

Auditors Annual Report 2023/24

17 December 2025

Report of Audit Committee

PURPOSE OF REPORT

To provide Council with the External Auditors Annual Audit Report for the financial year 2023/24, issued by KPMG, noting that two significant weaknesses were identified in respect of the Value for Money assessment categories.

This report is public.

RECOMMENDATION

That Council consider the External Auditors Annual Audit Report for the financial year 2023/24, issued by KPMG, noting that two significant weaknesses were identified in respect of the Value for Money assessment categories.

1.0 INTRODUCTION

1.1 The Council's External Auditors are required to complete a Value for Money (VfM) assessment as part of the audit of the accounts. The National Audit Office (NAO) Code of Practice regulations set out how the auditor is required to report whether an authority has put in place proper arrangements to ensure value for money in its use of resources. The Audit Committee considered the Annual Audit Report at its meeting on 19th November 2025 and has referred it to Council for noting ahead of publication on the Council's website.

2.0 BACKGROUND

2.1 Under the Local Audit and Accountability Act 2014 and 2020 National Audit Office Code of Audit Practice, Auditors are required to carry out a value for money audit in line with the NAO code.

2.2. In 2020 the External Auditor requirements around VfM assessment moved away from a binary qualified/ unqualified conclusion. It now includes more substantial commentary for each of these three areas and reports on the arrangements put in place by the Council to deliver VfM.

2.3. The Auditors Annual Report includes the auditor's assessment of VfM arrangements against three required reporting criteria:

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

2.4 In forming their independent view the External Auditor undertake risk assessment procedures to assess whether there are any risks that value for money is not being

achieved. They consider the work of regulators, other auditors, our records and perform procedures to assess the design of key systems that give assurance over value for money.

- 2.5 Where a significant risk is identified the External Auditors undertake further procedures to consider whether there are significant weaknesses in the processes to achieve value for money. They are required to report a summary of the work undertaken and the conclusions reached against.
- 2.6 The purpose of preparing and issuing Annual Audit Reports is to communicate to the Council and key external stakeholders, including members of the public, the key issues arising from the Auditors' work, which they consider should be brought to the attention of the Council. To enable this, it is a requirement that the report be presented to Council for consideration and published on the Council's website alongside the audited Statement of Accounts.

3.0 AUDIT OF THE FINANCIAL STATEMENTS

- 3.1 Following the much-publicised issues within the Public Sector Audit regime our External Auditors do not have the required level of assurance across several areas. As a result, they have only been able to undertake a limited amount of audit work on the 2023/24 financial statements. However, this work has now been concluded and in accordance with the backstop arrangements plan to issue a disclaimed opinion shortly.
- 3.2 The s151 Officer would like to remind Members that the issuing of a disclaimed opinion attributable to the backstop date does not indicate significant financial reporting or financial management issues. It simply reflects the impact of the issues within the audit regime.
- 3.3 The External Auditors are required to present the Audit Committee with an ISA 260 report detailing their Audit findings. This report provides more detail on any issues raised during the audit and has been considered by the Audit Committee on 19th November 2025, the most significant of which are included in the Auditors report and detailed below.

Post Retirement Benefits

- 3.4 The Auditors identified that the Council had not correctly recognised the Council's share of the pension surplus in accordance with IFRIC 14. Since the introduction of FRS 17 in 2008 Councils are required to recognise its share of its pension's surplus or liability on its balance sheet. Traditionally its share has been a liability as the pension fund has run at a deficit. However, since 2022/23 the Council share has been in a surplus. IFRIC 14 clarifies the application of the asset ceiling in IAS 19, which limits the measurement of a defined benefit asset to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.
- 3.5 These issues were discussed with the Council's previous External Auditors and an approach agreed, however this is slightly at odds with the current auditor's views, and we have amended the accounts to reflect their view.

Objection

- 3.6 Members will recall that like previous years, the 2023/24 Financial Statements are subject to ongoing objections by a local Council Taxpayer. The objections are similar in nature to those which were not upheld by the previous External Auditors, Deloitte. To assist KPMG in their consideration these have been cross referenced to those from previous years and passed to KPMG in February 2025. KPMG will need to form their own view validity of the objections, but it is hoped this work will be concluded shortly.
- 3.7 As in previous years the 2023/24 scale audit fee £161,380 (2022/23 £44,959) does not include any amount for dealing with objections and so it is expected that the Council will again incur additional audit fees regarding this matter.

3.8 The audit certificate, which formally concludes the audit for the year can only be issued once the auditors have considered the merits of the objection.

4.0 VALUE FOR MONEY CONCLUSION

4.1 The External Auditors can make several recommendations which are classified into a hierarchy of levels:

Statutory Recommendations – Actions which should be taken where significant weaknesses are identified with arrangements. These are made under Schedule 7 of the Local Audit and Accountability Act 2014 and require discussion at Full Council and a public response.

Key Recommendations – Actions which should be taken by the Council where significant weaknesses are identified within arrangements.

Improvement Recommendations – Actions which should improve arrangements in place but are not a result of identifying significant weaknesses in the Council's arrangements.

4.2 The Value for Money report is included within the Auditor's Annual Report attached at **Appendix A**. Summary details of the VfM Criteria, the auditor's conclusion and the specific risk areas are copied in table 1 below.

Table 1 Summary Findings

Value for Money Criteria	Conclusion	Risk Areas
Financial Sustainability	No significant weakness identified	Drawdown of General Fund Reserves
Financial Sustainability	Significant weakness identified	HRA Sustainability and Mainway Estate Regeneration
Governance	Significant weakness identified	Compliance with statutory financial reporting deadlines
Improving economy, efficiency, and effectiveness	No significant weakness identified	None

Drawdown of General Fund Reserves

4.3 The Council's 2023/24 budget included a planned drawdown of £0.6 million from General Fund Unallocated 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.

4.4 In 2023/24, the Council drew down £1.3M from General Fund reserves, compared to the original budgeted amount, resulting in a variance of £0.7M. The variance was primarily driven by a major one-off incident (Supa Skips).

4.5 The Auditors found the additional reserve use was largely exceptional, and overall, the Council did not materially deviate from its financial plan. The Auditors also commented the Council's reserves position remains strong. At year-end, General Fund Unallocated reserves stood at £10.3M, significantly above the minimum threshold of £5M recommended by s151 Officer. In addition, the Council held £17M in General Fund earmarked reserves, bringing total General Fund reserves to £27.4M — an increase of 10% from £24.7M in

2022/23. Demonstrating that the Council has maintained a healthy level of financial resilience while managing unforeseen pressures.

Auditor Conclusion

4.6 Based on the findings above they did not identify any significant weaknesses in arrangements.

HRA Sustainability and Mainway Estate Regeneration

4.7 The Auditors have commented on the declining level of the Council's Housing Revenue Account (HRA) reserves in 2023/24, resulting them falling below the s151 officers suggested minimum threshold. Whilst there is a recognition of external pressures such as rising depreciation charges linked to property values, energy inflation, escalating repairs costs and increased compliance expenditure to meet national requirements, additional strain 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.

4.8 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.

4.9 In addition to this commentary the Auditors have referenced weaknesses around the project's governance and project level controls, resulting in a significant value-for-money weakness and concerns around the delivery plan, defined milestones and measurable outcomes.

Auditors Conclusion

4.10 Based on the procedures performed, they identified significant weaknesses regarding the Council's arrangements for key decision making. In their view 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.

Management Response

4.11 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. In July 2024 Council engaged Mersey Internal Audit Agency (MIAA) to provide project support and review the existing governance arrangements to ensure they align to best practice. In addition, MIAA will support the development of a Full Programme Business Case for the re-development of the Mainway Estate and the Skerton School Site in accordance with HMT Green Book guidelines.

4.12 In addition to the engagement of MIAA to provide much needed capacity, skills and expertise, officers have been reviewing the range of factors which affect the large additional depreciation charge and how it impacts future years are. These include:

- The formal quinquennial valuation of dwellings which is currently underway, the results of which will be considered at the earliest opportunity to inform this and future years' charges. This work is being undertaken by the Council's own in-house Property Services Team in accordance with RICS professional standards.
- Consideration of the methodology used in reaching a valuation that reflects the current use of the assets (social housing, EUV-SH). Given the technical nature of this work, it is recommended that this be undertaken by an external consultant,

- Reassessment of useful lives or impairment, disposals, and acquisitions of HRA assets. This work is being undertaken by the Council's own in-house Property Services Team in accordance with required professional practice.
- Review of funding of the self-financing loan with a view to utilising the Major Repairs Reserve for annual principal repayment. However, this would mean a reduction in the funds available for future years in the capital programme.

Governance

4.13 Members will be aware that because of the failures with the Public Sector Audit regime the Council faced significant challenges in concluding the audit of its financial statements 2020/21 to 2023/24 and so meeting its statutory financial reporting. The Auditor's view is this indicates weaknesses in governance and resource allocation within the finance function. 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.

Auditor Conclusion

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

Management Response

4.15 Delays in finalising year-end accounts reflect sector-wide issues caused by failures in the public audit regime, resulting in significant backlogs nationally. The s151 Officer 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.

4.16 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.

5.0 DETAILS OF CONSULTATION

5.1 No formal consultation is required; however, the Annual Audit Report was presented to Audit Committee 19th November 2025.

6.0 OPTIONS AND OPTIONS ANALYSIS

6.1 As the report is for noting no alternative options are put forward, but Council could make supplementary commentary regarding any matters arising.

7.0 CONCLUSION

7.1 KPMG's conclusion of the Council's Value for Money assessment is included in the Auditor's Annual Report attached at **Appendix A**.

7.2 The Council accepts recommendations made to continually improve its value for money practices which will be reported back to Audit Committee in subsequent external audit reviews.

CONCLUSION OF IMPACT ASSESSMENT

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

No implications directly arising.

LEGAL IMPLICATIONS

The basic requirement for the Council to prepare accounts is set out in section 3 of the Local Audit and Accountability Act 2014. The detailed requirements are set out in the Accounts and Audit Regulations 2015. The External Auditor is required to publish an annual commentary on value for money arrangements as part of the auditor's annual report. This is to comply with the requirements of the 2020 Code of Audit Practice and Auditor Guidance Note 3.

FINANCIAL IMPLICATIONS

The scale audit fee for 2023/24 £161,380 (2022/23 £44,959) was set by Public Sector Audit Appointments Ltd (PSAA) and was previously approved by the Audit Committee. Unfortunately, the scale fee does not include the additional work required to address the outstanding objections

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

No implications directly arising.

SECTION 151 OFFICER'S COMMENTS

The s151 Officer has assisted in authoring this report and his comments are reflected in it.

MONITORING OFFICER'S COMMENTS

The Councils' Constitution provides that the Audit Committee is responsible for the provision of independent assurance of the adequacy of the risk management framework and the associated control environment. The Terms of Reference of the Audit Committee require it to provide an independent assurance of the risk management framework and the associated control environment. Noting and commenting upon the Annual Audit Report before it is considered by Full Council is an important part of this assurance

BACKGROUND PAPERS

Statement of Accounts 2019/20 – 2023/24

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

Statement of Accounts Updates

[Agenda for Audit Committee on Wednesday, 27th November 2024, 6.00 p.m. - Lancaster City Council](#)

[Agenda for Audit Committee on Wednesday, 31st July 2024, 6.00 p.m. - Lancaster City Council](#)

[Agenda for Audit Committee on Wednesday, 22nd May 2024, 6.00 p.m. - Lancaster City Council](#)

[Agenda for Audit Committee on Wednesday, 20th March 2024, 6.00 p.m. - Lancaster City Council](#)

[Agenda for Audit Committee on Wednesday, 22nd November 2023, 6.00 p.m.](#)

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

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

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

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

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

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

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

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