formal tender waiver register.</p> <p>The absence of a comprehensive tender waiver register limits transparency and oversight of procurement activities. This increases the risk of non-compliance with procurement regulations, potential value for money concerns, and the possibility that waivers are granted without appropriate justification or approval. It may also hinder the Council's ability to demonstrate effective governance.</p> <p>We recommend that the Council establish and maintain a central tender waiver register. This register should record all contract exceptions, including the contract value, reason for the waiver, and details of the approval process. Regular review and oversight of the register will help strengthen procurement controls, ensure compliance with internal policies and external regulations, and enhance transparency and accountability in the Council's procurement practices.</p>	Governance	<p>The Procurement Team hold copies of all completed waivers within their central files.</p> <p>However, the procurement team will establish a central waiver register and regular review, and oversight of the register will be put in place – including reporting to Senior Leadership Team (SLT) quarterly throughout the year on the register and reviews completed.</p>

Appendices

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Local Audit - Reset and Recovery

Background

It has been widely reported the level of delays in Local audit had grown to an unacceptable level. As a result, Central Government has been working with the Financial Reporting Council (FRC), as incoming shadow system leader and other system partners to develop proposals to address issues in the local audit. These consist of three stages:

Phase 1: **Reset** involving clearing backlog of historical audit opinions.

Phase 2: **Recovery** from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycle.

Phase 3: **Reform** involving address systemic challenge in the local audit system and embedding timely financial reporting and audit.

Implementation of Reset and Recovery

The Accounts and Audit (Amendment) Regulations 2024, introduced backstop dates by which local bodies must publish audited accounts and the NAO have also issued the revised 'Code of Audit Practice 2024' [Code of Audit Practice](#) that requires auditors to give an opinion in time to enable local bodies to comply with the backstop date. The table overleaf identifies the backstop dates and the status of your audits where impacted.

The NAO has also published Local Audit Rest And Recovery Implementation Guidance (LARRIGs), which have been prepared and published with the endorsement of the FRC and are intended to support auditors in meeting their requirements under the Act <https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors>

Local Audit - Reset and Recovery

Financial year	Date
Up to 2022/23	13 December 2024
2023/24	28 February 2025
2024/25	27 February 2026
2025/26	31 January 2027
2026/27	30 November 2027
2027/28	30 November 2028

Recovery period and audit work

The implication of receiving a disclaimed audit opinion for two financial years up to and including 2022/23 means that for the financial year 2023/24 we have not been able to rely on the opening balances from 2022/23.

To obtain sufficient appropriate audit evidence over opening balances, auditing standards identify two approaches. One of those is to use the working papers and other information available on the prior year audit file, which as noted above has not been possible as the outgoing auditor has not been able to complete their audit. An alternative approach is the performance of specific audit procedures to obtain evidence regarding opening balances.

The LARRIGs, in particular LARRIG 05 *Rebuilding assurance following a disclaimed audit opinion*, was only finally published in September 2024 and further guidance, mentioned in the LARRIG in the format of a case study was only released in December 2024.

We also note there is an ongoing sector wide process, convened by the Financial Reporting Council (FRC) with other stakeholders to determine the appropriate level of work to perform to obtain sufficient appropriate audit evidence over opening balances. This, along with the backstop date for 2022/23 being only 2 months prior to that of the 2023/24 period, has limited the extent of building back assurance that has been possible in 2023/24.

During our audit of 2023/24 we have completed certain work on the closing balances for 2023/24 and in year transactions (see page 5) and this will contribute to rebuilding assurance.

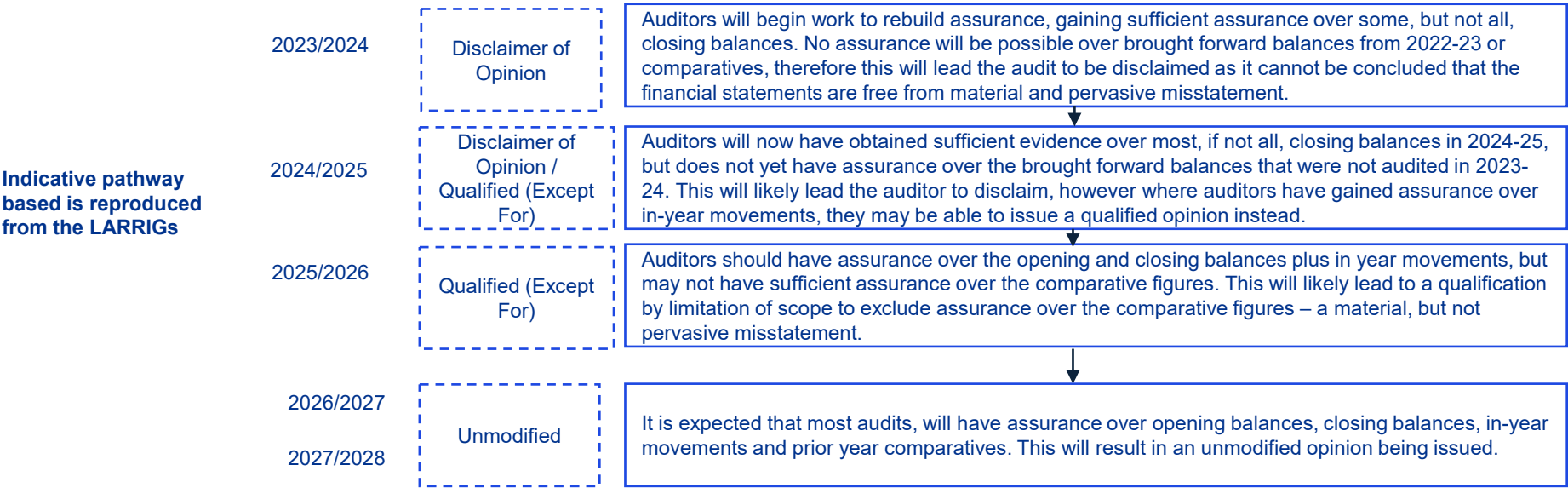
The table overleaf identifies an indicative pathway to returning to an unmodified opinion. However, it must be noted this is only an indicative pathway and the speed of progress will depend on a range of factors including the level of work required to provide assurance on opening balances, in particular PPE balances and reserves balances.

Local Audit – Reset and Recovery

Rebuilding assurance









Given the importance and complexity of reserves balances and management, a detailed risk assessment will be undertaken to understand the level of work required to obtain sufficient appropriate audit evidence on the reserves balances. As noted on the previous page, there is an ongoing sector wide process with other stakeholders to determine the appropriate level of work to perform to obtain sufficient appropriate audit evidence over opening balances.










We note there may be other factors which impact on the speed of this work – such as the support provided by the audited entity and availability and quality of audit evidence. Where such support is not provided and the availability and quality of audit evidence is not present this will significantly impact on the time taken to build back assurance and the likely cost of such a process in terms of audit fees. We note the challenges identified on page 5 regarding this year’s audit. As we complete our debrief with management, we can discuss how assurance can be gained on individual account balances and ultimately lead to a position that unmodified opinions can be issued in future years.



Required communications

Our response to these required communications reflects the status of the audit at the point of the backstop.

Type	Response
Our draft management representation letter	 We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2024.
Adjusted audit differences	 There was one adjusted audit difference with a deficit impact of £13.3 million. There was one adjusted prior period audit difference with a deficit impact of c.£34m. See pages 32-33.
Unadjusted audit differences	 There were no unadjusted audit differences from our audit procedures to date.
Related parties	 We have been unable to complete our work on related parties for the reasons on pages 4 and 5.
Other matters warranting attention by the Audit Committee	 There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	 We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	 No actual or suspected fraud involving Council management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements identified during the audit.
Issue a report in the public interest	 We are required to consider if we should issue a public interest report on any matters which come to our attention during the audit. We have not identified any such matters.

Type	Response
Significant difficulties	 There were significant difficulties during the audit related to inability of the management to prepare accounts in timely manner and significant delays in providing the requested information and resource constraints to cater audit requests. Refer page 5 for challenges with progressing our work.
Modifications to auditor's report	 Our audit opinion will be disclaimed. See page 4 for further details.
Disagreements with management or scope limitations	 The engagement team had no disagreements with management but we did experience significant delays as set out on page 5.
Other information	 No material inconsistencies were identified related to other information in the annual report, Strategic and Directors' reports. The Strategic report is fair, balanced and comprehensive, and complies with the law.
Breaches of independence	 No matters to report. The engagement team have complied with relevant ethical requirements regarding independence.
Accounting practices	 Over the course of our audit, we have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. As detailed on pages 4 and 5, there are areas over which we have not been able to complete our work.
Significant matters discussed or subject to correspondence with management	 There were no significant matters arising from the audit.
Certify the audit as complete	 We have not yet certified the audit as complete because our work on WGA is outstanding.
Provide a statement to the NAO on your consolidation schedule	 We will issue our report to the National Audit Office following the completion of our work.

Fees

Audit fee

Our fees for the year ending 31 March 2024 are set out in the PSAA Scale Fees communication and are shown below.

Description	2023/24 (£'000)	2022/23 (£'000)
Statutory audit	161	45 ^(a)
ISA315r	TBC	-
Overruns and scope changes	TBC	-
TOTAL	161	45

Billing arrangements

- Fees have been billed in accordance with the milestone completion phasing that has been communicated by the PSAA.
- As per PSAA's Scale Fees Consultation, the scale fees did not include new requirements of ISA315 revised (risk of material misstatement).
- We will also charge additional fees for overruns and scope changes incurred during the year. We have had significant delays in receiving the information due to resource constraints and that impacted our ability to perform work as planned. We are in the process of agreeing these overruns with the management who are aware additional fee will be charged for this work.
- Additional fees have been/will be subject to the fees variation process as outlined by the PSAA.

Note: (a) Fee charged by Deloitte – your predecessor auditor.

Overrun	Description of additional work	£
Delays in the provision of information for financial statements and VFM	Significant delays by management in providing planning and risk assessment and VFM information.	TBC
Significant VFM risk	The audit team are required to do additional work when risks of significant weakness are identified. We have identified two significant weaknesses with respect to VFM arrangements related to financial sustainability and governance.	TBC
Pension misstatement	Additional work was required to establish an understanding of the pass-through arrangements at the Council and assess the impact of error identified through review of the asset ceiling.	TBC
PYA	Additional work associated with the additional reviews as a result of the prior year adjustment.	TBC
Backstop process	Additional file documentation related to ensuing compliance with LARRIGS. Consultation with DPP in respect of modified opinions.	TBC

Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Director and audit staff is not impaired.

To the Audit Committee members

Assessment of our objectivity and independence as auditor of Lancaster City Council

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners/directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values.
- Communications.
- Internal accountability.
- Risk management.
- Independent reviews.

The conclusion of the audit engagement director as to our compliance with the FRC Ethical Standard in relation to this audit engagement is subject to review by an engagement quality control reviewer, who is a director not otherwise involved in your affairs.

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations relating to the provision of non-audit services

Summary of non-audit services

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out on the table overleaf.

Confirmation of Independence (cont.)

Disclosure	Description of scope of services	Principal threats to Independence	Safeguards Applied	Basis of fee	Value of Services Delivered in the year ended 31 March 2024	Value of Services Committed but not yet delivered
1	Housing benefit grant certification	Management Self review Self interest	<ul style="list-style-type: none"> Standard language on non-assumption of management responsibilities is included in our engagement letter. The engagement contract makes clear that we will not perform any management functions. The work is performed after the audit is completed and the work is not relied on within the audit file. Our work does not involve judgement and are statements of fact based on agreed upon procedures. 	Fixed	£34,616	Nil
2	Pooling for housing capital receipts return	Management Self review Self interest	<ul style="list-style-type: none"> Standard language on non-assumption of management responsibilities is included in our engagement letter. The engagement contract makes clear that we will not perform any management functions. The work is performed after the audit is completed and the work is not relied on within the audit file. Our work does not involve judgement and are statements of fact based on agreed upon procedures. 	Fixed	£4,000 (TBC)	Nil

Confirmation of Independence (cont.)

Summary of fees

We have considered the fees charged by us to the Group and its affiliates for professional services provided by us during the reporting period.

Fee ratio

The ratio of non-audit fees to audit fees for the year is anticipated to be 0.2: 1. We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

	2023/24
	£'000
Scale Fee	161
Agreed fee variations	TBC
Other Assurance Services	38.6
Total Fees	TBC

Application of the FRC Ethical Standard 2019

Your previous auditors will have communicated to you the effect of the application of the FRC Ethical Standard 2019. That standard became effective for the first period commencing on or after 15 March 2020, except for the restrictions on non-audit and additional services that became effective immediately at that date, subject to grandfathering provisions.

AGN 01 states that when the auditor provides non-audit services, the total fees for such services to the audited entity and its controlled entities in any one year should not exceed 70% of the total fee for all audit work carried out in respect of the audited entity and its controlled entities for that year.

We confirm that as at 15 March 2020 we were not providing any non-audit or additional services that required to be grandfathered.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the Council and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

Richard Lee

KPMG LLP

Corrected audit misstatements

Given we are disclaiming our audit opinion as described on page 4 there may be other audit misstatements our audit procedures would have identified if we completed our audit procedures as initially planned. In this section, we have reported corrected audit misstatements that we have identified.

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit Committee with a summary of corrected audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

Corrected audit differences (£'000s)				
No.	Detail	SOCI Dr/(cr)	SOFP Dr/(cr)	Comments
1	Dr Impact of asset ceiling	£11,742		We identified that the surplus as at 31 March 2024 should have been restricted by additional £13,371k based on an appropriate IFRIC 14 calculation. The LGPS actuary therefore revised the IAS 19 report for the Council to adjust their FY24 figures, following adjustment of the opening balance from the FY23 figures. Please also see adjustment disclosed on page 33.
	Dr Interest on asset ceiling	£1,629		
	Cr Net funded LGPS asset		(£13,371)	
Total		£13,371	(£13,371)	

We also identified presentational audit differences which have been updated by the management - the most significant of which are:

- Defined Benefit Pension Scheme – To disclose the adjustment of asset ceiling, reconciliation of asset ceiling and correct presentation of net pension liability post asset ceiling adjustment following IFRIC14 guidance.
- Defined Benefit Pension Scheme – Disclosures added for prior-year restated financial statements and notes due to asset ceiling adjustments
- Defined Benefit Pension Scheme – Additional disclosure to highlight the impact of Virgin Media case

Corrected prior period audit misstatements

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit Committee with a summary of corrected audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements. The adjustments below have been included in the financial statements. These adjustments have necessitated a restatement of prior period comparatives because the impact to the prior period comparatives, in our view, material to users of the accounts.

Corrected audit differences (£'000s)				
No.	Detail	SOCI Dr/(cr)	SOFP Dr/(cr)	Comments
1	Dr Impact of asset ceiling Cr Net funded LGPS asset	£33,941k	(£33,941k)	We identified that the surplus as at 31 March 2023 should have been restricted by £33,941k based on an appropriate IFRIC 14 calculation. The LGPS actuary therefore revised the IAS 19 report for the Council to restate their FY23 figures.
Total		£33,941k	(£33,941k)	

Control Deficiencies

Although we are disclaiming our audit opinion we have reported recommendations as a result of our work in the current year are as follows:

Priority rating for recommendations

- 1** **Priority one:** issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.
- 2** **Priority two:** issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.
- 3** **Priority three:** issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
1	1	<p>Critical Delays and Governance Weaknesses Impacting Audit Completion</p> <p>During the audit, we encountered significant challenges due to a lack of timely engagement from management. Key issues included substantial delays in providing planning and risk assessment information, persistent delays in responding to audit queries and emails, and the late production of the financial statements. These delays created a knock-on effect that hindered the completion of planning and risk assessment procedures and postponed the commencement of the final audit phase.</p> <p>Furthermore, information required to support the VFM conclusion was not provided until April 2025, despite initial requests being made in November 2023.</p> <p>Delays in management's engagement—particularly in providing planning information, responding to audit queries, and producing financial statements—significantly disrupted the audit timetable. The late provision of VFM evidence, received over a year after initial requests, meant the audit team could not obtain sufficient appropriate evidence. Consequently, a disclaimer of opinion was issued on the financial statements.</p> <p>The Council should implement a structured audit readiness plan with clear timelines, designated responsible officers, and escalation procedures. Management should improve responsiveness by assigning a dedicated audit liaison and providing regular updates to senior leadership and the Audit Committee. Early preparation of VFM evidence is essential to avoid delays and ensure compliance with statutory reporting requirements.</p>	<p>The specific challenges the Council has faced are well documented and the s151 Officer has presented a Statement of Accounts Update at each Audit Committee meeting since November 2021.</p> <p>At its meeting 20th March 2024 the Audit Committee endorsed the s151 Officers proposal to delay publication of the 2023/24 Statement of Accounts until August 2024 so that the priority would be to focus on concluding the outstanding statements ahead of the February 2025 deadline.</p> <p>Agenda for Audit Committee on Wednesday, 20th March 2024, 6.00 p.m. - Lancaster City Council</p> <p>The s151 Officers prioritisation of these accounts rather than 2023/24 audit allowed the Finance Team the space required to address and successfully clear the 3 years of outstanding Statement of Accounts (2020/21, 2021/22 and 2022/23) whilst fulfilling its statutory duties around revenue and capital budget setting, medium term financial planning, council tax setting etc. These are substantial pieces of work starting mid-October and concluding February each year. which conflicted with the audit backstop deadline 25th February 2025.</p> <p>The Finance Team have recently recruited and increased resilience across key areas and so going forward every effort will be made to ensure that the audits are concluded in a timely manner.</p> <p>However, should similar timing conflicts arise given and the repercussions of failing to set its budget or levy council tax the s151 Officer will always recommend the prioritisation of these over the audit of the Council's financial statements.</p>

Control Deficiencies *(Cont.)*

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
2	2	<p>Inappropriate valuation date for land and buildings and investment properties</p> <p>Based on our review of the valuation process for land and buildings and investment properties, we identified that assets subject to revaluation during the year are valued as at the first day of the financial year (1 April), rather than at the balance sheet date (31 March). There was no evidence provided to demonstrate that the valuations were subsequently updated or reviewed to reflect any material changes in value as at year-end. This approach does not align with the requirements of the CIPFA Code of Practice, which requires that valuations reflect the carrying or fair value of assets as at the balance sheet date.</p> <p>Valuing assets at the start of the financial year without updating or assessing for material changes at year-end increases the risk that the carrying value of PPE and investment properties in the financial statements may be materially misstated. This could result in non-compliance with the CIPFA Code requirements and material misstatements in the financial statements.</p> <p>We recommend that management engage the valuer to perform valuations as at the balance sheet date. This will help ensure that asset valuations are materially accurate and compliant with the applicable financial reporting framework.</p>	<p>CIPFA's Statement of Recommend Practice does not specify the 31st March as a valuation date.</p> <p>Whilst there is a risk that valuations may have materially changed between the 1st April and 31st March the Council does undertake desktop reviews of its significant assets which fall outside of its 3 year cycle. Officers will explore applying the 31st March with the valuer as a valuation date from 31st March 2026. However, it must be noted that this could affect in-year revaluations (such as HRA quinquennial review).</p>
3	2	<p>Management review of actuarial assumptions</p> <p>Based on our walkthrough of the pension assumption review process, we identified that there is no criteria or threshold developed for investigation/identification of outliers for pension assumptions.</p> <p>Management have stated that they do review the output of the actuary, however there is no evidence of the review. Thus, there is not sufficiently well-defined process in place for it to meet the criteria of an effective review control.</p> <p>The accounting of defined benefit liabilities is complex and small changes in pension assumptions are likely to have a material impact in the financial statements, so the likelihood that a material misstatement could occur is high.</p> <p>Considering this is a significant audit risk area, we would recommend that management formalise its process around review of actuarial assumption. This should include developing objective criteria against which the review can be performed. Evidence should be retained to demonstrate the review has taken place.</p>	<p>The Pension Fund engage Mercers Actuarial Services to undertake the various pensions valuations and provide details of a number of areas such as asset/ liability details, past and current cost.</p> <p>Mercers are suitably independent and quailed to undertake this work and so whilst management can undertake rudimentary review the level of detail and the benefit of such a review will be limited.</p>

Control Deficiencies *(Cont.)*

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
4	2	<p>Pension Scheme Valuation Process</p> <p>The valuation process does not consistently incorporate early and proactive engagement with the LGPS actuary. This gap increases the likelihood of challenges in meeting the technical requirements of relevant accounting standards, particularly IFRIC 14, which continues to be a critical area of regulatory focus.</p> <p>The absence of early and proactive engagement with the LGPS actuary increases the risk of material misstatement in the financial statements. This risk is particularly significant in relation to IFRIC 14 adjustments, which previously resulted in a restatement of the 22/23 financial year accounts. Without strengthened processes, there remains a possibility that similar issues could recur, leading to compliance breaches and potential delays in financial reporting.</p> <p>Management should adopt a more proactive and structured approach to the valuation of the defined benefit pension scheme by engaging with the LGPS actuary earlier in the reporting cycle. This will allow sufficient time to address complex issues and ensure compliance with applicable accounting standards.</p>	<p>The Council's officers requested guidance on interpretation of presentation of the pension asset in 2022/23. Unfortunately, given the situation within the audit regime this guidance was not provided.</p> <p>It was only until the 2023/24 audit that clarification was provided by our current auditors, resulting in the restatement of 2022/23, presented within these Statement of Accounts.</p> <p>Although the creation of a pension asset is new, the accounting requirements via the asset ceiling are now established and should not pose an issue going forward. Should there be any significant change to Pensions Accounting we will engage with our auditors as and when required.</p>
5	2	<p>Journals Segregation of Duties (SoD) control</p> <p>Based on walkthrough procedures performed, we have noted that journal posting controls were relaxed following the pandemic to improve operational efficiency. Consequently, certain members of the Finance Team who regularly post journals are no longer required to obtain prior authorisation before posting entries to the general ledger. This change has effectively removed segregation of duties for these individuals, creating a significant control gap.</p> <p>The absence of segregation of duties increases the risk that fraudulent or erroneous journals could be posted without detection. This vulnerability could result in material misstatements within the financial statements, compromising the accuracy and reliability of financial reporting.</p> <p>Management should reinstate robust system-based segregation of duties within the journal posting process, retaining evidence of independent review. Specifically, individuals responsible for preparing and posting journals should not have sole authority to post entries without independent review and approval.</p>	<p>This issue has been noted in previous audits and although significant compensatory controls exist to prevent misstatement the facility within CIVICA has been removed and all journals require authorisation.</p>

Control Deficiencies (Cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
6	3	<p>Payroll Reconciliation</p> <p>During our review of the payroll reconciliation process, we noted that while reconciliations were consistently prepared and signed off as completed, there was no evidence of timely review and approval by an independent reviewer. In at least one instance, the reconciliation was only reviewed several months after the period end, indicating that the control was not operating effectively within an appropriate timeframe.</p> <p>The lack of timely review and approval of payroll reconciliations undermines the effectiveness of this key control. Without prompt oversight, there is an increased risk that errors, omissions, or irregularities in payroll processing may go undetected, potentially leading to financial misstatements or non-compliance with internal control requirements.</p> <p>We recommend that management formalise the payroll reconciliation process by ensuring that all reconciliations are not only prepared but also reviewed and approved in a timely manner. This should include clearly defined timelines for review, documented evidence of approval (including date and reviewer identity), and periodic monitoring to ensure compliance with internal control expectations.</p>	<p>The formal review of all month end reconciliation including payroll is undertaken with 10 working days of month end and documented as appropriate.</p>
7	3	<p>Counter-fraud Sanction policy</p> <p>The Counter Fraud Sanction Policy is dated February 2023 and states that it is subject to annual review. However, the scheduled review due in February 2024 had not been carried out at the time of our audit. There was no evidence of an updated version or documented rationale for the delay in the review process.</p> <p>Failure to review and update key governance policies in line with stated timelines may result in outdated procedures that do not reflect current regulatory requirements, organisational changes, or emerging fraud risks. This could weaken the organisation's fraud response framework and reduce the effectiveness of its deterrence and enforcement mechanisms.</p> <p>Management should ensure that all policies, particularly those related to fraud prevention and enforcement, are reviewed in accordance with their stated review cycles. A centralised policy management process should be implemented to monitor review dates, assign responsibilities, and ensure timely updates. Where delays are unavoidable, a documented justification and revised timeline should be maintained.</p>	<p>Council has a number of policies which fall within the Committee's remit.</p> <p>(a) Anti-Fraud, Corruption and Bribery Policy (b) Money Laundering, and (c) Sanctions Policy</p> <p>Each of the above policies was subject to different review frequency's and so at its meeting 19th November 2024 agreed to the s151 Officer's request to harmonise the various review dates and bring these policies annually to its March meeting.</p> <p>In addition to these well-established specific counter fraud policies there are a number of documents which sit alongside and support the Council's anti-fraud and corruption framework each with differing approval routes, these include: (1) Raising Concerns Policy (2) Officers and Members Codes of Conduct (3) Contract Procedure Rules (4) Financial Procedure Rules</p> <p>This approach enables the Committee to have fuller oversight over all the applicable policies that form the Council's Anti-Fraud and Corruption Framework and allows Audit Committee to discharge its duty as Those Charged with Governance in a more efficient and effective manner.</p> <p>Although not reviewed within the stated timeframe the Audit Committee were made aware of the situation and the supporting rational. An Anti-Fraud, Corruption and Bribery and Sanction policy was in place across the Council during the period. In 2022/23 the Council established a central record of its policies and quarterly emails are sent to the relevant Officers</p>

ISA (UK) 240 Revised: changes embedded in our practices

Ongoing impact of the revisions to ISA (UK) 240

ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) The auditor's responsibilities relating to fraud in an audit of financial statements included revisions introduced to clarify the auditor's obligations with respect to fraud and enhance the quality of audit work performed in this area. These changes are embedded into our practices and we will continue to maintain an increased focus on applying professional scepticism in our audit approach and to plan and perform the audit in a manner that is not biased towards obtaining evidence that may be corroborative, or towards excluding evidence that may be contradictory.

We will communicate, unless prohibited by law or regulation, with those charged with governance any matters related to fraud that are, in our judgment, relevant to their responsibilities. In doing so, we will consider the matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud.

Matters related to fraud that are, in our judgement, relevant to the responsibilities of Those Charged with Governance

We considered the following matters required by ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) *The auditor's responsibilities relating to fraud in an audit of financial statements*, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud:

- Concerns about the nature, extent and frequency of management's assessments of the controls in place to prevent and detect fraud and of the risk that the financial statements may be misstated.
- A failure by management to address appropriately the identified significant deficiencies in internal control, or to respond appropriately to an identified fraud.
- Our evaluation of the entity's control environment, including questions regarding the competence and integrity of management.
- Actions by management that may be indicative of fraudulent financial reporting, such as management's selection and application of accounting policies that may be indicative of management's effort to manage earnings in order to deceive financial statement users by influencing their perceptions as to the entity's performance and profitability.
- Concerns about the adequacy and completeness of the authorization of transactions that appear to be outside the normal course of business.

Based on our assessment, we have no matters to report to Those Charged with Governance.

ISA (UK) 315 Revised: changes embedded in our practices

Summary

In the prior period, ISA (UK) 315 Revised “Identifying and assessing the risks of material misstatement” was introduced and incorporated significant changes from the previous version of the ISA.

These were introduced to achieve a more rigorous risk identification and assessment process and thereby promote more specificity in the response to the identified risks. The revised ISA was effective for periods commencing on or after **15 December 2021**.

The revised standard expanded on concepts in the existing standards but also introduced new risk assessment process requirements – the changes had a significant impact on our audit methodology and therefore audit approach.

What impact did the revision have on audited entities?

With the changes in the environment, including financial reporting frameworks becoming more complex, technology being used to a greater extent and entities (and their governance structures) becoming more complicated, standard setters recognised that audits need to have a more robust and comprehensive risk identification and assessment mechanism.

The changes result in additional audit awareness and therefore clear and impactful communication to those charged with governance in relation to (i) promoting consistency in effective risk identification and assessment, (ii) modernising the standard by increasing the focus on IT, (iii) enhancing the standard’s scalability through a principle based approach, and (iv) focusing auditor attention on exercising professional scepticism throughout risk assessment procedures.

Implementing year 1 findings into the subsequent audit plan

Entering the second year of the standard, the auditors will have demonstrated, and communicated their enhanced insight into their understanding of your wider control environment, notably within the area of IT.

In year 2 the audit team will apply their enhanced learning and insight into providing a targeted audit approach reflective of the specific scenarios of each entity’s audit.

A key area of focus for the auditor will be understanding how the entity responded to the observations communicated to those charged with governance in the prior period.

Where an entity has responded to those observations a re-evaluation of the control environment will establish if the responses by entity management have been proportionate and successful in their implementation.

Where no response to the observations has been applied by entity, or the auditor deems the remediation has not been effective, the audit team will understand the context and respond with proportionate application of professional scepticism in planning and performance of the subsequent audit procedures.

What will this mean for our on-going audits?

To meet the on-going requirements of the standard, auditors will each year continue to focus on risk assessment process, including the detailed consideration of the IT environment.

Subsequent year auditor observations on whether entity actions to address any control observations are proportionate and have been successfully implemented will represent an on-going audit deliverable.

Each year the impact of the on-going standard on your audit will be dependent on a combination of prior period observations, changes in the entity control environment and developments during the period. This on-going focus is likely to result in the continuation of enhanced risk assessment procedures and appropriate involvement of technical specialists (particularly IT Audit professionals) in our audits which will, in turn, influence auditor remuneration.

ISA (UK) 600 Revised: Summary of changes



Summary

ISA (UK) 600 (Revised): Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors) is effective for periods commencing on or after 15 December 2023.

The new and revised requirements better aligns the standard with recently revised standards such as ISQM 1, ISA (UK) 220 (Revised) and ISA (UK) 315 (Revised). The revisions also strengthen the auditor's responsibilities related to professional scepticism, planning and performing a group audit, two-way communications between the group auditor and component auditors, and documentation.

Area	Summary of changes and impact	Effect on audit effort
Risk-based approach	The nature and extent of risk assessment procedures performed by the group auditor at group level may increase, which may include further inquiries of group and/or component management and those charged with governance; analytical procedures, attendance of walkthroughs at components, and inspection and/or observation of additional component information. Consequently, while we will continue to work across the group audit to be as efficient in our interactions with you as possible, group and component management will typically receive additional, and more specific/granular requests, for information from both the group and component auditors.	
Group auditor responsibilities	Through a more targeted audit response to address the group Risks of Material Misstatement, we may perform audit work and communicate with component management at a greater number of components within the group, and we may request less information from component management at certain components where we previously performed full scope audits for the Group audit, if we determine that a full scope audit is no longer necessary. While statutory audit requirements will still apply, this change may be beneficial for overall audit effort where a statutory audit is not required.	
Flexibility in defining components	You may also see changes in the planned scope and timing of the audit in communications to group management and those charged with governance, such as changes to the identification of components and the work to be performed on their financial information, and/or changes to the nature of the group auditor's planned involvement in the work to be performed by component auditors. The impact will be greater where there are more components.	
Quality management	Enhanced leadership, direction, supervision and review responsibilities of the group engagement partner may result in the group engagement partner needing to engage more extensively with group management, your component management and component auditors throughout the audit.	
Robust communication	If the group auditor determines that the increased work effort is needed, this determination will impact how much, and the type of, information you will need to provide to the group auditor or component auditors. The group auditor is required to prescribe required work at a more granular level. This may mean there is increased work for component auditors, particularly in year one, to align the requirements of the group audit and local statutory audits. We will continue to work closely to minimise this.	
Application of materiality and aggregation risk	Changes in component performance materiality may result in changes to the nature, timing and extent of component auditor's work. If so, this may impact how much, and the type of, information you will need to provide to the group auditor or component auditors.	
Revised independence principles	This may make it more challenging to address auditor rotation and other independence requirements for component auditors we may plan to involve in the group audit and mean more matters impacting independence may need to be communicated to you. Potential changes to the component auditor firms engaged to perform work on financial information of components.	



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