

Lancashire County Council

Audit, Risk and Governance Committee

Monday 26th April 2021 at 2.00 pm

Teams Virtual Meeting

Agenda

Part I (Open to Press and Public)

No. Item

1. **Apologies**
2. **Disclosure of Pecuniary and Non-Pecuniary Interests**
Members are asked to consider any Pecuniary and Non-Pecuniary Interests they may have to disclose to the meeting in relation to matters under consideration on the Agenda.
3. **Minutes of the Meeting held on 25 January 2021** (Pages 1 - 6)
To be confirmed and signed by the Chair.
4. **Internal Audit Annual Report 2020/21** (Pages 7 - 20)
5. **Internal Audit Annual Plan 2021/22** (Pages 21 - 36)
6. **External Audit - The Annual Audit Letter for Lancashire County Council and Lancashire County Pension Fund 2019/20** (Pages 37 - 58)
7. **External Audit - Audit Progress Report and Sector Update 2020/21** (Pages 59 - 78)
8. **External Audit - Lancashire County Council Audit Plan 2020/21** (Pages 79 - 106)
9. **External Audit - Lancashire County Pension Fund Audit Plan 2020/21** (Pages 107 - 130)
10. **The Council's Annual Governance Statement 2020/21 and Code of Corporate Governance 2021/22** (Pages 131 - 190)

11. Response to the Information Request from the External Auditor (Pages 191 - 208)

12. Matters arising under Urgent Business since the last meeting (Pages 209 - 210)

13. Urgent Business

An item of urgent business may only be considered under this heading where, by reason of special circumstances to be recorded in the Minutes, the Chair of the meeting is of the opinion that the item should be considered at the meeting as a matter of urgency. Wherever possible, the Chief Executive should be given advance warning of any Member's intention to raise a matter under this heading.

14. Date of Next Meeting

The next meeting of the committee will be held on Monday 26 July 2021 at 2.00pm, at County Hall, Preston.

15. Exclusion of Press and Public

The Committee is asked to consider whether, under Section 100A(4) of the Local Government Act, 1972, it considers that the public should be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraph of Part 1 of Schedule 12A to the Local Government Act, 1972, as indicated against the heading to the item.

Part II (Not open to Press and Public)

16. Counter Fraud, Special Investigations and Whistleblowing Annual Report (Pages 211 - 218)

(Not for Publication – Exempt information as defined in Paragraphs 2, 3 and 7 of Part 1 of Schedule 12A to the Local Government Act, 1972. It is considered that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interests in disclosing the information).

L Sales
Director of Corporate Services

County Hall
Preston

Lancashire County Council

Audit, Risk and Governance Committee

Minutes of the Meeting held on Monday 25th January, 2021 at 2.00 pm

Teams Virtual Meeting

Present:

County Councillor Alan Schofield (Chair)

County Councillors

| | |
|----------|------------|
| J Berry | J Rear |
| S Malik | J Shedwick |
| T Martin | A Vincent |
| E Nash | |

1. Apologies

None.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

None.

3. Minutes of the Meeting held on 19 October 2020

Resolved: That the minutes of the Audit, Risk and Governance Committee held on 19 October, 2020 be confirmed and would be signed by the Chairman.

Ruth Lowry, Head of Internal Audit, advised the committee that there was no Internal Audit Plan progress update, as the significantly curtailed plan was not being progressed by the usual methodology and there was therefore no formal update to present. However, a favourable internal audit opinion was anticipated regarding the council's governance, risk management and control frameworks. This could be evidenced sufficiently via fact finding through the interrogation of documents and discussion with relevant senior managers. Her approach was supported by other heads of internal audit as well as the Chartered Institute of Internal Audit and the Chartered Institute of Public Finance and Accountancy.

It was emphasised that the ongoing audit regarding council decision making by officers and councillors, was focused on compliance with the Constitution not the political aspects of decision-making. The political parties represented on the committee had been given an opportunity to share their observations on decision-making and committee members were encouraged to make contact with Ruth Lowry if they wished to raise any non-political issues in relation to the audit.

In response to questions:

- Ruth Lowry confirmed that her work was reliant on the co-operation of senior management and she was receiving that co-operation.
- Laura Sales confirmed that county councillors were informed of certain decisions, such as disposal of property and highway issues that had been made in their division. However, there was no guarantee that members would be notified of every decision made in their area. Members commented that any opportunities to improve communications to county councillors to ensure decision making was fully informed would be welcomed.

4. Code of Conduct - Summary of Complaints

External Independent Persons, Terrance Whitehead and Irene Divine were welcomed to the meeting.

Laura Sales, Monitoring Officer and Director of Corporate Services presented a summary of all complaints received in 2020 against county councillors under the Code of Conduct.

The committee was reminded that during the recent review of policies and procedures, it had been agreed that this committee would receive an annual report regarding complaints received and their resolution. The report presented demonstrated that a small number of minor complaints continued to be received. It was highlighted that it hadn't been necessary to escalate any of the complaints to the Conduct Committee. When required apologies were generally forthcoming and most complaints were dealt with informally. Fewer complaints had been received in 2020 and it was suggested that this may be in part due to the reduction in meetings due to the Covid-19 pandemic.

In response to a question it was clarified that complaints that were not a breach of the code were still logged, to support transparency for both councillors and the residents of Lancashire. The Independent Persons emphasised it was also important to log such complaints to demonstrate why some did not constitute a breach of the code.

Resolved: That the summary of complaints received in 2020, as presented, be noted.

5. Code of Conduct - Review

Josh Mynott, Democratic and Member Services Manager presented an update to the committee on the response to the Committee for Standards in Public Life's recommendations, in relation to best practice for a local authority Code of Conduct.

It was highlighted that with regard to the publication of a public interest test recommendation, the suggestion in Appendix B was based on what Monitoring Officers in other authorities considered when determining whether or not it was in the public interest to investigate a complaint.

The model Code of Conduct at Appendix C had been published by the Local Government Association as requested of them by the Standards Committee, for councils to adopt if they wished.

In response to a question it was confirmed that the recommendation in the October, 2020 minutes had been followed by officers and the option of a task and finish group was a step to be taken following this work, if this committee requested this as necessary.

Members commented that training for councillors regarding emphasising the importance of safeguarding vulnerable councillors from poor behaviour from peers would be useful. This, alongside the dissemination of a clearer process of how councillors were safeguarded would raise the profile of such issues. The Monitoring Officer agreed that how councillors were supported could be explored further, however no complaints had been received in relation to poor behaviour causing a detrimental impact on a councillor. If a complaint such as this had been received, it would be treated very seriously. It was emphasised that the Monitoring Officer had met with the groups' whips to highlight the importance of the Code of Conduct, when there had been areas of concern in relation to behaviour.

Resolved: That:

- (i) The changes proposed to the Code of Conduct as detailed in Appendices A and B, be recommended to the Full Council for approval.
- (ii) The Full Council be asked to refer the Local Government Association model Code of Conduct to be discussed further by the Political Governance Working Group. If adoption of the model was deemed appropriate by the group, their recommendations would be brought to this committee for review before making any recommendations to the Full Council.

6. External Audit - Lancashire County Council Audit Findings Report 2019/20 (Updated)

Paul Dossett, Partner, Grant Thornton presented the updated Lancashire County Council Audit Findings Report 2019/20, for the year ending 31 March 2020. The updated report gave an overview of progress made and the reason for the delay in issuing the audit opinion.

It was noted that the Financial Reporting Council, responsible for the regulation of auditors, had increased the scrutiny required of local government audits, in response to failures noted within the corporate audit sector. This enhanced scrutiny necessitated an increase in audit requirements related to financial instruments. The report set out the issue encountered regarding the valuation of

Lender Option Borrower Option (LOBO) long term investments, whereby a more detailed review was required. External and internal advice had been sought and the issue was close to being finalised. This was the only item outstanding that was preventing the signing of the audit.

In response to a question it was clarified that the initial assessments of the valuations had now been received and were awaiting further evaluation. Completion was anticipated this week.

Resolved: That the updated position of the 2019/20 Lancashire County Council Audit report and issues raised by the auditor, as presented, be noted.

7. External Audit - Lancashire County Pension Fund Audit Findings Report 2019/20 (Updated)

Paul Dossett, Partner, Grant Thornton presented the updated Lancashire County Pension Fund Audit Findings Report for 2019/20, for the year ending 31 March 2020.

It was noted that the outstanding items, reported at the last meeting, had now been received and no further work was required. The work on IAS19 had been conducted since the agenda had been issued. The pension fund audit could be finalised once the Lancashire County Council audit was completed.

Resolved: That the updated position of the 2019/20 Lancashire County Pension Fund Audit report, as presented, be noted.

8. External Audit - Audit Progress Report and Sector Update 2020/21

Paul Dossett, Partner, Grant Thornton presented the External Audit Progress Report and Sector Update 2020/21.

The report outlined the new arrangements for reporting value for money. Previously this had been based on reporting risks as necessary. The new National Audit Office code required more positive assurance, requiring a detailed review of financial sustainability and governance arrangements. The final area would look at how the council achieves economy, efficiency and effectiveness, through benchmarking against other councils and how best value had been achieved in procurement. It would be a separate report providing a commentary on the key areas rather than a conclusion. Statutory recommendations would be included if poor practice was identified.

Revised auditing standards would require enhanced assurance with regard to estimates, prior to the preparation of the accounts. This would primarily impact pension liability and valuation of assets. Management would be required to provide a report to this committee regarding the council's approach to estimates.

These revisions, plus new standards regarding going concern and fraud would result in more auditing work. This reflects work by the Financial Reporting Standards to improve standards in the wake of private sector failure.

In response to a question it was clarified that currently Grant Thornton utilised their own valuer to challenge the council's methodology and assumptions when making valuations. There was potential for a requirement for further challenge required depending on the variation in valuations. A lack of data and evidence in other councils' valuations had resulted in audits not being signed off. This had become a high profile issue requiring further scrutiny. The additional work now required had been recognised by the Public Sector Audit Appointments body, who published the fee scale for audits. Central Government had committed to provide an additional £15 million funding to local authorities in 2021 for the 2020/21 audit to support the additional cost.

Resolved: That the External Audit Progress Report and Sector Update 2020/21 as of January 2021, as presented, be noted.

9. Update on the Council's Statement of Accounts 2019/20 and Approval of the Accounting Policies for 2020/21

Khadija Saeed, Head of Service, Corporate Finance, presented an update regarding the council's Statement of Accounts for 2019/20 and Accounting Policies for 20/21.

The report highlighted that the audit was not concluded by the 30 November 2020 statutory deadline, due to capacity issues within Grant Thornton. Therefore, as per regulatory requirements, the council had published a notice on its website stating that the audited accounts would be published as soon as reasonably practicable after the receipt of the auditor's findings.

Resolved: That

- (i) The position in relation to the external audit of the council's statement of accounts for 2019/20, as presented, be noted.
- (ii) The accounting policies for 2020/21, as set out in Appendix A, as presented, be approved.

10. Treasury Management Strategy 2021/22

Mike Jensen, Director of Investment, Financial Services, presented the Treasury Management Strategy, the Non-Treasury Strategy and associated Minimum Revenue Provision Policy Statement.

The following points were highlighted from the report:

- The Treasury Management Strategy advocated the continued maintenance of a low credit risk profile and cautious portfolio management. The risk mitigation

strategy had successfully supported the council through the challenging macroeconomic environment, resulting from the Covid-19 pandemic and the UK's withdrawal from the European Union.

- Another year of low interest rates was anticipated. It was likely that gilts yields would continue to be low.
- Supranational bonds provided a preferable AAA credit rating compared to UK institutions following the downgrading of credit ratings in 2020.

The efforts of the whole Treasury Management team in strengthening the council's treasury position was acknowledged.

In response to a question it was clarified that, as a result of the 2020 policy change to restructure Lancashire's debt profile, the option of floating a third bond was not anticipated as necessary this year. However, the option would continue to be kept under consideration.

Resolved: That the Treasury and Non-Treasury Management Strategies and the Minimum Revenue Provision Policy Statement for 2021/22, as presented, be recommended to the Full Council for approval.

11. Urgent Business

There was no urgent business to be considered.

12. Date of Next Meeting

It was noted that the next meeting of the committee would take place at 2pm on Monday, 26th April, 2021. The venue for the meeting is to be confirmed.

L Sales
Director of Corporate Services

County Hall
Preston

Audit, Risk and Governance Committee

Meeting to be held on Monday, 26 April 2021

| |
|--|
| Electoral Division affected: (All Divisions); |
|--|

Internal Audit Annual Report 2020/21

Appendices A, B and C refer

Contact for further information:

Ruth Lowry, Head of Internal Audit, Tel: (01772) 534898,

ruth.lowry@lancashire.gov.uk

Executive Summary

The annual report of the Head of Internal Audit provides an opinion on the council's frameworks of governance, risk management and control. In the absence of a full programme of internal audit work during 2020/21, evidence has been taken from other sources and a favourable opinion has nonetheless been provided.

Recommendation

The committee is asked to consider and note the Internal Audit Annual Report 2020/21.

Background and Advice

The committee considered plans for internal audit work for 2020/21 at its meetings in July and October 2020 but these were overtaken by events during the COVID-19 pandemic.

Consultations

This report has been considered by the Chief Executive and Director of Resources and the Director of Finance.

Implications:

This item has the following implications, as indicated:

Risk management

None.

Local Government (Access to Information) Act 1985
List of Background Papers

| Paper | Date | Contact/Tel |
|-------|------|-------------|
|-------|------|-------------|

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Reason for inclusion in Part II, if appropriate

N/A

Lancashire County Council Internal Audit Service

Annual Report of the Head of Internal Audit for the year ended 31 March 2021

1 Introduction

Purpose of this report

- 1.1 This report provides an overall opinion for the year 2020/21 on the council's frameworks of governance, risk management and control. That opinion and the other information included here will inform the annual governance statement that the council will publish within its statement of accounts for the year.

The role of internal audit

- 1.2 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
- 1.3 The Public Sector Internal Audit Standards (PSIAS) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA) set the framework for the service's operation. They require the Head of Internal Audit to provide an annual opinion of the council's framework of governance, risk management and control, supported by sufficient, reliable, relevant and useful information, and a written report to those charged with governance.

The context for 2020/21

- 1.4 A full audit plan was prepared for the start of the year but, by the time the Audit, Risk and Governance Committee considered it on 27 July 2020, the plan had already been curtailed by the onset of the coronavirus pandemic: the auditors had been withdrawn from internal audit work and redeployed to support the council's operational response. It was still anticipated though that detailed audit work on a range of services, systems and processes would be undertaken. However, it quickly became clear that the council lacked the capacity to be audited and a normal audit plan would not be completed, and a much-reduced plan was presented to the committee in October 2020.
- 1.5 The usual year-end summary of individual audits and statistics about the individual assurances provided by each engagement are not therefore available. However other evidence is available, and I have used it, exceptionally, to support my overall opinion for the year. This other evidence has necessarily been largely obtained from sources other than the Internal Audit Service's own work but my opinion has also been strongly informed by my experience within the organisation, my judgements about the calibre and actions of the senior management team, and my understanding of the organisation's direction of travel.

Ruth Lowry
Head of Internal Audit, Lancashire County Council

2 Overall Opinion for 2020/21

- 2.1 I can provide moderate assurance overall regarding the organisation's frameworks of governance, risk management and control. This means that, in my opinion, the council's frameworks of risk management, governance and control are adequately designed and effectively operated overall.
- 2.2 My opinion would normally be informed by evidence from a range of audit work across the organisation and across each of the main categories of control¹. The chief value of internal audit to the council lies in that detailed work, in the information it gives to the managers of individual services, systems and processes, and in the assessment of the further action that may be required to mitigate their inherent risks to an acceptable level.
- 2.3 In a year when the county council has not had the capacity to be audited and, instead, has needed the support of all its resources to respond effectively to the COVID-19 pandemic, the internal audit team has largely been redeployed to other roles and has not undertaken detailed audit work for the council. However, nonetheless, I have sufficient evidence to support my overall opinion for the year.
- 2.4 In forming my opinion I have considered the small number of internal audit engagements undertaken by the Internal Audit Service, conversations during the year with the council's directors, documents that have been made available to me, and other information I have received as a member of the council's senior leadership team. I have reflected upon my experience within the organisation over many years, the actions of the senior management team and my understanding of the organisation's improvement journey. I have also taken into consideration the observations of the audit staff who have been redeployed into a variety of operational roles directed towards managing the impact of the pandemic on the communities of Lancashire.

3 Key Observations

- 3.1 The county council is a long-standing member of the Lancashire Resilience Forum and from the end of the previous year and throughout 2020/21, over the course of the pandemic, it has worked through the forum in particularly close collaboration with the emergency services, NHS organisations, other local authorities, the police, the military and central government. The operation and membership of the forum have been regularly reviewed and in June 2020 the council's Chief Executive took over from the Deputy Chief Constable as chair of the Covid Strategic Coordinating Group.
- 3.2 The council's Corporate Emergency Response Team has been operating since March 2020, in accordance with the Corporate Emergency Response Plan, and includes representatives from all areas of the organisation. Specific directors were identified in March 2020 to lead this team, on rotation, with direct reporting lines into the Corporate Management Team. The Corporate Management Team has maintained continual communication with staff, and beyond to partners and service users.

¹ Governance and democratic oversight, business effectiveness, service delivery, service support and business processes.

- 3.3 As the country went into the first full lockdown of the pandemic, the council began to identify its critical functions and assess its ability to fulfil them. Information was gathered from every service to support a corporate response and situation reports began to be compiled regularly for the whole organisation. This information was used to assess the services with the greatest need for additional support and those with some capacity to assist, and since then the council's resources have been actively managed throughout the year. The main focus has been on care-related services, and resources were concentrated on supporting the most vulnerable individuals.
- 3.4 After an initial pause in meetings of the Council, Cabinet and committees from the start of the lockdown until mid-May, whilst the necessary national legislation and local technology was put in place to allow meetings on-line, the council has continued to be governed in accordance with its constitution and decisions have been properly made. Scrutiny has continued, in particular through the scrutiny panels addressing the council's budget, public health and children's services.
- 3.5 New systems were required in the Finance Directorate to ensure that emergency funding was appropriately accounted for and used. Additional funding of almost £156m has been received during the year through a variety of different grants; some has been passed directly to the district councils, some used for specific purposes such as supporting Adult Social Care providers and the Public Health Directorate's test and trace activity and rapid testing, and more than £76m was received in general emergency response grants.
- 3.6 The council was key to the early provision of adequate personal protective equipment (PPE) to organisations across the county, particularly its many care providers and schools, as well as to the council's own front-line teams. Approximately £9.3m has been spent on PPE during the year and new procurement and stock control processes were introduced quickly on a large scale. For much of the year they were operated continuously throughout the week and through holidays, and staff to support this were drawn from a range of the council's services (including the Internal Audit Service).
- 3.7 The Adult Services Directorate has incurred considerable additional costs amounting to £35m to meet extra demand, including £12m spent on supporting new processes to ensure that individuals are discharged promptly from hospitals either into care homes or into care at home with crisis or reablement support. It has also spent £42.6m on supporting the market for adult social care, including disbursing approximately £30m to the county's 16,500 registered care homes and community care providers to support their infection control measures.
- 3.8 It was quickly understood that new processes would be required in the Public Health Directorate in particular to support large-scale community testing and infection control. Inevitably these did not all immediately work perfectly but, where improvements were required, they were rapidly made. Additional controls were put in place and adaptations were made to the council's public-facing services, including access to adult social care support, residential care homes, household waste disposal sites, and school bus services. For example, the Children's Social Care services put new controls in place to ensure that, when social workers speak to vulnerable children remotely, they could be sure that children are alone and free of undue influence; and the Countryside Service worked hard to ensure that sites were safe for the significantly increased

numbers using them. Other services were adapted to ensure that they were safe for the staff providing them, including highways maintenance, waste processing, and the delivery of major capital schemes. Support was given to the county's schools and other educational establishments in dealing with outbreaks of COVID-19 and reopening after lockdown.

- 3.9 Strong support was provided internally by the ICT Service within BT Lancashire Services Ltd to enable a rapid move to wholesale homeworking at the start of the year, with appropriate ICT hardware and advice and, later with the council-wide move to the Teams software and implementation of the wider suite of Microsoft Office 365 products. Support was similarly provided by the council's Health, Safety and Quality team as staff began to work at home temporarily and then continued to do so, effectively on a permanent basis. The Facilities Management team ensured that the council's buildings were quickly adapted to support social distancing where continued office-based work has been necessary.
- 3.10 The council's corporate improvement journey has clearly not taken the course originally intended during the year but, in addition to the huge changes in the council's use of ICT, other developmental work has continued. Improvements to front-line services have been made, for example work that was already under way to remodel children's social care and move towards a new family safeguarding model. Improvements have also taken place in support services and, in addition to working to bring the council's ICT, recruitment and payroll services back in house from 1 April 2021, preparations have begun for the implementation of a cloud-based replacement for the council's Human Resources, payroll, finance and procurement system (Oracle Fusion).
- 3.11 The council's response to COVID-19 has necessarily moved its focus away from planned cost-saving initiatives and, in a number of cases, planned savings will take longer than intended to put into effect and form a significant element of the cost pressures covered by the COVID emergency response grants. In the coming year there will be additional pressure to work through the implications of the pandemic for the council's future ways of working and service delivery, and to revise its plans to return to long-term financial stability.

4 The Annual Governance Statement

- 4.1 The council considers the Head of Internal Audit's opinion in making its annual governance statement and for 2020/21 the statement should reflect the council's positive response to the immediate challenge of the coronavirus pandemic as the year began, as well as to the ongoing challenges presented by its medium-term financial position and continuing need to improve its services to the public. The council has continued to provide key services to the communities of Lancashire in rapidly changing and challenging circumstances. It has been responsive and adaptable and has continued to make improvements that will support it in the longer term, although its short-term priorities and focus necessarily changed through the course of the year.

5 Internal Audit Work Completed During the Year

- 5.1 A small number of audits were undertaken during the year, generally where services requested the work and audit resources were available. These do not amount to a risk-based audit plan but provide additional evidence of systems and processes operating effectively. The assurance we provided on each of these is as follows, although some work was simply advisory or supportive:

| Audit work | Assurance provided |
|---|---------------------------|
| Decision-making by councillors | Substantial |
| Decision-making by officers | Substantial |
| Planning for the return of services from BTLS to the council (ICT, payroll and recruitment) | Moderate |
| Workforce modelling in the Hospital Discharge team | Not applicable |
| Information management in relation to covid-19 community testing results | Moderate |
| Cash controls in older people's care homes | Not applicable |
| Prevention of child exploitation | Not applicable |
| Accounting through the general ledger | Substantial |
| Recovery of over-payments made from the Lancashire Pension Fund | Limited |
| External assurance over ICT controls | Limited |
| Access to the Public Sector Network | Moderate |
| Cyber resilience | Moderate |
| Organisational resistance to email phishing | Not applicable |

- 5.2 Work to provide assurance over the administration of the Lancashire Pension Fund is still continuing and will be reported to the Pension Fund Committee at its meeting in June 2021.

6 Organisational Independence

- 6.1 The Internal Audit Service has access to and support from the council's Corporate Management Team. In the course of its normal work it is able to operate independently within the organisation and, in accordance with its charter, the service remains independent of the council's other functions.
- 6.2 The Internal Audit Service's work programme and priorities are determined in consultation with the Corporate Management Team, the council's senior managers and the Audit, Risk and Governance Committee, but remain decisions for the Head of Internal Audit. I have direct access to and freedom to report in my own name and without fear or favour to all officers, and to members of the Audit, Risk and Governance Committee.
- 6.3 During 2020/21 members of the team have taken up operational roles as noted in Appendix B.

7 Quality Assurance and Improvement Programme

- 7.1 The Internal Audit Service has established and regularly reviews a quality assurance and improvement programme. The PSIAS requires that all aspects of internal audit activity are considered by a combination of ongoing internal monitoring, periodic self-assessments or internal assessments by others with sufficient knowledge, and independent external review at least once every five years.

| Type of review | Internal review | | External review |
|--|-----------------|----------|-----------------|
| | Ongoing | Periodic | 5-yearly |
| Audit engagement quality | ✓ | | ✓ |
| Professional and operational framework | | ✓ | ✓ |

- 7.2 Following this framework, the Internal Audit Service's quality assurance and improvement programme consists of internal ongoing monitoring of audit engagement quality, periodic internal assessment of the professional and operational framework, and external review. Although less audit work than usual has been done, the quality assurance framework has been applied to that work as normal.

External review

- 7.3 The findings of the last external quality assessment undertaken by the Chartered Institute of Internal Auditors were reported to the committee in January 2018. This confirmed that the Internal Audit Service 'generally conforms' to the full range of standards set out in the International Professional Practice Framework, the PSIAS and Local Government Application Note. It confirmed that the Internal Audit Service can say that its work has been in accordance with the International Professional Practices Framework, the PSIAS and the Local Government Application Note.

Internal review

- 7.4 The Internal Audit Service has designed procedures and an audit methodology that conform to the PSIAS and are regularly reviewed. Every auditor in the team is required to comply with these or document the reasons why not, and to demonstrate this compliance on every audit engagement. The audit managers assess the quality of each audit concurrently as it progresses, and a post-audit file review process is undertaken.
- 7.5 Internal audit work continued in 2020/21 to a very small extent for the county council and also for the service's external clients and has been subject to both review processes. These have identified a small number of points that will allow the team to further improve its work and have confirmed that the team's methodology is being appropriately followed.
- 7.6 Whilst recognising that a full risk-based audit plan has not been pursued for the county council this year, the team's work conforms with the PSIAS. In 2021/22 consideration will have to be given to individual auditors' independence of the functions that they will audit, recognising that many members of the team have worked in operational roles during 2020/21.

Operational Roles Undertaken by Members of the Internal Audit Service during 2020/21

This is a very brief outline of the work undertaken by the audit staff during 2020/21. It gives an indication of the breadth of their work but cannot do justice to its variety, and some individuals undertook more than one alternative role during the year.

Customer Access Service: COVID-19 Death in the Community helpline

- Two auditors and three senior auditors from late March/ early April until late May 2020.

The work was intended to take out-of-hours calls from doctors reporting deaths and to assist in sourcing funeral directors and mortuaries. The team was trained to inform funeral directors and to use the service's call system (Genesys), guidance system (Acorn), and recording system (Civica) but was not required and was dissolved by the end of May 2020.

Care Navigation Team

- One senior auditor from April until September 2020, one auditor from May until November 2020, and two senior auditors from late May 2020 until April 2021

The audit staff sourced residential care home placements for adults requiring residential or nursing care on their discharge from hospital, and conducted remote welfare checks once service users were placed. This required the staff to liaise with social workers, hospital and NHS staff, care home managers and staff, family members and next of kin, and service users themselves.

Public Health Service: COVID-19 advice and guidance

- A senior auditor from April until August 2020 and an auditor from April to September 2020

The audit staff joined the teams assisting external organisations, primarily care homes, working on the COVID-19 testing helpline, which required them to understand and communicate the guidance as it evolved.

Public Health Service: advice about addressing COVID-19 to the management of educational establishments

- Two senior auditors from early October 2020 until January 2021

The audit staff supported educational establishments from nurseries through schools to further education colleges and universities as they managed outbreaks of COVID-19. This involved interpreting advice from the Department of Education and Public Health England as well as internal public health colleagues and using a customer relationship database system (Microsoft Dynamics).

Public Health Service: COVID-19 testing

- An auditor and a senior auditor from August until September and October 2020

The process of matching COVID-19 test results to the council's community test centres had become backlogged but the audit staff established a different process and helped to clear this. They also responded to testing queries and produced daily situation reports for the districts.

Procurement Service: management

- An audit manager from April to late August 2020 and a senior auditor from August 2020 until April 2021

The audit manager provided information for both internal and external stock distribution and managed stock records. She combined two separate systems when the team moved to a warehouse at Buckshaw and worked with the procurement team's managers to review and enhance their processes. She introduced new processes and built the team that enabled the county's schools to access personal protective equipment (PPE).

The senior auditor managed the provision of PPE to care providers, ensuring that allocations were consistent and sufficient for their needs and that the orders were promptly distributed as well as correctly recorded.

Procurement Service: support to care providers and schools

- An auditor from May until late September 2020

The auditor managed the team's mailboxes, responding to a variety of enquiries by email and dealing pragmatically with both internal and external enquiries. She maintained accurate distribution records and, with colleagues in Finance, supported the process of charging schools for equipment.

Procurement Service: distribution

- One senior auditor from April 2020 until April 2021, one senior auditor from May until August 2020, the senior audit investigator from April until October 2021, an auditor and senior auditor during May 2020

The staff assisted with the distribution of PPE to care homes and other care settings and schools across the county, loading vehicles and controlling stock. They worked at first from County Hall but later moved to the warehouse at Buckshaw.

Human Resources Service: Lancashire Temporary Staffing Agency

- A senior auditor from June until October 2020

The agency was set up to provide temporary care workers for residential care homes. The senior auditor worked with the team to do recruitment checks, allocate temporary care workers and administer timesheets.

Adult Services

- An auditor from May until early October 2020

The auditor supported the Provider Escalation team to monitor and support cases of COVID-19 amongst both staff and residents in Lancashire's care homes, providing daily updates and clerical support to meetings of care homes, doctors and social workers working to manage outbreaks.

Membership of Working Groups in Adult Services

- An audit manager from May 2020 until April 2021 and beyond (part-time)

The audit manager joined the cross-service Provider Financial Support Group and the Day-Time Support Group led by the Director of Adult Services to develop and implement policy and processes supporting the distribution of covid-related social care grants. The groups have tested compliance with funding conditions across

providers, met care home-owners and managers, reviewed grant applications and claims and evaluated evidence.

Scope, Responsibilities and Assurance

Approach

- C.1 The Internal Audit Service operates in accordance with Public Sector Internal Audit Standards, 2017. The scope of internal audit work encompasses all of the council's operations, resources and services including where they are provided by other organisations on its behalf.

Responsibilities of management and internal auditors

- C.2 It is management's responsibility to maintain systems of risk management, internal control and governance. Internal audit is an element of the internal control framework assisting management in the effective discharge of its responsibilities and functions by examining and evaluating controls. Internal auditors cannot therefore be held responsible for internal control failures.
- C.3 However, we have planned our work so that we have a reasonable expectation of detecting significant control weaknesses. We have reported all such weaknesses to management as they have become known to us, without undue delay, and have worked with management to develop proposals for remedial action.
- C.4 Internal audit procedures alone do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.
- C.5 Internal audit's role includes assessing the adequacy of the risk management processes, key internal control systems and corporate governance arrangements put in place by management and performing testing to ensure those controls were operating effectively for the period under review.

Basis of our assessment

- C.6 My opinion on the adequacy of control arrangements is based upon the result of internal audit work undertaken and completed during the period but, in accordance with the plans approved by the Audit, Risk and Governance Committee, this has been limited in its range during 2020/21. Sufficient, reliable and relevant evidence has been obtained from a range of sources within the organisation other than from internal audit work alone.

Limitations to the scope of our work

- C.7 The scope of internal audit work has been restricted by the impact of the COVID-19 pandemic on the organisation, but this has not limited the scope of the annual opinion provided.

Limitations on the assurance that internal audit can provide

- C.8 There are inherent limitations as to what can be achieved by internal control and consequently limitations to the conclusions that can be drawn from our work as internal auditors. These limitations include the possibility of faulty judgement in decision making, of breakdowns because of human error, of control activities being circumvented by the collusion of two or more people, and of management overriding controls. Further, there is no certainty that internal controls will continue

to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks which may arise in future.

- C.9 Decisions made in designing internal controls inevitably involve the acceptance of some degree of risk. As the outcome of the operation of internal controls cannot be predicted with absolute assurance any assessment of internal control is judgmental.

Access to this report and responsibility to third parties

- C.10 This report has been prepared solely for Lancashire County Council. It forms part of a continuing dialogue between the Internal Audit Service, the Chief Executive, the Audit, Risk and Governance Committee and management of the council. It is not therefore intended to include every matter that came to our attention during the year.
- C.11 This report may be made available to other parties, such as the external auditors. However no responsibility is accepted to any third party who may receive this report for any reliance that may be placed on it and, in particular, the external auditors must determine for themselves what reliance they place on the work of the Internal Audit Service.

Audit, Risk and Governance Committee

Meeting to be held on Monday, 26 April 2021

| |
|--|
| Electoral Division affected: (All Divisions); |
|--|

Internal Audit Annual Plan 2021/22

Appendices A and B refer

Contact for further information:

Ruth Lowry, Head of Internal Audit, (01772) 534898, ruth.lowry@lancashire.gov.uk

Executive Summary

This report explains the approach to establishing the internal audit plan for 2021/22 and the work proposed that will support the Head of Internal Audit's overall opinion for the year on the council's framework of governance, risk management and control. Appendix A sets out the audit planning process, and the plan itself in more detail is at Appendix B.

Recommendation

The committee is asked to consider and approve the Internal Audit Plan 2021/22 as set out at Appendices A and B.

Background and Advice

Appendix A sets out the background and context to this report.

Consultations

The work set out in this strategic plan has been discussed with members of the Corporate Management Team, and with directors and heads of service across the organisation.

Implications:

N/A

Risk management

This report supports the Audit, Risk and Governance Committee in undertaking its role, which includes providing independent oversight of the adequacy of the council's governance, risk management and internal control framework.

Local Government (Access to Information) Act 1985
List of Background Papers

| Paper | Date | Contact/Tel |
|-------------------------------------|------------|----------------------------|
| Internal Audit Strategy for 2021/22 | March 2021 | Ruth Lowry, (01772) 534898 |

Reason for inclusion in Part II, if appropriate

N/A

Internal Audit Plan 2021/22

1. Introduction

- 1.1. This report sets out the internal audit plan for 2021/22. The Audit, Risk and Governance Committee is asked to consider and approve it under the committee's terms of reference.
- 1.2. The plan is supported by the Internal Audit Strategy for 2021/22 which sets out the relevant statutory and professional requirements, the planning principles and inputs to the process, and the audit approach employed by the Internal Audit Service.
- 1.3. The plan is also supported by a service charter, which defines the purpose, authority, scope and responsibility of internal audit activity, establishes the service's position within the organisation, and authorises access to all relevant records, personnel and physical properties.
- 1.4. The Internal Audit Service aims to achieve the core principles set out by the Chartered Institute of Internal Auditors and reiterated in Public Sector Internal Audit Standards, which are that the service:
 - Demonstrates integrity
 - Demonstrates competence and due professional care
 - Is objective and free from undue influence (independent)
 - Aligns with the strategies, objectives, and risks of the organisation
 - Is appropriately positioned and adequately resourced
 - Demonstrates quality and continuous improvement
 - Communicates effectively
 - Provides risk-based assurance
 - Is insightful, proactive, and future-focused
 - Promotes organisational improvement

2. The purpose of the audit plan

- 2.1. The council is responsible for a wide range of services across the county, and it is expected that the council's members and senior management are aware both of the risks to achieving their service objectives and the risks inherent in their work. Each of these risks should be managed by controls designed to reduce it to a corporately acceptable level, and which operate effectively and consistently in practice. The Chief Executive, Audit, Risk and Governance Committee, and ultimately the council, need assurance that these controls are adequately designed and operating effectively. At the end of the financial year the Chief Executive and the Leader will jointly sign an annual governance statement that is published with the council's financial statements.

Internal Audit Plan 2021/22

2.2. The Head of Internal Audit is required by professional standards to provide an opinion addressing the council's frameworks of governance, risk management and control and thereby to provide assurance that the risks to the council's objectives are being adequately and effectively controlled. The Audit, Risk and Governance Committee is required by its terms of reference both to consider the Head of Internal Audit's annual report and opinion and to review the council's annual governance statement. The committee should therefore consider and approve an internal audit plan designed to provide the assurance that the council, committee, Leader and Chief Executive need.

2.3. Because the overall opinion covers a twelve-month period, the evidence to support it must relate to the controls in operation for that period. The plan therefore chiefly addresses work for just one year, but projections may be made into audit requirements for future years. The work in any annual plan will rarely be fully complete at the end of the year but will be sufficient to inform the council's annual governance statement shortly after the year end.

3. Obtaining the evidence to support an overall opinion for 2021/22

3.1. An internal audit plan designed to provide the evidence necessary to support an opinion on governance, risk management and control should arguably encompass the following:

- Coverage of the key components of each part of the opinion: aspects of the council's governance; risk management; and control.
- Sufficient coverage of controls across the council's operations as a whole, so that a fair assessment may be made across the organisation.
- Coverage of the controls that serve to mitigate the council's most significant risks to an acceptable level, and particularly those that operate most widely across the council.
- Assessment of the actions being taken to develop improved controls in the areas of greatest unmitigated risk.

3.2. It will therefore be necessary as a minimum to audit aspects of the council's governance and risk management processes, as well as a range of control processes. However, information will also be available from less formal sources than planned audit engagements and this will also inform the overall opinion.

3.3. A control framework applicable to the council's governance, risk management and control is shown on the following page. The internal audit plan is designed to address, proportionately, the coverage required across this controls framework for the whole organisation. It addresses each of the areas of the overall opinion, each of the areas of control set out in the control framework, and each of the major areas of service delivery. A number of individual audits address some common themes, including contract monitoring, safeguarding, health and safety, and improvement plans that may also inform a more corporate view. The plan also includes work to follow up the action plans agreed by managers as a result of audit work over previous years.

| A framework for governance, risk management and control | | | | | | |
|--|--------------------------------|----------------------------------|---------------------------------------|------------------------|----------------------|-----------------|
| Governance and democratic oversight | | | | | | |
| Corporate governance | Decision-making | Oversight and scrutiny | Policy setting | | | |
| Business effectiveness | | | | | | |
| Risk management | Performance management | Organisational design | Financial governance and planning | Working in partnership | | |
| Service delivery | | | | | | |
| Growth, Environment & Transport | | Education & Children's Services | Adult Services and Health & Wellbeing | Resources | | |
| Service support | | | | | | |
| Legal services | Skills, learning & development | Core ICT systems | Property management | Health & safety | Programme management | Customer access |
| Business processes | | | | | | |
| Financial systems & processes | | Procurement | | Facilities management | Human resources | |
| Information management | | Contract monitoring & management | | | Payroll processing | |
| Business continuity | | | | Investment | ICT systems | |

- 3.4. A detailed list of each audit in the plan is provided at Appendix B to this report, setting out how they fit into this framework. It should be noted that the plan will almost certainly be subject to some change during the year as the council's priorities alter and as the work set out here in outline is scoped in more detail. The committee will be informed of any significant changes as progress is reported during the year.
- 3.5. An ICT audit service provider was appointed in 2018 and a programme of ICT audit work began in 2018/19. The plan of ICT audit work for 2021/22 is included in the plan set out at Appendix B.
- 3.6. The county council is the administering authority for the Lancashire Pension Fund and the plan therefore incorporates the need to provide assurance over the operation of the fund. It is administered and its pooled assets are managed by Local Pensions Partnership Ltd (LPP). The subsidiary company that undertakes the administration function has established an in-house compliance team that undertakes controls testing throughout the year. The work of that team will be assessed annually by Deloitte, who will provide assurance that the team's work is adequate and effective. The investment subsidiary has retained Deloitte as its internal auditor.
- 3.7. The in-house team's reports, Deloitte's assessment of that team's work and Deloitte's own internal audit work will be made available to the council although, as previously, Deloitte disclaims any liability to the council and the Pension Fund for any reliance they may place on this.
- 3.8. An indication of the scale of work by control area and service is also provided in the table on the following page. The type of work is shown as:

'1' for phase one/ consultancy work '1+2' for full risk and control evaluation
 '2' for phase two/ compliance testing 'F' for follow-up work

Internal Audit Plan 2021/22

| Control category and service area | Number of audits by type | | | | |
|--|--------------------------|-----|-------|-----|-------|
| | '1' | '2' | '1+2' | 'F' | Total |
| Governance and democratic oversight | | 2 | 1 | 2 | 5 |
| Corporate Services | | | 1 | 2 | 3 |
| Finance (Pension Fund) | | 1 | | | 1 |
| Growth, Environment and Planning | | 1 | | | 1 |
| Business effectiveness | | | 6 | 2 | 8 |
| All services | | | 1 | | 1 |
| Strategy and Performance | | | 1 | 1 | 2 |
| Corporate Services | | | 1 | 1 | 2 |
| Finance | | | 1 | | 1 |
| Organisational Development and Change | | | 1 | | 1 |
| Public Health | | | 1 | | 1 |
| Service delivery | 5 | 6 | 26 | 8 | 45 |
| Adult Services and Health and Wellbeing | | 1 | 6 | | 7 |
| Adult Services | | | 1 | | 1 |
| Adults Disability and Care Services | | | 3 | 1 | 4 |
| Public Health | | | 1 | | 1 |
| Education and Children's Services | 1 | 1 | | | 2 |
| Children's Social Care | 1 | 3 | 2 | 3 | 9 |
| Education and Skills | 1 | | 1 | | 2 |
| Growth, Environment and Transport | | | 1 | | 1 |
| Growth, Environment and Planning | | | 1 | | 1 |
| Highways and Transport | 1 | | 4 | 2 | 7 |
| Organisational Development and Change | | | 1 | 1 | 2 |
| Finance | 1 | 1 | 3 | | 5 |
| Finance (Pension Fund) | | | 2 | 1 | 3 |
| Service support | | 2 | 10 | 6 | 18 |
| Strategy and Performance | | | 5 | 1 | 6 |
| Corporate Services | | 1 | 1 | | 2 |
| Finance | | | 2 | | 2 |
| Core Systems | | 1 | 2 | 5 | 8 |
| Business processes | 1 | 7 | 5 | 2 | 15 |
| Finance | 1 | 7 | 5 | 2 | 15 |
| Total | 6 | 17 | 48 | 20 | 91 |

Internal Audit Plan 2021/22

4. The context of the audit work for the year

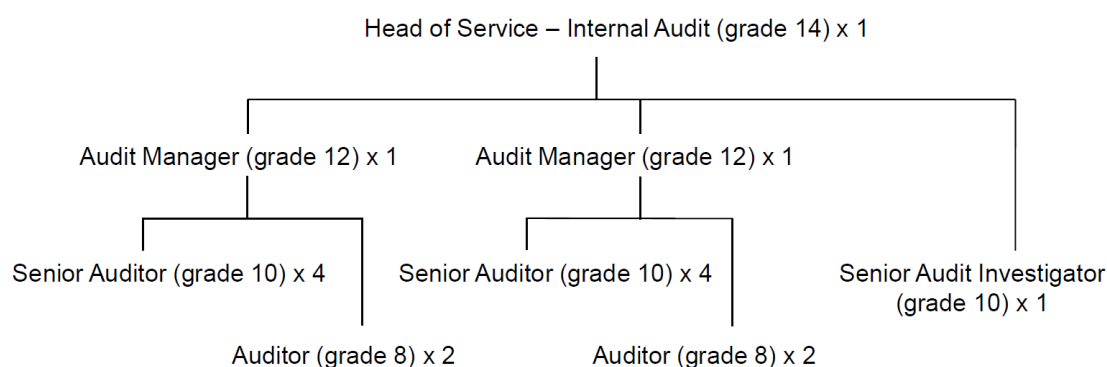
- 4.1. After a year in which very little internal audit work was undertaken, the audit plan has again been constructed to include potentially any area of the council's operations and any service, system or process. Full audits have been planned across each control area and each of the main service directorates.
- 4.2. It is expected that the council will continue to be affected by the COVID-19 pandemic during the year, although it is hoped that this will involve a shift to recovery rather than further emergency responses. The changes made to some services and systems during 2020/21 will remain and become permanent in some cases. Where services or systems are changing the audit response varies from work to provide input as new policies and control frameworks are developed, audits of the implementation of improvement plans, and maintenance of a watching brief until plans have been implemented and the service, system or process can be audited in future.

5. The assurance we will provide

- 5.1. The assurance we will provide falls into four categories: substantial, moderate, limited and no assurance.
- Substantial assurance: the framework of control is adequately designed and/ or effectively operated overall.
 - Moderate assurance: the framework of control is adequately designed and/ or effectively operated overall, but some action is required to enhance aspects of it and/ or ensure that it is effectively operated throughout the service, system or process.
 - Limited assurance: there are some significant weaknesses in the design and/ or operation of the framework of control that put the achievement of the service, system or process' objectives at risk.
 - No assurance: there are some fundamental weaknesses in the design and/ or operation of the framework of control that could result in failure to achieve the service, system or process' objectives.

6. Internal Audit Service resources

- 6.1. The plan takes account of the internal audit resources available. The service employs 16 staff in the structure set out below:



- 6.2. The Internal Audit Service also provides an out-sourced internal audit function to the Office of the Police and Crime Commissioner and Lancashire

Internal Audit Plan 2021/22

Constabulary, Lancashire Fire and Rescue Service and Rossendale Borough Council. This work accounts for approximately 2.4 full-time equivalent staff but is undertaken by individuals across the service.

7. Funding and grant certification work

- 7.1. The Internal Audit Service is required under the funding requirements of certain central government departments to certify certain aspects of the way funding has been spent. This provides little direct assurance to the county council but is necessary to secure elements of its funding.
- 7.2. The Ministry for Housing, Communities and Local Government requires the Internal Audit Service to test funding claims submitted by the council's Troubled Families Programme and we work with the Children and Family Wellbeing Service to process the council's funding claims under this programme.
- 7.3. We are also aware of the need to certify funding claims in relation to capital improvements to the county's highways and various strands of economic development. However, although we seek to understand in advance what funding may be subject to such certification, new requirements occasionally emerge during the year and these will be accommodated.

8. The Internal Audit Service's responsibilities in relation to fraud and investigations

- 8.1. In addition to our audit work, the Internal Audit Service provides support to the council's management team in managing the risk of fraud. It provides a small investigatory service (one senior audit investigator) to support management in responding to instances of suspected fraud or impropriety, and also undertakes proactive work to identify and pursue indications of potentially fraudulent activity, both through corporate systems testing and through additional testing of other areas particularly susceptible to fraud.
- 8.2. There are some synergies in the skills required of both internal audit and investigations work, and the information arising around the investigation of allegations of fraud or impropriety may also indicate potential lapses in controls or of the culture of the organisation which are of interest to the Internal Audit Service.
- 8.3. Our audit plan integrates our assurance work (specifically our compliance testing) with our proactive counter fraud testing, particularly in areas susceptible to fraud and misappropriation of assets.

Internal Audit Plan 2021/22

The work set out below is intended to obtain the evidence required to support an overall opinion on the council's governance, risk management, and control processes for 2021/22. Individual elements within the plan may be amended but, taken as a whole, the resulting plan is designed to address the requirement for an overall opinion as set out in the Internal Audit Strategy for 2021/22.

The type of work is shown as: '1' for phase one/ consultancy work; '2' for phase two/ compliance testing; and '1+2' for a full risk and control evaluation. Work to follow up the actions arising from previous audit work is not listed here.

| Lead directorate | Service | Operational area | Audit work | Type |
|--|-----------------------------------|---|--|------|
| Governance and democratic oversight | | | | |
| Resources | | | | |
| Corporate Services | Legal, Governance and Registrars | Scrutiny | Review of the operation of the council's scrutiny function, to ensure decisions are adequately assessed before and after implementation. | 1+2 |
| Finance (Pension Fund) | Pension Fund | Understanding the assurance provided by LPP's internal auditors | Assessment of the assurance over the operation of the Pension Fund by the Local Pensions Partnership Ltd (LPP). | 2 |
| Growth, Environment and Planning | Business Growth | Assurance over the governance and operation of the LEP | Work to understand the assurance that the council can take from the LEP. | 2 |
| Business effectiveness | | | | |
| Resources | | | | |
| Corporate Services | Legal, Governance and Registrars | Risk management | Assessment of the effectiveness of the revised risk management arrangements in services and corporately. | 1+2 |
| Finance | Financial Management (Operations) | Financial planning | Assurance that the council's financial planning and forecasting is supported by robust data controls. | 1+2 |
| Organisational Development and Change | Improvement | Business improvement | Work to understand organisation's continuing improvement plans and the action that will secure their success. | 1+2 |
| Strategy and Performance | Business Intelligence | Corporate performance management | Audit of the implementation of revised performance management arrangements and KPIs. | 1+2 |

Internal Audit Plan 2020/21

| Lead directorate | Service | Operational area | Audit work | Type |
|--|---|--|---|-------------|
| - | All services | Management of the council's performance in responding to covid-19 and of the lessons learned | A review of the experience of responding to the covid-19 pandemic and planning for a return to a new business as usual. | 1+2 |
| Public Health | Health, Safety & Resilience; and all services | Lessons learned from the organisation's response to covid-19 | A review of how the lessons learned from the covid-19 pandemic has influenced the council's business continuity arrangements and emergency planning response. | 1+2 |
| Service delivery | | | | |
| Adult Services and Health & Wellbeing | | | | |
| - | Quality, Contracts and Safeguarding | Management of failing care homes | A review of the controls to manage failing providers, including consideration of contractual arrangements and lessons learned from CQC and the LSAB. | 1+2 |
| - | Quality, Contracts and Safeguarding | Supervision | Confirmation that staff are subject to regular support and supervisory review to ensure compliance with professional body requirements. | 2 |
| - | Quality, Contracts and Safeguarding | Safeguarding adult reviews | A review of the adequacy and efficiency of the processes employed within Lancashire to respond to the multi-agency Safeguarding Adult Reviews initiated by the Lancashire Safeguarding Adults Board. | 1+2 |
| - | Quality, Contracts and Safeguarding | Operation of the residential quality assurance framework | Review of the improvement programme being developed to drive improvements in service delivery across the regulated care sector, and the adequacy and effectiveness of the contract monitoring arrangements. | 1+2 |
| - | Quality, Contracts and Safeguarding | Operation of the non-residential quality assurance framework | Review of the improvement programme being developed to drive improvements in service delivery across the regulated care sector, and the adequacy and effectiveness of the contract monitoring arrangements. | 1+2 |
| - | Quality, Contracts and Safeguarding | Provider-led reviews | Review of the contract monitoring arrangements introduced since handover of the Carer's assessments contract from Commissioning. | 1+2 |

Internal Audit Plan 2020/21

| Lead directorate | Service | Operational area | Audit work | Type |
|--|--|--|--|------|
| - | Various | Staff induction (including the Social Care Academy) | Consideration of staff induction processes, focussing particularly on the work of the Social Care Academy. | 1+2 |
| Adult Services | All services | Social care review arrangements | Audit of the review of packages of care, focussing on timeliness. | 1+2 |
| Adults Disability and Care Services | Learning Disability, Autism & Mental Health | Approved mental health professional (AMHP) service standards | A review to assess the self-assessment of service compliance with the AMHP service standards. | 1+2 |
| Adults Disability and Care Services | Older People | Sickness absence management | A review of the service's compliance with corporate sickness absence arrangements. | 1+2 |
| Adults Disability and Care Services | Older People | Safeguarding alerts | A review of the management of safeguarding alerts, from notification to conclusion and any learning points arising from them. | 1+2 |
| Organisational Development and Change | Health Equity & Partnerships | Implementation of the vaccination programme across the county. | Consideration of the adequacy and effectiveness of the council's implementation of the covid-19 vaccination programme. | 1+2 |
| Education & Children's Services | | | | |
| - | Quality Assurance, Inspection & Safeguarding | Education and Children's Services: assurance mapping | Assessment of internal and external sources of assurance to identify any gaps or duplication. | 1 |
| Children's Social Care | Quality Assurance, Inspection & Safeguarding | Child poverty | The council's response to perceived increases in child poverty as a consequence of the pandemic. | 1 |
| - | Policy, Information and Commissioning (Start Well) | Sufficiency of external places for children looked after | Audit of the arrangements to ensure the sufficiency of placements focusing on school places and admissions, assessments and value for money. | 2 |
| Children's Social Care | Children's Social Care | Prevention of child exploitation | Assessment of compliance with the new processes to prevent child exploitation. | 1+2 |

Internal Audit Plan 2020/21

| Lead directorate | Service | Operational area | Audit work | Type |
|--|--|---|---|------|
| Children's Social Care | Children's Social Care | Supervision and support arrangements | Audit of the adequacy of supervisory controls under the family safeguarding model including timeliness, frequency and impact of management oversight and case supervision. | 1+2 |
| Children's Social Care | Fostering, Adoption, Residential & YOT | Corporate parenting strategy | Audit of the controls to ensure that the corporate parenting strategy is implemented and effectively operated. | 2 |
| Children's Social Care | Quality Assurance, Inspection & Safeguarding | Serious incident reporting and case review | Assessment of the effectiveness of controls under the partnership boards, focussing on LCC's role and cases. | 2 |
| Children's Social Care | Quality Assurance, Inspection & Safeguarding | Children's Safeguarding Assurance Partnership | Audit of the effectiveness of the partnership's controls in safeguarding children, focussing on LCC's role and cases. | 2 |
| Education & Skills | Education Improvement | Children missing from home (or school) | Audit of the adequacy and effectiveness of controls to identify and track children missing from home or school. | 1 |
| Education & Skills | Education Improvement | Education during widespread school closures | Review of controls to ensure the council's compliance with its statutory duties when the majority of children are educated at home. | 1+2 |
| Growth, Environment & Transport | | | | |
| - | Waste | Health and safety at household waste and recycling centres | Audit of the service's arrangements to ensure compliance with health and safety requirements. | 1+2 |
| Growth, Environment and Planning | Business Growth | Support to the county's economy | Review of the range of support being provided, in whatever form. | 1+2 |
| Public Health | Improvement | Community testing, as part of the Lancashire Resilience Forum (LRF) | Assessment of the ways the council established, with its partners in the LRF, the necessary capacity for rapid community testing in early 2021, and support for the test and trace process. | 1+2 |
| Highways and Transport | Design and Construction | Capital programme: project management | Audit of the controls that ensure capital projects are managed efficiently and effectively. | 1+2 |

Internal Audit Plan 2020/21

| Lead directorate | Service | Operational area | Audit work | Type |
|--|--|--|--|------|
| Highways and Transport | Public & Integrated Transport | Health and safety at operational depots | Audit of the controls to manage the risks to operatives' and the public's health and safety at transport and highways depots. | 1+2 |
| Highways and Transport | Public & Integrated Transport | Procurement of council fleet vehicles | Audit of the controls that ensure the fleet is properly specified to support delivery of the council's services and is procured in compliance with legislation and policy. | 1 |
| Highways and Transport | Public & Integrated Transport | Transport provision for children and adults | Assessment of the adequacy of controls over commissioned transport. | 1+2 |
| Highways and Transport | Public & Integrated Transport | Fleet vehicle maintenance: management assurance framework | Assessment of the adequacy of the framework of controls that provide managers with assurance that the fleet is properly maintained. | 1+2 |
| Resources – the Finance Directorate's direct role in the delivery of various services | | | | |
| Finance | Corporate Finance and Exchequer Services | The council's appointee/ deputy role for service users who lack capacity | Assessment of the council's role where it acts as both the appointee/ deputy for an individual and as a service-provider. | 1+2 |
| Finance | Corporate Finance and Exchequer Services | Financial assessment team | Review of the processes and decisions made by the financial assessment team, in particular for their consistency across the whole team. | 1+2 |
| Finance | Financial Management (Development & Schools) | Schools thematic audit: payroll | Audit of a sample of schools to test compliance with controls for processing their payroll. | 2 |
| Finance | Financial Management (Development & Schools) | Schools in financial difficulty | Audit of the process by which schools in financial difficulty are identified and supported. | 1 |
| Finance | Financial Management (Development & Schools) | Schools' balances on Oracle | A short piece of work to understand how the schools' balances are held and correctly maintained on Oracle. | 1+2 |
| Finance (Pension Fund) | Pension Fund | Admission of employers to the Fund | Review of the process by which employers are admitted including due diligence. | 1+2 |

Internal Audit Plan 2020/21

| Lead directorate | Service | Operational area | Audit work | Type |
|--------------------------|--|--|---|------|
| Finance (Pension Fund) | Pension Fund | Recovery of overpayments | Review of the process within LPPA by which overpayments are recovered. | 1+2 |
| Service support | | | | |
| Resources | | | | |
| Finance | Payroll and Recruitment | Disclosure and barring system | Assessment of the controls supporting the new system, focussing on the areas most reliant on vetting for safeguarding. | 1+2 |
| Corporate Services | Human Resources | Recruitment | Review of the corporate system including its linkage with the finance, payroll and other systems including DBS clearance where relevant. | 1+2 |
| Corporate Services | Human Resources | Sickness absence management | Tests of compliance with the council's policies and procedures. | 2 |
| Finance | Financial Management (Development & Schools) | Capital Strategy implementation | Assessment of high-level controls to support delivery of the capital strategy. | 1+2 |
| Strategy and Performance | Asset Management | Contract monitoring: Building Schools for the Future (BSF) | Assessment of the procedures in place to monitor the BSF contracts; their financial performance and in relation to health and safety in school buildings, particularly in the context of covid-19. | 1+2 |
| Strategy and Performance | Facilities Management | Use of the council's buildings under covid-19 restrictions | Assurance that sufficient controls are in place to ensure the health and safety of staff using the council's buildings. | 1+2 |
| Strategy and Performance | Facilities management | Cleaning service | Review of the process by which the cleaning resource has been determined and is being provided for each of the council's properties. | 1+2 |
| Strategy and Performance | Facilities Management | School catering service | Consideration of the control framework in place to ensure the nutritional value of meals is balanced with the cost of provision, including whether nutritional value was maintained in the free school meals provided by the council during the pandemic. | 1+2 |

Internal Audit Plan 2020/21

| Lead directorate | Service | Operational area | Audit work | Type |
|---------------------------|--|--|--|------|
| Strategy and Performance | Asset Management | CCTV surveillance conducted from the council's estate | Confirmation that the council is compliant with GDPR and any requirements related to the use of CCTV cameras and retention of data obtained from them. | 1+2 |
| Core Systems | ICT Services | External sources of assurance | Collation and re-assessment of the external sources of assurance over BTLS's operation. | 2 |
| Core Systems | ICT Services | Support for large-scale home working | Assessment of the arrangements to enable the majority of staff to work from home, including ICT connectivity and hardware. | 1+2 |
| Core Systems | ICT Services | Implementation of MS365 | A review of the implementation programme including post-implementation actions. | 1+2 |
| Business processes | | | | |
| Resources | | | | |
| Finance | Payroll Service | Payroll processing of information provided by the council's managers | Compliance testing of the key controls. | 2 |
| Finance | Corporate Finance and Exchequer Services | Accounts receivable: central controls | Compliance testing of the key controls. | 2 |
| Finance | Corporate Finance and Exchequer Services | New covid-related funding flows into, and disbursed by, the council | Assessment of the ways in which additional funding from central government to support additional costs caused by covid-19 is being monitored and used for its intended purposes. | 1+2 |
| Finance | Corporate Finance and Exchequer Services | Debt management | Assessment of the council's debt management arrangements. | 1+2 |
| Finance | Corporate Finance and Exchequer Services | Accounts payable: central controls | Compliance testing of the key controls. | 2 |
| Finance | Corporate Finance and Exchequer Services | Cash and banking | Compliance testing of the key controls. | 2 |
| Finance | Corporate Finance and Exchequer Services | General ledger including accounting for the Pension Fund | Compliance testing of the key controls for both the council and the Pension Fund. | 2 |

Internal Audit Plan 2020/21

| Lead directorate | Service | Operational area | Audit work | Type |
|------------------|--|---|--|------|
| Finance | Corporate Finance and Exchequer Services | VAT | Compliance testing of the key controls. | 2 |
| Finance | Corporate Finance and Exchequer Services | Treasury management and investment | Compliance testing of the key controls. | 2 |
| Finance | Corporate Finance and Exchequer Services | Municipal Bonds Agency loan | Audit of the process supporting the flow of funds into the council from the MBA, including probity and decision making. | 1+2 |
| Finance | Procurement | Urgent procurement conducted during the onset of covid-19 | Assurance that urgent procurement exercises were conducted appropriately and have been regularised since then, if not at the time. | 1+2 |
| Finance | Procurement | Purchase cards | Review of purchase cards in use across the organisation. | 1+2 |
| Finance | Financial Management (Development & Schools) | Lancashire County Development Limited (LCDL) | Initial review of the company's financial control framework. | 1 |

Audit, Risk and Governance Committee

Meeting to be held on Monday, 26 April 2021

| |
|-------------------------------------|
| Electoral Division affected: N/A |
|-------------------------------------|

External Audit – The Annual Audit Letter for Lancashire County Council and Lancashire County Pension Fund 2019/20

Appendix A refers

Contact for further information:

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Executive Summary

The Annual Audit Letter summarises the outcome of the work of the external auditors in 2019/20. It includes the key messages in relation to the financial statements audit and audit opinion, and Value for Money conclusion.

Recommendation

The committee is asked to note the Annual Audit Letter for 2019/20, as set out at Appendix A.

Background and Advice

Paul Dossett, Engagement Lead, will attend the committee to present the report at Appendix A and respond to questions.

Consultations

The reports have been discussed with finance officers of the county council.

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks identified

**Local Government (Access to Information) Act 1985
List of Background Papers**

| Paper | Date | Contact/Tel |
|-------|------|-------------|
| None | | |

Reason for inclusion in Part II, if appropriate

N/A

The Annual Audit Letter for Lancashire County Council

Year ended 31 March 2020

7 April 2021



Appendix A

Contents



Your key Grant Thornton
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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Lancashire County Council (the Council) and its subsidiaries (the group) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit, Risk and Governance Committee as those charged with governance in our Audit Findings Report on 25 January 2021.

Our work

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and group's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

| | |
|---|--|
| Materiality | We determined materiality for the audit of the group's financial statements to be £27.124, which is 1.25% of the group's prior year gross cost of services. |
| Financial Statements opinion | We gave an unqualified opinion on the group's financial statements on 5 March 2021. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings and the property assets of its pension fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year. |
| Whole of Government Accounts (WGA) | We completed work on the Council's consolidation return following guidance issued by the NAO. |
| Use of statutory powers | We did not identify any matters which required us to exercise our additional statutory powers. |

Executive Summary

Value for Money arrangements We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 5 March 2021.

Certificate We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2020 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of a matter brought to our attention by the Authority in 2013. We are satisfied that this matter does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Working with the Council

Restrictions for not essential travel has meant that both Council and audit staff have had to adapt to the challenges of new remote working arrangements to carry out the audit, for example remote accessing financial systems, video calling, physical verification of assets and completeness of accuracy of information produced by the entity.

Meetings have been held virtually using Microsoft teams with Senior Officers, regularly throughout the audit and we have attended the virtual Audit, Risk & Governance Committee meetings throughout the year.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff .

Grant Thornton UK LLP
April 2021

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the group's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group financial statements to be £27.124m, which is 1.25% of the group's prior year gross cost of services. We determined materiality for the audit of the Council's financial statements to be £27.120m, which is 1.25% of the Council's prior year gross cost of services. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration of £0.015m due to the sensitivity of disclosures in this area.

We set a lower threshold of £1.356m, above which we reported errors to the Audit, Risk and Governance Committee in our Audit Findings Report.

Pension Fund Materiality

For the audit of the Lancashire County Pension Fund financial statements, we determined materiality to be £84m, which is 1% of the Fund's net assets. We used this benchmark, as in our view, users of the Pension Fund financial statements are most interested in the value of assets available to fund pension benefits.

We set a lower threshold of £4m, above which we reported errors to the Audit, Risk and Governance Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the group's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|---|---|---|
| <p>Covid- 19</p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:</p> <ul style="list-style-type: none"> - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation; - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates; - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> | <p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation’s ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the groups’ property valuation expert • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations; • evaluated management’s assumptions that underpin the revised financial forecasts and the impact on management’s going concern assessment; • engaged the use of an auditor experts for asset valuations | <p>Our audit work has not identified any issues in respect of the Covid-19 risk.</p> <p>We have drawn the attention of users of the statement of accounts to the inclusion of a material uncertainty regarding the valuation of the Council’s land and buildings by means of an emphasis of matter in our audit opinion.</p> <p>This is as detailed in relation to our response to the significant risk of the valuation of land and buildings.</p> |

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Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|--|--|--|
| <p>Valuation of land buildings and investment property</p> <p>The Council revalues its land and buildings on a rolling three year cycle. Investment properties are revalued annually.</p> <p>These valuations represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally for land and buildings, management will need to ensure the carrying value in the Council and group financial statements is not materially different from the current value or the fair value (for surplus assets and investment property) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings and investment property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> | <p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • Evaluated management’s processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • Evaluated the competence, capabilities and objectivity of the valuation expert; • Discussed with and wrote to the valuer to confirm the basis on which the valuation was carried out; • Engaged our own valuer expert, Wilks Head Eve, to provide commentary on: <ul style="list-style-type: none"> • the instruction process in comparison to requirements from CIPFA, International Financial Reporting Standards (IFRS) and Royal Institution of Chartered Surveyors (RICS) ; and • the valuation methodology and approach, resulting assumptions adopted and any other relevant points; • Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • Created an expectation of valuation movements based upon Gerald Eve market index data and compared to the actual valuation movements recorded; • Tested revaluations made during the year to see if they had been input correctly into the Council’s asset register; and • Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. | <p>The valuer included in their report a material uncertainty paragraph with regards to the movement of property prices and valuations as a result of Covid-19. Given the magnitude of the PPE valuation to the balance sheet and the caveat made by the valuer and disclosed by the Council within note 3 to the financial statements, we will highlight the material uncertainty in our audit report, in an Emphasis of Matter (EOM) paragraph, drawing attention to the disclosure made in the statement of accounts.</p> <p>The EOM paragraph does not qualify the opinion but will refer to the matter of the disclosure on the material uncertainty stated by the Council’s valuer included in the final version of the accounts that, in our judgement, is of such importance that it is fundamental to users’ understanding of the financial statements.</p> |

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|--|--|--|
| <p>Valuation and accounting for the £350 million UK MBA bond loan</p> <p>The Council in March 2020 was the first Council in the UK to secure loan financing through the UK Municipal Bonds Agency (UKMBA). This was an alternative to the current methods of borrowing, for example from the Public Works Loan Board (PWLB) and other local authorities. The Council has provided a sole Council guarantee for the £350 million issue of bonds over the 5 year term. UKMBA are the issuer of the Bond and it is listed on the London Stock Exchange. Management need to consider the terms of the agreement of these loans and make judgements as to the appropriate accounting and disclosure treatment.</p> | <p>As part of our audit work we have:</p> <ul style="list-style-type: none"> assessed management's processes and assumptions for identifying critical judgements discussed with management the basis on which the valuation and accounting was carried out, including advice received from treasury management advisers and legal advisors considered the governance framework in relation to the Bond financing reviewed the accounting and narrative disclosures within the financial statements in relation to the loan including the Narrative Report. | <p>Our audit work has not identified any issues in respect of this risk.</p> |
| <p>Management override of controls</p> <p>Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for the group, which was one of the most significant assessed risks of material misstatement.</p> | <p>As part of our audit work we have:</p> <ul style="list-style-type: none"> Evaluated the design effectiveness of management controls over journals; Analysed the journals listing and determined the criteria for selecting high risk and unusual journals; Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration, and considered the impact of IT control weaknesses within this testing; Gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. | <p>Our audit work has not identified any issues in respect of this risk.</p> |
| <p>Revenue recognition</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> | <p>We rebutted the risk at the planning stage of our audit. No circumstances arose that indicated we would need to reconsider this judgement.</p> | <p>Our audit work has not identified any issues in respect of this risk.</p> |

Audit of the Financial Statements

Pension Fund Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|---|---|---|
| <p>Covid-19</p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation, and the reliability of evidence we can obtain to corroborate management estimates for instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification of the instruments if trading may have reduced to such an extent that quoted prices are not readily and regularly available and therefore do not represent actual and regularly occurring market transactions. whilst the nature of the Fund and its funding position (i.e. not in a winding up position or no cessation event) means the going concern basis of preparation remains appropriate, management may need to consider whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> | <p>As part of our audit work we:</p> <ul style="list-style-type: none"> worked with management to understand the implications the response to the Covid-19 pandemic had on the Fund's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise considered the Fund's latest risk register to identify risks arising from Covid-19 evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic including management's assessment of the impact of Covid-19 upon employer covenants and forecast cashflows evaluated whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely evaluated whether sufficient audit evidence can be obtained to corroborate management's fair value hierarchy disclosure evaluated whether sufficient audit evidence can be obtained to corroborate significant management estimates such as Level 3 asset valuations, including direct property, and discussed with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence. | <p>Our audit work has not identified any issues in respect of the Covid-19 risk.</p> <p>We have drawn the attention of users of the statement of accounts to the inclusion of a material uncertainty regarding the valuation of the Fund's directly held property by means of an emphasis of matter in our audit opinion. This is as detailed in relation to our response to the significant risk of the valuation of level 3 pooled and level 2 directly held investment properties.</p> |

Audit of the Financial Statements

Pension Fund Significant Audit Risks (continued)

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|--|--|--|
| <p>Management override of internal controls</p> <p>Under ISA (UK) 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities. The auditing standards do not allow this presumption to be rebutted by the auditor.</p> <p>We therefore identified management over-ride of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> | <p>As part of our audit work we:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence, • gained an understanding of the control environment in the pool Local Pensions Partnership (LPP) from the internal audit reporting during the year, and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. | <p>Our audit work has not identified any issues in respect of management override of controls.</p> |

Audit of the Financial Statements

Pension Fund Significant Audit Risks (continued)

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|--|--|---|
| <p>Valuation of level 3 investments The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.</p> <p>By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2020.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> | <p>As part of our audit work we:</p> <ul style="list-style-type: none"> evaluated management's processes for valuing Level 3 investments reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2020 with reference to known movements in the intervening period where available reviewed investment manager service auditor report on design effectiveness of internal controls reviewed any transfers to the Pool for any level 3 investments during the year | <p>Our audit work has not identified any issues in respect of the risks relating to the valuation of Level 3 investments as at 31 March 2020.</p> |

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the group's financial statements on 5 March 2021.

Preparation of the financial statements

The group presented us with draft financial statements in July 2020 in accordance with the agreed timescale, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the group's Audit, Risk and Governance Committee on 19 October 2020, with a follow up report at the 25 January 2021 Committee meeting.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website alongside the draft Statement of Accounts in July 2020.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO . We issued an assurance statement which did not identify any issues for the group auditor to consider on 5 March 2021.

Pension fund accounts

We gave an unqualified opinion on the pension fund accounts of Lancashire County Pension Fund on 5 March 2021. We also reported the key issues from our audit of the pension fund accounts to the Council's Audit, Risk and Governance Committee on 19 October 2020 and updated them on 25 January.

We did not identify any significant issues or adjustments during our audit.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We did not use any of these additional powers during 2019-20.

Certificate of closure of the audit

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2020 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of a matter brought to our attention by the Authority in 2013. We are satisfied that this matter does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

Overall, due to the significant level of reserves held by the Council, it is likely one of the better placed authorities to survive the challenges faced in respect of local government finances and the financial impact of Covid-19. We believe the significant risk of financial sustainability is mitigated.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Value for Money conclusion

Value for Money Risks

| Risks identified in our audit plan | How we responded to the risk |
|---|---|
| <p>Financial sustainability</p> <p>The Council's Medium-Term Financial Strategy (MTFS) 2020/21 to 2023/24 updated in February 2020, shows a cumulative funding gap between 2021/22 and 2023/24 of £33 million. The funding gap assumes that significant savings identified of £120 million are delivered over the period of the MTFS.</p> <p>Significant savings plans have been in place at the Council, and the reliance upon reserves to balance the budget has decreased since 2018/19. The Council's 2019/20 budget required £10 million from reserves. The 2020/21 budget assumes a nil call on reserves. The 19/20 financial year ended with an underspend of £1.7m.</p> <p>The need to deliver the agreed savings and close the funding gap in the MTFS, represents a significant challenge for the Council.</p> <p>The implications of the Covid-19 pandemic on the Council in terms of the financial impact and the savings are currently being reviewed. We will particularly focus on the impact of Covid-19 on the 2020/21 budget and beyond.. To date the Council has received £56m in emergency support from Government . A further funding package was announced in July 2020 to support income losses, but the precise details of how it impacts on the Council will need to be worked through.</p> <p>We will review the Council's arrangements for updating, agreeing and monitoring its financial plans including the assumptions within them. This will include the consideration of Brexit in the Council's planning processes. We will also consider the arrangements in place to monitor the identification, pace, delivery and reporting of savings. This work is part of the sustainable resource deployment sub-criteria.</p> | <p>2019/20 Financial outturn</p> <p>In a year where March saw the outbreak of the Covid-19 pandemic, the Council has performed well to achieve a breakeven position for its service area budgets. The Council responded to the pandemic situation quickly, making critical decisions in response to constantly moving government guidance. With only 2 weeks remaining of the 2019/20 financial year with the outbreak of the pandemic, impact on the financial outturn was minimised for 2019/20 but there will be a larger impact on 2020/21.</p> <p>The outturn for 2019/20 highlights the effective management action taken to address the pressures throughout the year. The final position at the end of the year is net expenditure of £800.5m, which represents an in-year underspend of £1.7m (0.22% of the revenue budget). The revenue position includes a level of support from reserves that had previously been agreed (£10.2m) which covered the funding gap, and if this support had not been available then expenditure would have exceeded income by £8.5m.</p> <p>The most significant areas of over and underspend in 2019/20 were Adult Social Care which had a £24.930m overspend (7.2%), primarily as a result of under delivery of savings and financial support being provided to two of the local Clinical Commissioning Groups (CCGs). This was largely offset by the £22.888m underspend within Treasury management due to the gains arising from the sale of gilts and bonds resulting from the significant volatility of the market.</p> <p>2020/21 Budget and beyond</p> <p>The Council's Medium-Term Financial Strategy, set in 2019/20, covering the period 2020/21 to 2023/24, was based on a number of assumptions due to the ongoing and unprecedented uncertainty in relation to future local government funding – after review of the key assumptions the “most likely” scenario was adopted within the MTFS. The overall position over the 4-year period indicates a structural deficit of £33.312m by 2023/24, which varies in size over each of the 4 years of the forecast. Alongside this, the agreed 2020/21 budget did not include any use of reserves, and so following commitments of £2.9m, this would leave a forecast of circa £150m available within the Transitional Reserve to support the financial gap in 2021/22 and beyond.</p> <p>Our initial review of the key assumptions adopted for the MTFS and the process adopted by the Council found that the approach adopted by the Council was reasonable and that prudence was applied in the adoption of the assumptions. However, as a result of the pandemic it is expected that service departments will experience income and expenditure pressures in 2020/21 and beyond. The magnitude of the pressures will depend on the severity and length of the pandemic.</p> |

Value for Money conclusion

Value for Money Risks - continued

| Risks identified in our audit plan | How we responded to the risk |
|--|--|
| <p>Financial sustainability</p> | <p>2020/21 Budget and beyond – continued</p> <p>The Council provided a financial impact assessment of Covid-19 to the August Cabinet meeting and has since updated the assumptions within the MTFS to account for the impact of Covid-19 based on the best available information to date. This provided an update to the previous MTFS (from Feb 2020) which showed a deficit of £38.4m in 2023/24. The forecast now indicates a financial deficit of £79.3m by 2023/24 as a result of adjusting the forecast for the impact of Covid-19 and updated assumptions.</p> <p>The main reasons for the changes to the position are as follows:</p> <ul style="list-style-type: none"> • The current forecast collection fund deficit of £30m for 2020/21 which, after the Local Government Secretary announcement on the 2nd July of a proposal for a phased repayment of council tax and business rates deficits over 3 years, leads to an in-year pressure of £10m for each of years.. • Removal of the historic collection fund surplus forecast of £3.75m per annum. • An assumed zero tax base increase for 2021/22 as a result of Covid related disruption to housing development with consequent decrease in funding available of £9m. With pre-Covid growth of 1.7% per annum assumed thereafter. • The reflection of the latest Office for Budget Responsibility forecast for the increase in National Living Wage which has an impact on the cost of provision of commissioned adult social care. • Following a review of current activity, updated demand and volume assumptions in line with Office for National Statistics (ONS) population statistics. • The pay award for 2020/21 likely to be agreed at higher than the 2% budgeted level. <p>The overall position over the 3-year period indicates a structural deficit of £52.2m in 2021/22 rising to an aggregated deficit of £79.3m by 2023/24, assuming no additional government financial support in those years.</p> <p>The ongoing financial pressures suggest that without significant high-level intervention as a result of the recently announced Comprehensive Spending Review, action will need to be taken to reduce net expenditure to meet the potential funding gap for 2021/22 and beyond. To address the forecast pressure officers, working with partners, are developing an evidence base and narrative to influence the forthcoming Comprehensive Spending Review. The Council will also be looking to maximise efficiencies across services and commence work to identify potential savings given that the Spending Review is being conducted amid the extreme financial uncertainties driven by the continue impact of the Covid 19 pandemic.</p> |

Value for Money conclusion

Value for Money Risks - continued

| Risks identified in our audit plan | How we responded to the risk |
|--|---|
| <p>Financial sustainability</p> | <p>2020/21 Budget and beyond – continued</p> <p>The Council continues to maintain reserve levels much above those of its peers, but it is recognised that of the £467m total useable reserves, £134m relates to reserves built up to help to finance the Council’s capital expenditure plans. Further, the County Fund is maintained at 3% of the net budget and is set aside to cover the authority against a serious emergency situation (e.g., widespread flooding); a critical and unexpected loss of income to the authority and for general cash flow purposes. The main reserve held by the Council for the purpose of supporting forecast funding shortfalls in future year budgets is the Transitional reserve which was £151m as at 31 March 2020 and is forecast to be sufficient to meet the identified funding gaps for financial years 2021/22, 2022/23 and partway through 2023/24. However, the Council must carefully consider the use of its reserves to support revenue shortfalls as it is a non-recurrent source of funding and use of reserves on a large-scale risks creating structural overspends if the Council’s finances do not recover quickly and income is reduced long term.</p> <p>From an audit point of view, the Council has managed its revenue reserves in a way that makes it better placed than most councils to survive the challenges of the Covid-19 pandemic from a financial perspective. This prudent approach to reserves must be continued to address the risk of future pandemics, recessions and other issues or events that may impact on the Council’s financial sustainability.</p> |

CONCLUSION

Auditor view

Overall, due to the significant level of reserves held by the Council, it is likely one of the better placed authorities to survive the challenges faced in respect of local government finances and the financial impact of Covid-19. We believe the significant risk of financial sustainability is mitigated.

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Reports issued

| Report | Date issued |
|-----------------------|-------------------------------------|
| Audit Plan | 27 July 2020 |
| Audit Findings Report | 19 October 2020 and 25 January 2021 |
| Annual Audit Letter | 26 April 2021 |

Fees

| | Planned £ | Actual fees £ | 2018/19 fees £ |
|-----------------------|----------------|---------------------|----------------------|
| Statutory audit | 111,856 | 128,356 | 96,006 |
| Audit of Pension Fund | 31,310 | 36,000 | 27,810 |
| Total fees | 143,166 | 164,356 | 123,816 |

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £113,316 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Fee variations are subject to PSAA approval.

| Area | Reason | Fee proposed |
|--|--|---------------|
| Pensions – IAS 19 | The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this. | 3,500 |
| PPE Valuation – work of experts | As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this. | 9,350 |
| Increased FRC challenge and reduced materiality | The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity. We have also reduced the materiality level, reflecting the higher profile of local audit. This will entail increased scoping and sampling. | 7,500 |
| Covid 19 – Additional Risk | We have added a new significant risk for Covid-19 and are required to do additional work as a result. | 2,500 |
| New £350 million bond with UKMBA | Note that PSAA's original scale fee for this contract was set in March 2018, since that time the Council has entered a bond in March 2020 with UK MBA and additional work will be required for the valuation and disclosure requirements in the financial statements. | 2,000 |
| Impact of Covid-19 | The impact of Covid-19 on the audit of the financial statements includes increased review of management's assumptions and estimates; Increased work on the Council's financial resilience assessment, and remote working - we have needed to put additional resources into the audit. | 16,500 |
| Total | | 24,850 |
| PF - Impact of Covid-19 | As detailed above for the Pension Fund audit also. | 4,690 |
| Other PF adjustments to scale fee | FRC Challenge, Valuation of Level 3 investments, Valuation of Directly held property and additional covid-19 significant risk. | 5,000 |
| Total - PF | | 9,690 |

A. Reports issued and fees continued

Fees for non-audit services

| Service | Fees £ |
|--|--------|
| Audit related services | 6,000 |
| - Agreed upon procedures report – Teachers' Pension return | |
| Non-Audit related services | |
| - IAS 19 Assurance letters to other auditors | 15,750 |
| - CFO insights subscription | 9,000 |

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the group's policy on the allotment of non-audit work to your auditor.



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Audit, Risk and Governance Committee

Meeting to be held on Monday, 26 April 2021

| |
|-------------------------------------|
| Electoral Division affected: N/A |
|-------------------------------------|

External Audit - Audit Progress Report and Sector Update 2020/21

Appendix A refers

Contact for further information:

Paul Dossett, Partner, Grant Thornton UK LLP, Tel: (0)20 7728 3180,

Paul.Dossett@uk.gt.com

Executive Summary

The External Audit - Audit Progress Report and Sector Update 2020/21 at April 2021 is set out at Appendix A for the committee's consideration.

Recommendation

The committee is asked to note the Audit Progress Report and Sector Update 2020/21 at April 2021 as set out at Appendix A

Background and Advice

This report provides an update including our proposed timescales for the audit of the 2020/21 statement of accounts and the Value for Money conclusion. The outcome of the work will be reported to the Audit, Risk and Governance Committee's meeting in October 2021.

The report also provides additional information on sector developments to members of the committee as those charged with governance for the county council.

Paul Dossett, Engagement Lead, will attend the meeting to present the report at Appendix A and respond to questions.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

Local Government (Access to Information) Act 1985 List of Background Papers

| Paper | Date | Contact/Tel |
|-------|------|-------------|
| None | | |

Reason for inclusion in Part II, if appropriate

N/A

Lancashire County Council Audit Progress Report and Sector Update

Year ending 31 March 2021

9 April 2021



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| Progress at April 2021 | 4 |
| Audit Deliverables | 6 |
| Sector Update | 7 |

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

Your key Grant Thornton team members are:



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This paper provides the Audit, Risk & Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a Council; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit, Risk & Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk ..

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or your Engagement Manager.

Progress at April 2021

Financial Statements Audit

We have undertaken our initial planning for the 2020/21 audit in March – April 2021. We expect to begin our work on your draft financial statements in July .

Our interim fieldwork included:

- Updating our understanding of the Council’s control environment
- Updating our understanding of financial systems
- Review of the results of any Internal Audit work in the year
- Understanding how the Council’s makes material estimates for the financial statements for both the Group and the Council
- Early work on emerging accounting issues

The detailed audit plan, setting out our proposed approach to the audit of the Group and the Council’s 2020/21 financial statements is attached as a separate item to this agenda.

We will report our work in the Audit Findings Report and currently aim to give our opinion on the Statement of Accounts in September 2021.

2019/20 Audit

We were unable to complete the certification of the audit for 2019/20. We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of a matter brought to our attention by the Authority in 2013.

Value for Money

The new Code of Audit Practice (the “Code”) came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code is the introduction of an Auditor’s Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and will make more impact.

Before beginning work, we will discuss with you:

- Timing
- Resourcing
- Fees

We communicated the details of the new value for money approach in our progress report to the Audit Committee on 25th January 2021. Further details are provided in slides 8-10.

Progress at April 2021 (cont.)

Other areas

Certification of claims and returns

We certify the Authority's annual Teachers' Pensions' return. We certified the return for the 2019/20 year on 18 November 2020, in advance of the 30th November national deadline.

The certification work for the 2020/21 return has not yet begun.

Meetings

We meet with Finance Officers on a monthly basis and have also had several meetings with Finance Officers throughout our planning work to discuss the programme of work and any emerging issues.

We continue to liaise on key audit matters such as estimates and in particular, the key estimates attributed to the valuation of property, plant and equipment and have attended a meeting with the Council's finance team discuss the valuation approach for both the Group and Council assets.

Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers attended our Financial Reporting Workshop in February, which helped to ensure that members of your Finance Team were up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

| 2020/21 Deliverables | Planned Date | Status |
|--|----------------|-------------|
| <p data-bbox="120 408 264 437">Audit Plan</p> <p data-bbox="120 456 1424 560">We are required to issue a detailed audit plan to the Audit, Risk & Governance Committee setting out our proposed approach in order to give an opinion on the Authority's 2020/21 financial statements and the Auditor's Annual Report on the Authority's Value for Money arrangements.</p> | April 2021 | Complete |
| <p data-bbox="120 584 450 612">Interim Progress Report</p> <p data-bbox="120 632 1384 695">We will report the results of our planning and interim work to the 26 July Audit, Risk & Governance Committee.</p> | July 2021 | Not yet due |
| <p data-bbox="120 727 421 756">Audit Findings Report</p> <p data-bbox="120 775 1368 847">The Audit Findings Report will be reported to the September Audit, Risk & Governance Committee (TBC).</p> | September 2021 | Not yet due |
| <p data-bbox="120 871 338 900">Auditors Report</p> <p data-bbox="120 919 734 951">This is the opinion on your financial statements.</p> | September 2021 | Not yet due |
| <p data-bbox="120 983 450 1011">Auditor's Annual Report</p> <p data-bbox="120 1031 1155 1062">This Report communicates the key issues arising from our Value for Money work.</p> | September 2021 | Not yet due |

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

A teal rectangular button with the text "Public Sector" in white, sans-serif font, centered within the button.

Public Sector

A dark purple rectangular button with the text "Local government" in white, sans-serif font, centered within the button.

Local
government

Lessons from recent Public Interest Reports – Grant Thornton

2020 will be remembered as a tumultuous year in local government. The Covid-19 pandemic highlighted four essential factors we probably always knew about local government, have often said, but which are now much better evidenced:

1 Local government has provided fantastic support to its communities in working with the NHS and other partners to deal with the multifaceted challenges of the pandemic.

2 Britain's long centralised approach to government has been exposed to some degree in terms of its agility to tailor pandemic responses to regional and local bodies. This is recognised by the current government who continue to pursue the options for devolution of powers to local bodies. Track and Trace delivered centrally has not been as successful as anticipated and, according to government figures, local interventions have had more impact.

3 Years of reduced funding from central government have exposed the underlying flaws in the local authority business model, with too much reliance on generating additional income.

4 Not all authorities exercise appropriate care with public money; not all authorities exercise appropriate governance; and not all authorities have the capability of managing risk, both short and long term. Optimism bias has been baked into too many councils' medium-term plans.

The Public Interest Reports (PIRs) at Nottingham City Council (August 2020), the London Borough of Croydon (October 2020), and Northampton Borough Council (January 2021) were the first issued since 2016. All three are clear illustrations of some of the local government issues identified above. The audit reports are

comprehensive and wide-ranging and a lesson for all local authorities. There are some quotes that seem particularly apposite for all councils to consider. Local authorities have a variety of different governance models which range from elected mayor to the cabinet and a scrutiny system approach, while others have moved back to committee systems. Arguments can be made both for and against all of these models. However, in the recent PIR cases, and for many other councils, it is less about the system of governance and more about how it operates, who operates it and how willing they are to accept scrutiny and challenge.

There are a number of lessons to be learned from the recent PIR reports and these can be broken down into three key areas which are explored further in our report:

- 1 The context of local government in a Covid-19 world
- 2 Governance, scrutiny, and culture
- 3 Council leadership

[Lessons from Public Interest Reports \(grantthornton.co.uk\)](https://www.grantthornton.co.uk)



The new approach to Value for Money

The nature of value for money work

Section 20 and 21 of the Local Audit and Accountability Act 2014 (the Act), require auditors to be satisfied that the body “has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources”. The auditor’s work on VFM arrangements is undertaken in accordance with the Code and its supporting statutory guidance. The Comptroller and Auditor General has determined through the 2020 Code and guidance that the key output from local audit work in respect of VFM arrangements is the commentary as reported in the Auditor’s Annual Report. It is therefore not a VFM arrangements ‘conclusion’ or an ‘opinion’ in the same sense as the opinion on the financial statements themselves. The Act and the Code require auditors to consider whether the body has put in place ‘proper arrangements’ for securing VFM. The arrangements that fall within the scope of ‘proper arrangements’ are set out in ‘AGN 03 Auditors’ work on VFM arrangements’, which is issued by the NAO. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria:

Financial sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services, including how the body:

- ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- plans to bridge its funding gaps and identifies achievable savings;
- plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;

- ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and
- identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

Governance

How the body ensures that it makes informed decisions and properly manages its risks, including how the body:

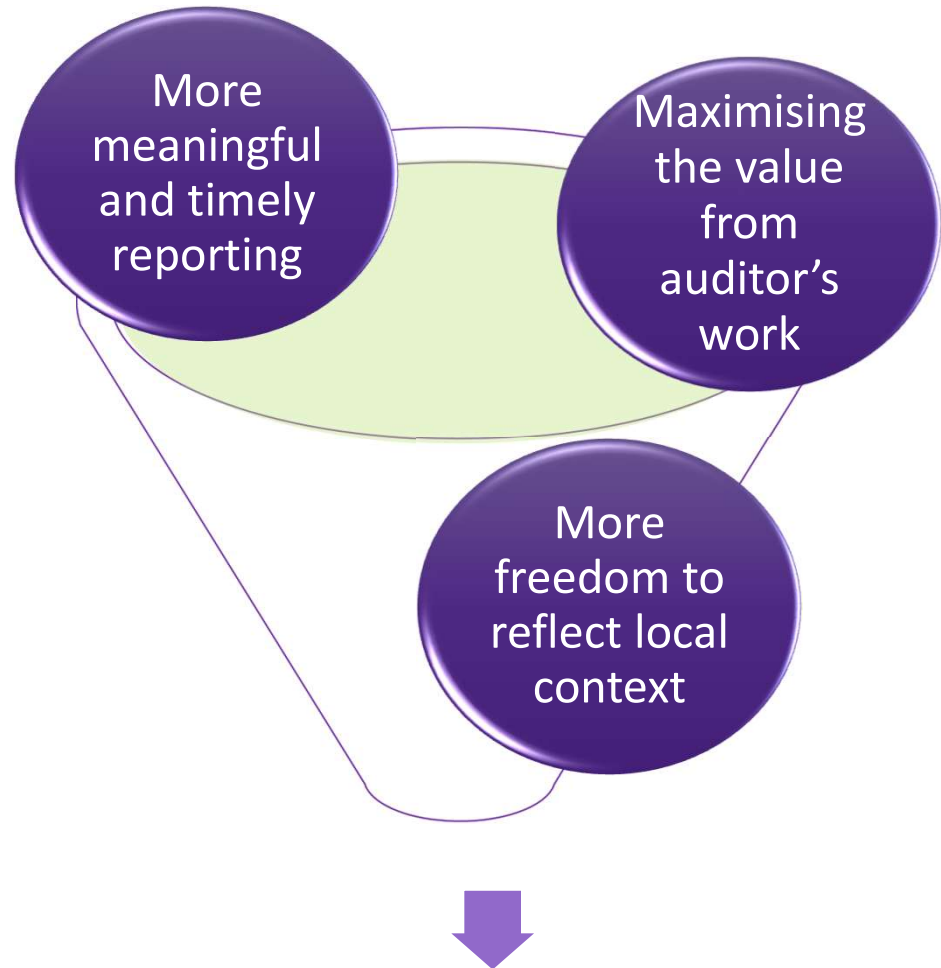
- monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- approaches and carries out its annual budget setting process;
- ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee; and
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

The new approach to Value for Money

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services, including:

- how financial and performance information has been used to assess performance to identify areas for improvement;
- how the body evaluates the services it provides to assess performance and identify areas for improvement;
- how the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve; and
- where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.



VFM arrangements commentary and recommendations

The new approach to Value for Money

The table below details what will be reported in the Auditor's Annual Report:

| Section of report | Content |
|--|--|
| Commentary on arrangements | An explanation of the VFM work that has been undertaken during the year, including the risk assessment and any further risk-based work. It will also highlight any significant weaknesses that have been identified and brought to the body's attention. The commentary will allow auditors to better reflect local context and draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the body itself. |
| Recommendations | Where an auditor concludes that there is a significant weakness in a body's arrangements, they report this to the body and support it with a recommendation for improvement. |
| Progress in implementing recommendations | Where an auditor has reported significant weaknesses in arrangements in the previous year, the auditor should follow up recommendations issued previously and include their view as to whether the recommendations have been implemented satisfactorily. |
| Use of additional powers | Where an auditor uses additional powers, such as making statutory recommendations or issuing a public interest report, this should be reported in the auditor's annual report. |
| Opinion on the financial statements | The auditor's annual report also needs to summarise the results of the auditor's work on the financial statements. |

The table below details the three types of recommendations that auditors can make. Auditors may make recommendations at any time during the year.

| Type of recommendation | Definition |
|----------------------------|--|
| Statutory recommendation | Where auditors make written recommendations to the body under Section 24 and Schedule 7 of the Local Audit and Accountability Act 2014. A recommendation of this type requires the body to discuss and respond publicly to the report. |
| Key recommendation | Where auditors identify significant weaknesses in a body's arrangements for securing value for money, they have to make recommendations setting out the actions that the body should take to address them |
| Improvement recommendation | Where auditors do not identify a significant weakness in the body's arrangements, but still wish to make recommendations about how the body's arrangements can be improved |

Insight into accounting for grants in local government financial statements – Grant Thornton

The government has provided a range of financial support packages throughout the COVID-19 pandemic.

We have issued a brief bulletin aimed at helping local government bodies identify the key things they should consider when determining the accounting treatment for these grants in their financial statements for 2020/21.

There are no changes to the accounting treatment for grants as required by the CIPFA Code of Practice on Local Authority Accounting. What has changed, is the extent of additional funding to support the cost of services, to offset other income losses along with grant packages to be paid out to support local business. Local authorities need to consider the nature and terms of the various COVID-19 measures in order to determine whether there is income and expenditure to be recognised in the Comprehensive Income and Expenditure Statement in 2020/21.

The report highlights the factors to consider, including:

- Where the funding is to be transferred to other parties, is the authority acting as principal or as agent?
- Are there grant conditions outstanding?
- Is the grant a specific or non-specific grant?

Our bulletin provides you with links to further information on the various support packages and summarises features that may be relevant to your judgements as you determine the appropriate accounting treatment.

Local authorities need to demonstrate their judgements on the accounting treatment to be reasonable and soundly based and, where these have a significant effect on the accounts, to ensure they include sufficient disclosures to meet the requirements of IAS 1:122.

Please ask your audit manager for the full report:



Local government finance in the pandemic – National Audit Office

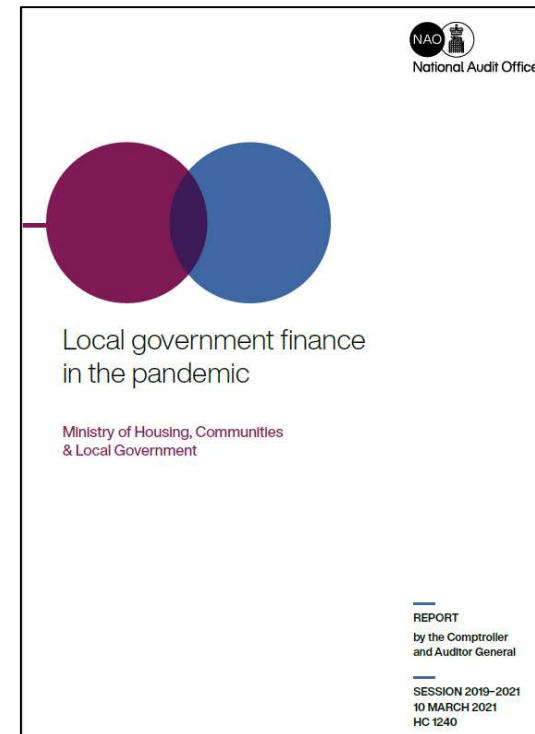
The National Audit Office (NAO) report, published in March, notes “The COVID-19 pandemic has been an unprecedented public health and economic emergency. Local authorities in England have made a major contribution to the national response to the pandemic, working to protect local communities and businesses, while continuing to deliver existing services. The pandemic has in turn placed significant pressure on local authorities’ finances, which in many cases were already under strain going into the pandemic.”

The NAO report examines if the Department’s approach to local government finance in the COVID-19 pandemic enabled it to assess and fund the costs of new services which local authorities have been asked to deliver. It also examines whether the Department fulfilled its responsibilities in securing financial sustainability across the sector.

The NAO report concludes “Steps taken by the government, led by the Department, have supported local authorities in the COVID-19 pandemic response. The Department’s successful monthly collection of data and continued intensive engagement with the sector provided a good evidence base to underpin the financial and other support provided by government. Action by the Department and wider government to support the sector has averted system-wide financial failure at a very challenging time and means that the Department has managed the most severe risks to value for money in the short term.

However, the financial position of local government remains a cause for concern. Many authorities will be relying on reserves to balance their 2020-21 year-end budgets. Despite continuing support into 2021-22 the outlook for next year is uncertain. Many authorities are setting budgets for 2021-22 in which they have limited confidence, and which are balanced through cuts to service budgets and the use of reserves.”

The NAO report found that “the combined impact on spending and non-tax income in 2020-21 is £9.7bn – equivalent to 17.6% of revenue expenditure. So far the government has announced £9.1bn of financial support, leaving a deficit of £605m.”



The full report can be obtained from the NAO website:

[Local government finance in the pandemic - National Audit Office \(NAO\) Report](#)

Good practice in annual reporting – National Audit Office

The National Audit Office (NAO) state that the guide, launched in February, “Sets out our good practice principles for good annual reporting and provides illustrative examples taken from public sector organisations who are leading the way in this area.”

The guide draws on examples of good practice from within each of the six sections of an Annual Report:

- Strategy
- Risk
- Operations
- Governance
- Measures of success
- Financial performance

The NAO also state that the guide “provides further examples where bodies have made their context more understandable to the reader through use of graphics and clear language and signposting.”

However, The NAO observe “Done well, reporting in the public sector enables the public and Parliament to understand – with ease and confidence – an organisation’s strategy and the risks it faces, how much taxpayers’ money has been spent and on what, and what has been achieved as a result.”

Further, the NAO note “The significant impacts of the pandemic emerged in the UK in mid-March 2020. This means that, for many organisations, the reporting impact will be greater in 2020-21 than in the prior year. Transparent annual reporting will help stakeholders understand the impact of COVID-19 on an organisation’s strategy, plans and operational and financial performance.”



The full report can be obtained from the NAO website:

<https://www.nao.org.uk/report/good-practice-in-annual-reports-february-2021/>

2019/20 audited accounts – Public Sector Audit Appointments

In December 2020 Public Sector Audit Appointments (PSAA) published figures relating to the audit of 2019/20 local authority financial statements.

PSAA report “Audit arrangements in local councils, police, fire and other local government bodies are continuing to exhibit signs of stress and difficulty. In the latest audit round, focusing on 2019/20 financial statements and value for money arrangements, fewer than 50% of bodies’ audits were completed by the revised target of 30 November.

Figures compiled by PSAA, the organisation responsible for appointing auditors to 478 local bodies, reveal that 55% (265) of audit opinions were not issued by 30 November. This is a further deterioration on 2018/19 audits when 43% of opinions (210 out of 486) were delayed beyond the then target timetable of 31 July.

This year’s timetable has been deliberately eased by Ministers in recognition of the underlying pressures on the audit process and the significant added complications arising from the Covid-19 pandemic. The pandemic has posed practical challenges for bodies in producing accounts and working papers, and for auditors to carry out their testing. Both sets of staff have had to work remotely throughout the period, and the second national lockdown came at a critical point in the cycle.

Questions and concerns about the potential implications of the pandemic for some bodies have meant that both finance staff and auditors have needed to pay particular attention to the financial position of each entity. Additionally, following a series of increasingly challenging regulatory reviews, auditors have arguably been more focused than ever on their professional duty to give their opinion only when they are satisfied that they have sufficient assurance.”



The news article can be found here:

[News release: 2019/20 audited accounts – PSAA](#)

CIPFA Financial Resilience Index

The Chartered Institute of Public Finance & Accountancy's (CIPFA) Financial Resilience Index is a comparative tool designed to provide analysis on resilience and risk and support good financial management.

CIPFA note "CIPFA's Financial Resilience Index is a comparative analytical tool that may be used by Chief Financial Officers to support good financial management, providing a common understanding within a council of their financial position.

The Index shows a council's position on a range of measures associated with financial risk. The selection of indicators has been informed by extensive financial resilience work undertaken by CIPFA over the past five seven years, public consultation and technical stakeholder engagement.

Section 151 officers may also use the index in their annual report to the council setting out the proposed budget for the year and medium-term financial strategy.

While the impact of COVID-19 resulted in a delay to the publication of the index, it is still able to provide a comprehensive pre-COVID baseline, illustrating the financial resilience of authorities as they entered the pandemic."

CIPFA found that "there was a real-terms reduction of £800m in the level of reserves in 2020 compared with the previous year. At the end of March 2020 council reserves levels stood at £24.6bn, around 3% lower than £25.4bn recorded at the same period in 2019."

CIPFA note "The index is made up of a set of indicators. These indicators take publicly available data and compare similar authorities across a range of factors. There is no single overall indicator of financial risk, so the index instead highlights areas where additional scrutiny should take place in order to provide additional assurance. This additional scrutiny should be accompanied by a narrative to place the indicator into context."



The Financial Resilience tool is available on the CIPFA website below:

<https://www.cipfa.org/services/financial-resilience-index-2021?crdm=0>



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Audit, Risk and Governance Committee

Meeting to be held on Monday, 26 April 2021

| |
|-------------------------------------|
| Electoral Division affected: N/A |
|-------------------------------------|

External Audit – Lancashire County Council Audit Plan 2020/21

Appendix A refers

Contact for further information:

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Executive Summary

Appendix A to this report sets out the Lancashire County Council Audit Plan provided by the council's external auditors, Grant Thornton, for the year ending 31 March 2021.

The auditors are required to perform the audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office.

Recommendation

The committee is asked to note the Lancashire County Council Audit Plan for 2020/21, as presented, and raise any issues, clarifications, and questions with the external auditor.

Background and Advice

External Audit provides assurance as to the effectiveness of the council's accounting and financial management arrangements and through these supports the council in its work to deliver its priorities and objectives.

The Audit, Risk and Governance Committee has a key role to ensure control and risk management arrangements are effective and this report is made consistent with that responsibility.

The Lancashire County Council Audit Plan sets out a number of areas for the committee's consideration, including the approach to the audit, the concept of materiality, risks, value for money and key dates.

Consultations

The reports have been discussed with finance officers of the county council.

Implications:

This item has the following implications, as indicated:

Risk management

External audit is a statutory function required by the Local Audit and Accountability Act 2014. The audited accounts are required by to be published by 30 September 2021.

Local Government (Access to Information) Act 1985

List of Background Papers

| Paper | Date | Contact/Tel |
|-------|------|-------------|
| None | | |

Reason for inclusion in Part II, if appropriate

N/A

Lancashire County Council Audit Plan

Year ending 31 March 2021

Annual Audit Plan

09 April 2020



Contents



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Key matters

Factors

Council developments

We have continued to hold regular meetings with the senior finance team at the Council. During these meetings we discuss a range of key issues regarding the Council's general developments, current and projected financial performance, governance issues and regulatory oversight.

At the time of producing this Plan, the Council is projecting a year-end budget surplus of circa £4m. The Council has also updated its Medium Term Financial Strategy (MTFS), based upon latest funding assumptions from the Local Government Funding Settlement and the approved 2021/22 Budget. The Latest MTFS forecasts a funding gap for 2021/22 is £2.319m, with an updated aggregated funding gap of £53.956m by 2023/24. This is a reduction of £24.835m from the previously reported MTFS in November 2020.

Impact of Covid 19 pandemic

The Covid-19 pandemic has impacted upon all of our lives. While there has been some relaxation of 'business as usual' arrangements, public sector bodies are still required to abide by the stewardship requirements of Managing public money and have a statutory duty to carry out their functions effectively, efficiently and economically.

The outbreak of the coronavirus (Covid-19) pandemic has had a significant impact on the normal operations of the Council. The Council has had to work differently at all levels to be able to deliver all of its required services effectively. Staff have been redeployed to front-line roles and new/revised services have been required to be provided by the Council.

The government has provided a range of financial support packages throughout the COVID-19 pandemic. These include additional funding to support the cost of services or offset other income losses and also grant packages to be paid out to support local businesses.

Our assessment is that the Council has developed a very strong understanding of its financial and wider governance risks during the pandemic and, despite future financial uncertainty about medium term government funding, is well placed to address post Covid 19 challenges.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Director of Finance.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- As part of our 2019-20 Audit Findings Report, we identified two recommendations for management. An update on the implementation of the recommendations can be found on page 12.
- We will continue to provide you with sector updates via our Audit, Risk & Governance Committee updates.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of control and fraud in expenditure recognition- refer to page 6.
- The Council's valuer reported a material uncertainty in regards to the valuation of properties in 2019/20 due to the Covid 19 pandemic. We identified a significant risk in regards to the valuation of properties - refer to page 7.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Lancashire County Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Lancashire County Council. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit, Risk & Governance Committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit, Risk and Governance Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of all material subsidiaries. For 2020-21 this is expected to only include Lancashire County Developments Limited.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Valuation of Land & Buildings and Investment Property
- Valuation of the Pension Fund Net Liability
- ISA 240 Improper Expenditure Recognition

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £28.134m (PY £27.124m) for the group and £28.108m (PY £27.120m) for the Council, which equates to 1.25% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1.405m (PY £1.356m).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has not identified any risks of significant weaknesses. Pages 14 and 15 outline the revised approach for 2020-21 and the additional work which we are required to perform and report upon.

Audit logistics

Our interim visit will take place in March 2021 and our final visit will take place in July-September 2021. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £142,356 (PY: £128,356) for the Council, subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

| Component | Individually Significant? | Level of response required under ISA (UK) 600 | Risks identified | Planned audit approach |
|--|---------------------------|---|---|--|
| Lancashire County Council | Yes | | <ul style="list-style-type: none"> See page 6 onwards | Full scope audit performed by Grant Thornton UK LLP |
| Lancashire County Developments Limited | Yes | | <ul style="list-style-type: none"> See page 6 onwards – Group risks are management override of controls and Valuation of Investment Properties | <p>Assurance over specific group risks of management override of controls and Valuation of Investment Properties to be performed by the component auditor Beever & Struthers.</p> <p>The nature, time and extent of our involvement in the work of Beever and Struthers will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the Beever and Struthers audit documentation and meeting with appropriate members of management.</p> |

Key changes within the group:

We are not aware of any key changes in the group during 2020/21

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

| Risk | Risk relates to | Reason for risk identification | Key aspects of our proposed response to the risk |
|--|-------------------|---|--|
| ISA 240 improper expenditure recognition | Council | <p>Under ISA (UK) 240 there is a rebuttable presumed risk that expenditure may be misstated due to the improper recognition of expenditure.</p> <p>Whilst we have rebutted the ISA 240 presumption of fraud in revenue recognition, as seen on page 8, we have not rebutted the presumption for expenditure.</p> <p>The current Covid-affected economic environment has placed additional strains on already stretched public sector budgets. There is also significant pressure on authority's to set a balanced budget and to limit excessive use of reserves to balance budgets. We have therefore determined that there is a completeness risk which applies to all non-pay expenditure excluding depreciation, amortisation, audit fees and revaluation adjustments. Our focus therefore, is on expenditure which impacts upon the General Fund. Our procedures described to the right will also provide assurance against the risk of recording 2021/22 expenditure against the 20/21 budget due to the availability of funding in this financial year.</p> | <p>We will:</p> <ul style="list-style-type: none"> evaluate the Council's policy for the recognition of non-pay expenditure. Compare listings of 2019/20 accruals to those of 20/21 to ensure completeness of significant recurring items document the goods received not invoiced accruals process and the processes management have in place, challenging key assumptions, the appropriateness of source data and the basis for calculations. obtain a listing from the cash book of non-pay payments made in April and May to ensure they have been charged to the appropriate year. obtain a listing from the AP system of invoices received in April and May to ensure they have been charged to the appropriate year. substantively test a sample of year end creditor and accrual balances. |
| Management override of controls | Group and Council | <p>Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for the group and the Council, which was one of the most significant assessed risks of material misstatement.</p> | <p>We will:</p> <ul style="list-style-type: none"> evaluate the design effectiveness of management controls over journals analyse the journals listing and determine the criteria for selecting high risk unusual journals test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. |

Significant risks identified

| Risk | Risk relates to | Reason for risk identification | Key aspects of our proposed response to the risk |
|---|-------------------|---|--|
| Valuation of Land & Buildings and Investment Property | Group and Council | <p>The Council revalues its land and buildings on a rolling three-yearly basis. Investment properties are revalued annually and are held within the LCDL subsidiary.</p> <p>These valuations represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally for land and buildings, management will need to ensure the carrying value in the Council and group financial statements is not materially different from the current value or the fair value (for surplus assets and investment property) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings and investment property as a significant risk for the Group and the Council, which was one of the most significant assessed risks of material misstatement.</p> | <p>We will:</p> <ul style="list-style-type: none"> evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work evaluate the competence, capabilities and objectivity of the valuation expert write out to them and discuss with the valuer the basis on which the valuation was carried out challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding engage our own valuer to assess the instructions to the Council's valuer, the Council's valuation report and the assumptions that underpin the valuation test revaluations made during the year to see if they had been input correctly into the Council's asset register evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end |
| Valuation of the Pension Fund Net Liability | Council | <p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> | <p>We will:</p> <ul style="list-style-type: none"> update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and obtain assurances from the auditor of Lancashire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. |

Significant risks identified

| Risk | Risk relates to | Reason for risk identification | Key aspects of our proposed response to the risk |
|---|-----------------|---|--|
| ISA 240 revenue improper recognition risk | Council | <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Lancashire County Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk for Lancashire County Council.</p> | We have rebutted this risk. |

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit, Risk and Governance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings and investment properties
- Depreciation
- Year end provisions and accruals, specifically for demand led services such as Adult's and Children's services
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Valuation of level 2 and level 3 investments

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have issued management with a set of questions to be completed and presented to the Audit, Risk and Governance Committee for ratification. We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit. For Lancashire County Council, we cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of a matter brought to our attention by the Authority in 2013. We remain in regular in discussion with the Police in respect of Operation Sheridan and will formally update members on progress at the end of the audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report (see page 15). We will also need to identify whether any material uncertainties in respect of going concern have been reported for the Council's subsidiary. If such a situation arises, we will consider our audit response for the group.

Progress against prior year audit recommendations

We identified the following issues in our 2019/20 audit of the group's financial statements, which resulted in two recommendations being reported in our 2019/20 Audit Findings Report. We are pleased to report that management have implemented all of our recommendations with regards to Oracle security and work remains ongoing regarding payroll controls.

Assessment Issue and risk previously communicated

Update on actions taken to address the issue

| | | |
|------------------------|--|--|
| <p>Medium</p> <p>✓</p> | <p>Oracle security and access controls</p> <p>Control weaknesses were identified in the security and access of the Council's Oracle system. The most significant weaknesses were:</p> <ul style="list-style-type: none"> IT users self-assigning Oracle responsibilities without approval or subsequent timely removal Limited evidence of appropriate restriction of Oracle database administration. <p>The journals work we have carried out has not identified issues in any of the areas above, indicating that they are not risks of material misstatement to the 2019/20 financial statements. We recommended that IT audit findings be reviewed by the Council's IT team and any inappropriate access/responsibilities to be resolved/removed.</p> <p>Management Response</p> <p>IT user access to the system administration account is subject to management approval. A limited number of IT staff have the ability to self-assign additional responsibilities and this is currently recorded on 'ServiceNow' when access to additional responsibilities is required to support incident resolution or change activity. IT will introduce additional controls for this by setting up a new access request procedure with access subject to approval and granted with the appropriate end date.</p> <p>Database administration account credentials are stored in a secure system, access to those details is limited to a small number of users. The user group is monitored for changes and administrative access to the database is audited.</p> | <p>Management have confirmed that all recommendations have now been actioned.</p> |
| <p>Medium</p> <p>✓</p> | <p>Payroll Leavers Controls</p> <p>As part of our procedures to gain assurance over pay expenditure we test a sample of leavers in year to ensure they are removed from the payroll system on a timely basis. We then rely on the payroll staff numbers report for our substantive analytical review of payroll costs. Our testing of a sample of 8 leavers to date found that all staff members were removed from the system between 3-6 months subsequent to the termination date. The process for staff to be removed is via notification to BTLs who maintain the administration of the payroll system. The Council should ensure all staff are removed from the system within a timely basis.</p> <p>We recommended that the Council review the current process with regards to notification of leavers to BTLs for processing and ensure that leavers are removed within a timely basis.</p> <p>Management Response</p> <p>Work is ongoing to improve performance in this area, and this has been the subject of a number of previous reports to the Audit, Risk and Governance committee.</p> | <p>Management have confirmed that work is ongoing to improve performance in this area, and regular monitoring reports are reviewed by the Director of Finance to ensure improvements are achieved.</p> |

Materiality

The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £28.134m (PY £27.124m) for the group and £28.108m (PY £27.120m) for the Council, which equates to 1.25% of your forecast gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be applicable for senior officer remuneration disclosures. We will apply heightened auditor focus in this area and will request amendments be made if any errors would alter the bandings reported for any officer.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

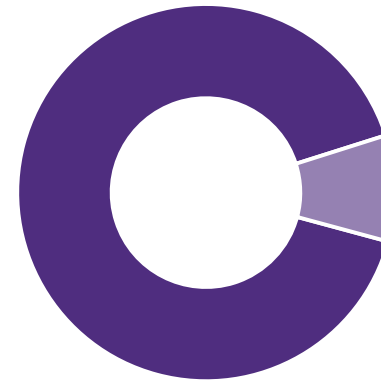
Matters we will report to the Audit, Risk & Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit, Risk & Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.405m (PY £1.356m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit, Risk and Governance Committee to assist it in fulfilling its governance responsibilities.

Prior year gross operating costs

£2,248.6m group
(PY: £2,169.9)
£2,248.6m Council
(PY: £2,169.7M)



■ Prior year gross operating costs

Materiality



Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. These are those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money. Whilst we did not identify any risks of significant weaknesses at this stage, we have set out below some of the key work we will be performing to assess the Council's arrangements across the three criteria.

The potential different types of recommendations we could make are set out in the second table below.

Financial Sustainability

We will review the Council's arrangements for updating, agreeing and monitoring its financial plans including the assumptions within them. We will also consider the arrangements in place to monitor the identification, pace and delivery of savings.

Governance

We will consider how the Council makes appropriate decisions and does so in the correct way, including assessing arrangements for ensuring decisions are based on appropriate information, how the budget is set, the approach to risk management and other crucial policies and procedures. We will consider if there have been any changes to policies and procedures as a result of Covid-19, consider what the impact of Covid-19 has been on the capacity of Internal Audit to deliver on its plan and also review progress made in relation to Local Government Reorganisation.

We will consider the governance arrangements in place to identify, assess, monitor, deliver and review major strategic investments proposed within the County.

We will also consider how the Council is satisfied that it has been able to achieve value for money in the procurement of Covid-related goods/services and the arrangements which the Council has put in place to address the new risks presented by the pandemic.

Improving economy, efficiency and effectiveness

We will consider what arrangements the Council has in place to understand, review, and improve the services delivered to identify savings, efficiencies, and improvements for service users. We will also conduct our own benchmarking review of the Council to understand how it is performing in comparison to its peers.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit logistics and team



Paul Dossett, Key Audit Partner



Paul leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, ensuring the highest professional standards are maintained and a commitment to add value to the Audit, Risk & Governance Committee and the Council.

Stuart Basnett, Audit Manager



Stuart plans, manages and leads the delivery of the audit, is your key point of contact for your finance team and is your first point of contact for discussing any issues.

Fay Woodmass, Audit Incharge



Fay assists in planning, managing and delivering the audit fieldwork, ensuring that the audit is delivered effectively and efficiently. He supervises and co-ordinates the on-site audit team.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

In 2018, PSAA awarded a contract of audit for Lancashire County Council to begin with effect from 2018/19. The fee agreed in the contract was £87,006. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 14, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee of £19,000. This is in line with increases we are proposing at all our local audits.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1..

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for the property valuations estimates, which has been included in our proposed audit fee. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf and has been agreed with the Director of Finance.

All fee variations are subject to approval and agreement with PSAA.

In its response to the Redmond Review, MHCLG agreed to provide £15m in funding to local government to cover the additional cost of local audit. The Council will receive an allocation from MHCLG in April as far as we understand.

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

| | Actual Fee 2018/19 | Actual Fee 2019/20 | Proposed fee 2020/21 |
|----------------------------------|--------------------|--------------------|----------------------|
| Lancashire County Council Audit | £96,006 | £128,357 | £142,356 |
| Total audit fees (excluding VAT) | £96,006 | £128,356 | £142,356 |

Audit fees – detailed analysis

| | |
|--|-----------------|
| Scale fee published by PSAA | £87,006 |
| <i>Ongoing increases to scale fee first identified in 2019/20</i> | |
| Raising the bar/regulatory factors/reduced materiality/new bond risk | £19,000 |
| Enhanced audit procedures for Property, Plant and Equipment | £9,350 |
| Enhanced audit procedures for Pensions | £3,500 |
| Audit fee 2019/20 | £118,856 |
| <i>New issues for 2020/21</i> | |
| Additional work on Value for Money (VfM) under new NAO Code | £19,000 |
| Increased audit requirements of revised ISAs (ISA 540, ISA 240, ISA 700) | £11,500 |
| <i>Proposed increase to agreed 2019/20 fee</i> | £30,500 |
| Total audit fees (excluding VAT) | £142,356 |

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies. We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams and component audit firms providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified. The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

| Service | Fees £ | Threats | Safeguards |
|---|-----------|---|--|
| Audit related | | | |
| Agreed upon procedures - Teachers' Pension return | 6,500 | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £6,500 in comparison to the total fee for the audit of £142,356 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |
| Non-audit related | | | |
| None | | | |

Independence and non-audit services

Other services – Local Pensions Partnership

We also disclose to you that the commercial arm of our firm undertakes the audit of the Local Pensions Partnership, of which Lancashire County Council is one of the two founding members, each holding 50%. Details of the work performed, and the fees charged, are shown below for transparency purposes.








However we are satisfied that this work has no impact on our independence for the audit of Lancashire County Council.

| Service | Fees £ | Threats | Safeguards |
|--|--------|-------------|---|
| Audit related | | | |
| Local Pensions Partnership Authorised Contractual Scheme and investment funds structures audit | TBC | Self Review | This is not considered a significant threat as the audit of Lancashire County Pension Fund and Lancashire County Council is undertaken by a completely separate team from the Public sector Services arm of the Firm, as opposed to the commercial audit team that delivers the LPP audits. There are different Engagement Leaders in place for both audits, and where we seek to place reliance on the work performed on the LPP audit, this is treated as an auditor's expert for the purposes of our work. |









Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance




The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

| | Date of revision | Application to 2020/21 Audits |
|--|------------------|---|
| ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements | November 2019 |  |
| ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK) | January 2020 |  |
| ISA (UK) 220 – Quality Control for an Audit of Financial Statements | November 2019 |  |
| ISA (UK) 230 – Audit Documentation | January 2020 |  |
| ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements | January 2020 |  |
| ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements | November 2019 |  |
| ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector | November 2019 |  |

Appendix 1: Revised Auditor Standards and application guidance continued

| | Date of revision | Application to 2020/21 Audits |
|---|------------------|---|
| ISA (UK) 260 – Communication With Those Charged With Governance | January 2020 |  |
| ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment | July 2020 | |
| ISA (UK) 500 – Audit Evidence | January 2020 |  |
| ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures | December 2018 |  |
| ISA (UK) 570 – Going Concern | September 2019 |  |
| ISA (UK) 580 – Written Representations | January 2020 |  |
| ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors) | November 2019 |  |
| ISA (UK) 620 – Using the Work of an Auditor’s Expert | November 2019 |  |
| ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements | January 2020 |  |

Appendix 1: Revised Auditor Standards and application guidance continued

| | Date of revision | Application to 2020/21 Audits |
|---|------------------|---|
| ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report | January 2020 |  |
| ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information | November 2019 |  |
| Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom | December 2020 |  |



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Audit, Risk and Governance Committee

Meeting to be held on Monday, 26 April 2021

| |
|-------------------------------------|
| Electoral Division affected: N/A |
|-------------------------------------|

External Audit – Lancashire County Pension Fund Audit Plan 2020/21

Appendix A refers

Contact for further information:

Paul Dossett, Partner, Grant Thornton UK LLP, Tel: (0)20 7728 3180,

Paul.Dossett@uk.gt.com

Executive Summary

Appendix A to this report sets out the Lancashire County Pension Fund Audit Plan provided by the pension fund's external auditors, Grant Thornton, for the year ending 31 March 2021.

The auditors are required to perform the audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office.

Recommendation

The committee is asked to note the Lancashire County Pension Fund Audit Plan for 2020/21, as presented, and to raise any issues, clarifications, and questions with the external auditor.

Background and Advice

External Audit provides assurance as to the effectiveness of Lancashire County Pension Fund's accounting and through this supports the council and the Pension Fund in its work to deliver its priorities and objectives.

The Audit, Risk and Governance Committee has a key role to ensure control and risk management arrangements are effective and this report is made consistent with that responsibility.

The Lancashire County Pension Fund Audit Plan sets out a number of areas for the committee's consideration, including the approach to the audit, the concept of materiality, risks, and key dates.

Consultations

The reports have been discussed with finance officers of the Pension Fund and the county council.

Implications:

This item has the following implications, as indicated:

Risk management

External audit is a statutory function required by the Local Audit and Accountability Act 2014. The audited accounts are required by to be published by 30 September 2021.

Local Government (Access to Information) Act 1985 List of Background Papers

| Paper | Date | Contact/Tel |
|-------|------|-------------|
| None | | |

Reason for inclusion in Part II, if appropriate

N/A

Lancashire County Pension Fund audit plan

Year ending 31 March 2021

Lancashire County Pension Fund
April 2021



Contents



Your key Grant Thornton team members are:

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Key matters

Factors

Pension Fund developments

Following the changes in recent years in switching investment management to LPPI managed funds, comparatively, there have not been significant changes in the pension fund strategy and administration in 2020/21, with little change in the strategic asset allocation. Likewise, a review of the Pension Administration Strategy Statement reported in January 2021 that no significant changes had resulted from the review and the Local Pension Partnership Administration (LPPA) was meeting all key performance indicators.

A new, dedicated website was launched for the Pension Fund in March 2021, bring the Fund in line with other LGPS Funds in England and Wales.

The Fund won in the LGPS Fund of the Year (assets over £2.5 billion) category at the LAPF Investment Awards in December 2020.

Impact of Covid 19 pandemic

In our 2019/20 audit we held extensive discussions with and challenge of investment managers to establish if there was any significant uncertainty over the valuations at year end. It was disclosed in the Pension Fund's statement of accounts that due to guidance set out by RICS Global Valuation Standards, the value of level 3 pooled and level 2 directly held investment properties were reported on the basis of 'material valuation uncertainty'. We included an emphasis of matter on this in our audit opinion to draw users of the statement of accounts to this disclosure. We currently do not expect similar guidance to be issued for the year ended 31 March 2021.

Other matters

In the period December 2018 to January 2020 the Financial Reporting Council (FRC) issued a number of updated International Auditing Standards (ISAs (UK) which are effective for audits of accounting periods beginning on or after 15th December 2019. ISA (UK) 540 (revised): Auditing Accounting Estimates and Related disclosures includes significant enhancements in respect of the audit risk assessment process for accounting estimates. As part of this process, auditors also need to obtain an understanding of the effectiveness of the role of those charged with governance relating to accounting estimates adopted by management, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, sets out the starting point based on the 2019/20 proposed audit fee recognising there are further additional cost pressures in 2020/21.
- We will continue to provide you with sector updates via our Audit Committee updates.
- There is a rebuttable presumed risk that revenue may be misstated due to improper recognition of revenue. We have rebutted this risk for all types of revenue and expenditure. We have also considered the risk of material misstatement due to fraud related to expenditure, and concluded that this is not a significant risk for the Pension Fund.
- There is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. We have therefore identified a significant risk in regards to management override of control – refer to page 6.
- The Pension Fund's valuer reported a material uncertainty in regards to the valuation of direct properties in 2019/20 due to the Covid 19 pandemic and we expect significant uncertainty will continue in 2020/21. We identified a significant risk in regards to the valuation of direct properties – refer to page 6.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Lancashire County Pension Fund ('the Pension Fund') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed *in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Lancashire County Pension Fund. We draw your attention to both of these documents.*

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Pension Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit, Risk and Governance committee).

The audit of the financial statements does not relieve management or the Audit, Risk and Governance Committee of your responsibilities. It is the responsibility of the Pension Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Pension Fund is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Pension Fund's business and is risk based.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management over-ride of controls
- Valuation of Level 3 investments

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £92m (PY £84m) for the Pension Fund, which equates to around 1% of your net assets as at 28 February 2021. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £4.6m (PY £4m).

Audit logistics

Our interim visit took place in and our final visit will take place in July to August. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £39,300 (PY: £36,000) for the Pension Fund, subject to the Pension Fund delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|--|---|---|
| <p>ISA240 Revenue and expenditure recognition – the risk of revenue including fraudulent transactions and expenditure manipulation</p> | <p>Under ISA (UK) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. Practice Note 10 (PN10), issued by the FRC, states auditors should also consider that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>These presumptions can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition or the manipulation of expenditure recognition.</p> <p>Having considered the risk factors set out in ISA240 and PN10 and the nature of the revenue and expenditure streams at the Fund, we have determined that the risk of fraud arising from revenue recognition and expenditure manipulation can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition and expenditure are very limited • classes of expenditure that could be prone to manipulation, such as management expenses and payments to and on account of leavers are not material • the culture and ethical frameworks of local authorities, including Lancashire County Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider these to be significant risks for Lancashire County Pension Fund.</p> | <p>The risks of revenue including fraudulent transactions and expenditure manipulation are rebutted for Lancashire County Pension Fund.</p> |

Significant risks identified

| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|----------------------------------|---|--|
| Management over-ride of controls | <p>Under ISA (UK) 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities. The auditing standards do not allow this presumption to be rebutted by the auditor.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> | <p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence, • gain an understanding of the control environment in the Local Pensions Partnership (LPP) including review of relevant the internal audit reporting during the year, and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. |
| Valuation of Level 3 investments | <p>The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.</p> <p>By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2021.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.</p> | <p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes for valuing Level 3 investments • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met • review the work of custodians, especially in respect of independent valuations of the fund • for a sample of investments, including indirect property funds, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments, agreeing these to the fund manager reports at that date, and ensure, for indirect property funds, that they are valued in line with the latest RICS guidance. Reconcile those values to the values at 31 March 2021 with reference to known movements in the intervening period • where available review investment manager service auditor report on design effectiveness of internal controls, • review any transfers to the Pool for any level 3 investments during the year, and • in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert. |

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit, Risk and Governance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Pension Fund we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of directly held property
- Valuation of level 2 and level 3 investments

The Pension Fund's Information systems

In respect of the Pension Fund's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Pension Fund uses management experts in deriving some of its more complex estimates, e.g. asset and investment. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Pension Fund (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have issued management with a set of questions to be completed and presented to the Audit, Risk and Governance Committee for ratification. We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters

Other work

The Pension Fund is administered by Lancashire County Council (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements.

Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Pension Fund, such as:

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
 - Issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
 - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience and ensure that our work on going concern is proportionate for public sector bodies.

Progress against prior year audit recommendations

We identified the following issues in our 2018/19 audit of the Pension Fund's financial statements, which resulted in one recommendation being reported in our 2018/19 Audit Findings Report and followed up in our 2019/20 Audit Findings Report. We have followed up on the implementation of our recommendations and it is still to be addressed.

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|------------|--|--|
| X | <p>Issue and Risk Manual journals within the financial ledger are input by approved personnel, but they are not subject to authorisation controls at the time of input. The risk is that the lack of authorisation controls at the time of input creates a higher level of risk of error or manipulation.</p> <p>Recommendation Review the authorisation procedures in place over journal input.</p> | <p>Management response in 2018/19 IAS 260 report Personnel based controls are in place, with only finance staff able to post journals. As such, the need for secondary authorisation is considered to be very low. There is also no incentive for finance personnel to manipulate journals.</p> <p>Updated management response in 2019/20 The same personnel-based controls remain in place as in 2018/19, as does the lack of incentive for finance personnel to manipulate journals. Whilst we accept there are no preventative controls in place, there are informal detective controls in place, such as monthly reconciliations to the custodian report and quarterly reviews, that would identify errors caused by journals. Any journals for unusual accounting are discussed amongst the finance team and the approach agreed prior to them being posted. A review of users with access to the pension fund general ledger (and therefore an ability to post journals) is carried out at least annually.</p> |

Materiality

The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

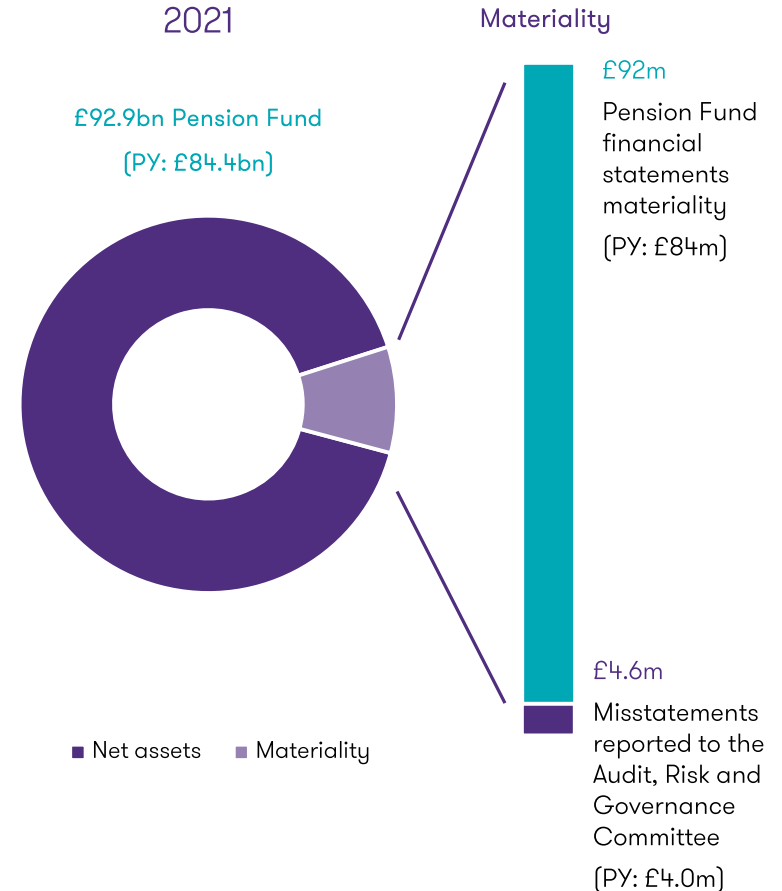
We have determined financial statement materiality based on a proportion of the net assets of the Pension Fund. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £92m (PY £84m), which equates to around 1% of your net assets as at 28/02/2021. We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £10k for Senior officer remuneration disclosures.

Matters we will report to the Audit, Risk and Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit, Risk and Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £4.6m (PY £4.0m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit, Risk and Governance Committee to assist it in fulfilling its governance responsibilities.

Net assets at 28 February 2021



Audit logistics and team

Planning and risk assessment

Interim audit
April 2021

Audit, Risk and Governance committee
26 April 2021

Audit Plan

Year end audit
July to August

Audit, Risk and Governance committee
18 October 2021

Audit Findings Report & Audit Opinion



Paul Dossett, Key Audit Partner

Paul leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, meeting the highest professional standards.



Andy Ayre, Audit Manager

Andy plans, manages and leads the delivery of the audit, is your key point of contact for your Finance team and is your the first point of contact for discussing any issues.



Olalekan Ayilara, Assistant Manager

Olalekan's role is to assist in planning, managing and delivering the audit fieldwork, ensuring the audit is delivered effectively, efficiently and supervises and coordinates the on-site audit team.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

In 2018, PSAA awarded a contract of audit for Lancashire County Pension Fund to begin with effect from 2018/19. The fee agreed in the contract was £26,310. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit. As part of the 2019/20 actual fee noted below, we included an additional 15% due to the impact of Covid-19 as detailed in the 2019/20 audit findings report.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf and has been agreed with the Director of Finance. We would note that all fees need to be agreed with PSAA and that MHCLG have agreed to provide £15m to fund local audit in 2020/21 as part of its response to the Redmond Review, issued in December 2020.

| | Actual Fee 2018/19 | Actual Fee 2019/20 | Proposed fee 2020/21 |
|--------------------------------------|--------------------|--------------------|----------------------|
| Lancashire County Pension Fund Audit | £27,810 | £36,000 | £39,300 |
| Total audit fees (excluding VAT) | £27,810 | £36,000 | £39,300 |

Assumptions

In setting the above fees, we have assumed that the Pension Fund will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

| | |
|---|----------------|
| Scale fee published by PSAA | £26,310 |
| <i>Ongoing increases to scale fee first identified in 2019/20</i> | |
| Raising the bar/regulatory factors | £1,500 |
| Enhanced audit procedures for Directly held Property | £1,250 |
| Enhanced audit procedures for Investments | £1,250 |
| <i>Additional work due to the impact of Covid-19</i> | £5,690 |
| <i>Actual fee 2019/20</i> | £36,000 |
| <i>New issues for 2020/21</i> | |
| Increased audit requirements of revised ISAs | £3,300 |
| Total audit fees (excluding VAT) | £39,300 |

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council and .

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

| Service | Fees £ | Threats | Safeguards |
|---|-----------|---|---|
| Audit related | | | |
| IAS19 Assurance letters for Admitted Bodies | 9,500 | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £9,500 in comparison to the total fee for the audit of £39,300 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |
| Non-audit related | | | |
| None | | | |

Independence and non-audit services

Services provided by Grant Thornton UK LLP to Local Pensions Partnership








For transparency, we disclose to you that the commercial arm of our firm undertakes the audit of the Local Pensions Partnership, of which Lancashire County Council is one of the two founding members, each holding 50%. Details of the work performed, and the fees charged, are shown below for transparency purposes. However we are satisfied that this work has no impact on our independence for the audit of Lancashire County Pension Fund for the reasons mentioned below.

| Service | Fees £ | Threats | Safeguards |
|---|---------|-------------|--|
| Audit related | | | |
| Local Pensions Partnership Authorised Contractual Scheme and investment funds structures audit | 354,770 | Self Review | This is not considered a significant threat as the audit of Lancashire County Pension Fund and Lancashire County Council is undertaken by a completely separate team from the Public Sector arm of the Firm, as opposed to the audit team that delivers the LPP audits. There are different Engagement Leads in place for the audits, and where we seek to place reliance on the work performed on the LPP audit, this is treated as an auditor's expert for the purposes of our work. The LPP audit is undertaken in accordance relevant auditing standards and guidance. |
| Non-audit related | | | |
| None | | | |

Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

| | Date of revision | Application to 2020/21 Audits |
|--|------------------|---|
| ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements | November 2019 |  |
| ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK) | January 2020 |  |
| ISA (UK) 220 – Quality Control for an Audit of Financial Statements | November 2019 |  |
| ISA (UK) 230 – Audit Documentation | January 2020 |  |
| ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements | January 2020 |  |
| ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements | November 2019 |  |
| ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector | November 2019 |  |

Appendix 1: Revised Auditor Standards and application guidance continued

| | Date of revision | Application to 2020/21 Audits |
|---|------------------|---|
| ISA (UK) 260 – Communication With Those Charged With Governance | January 2020 |  |
| ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment | July 2020 | |
| ISA (UK) 500 – Audit Evidence | January 2020 |  |
| ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures | December 2018 |  |
| ISA (UK) 570 – Going Concern | September 2019 |  |
| ISA (UK) 580 – Written Representations | January 2020 |  |
| ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors) | November 2019 |  |
| ISA (UK) 620 – Using the Work of an Auditor’s Expert | November 2019 |  |
| ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements | January 2020 |  |

Appendix 1: Revised Auditor Standards and application guidance continued

| | Date of revision | Application to 2020/21 Audits |
|---|------------------|---|
| ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report | January 2020 |  |
| ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information | November 2019 |  |
| Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom | December 2020 |  |



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Audit, Risk and Governance Committee

Meeting to be held on Monday, 26th April 2021

| |
|-------------------------------------|
| Electoral Division affected: All |
|-------------------------------------|

The Council's Annual Governance Statement 2020/21 and Code of Corporate Governance 2021/22

Appendices A and B refer

Contacts for further information:

Paul Bond, Head of Legal and Democratic Services, (01772) 534676

paul.bond@lancashire.gov.uk

Executive Summary

The county council is required to produce and approve an Annual Governance Statement which will be included in its Annual Statement of Accounts for 2020/21. This year the Annual Governance Statement not only covers the governance arrangements as a result of responding to the coronavirus pandemic, but it will also include the Pension Fund Governance Statement as approved by the Pension Fund Committee.

A draft Annual Governance Statement is presented for the committee's consideration at Appendix A.

In addition, Full Council in July 2016 approved a new Code of Corporate Governance for the county council that reflected new guidance from the Chartered Institute of Public Finance and Accountancy and the Society of Local Authority Chief Executives. Full Council also agreed that the Code would be reviewed on an annual basis.

Therefore, the committee is asked to consider the updated Code of Corporate Governance and whether it wishes to recommend any changes to Full Council.

The updated Code is presented for the committee's consideration at Appendix B.

Recommendation

The committee is asked to:

- i) Consider and approve the draft Annual Governance Statement for 2020/21 for inclusion in the draft Statement of Accounts for 2020/21;
- ii) Note that the Pension Fund Governance Statement, as approved by the Pension Fund Committee, will form part of the Annual Governance Statement and will be published in the draft Statement of Accounts for 2020/21;

- iii) Note that the Annual Governance Statement will be signed by the Chief Executive & Director of Resources (Section 151 Officer) and Leader of the Council and published on the county council's website following the final approval of the Statement of Accounts; and
- iv) Consider the updated Code of Corporate Governance and any amendments it wishes to make for recommendation to Full Council for approval.

Background and Advice

Lancashire County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, including arrangements for the management of risk.

This year, the COVID-19 crisis has brought unprecedented challenges for local government and the county council has sought to minimise disruption to the services we deliver.

We also need to ensure that the Annual Governance Statement is current at the time of its publication, so it is essential that the Annual Governance Statement reflects the impact of the COVID-19 pandemic on governance. Therefore, we will include a second conclusion on the adequacy of governance arrangements during this period to make clear the impact.

The impact on governance falls broadly into the following broad categories:

- Impact on business as usual in the delivery of services;
- New areas of activity as part of the national response to coronavirus and any governance issues arising;
- The funding and logistical consequences of delivering the local government response; and
- Assessment of the longer-term disruption and consequences arising from the coronavirus pandemic.

The Chartered Institute of Public Finance and Accountancy guidance relating to Local Government Pension Scheme Fund Accounts 2020/21 states that in England,

where the pension fund accounts form part of the administering authority's statement of accounts, the Annual Governance Statement should also cover the pension fund. Therefore, this year the Pension Fund Governance Statement will be included, rather than published as a separate document. The Pension Fund Committee will consider the Pension Fund Governance Statement at its meeting in June 2021. Once approved, it will form part of the Annual Governance Statement that is published in the draft statement of accounts.

The committee is asked to consider and approve the draft Annual Governance Statement presented at Appendix A to be included within the council's Annual Statement of Accounts for 2020/21. It is also asked to note the arrangements in relation to the Pension Fund Governance Statement.

The final Annual Governance Statement will be signed by the Chief Executive & Director of Resources (Section 151 Officer) and Leader of the Council and published on the council's website following the final approval of the Statement of Accounts.

In July 2016 the Full Council approved a new Code of Corporate Governance for the county council and agreed that the Code would be reviewed by the county council every year. The Code is based on new Chartered Institute of Public Finance and Accountancy and the Society of Local Authority of Chief Executives best practice guidance and should articulate and be consistent with the expected standards, principles and values by which Lancashire County Council Officers and Members will operate. There should be clear links between the seven new principles within the Code, and the governance framework of strategies, policies and procedures which underpin it. The Code is also in a format that includes sources of evidence providing clarity for Members, Officers and stakeholders about how the organisation uses the principles of the Code in practice.

Therefore, the Code now presented for approval at Appendix B has been updated and includes new sources of evidence such as the Outbreak Management Plan and the Financial Management Code.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

Good governance enables an authority to pursue its vision effectively as well as underpinning that vision with sound arrangements for control and management of risk. An authority must ensure that it has a sound system of internal control which includes effective arrangements for the management of risk. Failure to publish an Annual Governance Statement means the county council would be negligent in its responsibilities for ensuring accountability and the proper conduct of public business.

Legal Implications

The county council must adopt a Code of Corporate Governance which has been produced to the standards prescribed in the best practice guidance in order to prepare the Annual Governance Statement. The best practice guidance is recognised as the Chartered Institute of Public Finance and Accountancy and the Society of Local Authority of Chief Executives (CIPFA/SOLACE) Framework: Delivering Good Governance in Local Government (2016).

Financial Implications

Good governance leads to good management, good performance and good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. However, there are costs associated with embedding and continuing good governance practices, and as the council's organisational structures develop, the costs associated with governance need to be monitored to ensure they remain proportionate.

Local Government (Access to Information) Act 1985

List of Background Papers

| Paper | Date | Contact/Service/Tel |
|-------|------|---------------------|
|-------|------|---------------------|

N/A

Reason for inclusion in Part II, if appropriate

N/A

Draft Annual Governance Statement 2020/21

Executive Summary

The Leader of the Council (County Councillor Geoff Driver CBE) and the Chief Executive and Director of Resources (Angie Ridgwell) both recognise the importance of having good management, effective processes, and other appropriate controls in place to run the county council in delivering services to the communities of Lancashire.

Each year the council is required to produce an Annual Governance Statement which describes how the corporate governance arrangements have been working across the group. To help do this, both the council's Corporate Management Team and the Audit, Risk & Governance Committee undertake a review of the council's governance framework and the development of the Annual Governance Statement.

This year, the Covid-19 crisis continued to bring unprecedented challenges for local government and the county council has sought to minimise disruption to the services we deliver. We have shown that the county council can thrive in the most challenging of circumstances. We have seen a combination of a flexible, dynamic, committed workforce and implementation of new ways of working that will reshape the council going forward. We also put in place a robust set of emergency governance measures to monitor and respond to the pandemic.

Therefore, it is essential that the Annual Governance Statement reflects the impact of the Covid-19 pandemic on governance and we will include a second conclusion on the adequacy of governance arrangements during this period. Once the crisis is over, we will conduct a review of the lessons to be learned from our response. As such, this will be one of the organisation's significant governance issues for 2021/22.

The Chartered Institute of Public Finance and Accountancy (CIPFA) guidance relating to Local Government Pension Service Fund Accounts 2020/21 states that in England, where the pension fund accounts form part of the administering authority's statement of accounts then the Annual Governance Statement should also cover the pension fund. Therefore, this year the Pension Fund Governance Statement will be included rather than published as a separate document.

On the 26 April 2021 the Audit, Risk and Governance Committee considered the content of the proposed Annual Governance Statement to ensure that it properly reflects how the council is run. The final statement is signed by the Leader of the Council and the Chief Executive and Director of Resources.

Governance Issues

Overall, it can be confirmed that the council has the appropriate systems and processes in place to ensure good governance is maintained. Whilst these work well, our review has identified the following issues which are currently underway but not yet completed:

| Key Delivery/Improvement Area | Lead Officer | To be delivered by |
|---|--|--------------------|
| Reshaping the Council: Our Improvement Journey | Chief Executive & Director of Resources supported by the Director of Organisational Development & Change | March 2022 |
| Financial Sustainability | Director of Finance | Ongoing |
| Family Safeguarding | Executive Director of Education & Children's Services | March 2022 |
| Response to Special Educational Needs & Disability (SEND) Inspection | Executive Director of Education & Children's Services | March 2022 |
| Integration & Innovation | Executive Director of Adult Services & Health & Wellbeing | March 2022 |
| Provision of ICT | Director of Strategy & Performance | March 2022 |
| Covid – 19 Moving Towards Recovery | Chief Executive & Director of Resources supported the Corporate management Team | March 2023 |

Progress made against the issues identified in last year's Annual Governance Statement is reported in this year's statement.

We propose over the coming year to address the matters identified, and will monitor implementation and operation as part of the performance management role of the Corporate Management Team and the Cabinet. The Audit, Risk and Governance Committee will also help us with independent assurance during the year.

----- County Councillor Geoff Driver CBE
 Leader of the Council
 ----- Angie Ridgwell
 Chief Executive and Director of
 Resources

Signed on behalf of Lancashire County Council

Introduction

Local authorities are required by statute to review their governance arrangements at least once a year. Preparation and publication of an Annual Governance Statement in accordance with the Chartered Institute of Public Finance and Accountancy and the Society of Local Authority Chief Executives (CIPFA/Solace) "*Delivering Good Governance in Local Government Framework*" (2016) (the Framework) helps fulfil this requirement. The Framework requires local authorities to be responsible for ensuring that:

- Their business is conducted in accordance with all relevant laws and regulations;
- Public money is safeguarded and properly accounted for; and
- Resources are used economically, efficiently, and effectively to achieve agreed priorities which benefit local people.

The Framework also expects that local authorities will put in place proper arrangements for the governance of their affairs which facilitate the effective exercise of functions and ensure that the responsibilities set out above are being met.

As mentioned in the executive summary, coronavirus will have impacted on governance since March 2020 and authorities also need to ensure that the Annual Governance Statement is current at the time of its publication, so it is essential therefore that the Annual Governance Statement reflects the impact of the Covid-19 pandemic on governance.

What is Corporate Governance?

Corporate governance is about the systems, processes, and values by which councils operate and by which they engage with, and are held accountable to, their communities and stakeholders.

The council has adopted a Code of Corporate Governance which follows the CIPFA/Solace guidance "*Delivering Good Governance in Local Government*" (2016) which defines the seven core principles that should underpin the governance framework of a local authority:

- Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
- Ensuring openness and comprehensive stakeholder engagement;
- Defining outcomes in terms of sustainable economic, social, and environmental benefits;
- Determining the interventions necessary to optimise the achievement of the intended outcomes;
- Developing the council's capacity, including the capability of its leadership and the individuals within it;
- Managing risks and performance through robust internal control and strong public financial management; and
- Implementing good practices in transparency, reporting and audit to deliver effective accountability.

Key Elements of the County Council's Governance Framework

Key elements of Lancashire County Council's governance framework are set out below:

| Leader, Cabinet & Council | Decision Making | Risk & Performance Management |
|---|---|--|
| <ul style="list-style-type: none"> • The Leader provides leadership • Cabinet develops and sets policy • Full Council agrees the annual budget, sets Council Tax and the policy framework including the Corporate Strategy (the cornerstone of our policy framework) | <ul style="list-style-type: none"> • Meetings are currently virtual (because of Covid-19 rules) and are webcast • Decisions are recorded on the council's website • Scheme of delegation | <ul style="list-style-type: none"> • Risk registers identify both operational and strategic risks • Key risks are considered by the Corporate Management Team, Cabinet Committee for Performance Improvement (CCPI) and Audit, Risk and Governance Committee • Processes are in place for managing and reporting performance to the Corporate Management Team and members (CCPI) • Directors' complete assurance statements |
| Council's Leadership Team | Scrutiny & review | External & Internal Audit and review |
| <ul style="list-style-type: none"> • Head of Paid Service is the Chief Executive who is responsible for all council staff and leading Corporate Management Team • Chief Executive is the council's Section 151 Officer and is responsible for ensuring the proper administration of the council's financial affairs • The Monitoring Officer is the Council's Director of Corporate Services who is responsible for ensuring legality and promoting high standards of public conduct | <ul style="list-style-type: none"> • Scrutiny Committees review council policy, decisions, and budget proposals • Work to deliver local public sector accountability | <ul style="list-style-type: none"> • External audit provides an opinion on the council's annual statement of accounts and whether the council has secured economy, efficiency, and effectiveness in the use of its resources • Internal Audit provides regular assurance on the governance, risk management and internal control framework • External inspections provide an accountability mechanism • Peer challenge/reviews highlight good practice and areas for improvement |

How do we comply with the CIPFA/Solace Framework?

The council has approved and adopted:

- A Local Code of Corporate Governance;
- The requirements of the CIPFA/Solace *"Delivering Good Governance in Local Government"* Framework 2016; and
- A number of specific strategies and processes for strengthening corporate governance.

An updated Local Code of Corporate Governance can be found on our website. This shows how the county council has complied with the seven principles set out in the CIPFA/Solace Framework. The Code is reviewed annually, and the outcome reported to Audit, Risk and Governance Committee and presented to Full Council for approval. It sets out the requirements underpinning these principles and how the council ensures that it meets them, along with the evidence base used to assess their effectiveness. This year it has been updated to include the governance arrangements that have been put in place to manage the impact of Covid-19.

Managing Risk and Performance

Performance management is a key component of the council's approach to achieving its outcomes. Part of this process involves identifying and, where appropriate, mitigating risks, ensuring that performance and risk management processes are in place throughout the organisation with effective processes to ensure sound financial management. Managing risks is the responsibility of services. All service risks are scored on the same basis and the greatest risks are elevated onto the Corporate Risk Register.

Before Covid-19, service risk and opportunity registers were updated regularly, and the Corporate Risk and Opportunity register was reported to the Corporate Management Team, Cabinet Committee for Performance Improvement (CCPI) and Audit, Risk & Governance Committee on a quarterly basis. As a result of Covid-19, reporting was suspended, and service level situation reports were introduced and continue to be in place. These reports are presented on a weekly basis to the Corporate Emergency Response Team and issues are escalated to the Corporate Management Team and the Local Resilience Forum (LRF).

Equality Impact Assessments are used throughout the organisation to assess the impact of service proposals and to inform decision making.

The budget setting process is well established, and services prioritise budgets and spending to achieve intended outcomes. In recent years, the budget setting process has inevitably focused on achieving savings whilst still focusing on the priorities of the political administration.

The medium-term financial strategy is updated and reported to Cabinet together with relevant resource forecasts and takes full account of the changing regulatory, environmental, demographic, and economic factors that impact on the financial environment in which the county council operates. The quarterly report to the Cabinet, 'Money Matters', includes in-year revenue and capital

expenditure monitoring information along with updates on the multi-year capital programme. The final outturn position will be reported to Cabinet.

During the year, the Cabinet Committee for Performance Improvement (CCPI) received high-level metrics relating to the corporate strategy together with more detailed, service specific performance metrics which enabled members to monitor ongoing service delivery and performance. The reports highlight good performance and areas for improvement (further reports setting out improvement action plans are presented when necessary). A detailed forward plan for the annual reports was developed with the Leader of the Council, as Chair of the Cabinet Committee on Performance Improvement.

A Performance Board that is chaired by the Director of Strategy and Performance met during the year. The Board receives a suite of performance dashboards, which draw attention to concerns with performance, describe recovery plans, and escalate issues for discussion and action to the Corporate Management Team. Any concerns with the quality of the data are highlighted immediately and the recovery plan will focus on improving the data quality. Once there is confidence in the data, performance concerns are the focus of discussion. This approach requires a deeper understanding of data presented and is driving up the quality of data and reporting across the council.

Managing our Resources (Value for Money)

The council's external auditors, in their assessment of 2019/20, gave an unqualified opinion on the Group's financial statements on 25 January 2021 and were satisfied that the council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

The auditors commented that the council's financial position remains challenging and a continued reliance on reserves would be unsustainable, however, it is important that the momentum for change established over the last few years is maintained and financial control remains robust.

Therefore, throughout 2020/21 projections were reported to both the Corporate Management Teams and Cabinet in the 'Money Matters' report which forms a regular review point for assessing the effectiveness of financial plans. The budget strategy involved a combination of budget savings with the use of reserves and capital receipts to ensure funding requirements were met. However, the plans for future years will need to be reviewed in light of any central government funding proposals for local government.

The council ensures that it provides timely support, information, and responses to its external auditors – properly considering audit findings and assumptions around what may happen in the future particularly relating to those elements that cannot be directed by the Council.

Financial Sustainability

Financial sustainability remains a risk facing the county council given the absence of a long-term financial settlement, the ongoing financial impact of Covid-19 and various funding changes likely to come into effect from 2022/23, including the outcome of the fair funding review. However, good

progress has been made in recent years in addressing the existing financial shortfall primarily as the result of the identification and delivery of a significant savings programme.

The 2021/22 revenue budget was approved at Full Council in February 2021 with a small contribution of £3.860m required from the transitional reserve. The structural funding gap is forecast to be £50.048m by 2023/24, although this is based on assumptions being made on future funding levels in the absence of a long-term financial settlement from the Government. Uncommitted reserves are sufficient to support the gap through to 2023/24 and beyond with a forecast level of £67.325m at 31 March 2024, allowing time for a planned and structured approach to how the funding gap is addressed.

The impact of Covid-19 on the council's financial resources is set out in the specific section on Covid-19.

The council regularly updates its medium-term financial strategy. The forecast for future years takes into account anticipated cost pressures (both inflationary and demand led), planned savings and expected resource levels. The forecast is necessarily underpinned by a range of estimates and recommendations through the Corporate Management Team, Cabinet and the Audit, Risk and Governance Committee.

The financial management arrangements of the council conform to the governance requirements of the Chartered Institute of Public Finance and Accountancy Statement on the *Role of the Chief Finance Officer in Local Government*.

Financial Management Code

The Chartered Institute of Public Finance and Accountancy Financial Management Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The code sets out six principles underpinned by a series of financial management standards identifying the professional standards to be met if a local authority is to meet the minimal expectations of financial management that are acceptable to meet the fiduciary duties to taxpayers, customers, and lenders.

Despite the Covid-19 pandemic, the council has been able to undertake medium-term financial planning which has driven the annual budget-setting and monitoring process. Through the Budget Scrutiny Committee, and the Audit, Risk and Governance Committee sources of assurance are recognised as an effective tool in delivering and demonstrating good financial management. The positive financial performance of the council during the year has once again evidenced that the long-term sustainability of local services is at the heart of the council's strategy supported by the prudent use of public resources.

Public Bond Issue

The county council has been considering long term loan financing through accessing the capital markets and using alternative sources of funding to the Public Works Loan Board (PWLB) for many years. Some of the perceived obstacles that have prevented us from pursuing these options in the past have been addressed and it was considered that the pursuit would now enable the council to obtain financing at reduced costs. Cabinet agreed to its first Bond Issue in February 2020 (£350m) and

to a further Issue in May 2020 (£250m). As a consequence, we managed to borrow at a lower cost than from the PWLB.

How do we know our governance arrangements are working?

There are a number of ways we do this:

The Role of Management

The Corporate Management Team oversee the review of the council's governance arrangements. Following this review, they can confirm that appropriate internal controls for which they have responsibility are in place, in particular their scrutiny of regular budget and performance reports including performance against savings targets within the Medium-Term Financial Strategy.

Directors have the day to day responsibility for managing and controlling services – they are accountable for their successful delivery. They set the culture, develop and implement policies, procedures, processes, and controls. Directors have completed an 'assurance statement' for 2020/21 that reports on service compliance and they produced regular situation reports that set out appropriate mitigating actions for significant risks. Where the evidence needed to provide full assurance is not available, improvement plans are in place.

The Monitoring Officer regularly reviews the council's Constitution and ethical governance arrangements and there are regular briefings on key corporate governance issues to Directors and Heads of Service.

The Role of the Audit, Risk & Governance Committee

The council's Audit, Risk and Governance Committee plays a vital role in overseeing and promoting good governance, ensuring accountability and reviewing the way things are done.

The Committee provides an assurance role to the council by examining such areas as audit, risk management, internal control, counter fraud, treasury management, and financial accountability. The Committee exists to challenge the way things are done, making sure the right processes are in place. It works closely with both Internal Audit and senior management to continually improve the council's governance, risk, and control environment.

In addition to the standard items on the agenda, the committee considered reports on the following:

- Review of the Code of Conduct for members – a report which provided an overview of the best practice recommendations of the Committee for Standards in Public Life in relation to local government standards. The committee considered the best practice recommendations and proposed changes to full council for approval.
- Code of Conduct – Summary of Complaints. For this item the appointed 'Independent Persons' who advise the Conduct Committee, were invited to attend the meeting in January 2021.

In July 2020, the Chairman presented his third annual report. The report set out the work the committee had undertaken and provided a means by which it was able to review its own effectiveness.

The Role of the Head of Internal Audit

The Head of Internal Audit is required to provide an independent opinion on the council's governance, risk management and control frameworks and therefore the extent to which the council can rely on them. The Internal Audit Annual Report and opinion have been considered in the development of the Annual Governance Statement.

The Head of Internal Audit's overall opinion is that moderate assurance can be given over the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk management and control for 2020/21. However, as set out in the Internal Audit Annual Report, the evidence base for this opinion is significantly different this year and very few normal audit assignments have been undertaken. Nonetheless it is clear that the organisation as a whole is well controlled and has responded well to the challenges posed to the communities of Lancashire by Covid-19.

External Assurances

The opinions and recommendations of the External Auditor and other inspection and review agencies and peer reviews offer us further assurance.

Information Governance

The council has a comprehensive Information Governance Framework in place, overseen by the Corporate Information Governance Group. The group meets quarterly and is attended by the Senior Information Risk Owner and Data Protection Officer. The annual review of policies took place in January 2021 and amendments were made following the end of the 'transitional period' and General Data Protection Regulation (GDPR) being mirrored in domestic legislation (UK GDPR). An interim 6-month grace period has been granted by the European Union (EU) Commission specifically for EU to UK data transfers (ending 30 June 2021) and a decision on UK adequacy is expected imminently.

The team established an Internal Resource Pool in March 2020 and managed up to 900 employees being made available and redeployed at some point during the public health crisis. Whilst services across the council have now resumed and employees have returned to their substantive posts, the Information Governance Manager and Senior Officers continue to support the Internal Resource Planning Group.

Council services currently being managed under the BTLS contract will return 'in house' in April 2021 and Information Governance/ICT policy and frameworks will be reviewed and updated to reflect these changes.

Local Government and Social Care Ombudsman

During 2020/21 Full Council did not receive any public reports from the Local Government and Social Care Ombudsman.

Lancashire County Developments Limited

Lancashire County Developments Limited is an owned subsidiary of the county council. As a material entity it forms part of the council's group accounts. The county council has the power to change

decision making rights, and to appoint and remove Directors of the company. Board Directors are County Councillors who regularly meet and receive financial and performance reports. In the 2020/21 financial year there have been no governance issues reported. The company is annually subject to a separate external audit to the county council.

Scrutiny Committees

Full Council ratified the Constitution at its Annual General Meeting in July 2020 and agreed to merge the Education and Children's Services Scrutiny Committees to a new Education and Children's Services Scrutiny Committee. This reduced duplication and combined the expertise on the committees. Although the number of committees was reduced, to ensure there was no reduction in scrutiny activity the new committee increased the frequency of its meetings.

The work of the four Scrutiny Committees is presented to Full Council on an on-going basis for comment and discussion.

There is also a cross party Budget Scrutiny Review Panel. The Panel:

- Provides further support to the overall budget monitoring process;
- Considers and formulates recommendations on Cabinet budget proposals; and
- Monitors progress of agreed budget savings.

The Review Panel in exercising this function contributes to a robust budget scrutiny process and supports effective monitoring of the county council's budget. The Review Panel's role is not to lead on the management of the budget or to set a budget, but to provide support as a 'critical friend'. The Review Panel reports to the Internal Scrutiny Committee.

The Statutory Scrutiny Officer and Monitoring Officer are undertaking a review of scrutiny activity with a view to future improvement and new scrutiny web page is live and will support officers across the council to better understand and engage with scrutiny activity.

Independent Remuneration Panel

Full Council in December 2020 agreed revised Terms of Reference for the Independent Remuneration Panel. It also re-appointed three current, experienced members for a further term of office. A fifth member of the Panel has since been appointed.

County Council Elections

Given the postponement of the elections last year there will be county, Police & Crime Commissioner and district elections (7 districts) taking place across Lancashire on the 6 May 2021. Some districts also have parish elections. Having combined elections is complex in itself but given the added dimension of the pandemic this has heightened the complexity and risk. As a result, the Returning Officer in conjunction with the Police Area Returning Officer have published detailed directions. Officers from all councils within Lancashire have met monthly to ensure a consistent and collaborative approach across the county. Officers have maintained regular dialogue with the Electoral Commission throughout the preparations and delivery of the polls and have worked with Lancashire Constabulary to maintain the integrity of the electoral process.

Officers and members have been briefed on pre-election rules on local authority publicity.

Local Government Reorganisation

At the June 2020 Full Council meeting, the principle of a Combined Authority and elected mayor was agreed to unlock the potential for a devolution deal and secure extra funding for the people of Lancashire. The Leader of the Council wrote to Government to ask them to consider new governance arrangements for Lancashire. These arrangements would see our current structure of a county council, 12 districts and two unitaries dissolved and replaced with three new unitary authorities which would cover the whole of the county and be responsible for delivering all of our services. The Government did not invite us to formally submit a proposal at this time.

However, in February 2021 the Government announced an eight-week consultation process for proposals for local government reform in Cumbria. There are four proposals under consideration. Discussions have been taking place in Lancashire about local government reform here because, as with Cumbria, there is a general support for change. Whilst any of the proposals would have implications for Lancashire if adopted, the "Bay Unitary proposal" would have the most direct impact as it would mean that responsibility for the services currently delivered in Lancaster City Council District by the county council would transfer to the new Bay council. If this proposal were to go ahead it would represent a major administrative change to how all of our services are delivered in that area. There was an Extraordinary Meeting of Full Council on 8 April 2021. Full Council agreed the principles of the response to the consultation set out in the report and authorised the Chief Executive, in consultation with the Leader of the Council, to finalise the response to the secretary of State.

EU Exit: Lancashire County Council preparedness

When the UK formally left the European Union (EU) on the 31 January 2020, it moved from being a member state to the transition period and little changed in practice. In January 2021, the UK moved from transition to a new relationship, and wide-ranging change will likely result, albeit not immediately. People, communities, businesses, organisations and our service areas will require time, clear communication, and support.

The council put in place an internal EU Exit Group, overseen by the Director of Corporate Services, to track key aspects of the UK's exit from the EU. Its role is focused on considering the implications for Lancashire and mitigating its impact.

Its areas of focus include Trade, State Aid, Workforce and EU Settled Status, including children looked after and care leavers of non-UK nationality, Border planning, Transfer of Powers/Regulatory change (GDPR, Employment Law, Procurement) and partnership working. The EU Exit Group continues to receive input from across council services and this enables a two-way communication flow and supports updates to the Department for Business, Energy and Industrial Strategy (BEIS), the Ministry of Housing, Communities and Local Government (MHCLG) or the North West regional CEO. It has provided timely reports on the level of the council's preparedness with assurance and recommendations to Cabinet and the Corporate Management Team. It currently provides monthly updates to Corporate Management Team.

The EU Exit Group will continue to review direct and indirect consequences on residents whilst monitoring cost drivers as markets/communities react to this change.

Looking Back on 2020/21

Several improvement actions were identified as part of the 2020/21 Annual Governance Statement. All of these have been the subject of reports to the Corporate Management Team, Cabinet and/or committees or Full Council. Set out below is an update in relation to each area:

Reshaping the Council

Our Improvement Journey

During 2020/21 we intended to progress Our Improvement Journey, but most of this work stopped when staff were redeployed into new roles to respond to the Covid-19 pandemic. Consequently, areas of focus included:

- Recover Well, Recover Better;
- Support our staff to work productively and maintain effectiveness;
- Prioritise improvement journey outcomes which will support response and recovery; and
- Deliver an effective rapid testing system within Lancashire.

We did manage to progress several initiatives such as the roll out of Microsoft 365. This will provide us with new tools and the technology to work flexibly. There is a significant review programme of Human Resources (HR) policies and procedures that will influence flexible working and support desired new ways of working. We have also put in place a leadership and management development offer to support this approach.

Financial Sustainability

The scale of savings agreed to be delivered over future financial years remains significant with £24.876m currently forecast to be delayed in 2020/21 as a result of refocussing officer priorities to the response to the current pandemic.

In addition, there are forecast savings of £24.241m to be delivered across 2021/22 and 2022/23. Should the Covid-19 emergency response continue for a protracted period it is likely that there will be further slippage. Any significant under-delivery or slippage to delivery timeframes will create an additional funding pressure and impact on the ongoing and longer-term financial health of the council if those costs are not mitigated by the Government providing additional funding in future years.

There are inherent risks in the delivery of any savings programme of this scale, particularly where they are directly linked to reducing the future demand for services. However, there is a strong track record of delivery of the vast majority of previous savings plans and there are comprehensive arrangements in place to track delivery of financial savings and take corrective actions where required.

Family Safeguarding – Children's Social Care

Family Safeguarding was evaluated by the Department of Education (DfE) to demonstrate excellent outcomes for families including fewer children coming into care and a reduction in attendances at A&E, and in call outs by the police. Lancashire undertook a bid process and were successful in securing £6.3 million pounds from the DfE to support the implementation of Family Safeguarding in Lancashire and this was matched by funding from the county council. A Lancashire Family Safeguarding

programme team was established and has ensured that the foundations for Family Safeguarding are in place and that we were able to go live on the 11 February 2021.

Family Safeguarding has been introduced as part of the transformation of children's services within Lancashire that has meant investing significantly in Early Help, developing teams around the school, and moving from a geographical management structure to a functional one. We are ensuring that children in care have secure and stable homes and that we invest in our ongoing support for Care Leavers.

There has been good progress in delivery against the priorities set out in our Getting to Good plan with a significant number of actions now closed. Child Protection Social Workers have been innovative in finding ways to facilitate contact between children and their families during the pandemic, enabling statutory duties to be carried out.

Special Educational Needs and Disability (SEND)

The Joint Area SEND revisit that took place in March 2020 found that partners in Lancashire had made sufficient progress in addressing 7 of the 12 significant weaknesses identified at the initial inspection in 2017 and therefore no longer require monitoring by the DfE and NHS England. The area however was found to have not made sufficient progress in addressing 5 significant weaknesses:

- Leaders had an inaccurate understanding of the local area;
- There were weak joint commissioning arrangements that were not well developed or evaluated;
- There was an absence of effective diagnostic pathways for autism spectrum disorders (ASD) across the local area and no diagnostic pathway in the north of the area;
- Transition arrangements in 0 to 25 healthcare services were poor; and
- The local offer was inaccessible, and the quality of information published was poor.

Accelerated Progress Plans are in place to secure further improvement in the 5 areas subject to ongoing monitoring from the DfE and NHS England. A subcommittee to the Health and Wellbeing Board has been established to scrutinise improvement against the 5 Accelerated Progress Plans. Checkpoint review meetings with the DfE and NHS England have been positive with no identified issues regarding progress to date.

The strong working relationships and ambitious vision for children and young people with SEND across Lancashire is transforming our collective offer to meet need more effectively and improve outcomes. The parents who have worked with us are positive about the difference that their contributions have made as equal partners in driving improvements.

Financial Leadership Challenges in Health and Social Care

Discussions through the Integrated Care System (ICS) are ongoing. In February 2021, the Government published a White Paper outlining how the NHS in England needs to change to enable health and care to work more closely together. Within the White Paper are several themes that are particularly relevant to the future working relationship between health and local government.

The White Paper does not address adult social care or public health reforms, with proposals on these areas expected later in the year.

Issues being considered within the Lancashire and South Cumbria ICS include:

- Planning and delivery of integrated services including Intermediate care, Children's and families, Population health (management), Mental Health, Learning Disabilities and Autism;
- Ways of working including the role of Health and Wellbeing Boards and potential for pooling of financial resources; and
- Involvement of elected members.

The North West regional NHS England and NHS Improvement (NHSEI) team is providing support for Integrated Care Partnership (ICP) development through project management resources and subject matter experts who are facilitating a number of workshops and small group session that will shape the content of the ICP development programme for 2021/22. In addition, the NHSEI team has made a connection to the Local Government Association (LGA), which can offer support to the Lancashire and South Cumbria ICS during the remainder of 2020/21 and into 2021/22. Proposals for next steps are expected to be considered by the ICS System Leadership in April 2021.

Managing Major Projects

Strong governance arrangements are in place through the Major Projects Steering Group and Project Board. Internal and external, legal and commercial advice and support is sought as required. We will look to access the Local Economic Growth & Recovery Fund and other funding opportunities to help the economic recovery agenda.

Future Provision of ICT Services

Work over 2020/21 has been focused on managing 10 major deliverables relating to the transition back from BTLS. This has included implementing a new management structure so that we are able to fully support the business from IT, payroll and recruitment perspectives. We conducted a smooth transition for inflight projects, and we are now able to provide commercially viable services to external third parties (schools, police, district councils). We have also been able to put plans in place to continue to improve the quality of the IT service and deliver committed cost savings and look at future potential cost savings across the business. We now understand the cost of providing IT support at a business level and fully understand the breakdown of the cost and value of their returned services. We have no licensing liabilities and no unresolved compliancy issues. As an organisation we can to procure new IT services for ourselves.

This has involved co-working with Lancashire Constabulary, West Lancashire Borough Council, schools, and others to be successful. The Chief Digital Officer together with the Director of Finance, Director of Strategy and Performance, and Head of Human Resources, has been guiding this contract to its conclusion in a safe managed way so that the services, staff, and customers are looked after and the opportunities that 'in house' services bring are realised to the maximum. A thorough approach to management of risks and issues has taken place over the last year and this will continue beyond the end of the contract.

Core Systems and Data

Oracle Fusion, Microsoft 365, BTLS – insource and Covid-19 have all put pressures on an already committed pipeline of business projects. Covid-19 particularly has challenged the service where responses have been required to support the emerging work of the organisation including supporting the council's statutory response, meeting new government requirements and the support of our

Lancashire young people. In the new financial year, a fresh look at the pipeline of work will produce a new Digital Delivery Plan for the council which will continue to accompany the Digital Strategy and include the new Digital Service's Continued Improvement Plan.

Governance Challenges for 2020/21 and Actions to be Taken

Reshaping the Council:

Our Improvement Journey

In 2019/20 we commenced on Our Improvement Journey with an aspiration to become a top performing council. This work stopped when staff were redeployed into new roles to respond to the Covid-19 pandemic. However, as we move out of crisis response to recovery, our focus will be on how we can develop Our Improvement Journey to help deliver our vision. We will initially focus on:

Our ways of working – we want to develop a future workplace model that optimises the performance of our people, places, processes and technology. We want to leverage the best of what is possible today and continuously improve and adapt in response to future challenges. To help us do this we will engage our staff to help shape emerging proposals and develop new approaches.

Improved Partnership working – responding to the pandemic has highlighted the importance of partnership working and is proof of what can be achieved if we work together. We want to use this as a platform to build better alliances with our partners to deliver improved outcomes for the people of Lancashire.

A New County Council – following the elections in May we will need to ensure our new county councillors have the support they need to fulfil their roles within both the county council and their communities.

Financial Sustainability

There is ongoing uncertainty in relation to future local government funding and the financial impact of the Covid-19 emergency has exacerbated the problem. This has been identified as one of the highest-level risks in the council's Risk and Opportunity Register and there are comprehensive arrangements in place to track delivery of financial savings and take corrective actions as required. However, whilst a multi-year spending review was expected from the Chancellor, a one-year spending review was implemented for 2021/22 to prioritise the response to Covid-19 and focus on supporting jobs. Therefore, the Medium-Term Financial Strategy contains a best estimate of our funding envelope over the coming years. Given the circumstances we also anticipate a delayed fair funding review and business rates system review. On current forecasts it will be necessary to identify additional savings to bring the council to a financially sustainable position. However, the current level of reserves will allow us to make those additional savings in a measured and structured way.

Family Safeguarding

We have begun to implement a more strengths-based practice model, including the development of the Lancashire Family Safeguarding approach and the remodelled Early Help offer. Therefore, our area of focus over the next twelve months will be to implement the Family Safeguarding model

alongside a remodel of Children's Social Care, embedding the revised approach to school improvement and implementing the re-modelled Early Help services. We will also ensure that the quality of practice continues to improve, eliminating inadequate practice and ensuring consistently good assessments and plans across county council early help services and children's social care.

Special Education Needs and Disability (SEND)

As mentioned above, in seven of the twelve areas of concern in respect of SEND, progress was judged to be sufficient and therefore no longer require monitoring by the DfE and NHS England.

During 2021/22 the following Accelerated Progress Plans are in place to secure further improvement in the 5 areas:

- Continuing to improve our understanding of the local area;
- Further developing and evaluating our commissioning arrangements;
- Improving the effectiveness of the new neuro-developmental pathway;
- Improving transition arrangements in 0 to 25 healthcare services; and
- Implementing the changes to the Local Offer.

The Key Performance Indicator's included in the plan will enable us to demonstrate the impact of our work as part of the ongoing transformation of services for SEND across the local area.

Integration & Innovation

Earlier this year, the Department of Health and Social Care published the legislative proposals for a Health and Care Bill. The proposals contained within the white paper '**Integration and Innovation: working together to improve health and social care for all**' sets out a range of reforms due to take effect from April 2022. These include:

- Making Integrated Care Systems (ICS) statutory bodies;
- Transferring the functions of Clinical Commissioning Groups to the ICS;
- Removing competition and changing procurement rules;
- Seeking to strengthen the voice/influence of local government;
- Introducing measures to enhance assurance of social care by the Care Quality Commission;
- Creating a standalone power for Better Care Fund;
- Encouraging joint appointments of executive directors to support integrated care and working; and
- Strengthening the role of Health and Wellbeing Boards.

As mentioned above, several themes are particularly relevant to the future working relationship between health and local government, and we will be looking to develop these through 2021/22.

The Government has also said that reforms to social care and public health will be dealt with later in 2021 outside the Health and Care Bill addressed in the white paper, with some minor exceptions. In readiness for this, the County Councils Network simultaneously launched 'The Future of Adult Social Care- Optimised Delivery'.

ICT Provision

The BTLS contract came to an end on the 31 March 2021. The contract is, however, much more than just ICT, and we will need to ensure that all the services that are currently delivered by BTLS are transferred back to the council in a seamless manner, mostly through the launch of the new Digital Service.

Covid 19 – Moving towards Recovery

The impact of the coronavirus pandemic has been felt by all organisations in the UK and the county council is no exception, being a significant employer, service provider and community leader in the county.

It is clear that this emergency is unlike any other we have ever faced, and as such the move towards recovery will be a different path to any we have seen before. Assessment of the longer-term disruption and consequences arising from the coronavirus pandemic are ongoing and we are beginning to understand the implications of coronavirus and how it will affect the day-to-day lives of our citizens. This will inform our planning during the recovery phase of the crisis. However, adapting our services will take time and we aim to have completed this review by 2023.

There have been devastating impacts on families across the county. From job loss to supply shortages. There has been an impact on emotional and mental health, and we have witnessed a rise in inequality and deprivation. We have a key role to play in the coming months as we will be at the heart of building a stronger, healthier and more prosperous Lancashire for our residents and businesses.

Monitoring Implementation

The key governance challenges facing the council in 2021/22 will be monitored by the Corporate Management Team and are identified risks in the Council's Corporate Risk and Opportunity Register. This document is the 'action plan' for each issue identified.

The governance arrangements relating to the Register involve its review by the Corporate Management Team which is then reported in turn to the Cabinet Committee on Performance Improvement and then the Audit, Risk and Governance Committee. The Register identifies risks, the current controls that apply and the mitigating actions to be taken, producing a "risk score" and a residual score after mitigating actions have been applied.

Conclusion

Overall, the county council has the appropriate systems and processes in place to ensure good governance is maintained. Whilst these work generally well, the council has identified a number of areas where further improvements can be made to strengthen its governance framework. The governance of the county council will continue to be monitored by the Audit, Risk & Governance Committee, Cabinet and the Corporate Management Team.

Responding to the Coronavirus Crisis

There has been a tremendous amount of work done by staff and with our partners to ensure that our emergency response has been effective. During this crisis we have had two goals:

- To protect the most vulnerable; and
- To make sure our most vital services continue to be delivered.

We have completely transformed the way in which we do business which is a testament to our preparedness to face emergencies. We could not have predicted the scale and scope of the challenges that this emergency has presented, but because we have exceptionally good business continuity plans, we have been able to rise to those challenges at speed. We recognised that partnership working is the key to an effective response and have been central to the ramping up of the Local Resilience Forum (LRF) to become the central hub for all activity. Our Chief Executive and Director of Resources is currently the chairperson of the Forum.

We aligned our response to the LRF structures to ensure clarity and continuity between our internal work and the wider partnership activity. This means that we have a clear understanding of our essential role and can move and adapt to changing circumstances. During the year we reviewed our structures and established a Covid-19 Corporate Recovery Group, a Corporate Safer Working Group, a Vaccination Sub-group and put in place an effective Outbreak Management process.

Impact on Business as Usual in the Delivery of Services

Our response to this emergency means we have been able to continue to deliver vital services to the people of Lancashire. That is not to say that it has all been plain sailing. The rapidly developing situation meant that we have had to make decisions that we have had to change, and have sometimes made mistakes, but these have all been quickly dealt with to ensure that we remain on course and we have managed to:

- Keep about 600 schools open throughout both lockdown periods to support the children of key workers and our most vulnerable families.
- There are more than 400 care homes and hundreds of domiciliary and other types of care providers across Lancashire and to ensure that they have the most up-to-date information we developed a new portal on our website where we have been posting all the latest advice. We also hosted fortnightly online care provider webinars that have been attended by hundreds of providers. We launched a campaign to recruit social care staff for Lancashire to meet the extra demand that the coronavirus crisis was creating.
- Support district councils in setting up their community hubs.
- Deliver School appeals over the summer months. Due to social distancing measures these will be heard remotely.
- Continue to register deaths and births.
- Move from being an organisation which is primarily location-based to one that is primarily remotely based.

During the first wave of the pandemic, many staff who were not in roles which are critical to the emergency response were temporarily shifted to new duties to support the response. As the crisis

progressed and the demands on our services and colleagues changed, we placed our resources where they had the most benefit. A new Internal Resource Pool was established. At its peak, the pool comprised over 1000 staff and the critical functions that received staff from the pool include:

- **Care Capacity Tracker** – to contact community and residential care providers regarding Covid-19. Their role is to make telephone calls to care providers in Lancashire daily to understand their current operating position, staffing and any issues related to the current Covid-19 situation. A small number of redeployed staff continue to work on the Tracker.
- **Provider Assistance** – a contacts list of 'go to people' quickly if a care home falls over and we need to keep them running.
- **Hospital Discharges** – in Care Navigation, staff needed to ring around care homes to identify places and so help with hospital discharges. This freed up beds for critical care patients.
- **Provider Queries** – Contract Management Responding to social care provider queries.
- **Infection Control Recording** – business support staff recorded details of infection notifications.
- **Infection Control Advice** – former nurses or social workers helping to provide infection prevention advice to care homes who are reporting outbreaks and concerns with Covid-19.
- **Provider Escalation Team** – a provider escalation team was set up that involves teleconferences for multi-disciplinary teams in relation to care homes. As the year progressed this team was renamed and repurposed to the Outbreak Management Team, to support the continued high level of outbreaks across care homes.
- **Vaccination** – we are working with the LRF to assist with the vaccination programme.
- **Public Health** – set up a pathway for staff and their families who display symptoms to access Covid-19 testing.
- **Excess Deaths** – the Coroners Covid-19 project involved taking calls from GPs regarding Covid-19. It was a service needed around the clock so people would be on call on an 8-hour shift system.
- **Registration Support** – a hub was created in Preston and business support staff worked to carry out the pre-registration 'screening' process for death registrations.
- **Personal Protective Equipment (PPE)** – there was a need for members of staff to help with a range of activities associated with PPE. These include operating the phone line, taking deliveries, updating stock records, packing PPE packages for internal services and non-council care providers. During the year, this resource was gradually stood down and staff returned to their business-as-usual roles as the supply routes for PPE became more stabilised.
- **Asset Management** – needed more resources on the Lancashire Volunteer Partnership to work on the helpdesk taking calls and signposting to the appropriate volunteer officer.
- **Waste Recycling Centers** – members of staff were needed to help direct traffic and engage with customer (at a safe distance) when the centres reopened.
- **Highways** – maintaining safety critical works.

Decision Making Arrangements

At the start of the pandemic all formal meetings of the council including Cabinet and committees were suspended whilst the relevant powers to hold remote meetings were granted by legislation, and the appropriate technology put in place. Only business critical decisions were taken, and these have been taken under the relevant urgency procedures. Initially, we deferred all decisions currently listed on the forward plans for Cabinet and committees. For regulatory-type processes and decisions, we considered the appropriate mechanisms with officers responsible to ensure we met our obligations.

To ensure that the council was able to make essential decisions quickly, the Leader agreed for officers to take all executive (i.e. Cabinet) decisions should the need arise. However, the intention remained that Cabinet decisions are made by elected representatives wherever possible in line with the urgent business procedures and as such this new delegation was for genuinely emergency situations. All decisions made by officers under this specific delegation have been properly recorded.

With the agreement of the Chairman, the Full Council Annual General Meeting (AGM) in May 2020 was cancelled. All appointments made at the AGM last year, including the Chairman of the council and committee appointments, continued until the meeting of Full Council on 16 July 2020.

We hosted our first virtual Cabinet meeting in May 2020 and Development Control Committee in June 2020 with all participants dialling in. We have continued to hold virtual meetings since. To facilitate this, we introduced a brand-new MS Teams product with associated training and support package for all county councillors. This was done within all governance and decision-making parameters.

Opposition groups have been regularly briefed by the Chief Executive and Director of Resources and Scrutiny committees have a future work programme in place. Bite sized briefing on all aspects of Covid-19 have been delivered for members.

Managing Risk

Our quarterly risk register was suspended and initially replaced by a twice weekly situation report that fed into both the Corporate Emergency Response Team (CERT) and the Corporate Management Team. The reports set out:

- Impacts on current service delivery;
- Mitigation actions to minimise impacts; and
- Resource issues.

The reports informed decision making in terms of resource allocation to help minimise the impact within Lancashire communities. The reports also set out actions taken to date and proposed actions. They also provided a forward view highlighting other issues. The reports were shared with multi-agency partners. The reports are now produced weekly. We have also carried out stress testing of our response and scenario planning, setting out how we would operate with reduced staffing levels of 20%, 40% and 50%. The situation reports have now been updated and aligned to our strategic and tactical objectives.

To provide flexibility to changing circumstances a number of our Human Resources policies and procedures have been either temporarily amended or suspended. We have maintained constructive dialogue with the Trades Unions throughout the crisis.

All staff working from home have completed a home working risk assessment to ensure they have the correct set-up to work safely at home.

Health and Wellbeing

Many staff are working so hard to look after others through this emergency, but it is also really important that they look after their own health and wellbeing. Keeping physically and mentally well is a challenge for us all. We have ensured that we have lots of useful information on the intranet about the help that we can offer, and guides to how people can help themselves. For colleagues not able to

access the intranet, this information is also available on the staff section of our website, which anyone can access. All of our wellbeing information is updated regularly.

New Areas of Activity as part of the National Response to Coronavirus and any Governance Issues Arising

Excess Deaths – Temporary body storage facility

Like many other places in the country, we must prepare for all contingencies as part of our response to the coronavirus pandemic. This meant we had to be prepared for the anticipated increase in deaths.

We originally built a temporary storage facility at BAE Systems' Site at Warton but this was decommissioned in September 2020. However, as we progressed through the pandemic it was predicted that there would be a further wave over the winter months. Mortuary occupancy is always significantly higher during these months in any event. This, together with the fact that our mortuary based at Blackburn Hospital is a designated Mass Fatalities mortuary for the North West, resulted in a formal request being made to the Cabinet Office for three temporary Titan Units in order to ensure that we could meet any capacity issues.

Cabinet Office agreed to this request and three Titan Units are now based at the Environmental Education Centre at Leyland. Although this site only provides 210 additional spaces as opposed to the original 800 spaces at BAE Systems, all the hospital mortuaries have also increased their storage capacity and to date we have never had more than 66.8% occupancy across all the mortuaries.

The LRF Death Management Group are currently reviewing the need to keep the Leyland site in standby mode and are also looking at the potential to use either this site or another identified site in the future should this be required again. All the protocols, plans and decisions taken in the setting up of this facility and the processes to support it will be kept so that they can be amended and used again.

Schools

The majority of schools have stayed open throughout the pandemic to accept our vulnerable children and those of key workers, with thousands of pupils attending each day. All schools have maintained close contact with all parents and pupils. We have been in daily contact with schools and have been supporting them with issues that have arisen, as well as sharing all the latest guidance.

More recently the focus was on supporting schools return on 8 March 2021 and establishing processes and protocols to ensure we tested secondary school pupils every 2-3 days and the potential transport issues linked to positive tests.

Throughout the pandemic there has been a focus on staff well-being and links to a range of resources have been available. Chrome books have been successfully distributed to disadvantaged children and for those families who chose to educate children at home we have performed the necessary safeguarding checks.

We have used additional government funding to support vulnerable children and young people in digital poverty with extra tutoring. Food vouchers have been provided and a lot of work to cover ages 2-4 years has been undertaken. In total over 1 million vouchers have been allocated and free school

meals have continued over the spring half term period and will also be provided over the Easter holidays.

Testing

Lateral flow testing (LFT) is progressing well with volumes increasing on a weekly basis. We now have up to four testing centres in each district. Priority at the moment is on local businesses and work locations where people are still having to go to a place of work during lockdown, and on providing locations in each district where workers can get a test if their place of work isn't providing them. We are recruiting additional testing teams and a roll out of home testing has commenced. This follows pilot testing with school pupils and their families will have an option to collect kits to carry out home testing.

Care Home Support Package

At the outset of the Covid-19 Pandemic in mid-March 2020, officers and members of the county council identified that support for the providers of adult social care services was a key priority in securing the best possible health and wellbeing outcomes for our most vulnerable residents. A social care cell was introduced as part of LRF which the Executive Director of Adult Services and Health and Wellbeing chairs, and we submitted a response to the Care Home support package that was developed in conjunction with the NHS.

Senior Officers in Adult Services immediately established a Human Aspects Cell (HAC) for Adults Services, which now meets weekly, and the Executive Director reports twice weekly into Corporate Management Team meetings and weekly into the Corporate Emergency Response Teams (CERT). This enabled close oversight on the support being given to the care sector and also to provide regular briefings to the county council's Cabinet and leader of the opposition group.

In addition, senior officers from Adult Services immediately established and have continued to maintain working groups and cells with key partners including health, district, and unitary councils, which continue to meet as frequently as required, to manage the hospital discharge process, provision of personal protective equipment for the sector, Infection Prevention Control, data collection, testing and tracing and workforce support.

Provider/Market Engagement

We recognised at the outset of the Covid-19 outbreak that effective engagement and communication with the care market in Lancashire was key to supporting them in their crucial role of securing the best health and wellbeing outcomes for our most vulnerable residents.

We immediately established a Provider Engagement Portal on the county council's website and set up weekly Zoom webinars which all Lancashire providers were invited to attend and where we provided up to date guidance and information. These webinars are now held fortnightly and on the alternate weeks we provide updates or facilitate discussions on topics such as care home visiting, day services, provider fees etc. Providers can submit questions which we answer live and via FAQs on the portal, which we update regularly. We regularly attract around 200 providers on the webinar.

We have received a considerable amount of positive feedback from our valued providers in Lancashire, and the questions and comments that we have received have ensured that, through

ongoing dialogue, we have provided the clarity or support required to maintain a strong and stable care market during the current crisis and for the future. For example, we have developed a Financial Assistance scheme to support the current and future financial viability of our care market. It sets out the pathway that providers can follow to secure a speedy response from us in relation to financial issues that they may be facing including accessing additional funding, for example in relation to additional staffing and personal protective equipment.

Data and Intelligence

The Business Intelligence Team established a Covid-19 Intelligence website on 'Lancashire Insight' to bring together publicly available information to support planning and decision making. In addition, the team supported the LRF by providing daily epidemiology reports. Reports on various aspects of the crisis response to Covid-19 (including death statistics, case-rates, test and trace, outbreaks, vaccination eligibility and uptake etc.) were provided to all boards, LRF Cells, and management meetings as needed, frequently on daily or bi-weekly basis. The team has produced communications for the general public and directors of public health pan Lancashire.

Several one-off research pieces have been produced including modelling, profiling and locating people at risk of social isolation or digital exclusion to support the work done by district councils and the community hubs. Economic modelling on the financial impact of lockdowns and Covid-19 more generally supported conversations with the government, and planning interventions. The team has worked closely with Lancaster University and supplied weekly data to facilitate analysis of the Covid-19 reproduction rates at lower level geographies. Analysis of domestic abuse supported community safety actions. Close working with the Integrated Care System (ICS) Data Hub has facilitated the flow of data into the system, and the use of its analytics across all districts and health services to enable planning and prioritisation of support to vulnerable people.

As the nominated 'Data Hub' by the Ministry of Housing, Communities and Local Government (MHCLG) for the support of clinically extremely vulnerable people, the team has worked closely with MHCLG and district councils to ensure the right information has been provided to the right people, enabling the provision of food delivery, care support and other services at the height of the first wave of the pandemic. More recently the team has been the designated contact for MHCLG's National Shielding Support System (NSSS); and has supplied daily information to districts to ensure continued support of vulnerable people during lockdowns.

The team has supported the county council's Human Aspects Cell, providing regular reports and working closely with adult social care colleagues, the team has provided investigative reporting support to Covid-19 related activity. Modelling care home capacity using data from the care capacity tracker and models provided by Imperial College, the team provided estimates of the potential impact of Covid-19 on provider capacity. The care capacity tracker and outbreak management system (complex cases) were both supported by the team developing dashboards and reports (and continually maintaining and further developing them to meet emerging needs throughout the various pandemic waves). Children's Services were supported by the development of a weekly demand dashboard, and a Multi-Agency Safeguarding Hub (MASH) dashboard enabling the effective planning of interventions and highlighting risks. The team also supplied regular reports to the Department for Education and Regional Intelligence Group. The Children and Young People's Justice Service (CYJS),

formerly the Youth Offending Team, were supplied with additional analysis to establish the impact of Covid-19. A number of one-off pieces of work supported the phased re-opening of library services and facilitated the development of Covid-secure home delivery services, as well as the further development of the eBook service.

The team also supported the wellbeing of Lancashire County Council staff during the pandemic, providing support for a wellbeing survey, reporting staff sickness, self-isolation and Covid related illness weekly (more frequently initially). Vaccine eligibility and uptake information has also been provided.

Infection Prevention and Control

Our Infection Prevention and Control team have played a key role in supporting providers to maintain safe and healthy care services for Lancashire residents. The team have published regular guidance and advice to all providers including guidance documents and video training for the correct use of personal protective equipment (PPE).

The team is now playing a key role in gathering daily information in relation to outbreaks in homes and supporting care providers in minimising and preventing the further spread of the disease. Their work supports the Care Homes Admissions Policy statement that is regularly updated and signed off by the LRF Social Care Cell.

The statement sets out how we will best maintain the status of 'cold' homes (i.e. those with no cases) and reduce the spread of the infection in 'hot' homes (those with cases). The policy is aimed at ensuring effective and safe hospital discharge and movement of residents between settings. It also incorporates the Adult Social Care Cell's position on the use of designated settings.

The county council has continued to secure sufficient quantities and quality of the full range of PPE which meets national guidance (as it changes). We have received positive feedback from providers as the availability of PPE has been paramount in their continued efforts to contain the virus. In the main providers now obtain the bulk of their PPE supplies via the government supply chains. The county council will continue to step in in emergency situations.

Testing in Adult Social Care

Regular testing in Adult Social Care was delayed nationally at the start of the pandemic. From August 2020, regular covid testing has been rolled out over a 6-month period for Adult Social Care, initially for Residential Care with arrangements for Homecare, Supported Living, and personal assistants following in subsequent months.

The testing regime has not been without its challenges with constant changes in national guidance, delays in receiving test results, test kits not being picked up amongst the main challenges. Throughout this we have done our best to support care providers with support from Contract Management, Infection Prevention Control, and Care Capacity Tracker calls. We have raised issues through the LRF Testing and Containment Cell to be taken up regionally and nationally.

In 2021 the Department for Health and Social Care introduced Enhanced Testing Regimes with additional LFT Testing twice a week. This was announced with additional funding for residential care, which was given to local authorities in February 2021 to be spent by the end of March 2021. The conditions and limited timescales have meant significant percentages of the care sector have not been able to meet the conditions set by the Department for Health and Social Care.

Rigorous testing has meant as the Pandemic has increased in communities this has been reflected in care homes with staff and residents testing positive meaning homes and care settings being in regular outbreak. The Adult Social Care Cell continues to update its position in relation to testing policies (for services users and staff), ensuring alignment with national policy (where appropriate), the latest Admissions Policy for care settings and the current visiting guidance for care settings.

Personal Protective Equipment (PPE) and Supply

The county council's procurement team were at the forefront of working alongside the LRF to secure sufficient quantities of compliant PPE to support both the county council's care service staff and the wider market. A PPE pathway was established early in the pandemic which encouraged care providers to secure their own PPE equipment via the national route, and to contact the county council if other routes had failed. This route for accessing PPE was relied upon heavily by a significant proportion of the wider care market.

The county council has continued to support the distribution of PPE to both internal services and the wider care sector throughout the pandemic from PPE received from central government, in addition to the council's own sourced stocks. To date over 24.5 million items of PPE have been issued by the county council, with 57% of the total items distributed to the wider market. The introduction of a national supply chain through the PPE Portal has seen a reduction in the PPE distributed to the wider market in more recent months, but we continue to be supplement provider PPE requirements, acting as an emergency supply and provide items to those sectors not provided for by the PPE Portal, for example personal assistants, domestic violence refuges, education and childcare services and unpaid carers.

Workforce Support

In April 2020, faced with the pandemic and its implications on frontline care staff we set up an internal staffing agency – Lancashire Temporary Staffing Agency (LTSA). This has successfully built capacity for care workers, easing the burden on care providers' management teams to ensure they can focus on increasingly demanding frontline activities.

We initially launched a local recruitment campaign through the LTSA to meet demand for residential care roles, as in Lancashire this area of care was the first to see the impact of the pandemic. This campaign received 1,454 expressions of interest, 738 of those received within the first two weeks. To date, the LTSA has 160 carers on their books, and is supporting 60 residential care homes for older people.

Built at speed, this campaign was launched with the help of corporate communications colleagues, and to support the LTSA, we deployed our own staff from services that had been stood down as a result of the pandemic. Initially, the LTSA involved care homes run by the county council to assist in the work-shadowing process for new recruits, and as the programme went from strength to strength, the LTSA gained the support of private care providers in this process too. Once candidates were trained and cleared, they would be put into the LTSA pool and deployed to care homes as needed. In practice, many candidates have remained working in homes where they underwent work-shadowing, but are sometimes deployed elsewhere following demand, whilst adhering to infection control requirements.

In terms of demand, we also created a care capacity tracker, in which a team of staff calls providers daily to assess capacity and then feed this through to the LTSA as an early alert to identify temporary

staff who can fill gaps in rotas. Following the success of this initial campaign, the LTSA has used the same model to recruit for community-based care roles, cleaners and caterers within care homes, drivers and passenger assistants, and staff for community testing sites – all of which can be found on our recruitment campaign website

As the first wave of the pandemic eased people returned to furloughed roles, university, and secured permanent roles. Therefore, the LTSA resource became depleted in certain areas of Lancashire. Subsequent campaigns have followed on the back of regional and national campaigns. We have also sought support from our adult social care teams for volunteers to be deployed if appropriate.

We have always recognised that maintaining the supply of a workforce for the care market in Lancashire was another key component to ensuring the stability of the market and saving lives. As further waves of the pandemic have arrived providers have been significantly challenged to maintain staffing levels and we have established internal teams to provide additional support to them and availability so far has managed to respond to provider pressure and failures.

We have supported some of these external initiatives with offers of financial assistance from a range of the Department for Health and Social Care's Covid-specific grants, targeted at the care sector across Lancashire. During the second wave of the pandemic, the number of care homes facing critical staff shortages increased at times and our staff worked tirelessly to support them via daily calls, liaising with independent staff agencies and bolstering homes with our own staff drawn from the initiatives described above.

Clinical Support

One of the pathways that we have established is in relation to nursing support and clinical and medical interventions that may be required in a care setting. We have worked with health colleagues to establish a pathway to access such support from any of the 5 Integrated Care Partnerships (ICPs) in Lancashire.

Safe Discharge from the NHS to Social Care Settings

Shortly after the start of the pandemic, a new National Hospital Discharge Operating Policy was introduced which placed a firm emphasis on people only remaining in hospital if they have a defined clinical need to do so. Everyone else not meeting the agreed 'criteria to reside' must be urgently discharged. Initially the discharge window was 2 - 4 hours and following the learning during the first 6 months this was revised to reflect some of the challenges in preparing people for and facilitating discharge. So, from the 1 September 2020 the desired discharge timescale was within the same day. The new policy sets out changes in roles and functions of various staff and organisations involved in the discharge process including hospitals, upper tier councils and social care providers. People are now no longer assessed whilst in hospital but are discharged onto 'discharge to assess/recover pathways' ranging from home with no support, right up to 24-hour care in a care home. The clear aim is to achieve 95% of people returning directly home and the policy is underpinned by a national Discharge Support Fund of £588m, which ends on the 31 March 2021.

The council, in partnership with the NHS locally, already had a range of intermediate care services in place. These include the 'Home First' service which provides immediate care support for people who need it in their own home for up to 5 days, enabling them to recover from their hospital stay before having a fuller assessment to determine the most appropriate onward service to meet their needs.

For many people the initial support is enough to help them recover to be able to manage independently again. Some people need short term support, for example from the Reablement Service, and a smaller number of people will need longer term homecare support.

In Lancashire and South Cumbria, whilst the implementation of the national Hospital Discharge Policy was undertaken across all the hospitals at significant pace to meet the requirements and ensure rapid discharges could take place, this resulted in a lack of consistent processes and agreements across the Integrated Care System (ICS). This is now being picked up through an ICS Hospital Discharge project which aims to bring a level of consistent practice across the ICS, underpinned by a Lancashire and South Cumbria standard operating procedure that aligns to the national policy. This work will ensure that there is a consistent process and service offer to all ICS residents, no matter which hospital the person is discharged from. The project is jointly led by the county council and the NHS on behalf of all ICS partners, and is supported by a Hospital Discharge Executive group with the executive leads from each Integrated Care Partnership (ICP), project officers from the Midland and Lancashire Commissioning Support Unit, an ICS operational group, plus ICP steering groups to ensure local implementation and delivery of the ICS operating process.

Some of the key achievements of the ICS project so far include:

- An agreed set of discharge principles that place the person at the centre of the process;
- The establishment of the ICS Executive group and the ICP steering groups to ensure consistent implementation;
- Bespoke Emergency Care Improvement Support Team (ECIST) and Local Government Association facilitated workshops for Therapy staff, Social Care staff and a data interpretation session;
- The development of Designated Settings for people who need 24/7 support, are Covid-19 positive and needing to leave hospital; and
- An agreed set of discharge pathway definitions that will bring consistency of discharge options and reporting across the ICS.

In responding to the new national policy, our Hospital Discharge teams moved quickly to base themselves into the community to be able to undertake the majority of assessments there rather than on hospital wards, after people have been discharged. Some assessments such as Mental Capacity Assessments, Best Interests Decisions and some safeguarding work still needs to be undertaken by social workers with people whilst they are in hospital, but in the main our hospital discharge staff now undertake assessments with people in their own home, at a rehabilitation unit or in a Care Quality Commission registered care home.

Initial challenges included undertaking many assessments with people remotely, with the aim of reducing transmission of the virus. Creative ways to conduct assessments have been used including the use of video calls. The role of care home providers has become even more critical in supporting people to be assessed and to participate in their assessment through digital technology.

An additional challenge was that during the first few months of the pandemic and due to the national need to free up hospital beds quickly, we saw more people being transferred into care homes. Work

has been underway across the second half of the year to assess all those people and understand their ongoing needs, and where their needs can be met at home this has been facilitated. At times, there have been significant challenges in finding care home placements for people who need them on discharge when there has been reduced care home capacity due to Covid-19 outbreaks or where people's needs have been very complex and more difficult to support.

The work through the pandemic, whilst it has been hugely challenging, has also enabled improved collaborative working with the NHS, and through having to find more creative ways to work closely together to best meet people's need when being discharged from hospital this has seen communication and relationships strengthened. Adult Social Care has also continued to develop and implement new ways of working, bringing together social care teams to further improve our response and meet the demands of 2-hour and same day discharges. During the pandemic we have rolled out our Intermediate Care Allocation Teams (ICAT) into Fylde and Wyre and West Lancashire so that we now have these in place across the county. The teams have made greater use of services such as reablement, Age UK 'Take Home and Settle' and crisis support, and have also forged closer relationships with district councils in supporting people who are homeless or have other housing needs and need to be discharged.

The hospital discharge work has remained high over the last 10 months, and the social care teams have worked hard with their NHS colleagues to increase the number of people able to return directly home through Home First. Overall, the teams have been involved with 10,364 discharges between 1 March 2020 and 11 February 2021. At the same time, we have seen discharge delays significantly reduce meaning that many more people have been able to be discharged as soon as possible after they no longer have a clinical need to stay there.

The national Adult Social Care Plan published in September 2020 set out the requirement for designated beds in care homes to enable the discharge from hospital of people who are Covid-19 positive and need a care home placement. Designated settings must meet a defined set of requirements including a separate unit, a separate set of staff, and enhanced infection control measures. People are discharged into a designated setting to complete the necessary 14-day isolation before returning to their existing care home or transferring to a discharge to assess care home bed. These interim beds help avoid the transmission of the virus in care homes following discharge from hospital.

In partnership with the NHS, the Care Quality Commission and care home providers we have opened 58 designated beds across Lancashire. Whilst the beds continue to be an important service to support hospital discharge of people who are Covid-19 positive, the use of the beds has remained steady but lower than anticipated.

Returning Professionals Coming to Work in Social Care

The county council is working with various professional bodies, including Social Work England and the Health and Care Professionals Council, to identify returning social work professionals who worked in the sector within the last few years. Despite issues with the quality of some of the information provided we are working with human resource professionals and looking at other options to get a clearer picture of how many social workers may potentially be recruited from this group.

Active Travel

As Lancashire's businesses prepare to reopen, work is taking place across the county to ensure this can happen as safely as possible. We have been working closely with our colleagues in the districts and business to help our residents take advantage of the easing of the lockdown, whilst still maintaining social distancing to prevent the spread of coronavirus.

One way we are doing this has been through the creation of pop-up cycle lanes to encourage people to walk and cycle for regular journeys. The lanes in Lancaster and Preston city centres are to make it easier for people to cycle in these busy areas, and avoid using public transport if they can, to help prevent the spread of coronavirus and of course, protect themselves.

By making it easier for people to walk and cycle more, it also has the added benefit of assisting our physical and mental health. We are also asking people to highlight public places where social distancing may currently be difficult and road space could temporarily be reallocated to give people more room.

Lancashire Outbreak Control Plan

In June 2020, Cabinet agreed to develop an Outbreak Control Plan. This work will be led by the Director of Public Health with NHS and district partners. The plan will address prevention, protection, and response. A Local Outbreak Engagement Board has also been established. Cabinet supported the proposal that the Health and Wellbeing Board be empowered to make the necessary arrangements.

Adult Social Care Vaccination

In December 2020, the Government launched an ambitious vaccination programme for all adults in the UK. The Joint Committee on Vaccination and Immunisation established 9 priority groups to be vaccinated first. The first 4 priority groups included all people aged over 80, all residents in care homes, care home staff and front-line health and social care workers.

Adult Social Care staff have been supporting the roll out of the vaccine, in particular the priority group 2 for health and social care staff. The DAS is responsible for identifying all eligible front-line staff, both Lancashire County Council employed staff and those employed by providers. Uptake has been good and from our data collection work we have identified those staff (internal and external) who have yet to take up the vaccine (for a range of reasons) and we are doing targeted work with ICS colleagues to support those staff to come forward.

The NHS have led on the overall vaccination programme and have visited all care homes and vaccinated the vast majority of care home residents and a high number of care home staff. Work is now ongoing to ensure uptake of the second jab for those people who now require it, and we are turning our attention to priority groups 5 and 6 which includes Clinically Vulnerable (staff and service users) and Carers. This will be an ongoing programme into 2021/22.

Engage and Enforce Action

We continue to work with the LRF Business Compliance Group to develop a consistent process to enforcement. All our current enforcement directions will be allowed to lapse as there is nothing

currently allowed to be open. These will be reviewed with any change in restrictions as lockdown eases.

Economic Support, Recovery and Growth

The pandemic has hit the Lancashire economy hard. To date there have been 18,834 redundancies and 82 liquidations. Added to this there have been 171200 employment furloughs and a 58% decrease in leisure and recreation activity. Therefore, in addition to direct interventions (e.g. to support workforce working with the Department for Work and Pensions) and business support (including sectoral issues and grants), a significant volume of activity is taking place to tackle specific hotspots (e.g. redundancies, business at risk) and economic impacts, engage government in active dialogue/response to highlight issues and secure potential further support, funding and investment.

We are delivering the £13m local recovery and growth programme aligned to Redefining Lancashire and the £1.75m development pipeline ongoing to maintain opportunities for economic growth. Lancashire has been allocated European Regional Development Funds to deliver small grants (between £1k and £5k) to small- and medium-sized enterprises (SMEs), to support their response to the economic impact of Covid-19. The funding is split between Visitor Economy and Wider Economy businesses. We are current on track to have paid out over £1m to over 350 businesses by the end of March 2021.

We are proactively responding to potential inward investment to assist Lancashire's economy and recovery, for example around clean energy. This involves supporting inward investment and business diversification and growth to help avoid long term economic scarring.

Significant volumes of work are being undertaken in relation to economic recovery including influencing and engaging government post Spending Review and ahead of the Budget and in preparation for significant funding and bidding work expected imminently to coincide with the Budget including the Levelling Up Fund and the UK Shared Prosperity Fund (to replace the former European programmes).

Community Safety and Domestic Abuse

Through the Community Safety Partnership, we are working closely with our partners in the police, Housing, health services and wider domestic abuse sector, to reassure people at risk and provide support and guidance.

Internal Vaccination Sub-Group

An Internal Vaccination Subgroup was established and maintained to coordinate the organisational preparedness for the national Covid-19 vaccination programme, as delivered in Lancashire. The structure and membership of the sub-group is flexible to meet the needs of the incident but the sub-group considers all Directorate areas across the council, linking into external partners as required, to ensure we support the delivery of the national vaccination programme into the council and also support the local delivery of the NHS vaccination programme in Lancashire.

We have 1157 volunteers in the vaccination programme through Lancashire Volunteer Partnership.

Corporate Safer Working group

As part of the council's operational response to the Covid-19 pandemic, a corporate safer working group has been established and has met on an ongoing, regular basis. The group is made up of senior officers and lead specialists. The purpose of the group has been to provide coordinated support and guidance for Lancashire County Council services as they continue to provide critical services and where they prepare to re-establish service delivery. The group:

- Provides guidance for the safe and effective use of our premises in the light of Covid-19 constraints and government guidance, including keeping fully up to date with and applying revised advice;
- Develops guidance for managers and premises managers about safe working requirements in a range of settings;
- Has developed a risk management framework in line with government guidance – this has included the approach to home working arrangements;
- Supports service and premises managers to identify mitigation measures in relation to key risks; and
- Prioritises service requests to recommence or increase service delivery.

The Safer Working Group reports to the Corporate Management Team, the Corporate Emergency Response Team, and the Planning for Recovery Group as appropriate. There is also a multi-disciplinary buildings sub-group which provides a practical response to the key theme of 'buildings' through consultancy support to operational services and management of the programme to re-establish premises-based service delivery.

The Funding and Logistical Consequences of Delivering the Local Government Response

There is ongoing uncertainty in relation to future local government funding and the financial impact of the Covid-19 emergency has exacerbated the problem. In response to the crisis, the Government has provided a number of streams of additional funding to local government to support the financial pressures that have been experienced, with circa £76m of un-ringfenced emergency response grants along with some other grants that have been very specific in their focus, a good example of which is the Adult Social Care Infection Control Fund from which we received £31m with a clear requirement that this was to be passed on quickly to support care homes and Care Quality Commission regulated community care providers in taking measures to reduce rates of transmission within and between care settings.

The main mechanism for assessing the financial pressures has been a monthly data collection exercise via the Ministry of Housing, Communities and Local Government (MHCLG) financial returns. The MHCLG returns collect data on the use of government support funding, key financial pressures (cost and income) and reserves. The purpose of this has been to enable the MHCLG to obtain a reliable estimate of the financial challenge caused by Covid-19 at a local level and has supported the incremental process of funding being provided across the year. The financial pressures have primarily related to additional unbudgeted expenditure (e.g. support to the Adult Social Care Market and purchase of personal protective equipment), delayed delivery of agreed savings due to the prioritisation of Covid-19 response activity and income pressures as a result of the disruption to a number of the authority's income generating activities as a result of the Government's response to the pandemic including the lockdown and tiering measures that were implemented.

Overall, we are forecasting to have received £153m of Covid-related funding during 2020/21 which is broadly sufficient to meet the in-year financial impact of Covid-19 but there is an expectation that the financial pressures from the pandemic will continue into the medium term. We received a one-year financial settlement for 2021/22 which included additional Covid-19 funding for quarter one 2021/22 and other funding flexibilities (Adult Social Care precept) being made available, and which enabled a revenue budget to be agreed for 2021/22 with only a small requirement for gap funding from reserves. Overall, we have a sufficient level of reserves to meet the funding gap forecast in our medium term financial strategy covering the period up to and including 2023/24.

Assessment of the Longer-Term Disruption and Consequences Arising from the Coronavirus Pandemic

It is clear that this emergency is unlike any other we have ever faced, and as such the move towards recovery will be a different path to any we have seen before. At the end of last summer, we began to plan for recovery only to be faced by a second wave and further lockdown. However, we now have the Government road map to recovery and as part of our preparations, the Corporate Management Teams is currently considering three key areas:

- What do we want to achieve and what will a full recovery look like? How can we balance the varying needs of our residents, businesses and communities to ensure we are supporting their financial, physical, and mental wellbeing?
- What are the positives we have gained in this emergency that we want to secure? We have made significant changes to how we go about our business, and there has been some excellent innovation and practice that we need to capture and build on as we move back to whatever normality will look like in the future.
- What are the triggers for transition and recovery? How will we identify when to move into different phases of this journey? What will different services need to look at to indicate a change is needed? What warning signs will we need to be aware of to ensure we remain on track?

We have a key role to play in the coming months as we move to recovery. We will be at the heart of building a stronger, healthier, and more prosperous Lancashire for our residents and businesses.

Senior officers are already working on the implications and logistics associated with moving from crisis to recovery within their respective service areas. We established a Covid-19 Corporate Recovery Group and a senior officer working group to examine all of the issues around safety in the workplace as we move towards opening our buildings and reopening our services. The group has produced guidance and risk assessments, in consultation with staff and trade unions, to ensure social distancing in the workplace and that we maintain a safe work environment. The group is looking at wider issues than just having workplaces reopened and is considering all aspects of safe working as we start to move towards the new normal. This includes support for routinely working remotely from home and other locations.

Conclusion

The current coronavirus pandemic has tested the council's governance arrangements and we are pleased to note that the governance framework has provided a strong foundation from which to respond to the challenging circumstances. We recognise the importance of continuously improving our practice, including learning from how we respond to major incidents. We will use this knowledge to ensure that the council's governance arrangements continue to provide effective foundations for the council to achieve its objectives.

Glossary

Audit, Risk and Governance Committee - The Committee provides independent oversight of the adequacy of the council's governance, risk management and internal control framework, and oversees the financial reporting process.

Better Care Fund - is a programme spanning both the NHS and local government which seeks to join-up health and care services, so that people can manage their own health and wellbeing and live independently in their communities for as long as possible.

Capital Programme - identifies agreed capital schemes, showing the total cost of schemes and the projected phasing of those schemes over current and future financial years.

Care Quality Commission – is the independent regulator of all health and social care services in England.

Constitution - sets out how the council operates, how decisions are made and the procedures which are followed to ensure that decision-making is efficient, transparent and accountable to local people.

Corporate Management Team (CMT) – is the strategic officer leadership body within the council that advise and support the elected members of the council and its key post holders and bodies, including the Cabinet and Overview and Scrutiny.

Corporate Risk Register – is a formal record of the major risks facing the county council and the mitigating actions to reduce the risk.

Directors' Assurance Statements - provide an assurance on the internal control framework operating within their service(s).

Equality Impact Assessment - is a process designed to ensure that a policy, project or scheme does not discriminate against any disadvantaged or vulnerable people.

External Audit - external auditors review financial statements to ensure they are a 'true and fair' account of past financial performance and current financial position.

General Data Protection Regulation (GDPR) – is a regulation in European Union (EU) law on data protection and privacy for all individuals within the European Union and the European Economic Area (EEA).

Integrated Care System – Lancashire and Cumbria Integrated Care System is a partnership which joins up health and social care services.

Intermediate Care – services provide support for a short time to help individuals recover and increase their independence.

Internal Audit - is an independent, objective assurance and consulting activity designed to add value and improve the county council's operations.

LRF (Local Resilience Forum) - are multi-agency partnerships made up of representatives from local public services, including the emergency services, local authorities, the NHS, the Environment Agency and others.

Medium Term Financial Strategy - is the council's key financial planning document. It aims to provide the council with an assurance that the council's spending plans are affordable over the medium term.

Monitoring Officer - has the specific duty to ensure that the council, its officers, and its Elected Councillors, maintain the highest standards of conduct in all they do.

Ofsted - is the Office for Standards in Education, Children's Services and Skills. They inspect services providing education and skills for learners of all ages.

Outbreak Control Plan – sets out how we will prevent and manage Covid-19 cases and outbreaks across the county.

Passport to Independence - its aim is to help people stay healthy and self-sufficient (independent) for longer.

Performance Management – is the activity and set of processes that aim to maintain and improve performance in line with an organisation's objectives.

Reserves – liquid assets order to meet expected future payments and/or emergency needs.

Risk Management - is an important part of both corporate governance and performance management. It allows the council to avoid problems and failures, rather than just reacting to them when they arise. It helps the council to identify where it needs to focus its efforts and resources, to exploit more opportunities and suffer fewer failures.

S151 Officer - an officer appointed under section 151 of the Local Government Act 1972 which requires every local authority to appoint a suitably qualified officer responsible for the proper administration of its affairs.

Scheme of delegation - sets out how the Cabinet and Full Council have delegated their executive and non-executive powers.

Titan Units – a temporary body storage solution.

Code of Corporate Governance 2021/22

What is Corporate Governance?

Corporate governance is about the systems, processes and values by which councils operate and by which they engage with, and are held accountable to, their communities and stakeholders.

Lancashire County Council is committed to the principles of effective corporate governance and has therefore adopted a Code of Corporate Governance which follows the latest guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE), entitled "Delivering Good Governance in Local Government (2016)."

The guidance defines the seven core principles, each supported by sub-principles, that should underpin the governance framework of a local authority.

- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rules of law.
- Ensuring openness and comprehensive stakeholder engagement.
- Defining outcomes in terms of sustainable economic, social and environmental benefits.
- Determining the interventions necessary to optimise the achievement of the intended outcomes.
- Developing the Council's capacity, including the capability of its leadership and the individuals within it.

- Managing risks and performance through robust internal control and strong public financial management.
- Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.

What are the benefits of having a Code of Corporate Governance?

Good governance leads to good management, good performance, good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. It enables the council to pursue its priorities effectively as well as underpinning those priorities with mechanisms for control and the management of risk.

Lancashire County Council has a good governance framework in place. The documents and arrangements which comprise the framework demonstrate that the council continually seeks to ensure it is and remains, well governed, through integration of the core principles of the CIPFA/SOLACE framework into all aspects of the council's conduct and operation.

The Monitoring Officer is responsible for ensuring the Code is reviewed annually, and the outcome of the review, along with adoption of any revision to the Code is reported annually to the Audit, Risk and Governance Committee. It is then presented to Full Council for approval.

Lancashire County Council Code of Corporate Governance (Principle 1)

| Principle 1: Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rules of law | | |
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| Supporting Principles | To meet the requirements of this Principle, Lancashire County Council will; | This will be evidenced by: |
| <ul style="list-style-type: none"> • Behaving with integrity • Demonstrating strong commitment to ethical values • Respecting the rule of law | <ul style="list-style-type: none"> • Maintain shared values both for the county council and its officers. These are defined in the corporate strategy and reflect public expectations about the conduct and behaviour of individuals. • Use shared values as a guide for decision making and as a basis for developing positive and trusting relationships within the county council. We demonstrate this by adherence to the constitution. • Have adopted formal codes of conduct defining standards of personal behaviour for Members and officers. • Maintain the Audit, Risk and Governance Committee to raise awareness and take the lead in ensuring high standards of conduct are embedded within the county council's culture. • Have put in place arrangements to ensure that Members and staff of the county council are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders. We have put in place appropriate processes to ensure that these arrangements are workable including declaration of interests and anti-corruption policies. • Ensure that systems and processes for financial administration and control together with protection of the county council's resources and assets, comply with ethical standards; and are subject to monitoring of their effectiveness. | <ul style="list-style-type: none"> • Our values <ul style="list-style-type: none"> ○ Supportive ○ Innovative ○ Respectful ○ Collaborative • Corporate Strategy • Annual Governance Statement • The Constitution which includes : • Financial Procedure Rules • Contract Procedure Rules • Anti-Fraud and Corruption Strategy • Anti-Bribery Policy • Rules relating to Members External Interests • Rules relating to Gifts and Hospitality • Codes of Conduct for Members and Employees • Scheme of Delegation • Procedural Standing Orders • Register of Interests • Terms of reference |

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| | <ul style="list-style-type: none"> • Ensure that professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making if appropriate. Officers will actively recognise the limits of lawful activity placed on them but also strive to utilise their powers to the full benefit of their communities. • Officers will observe all specific legislative requirements placed upon the council as well as the requirements of general law, and in particular integrate the key principles of administrative law – rationality, legality and natural justice into the procedures and decision making. • Have put in place effective systems to protect the rights of staff. We ensure that policies for whistleblowing which are accessible to staff and those contracting with the council, and arrangements for the support of whistle-blowers, are in place. • Have established a corporate information governance group (CIGG) with the remit of collecting assurance information across all council functions. Establish a Senior Information Risk Officer and Data Protection Officer. • Publish an Annual Governance Statement, signed by the Leader of the Council and the Chief Executive and Director of Resources to confirm that we are satisfied that we have effective governance arrangements in place. | <ul style="list-style-type: none"> • Information Security Policy • Information Governance Policy • Money Laundering Policy • Whistleblowing Policy • External inspections of accounts • Members induction • Complaints Policy • Partnership Protocol • Job descriptions and Person Specifications • Clearance of committee reports • Anti-money laundering policy • Calendar of meetings • CCTV Policy • Companies – compliance with Companies Act 2006, directors duties, LEP assurance framework • Councillor – Use of resources, social media, AUP • Employee policies & procedures • FOI Publication Scheme • Grants rules, process, decisions and website • Pre-election guidance • Elections complaints process, fly posting, website • Identifying politically restricted posts |
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| | | <ul style="list-style-type: none">• Local Resilience Forum Agreement (LRF) (Covid-19)• Structures to reflect LRF response to Covid-19• Revised decision making arrangements (Covid-19) and virtual Cabinet and committee meetings• LRF accountable body• Service response to Covid-19 pandemic (see Annual Governance Statement 2020/21)• Virtual Cabinet, Committee and Full Council meetings |
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Lancashire County Council Code of Corporate Governance (Principle 2)

| Principle 2: Ensuring openness and comprehensive stakeholder engagement | | |
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| Supporting Principles | To meet the requirements of this Principle, Lancashire County Council will; | This will be evidenced by: |
| <ul style="list-style-type: none"> • Openness • Engaging comprehensively with institutional stakeholders • Engaging with individual citizens and service users effectively | <ul style="list-style-type: none"> • Ensure that the council’s vision, strategic plans, priorities and targets are developed in consultation and that they are clearly articulated and disseminated. • Maintain a culture of accountability so that Members and Officers understand to whom they are accountable and for what. • Strive to engage with stakeholders on an individual and collective basis to demonstrate that we deliver services and outcomes that meet the needs and expectations of the public. These arrangements will recognise that different sections of the community have different priorities and establish robust processes for dealing with these competing demands. • Publish reports giving information on the county council’s strategies, plans and financial statements as well as information about outcomes, achievements. • Deliver effective scrutiny of the county council’s business as appropriate and produce regular reports on the activities of the scrutiny function. • Ensure that the council as a whole is open and accessible to the community, service users and staff and we are committed to openness and transparency in all dealings. • Attempt to publish all committee agenda items under “part 1” unless there is the need to preserve | <ul style="list-style-type: none"> • Corporate strategy • Annual Governance Statement • Getting to Good plan • Special Educational Needs and Disabilities Improvement Plan • The Care, Support and Wellbeing of Adults in Lancashire Vision • The Housing with Care Strategy • Annual report on members allowances • Annual Pay Policy Statement • Freedom of Information Publication Scheme • Research and Consultation Strategy • Research and Consultation Database • Service Specific consultations • Living in Lancashire Panel • Communication Strategy • Constitution • Scheme of Delegation • Money Matters Budget reports • Lancashire Health & Wellbeing Strategy • Community Safety Agreement |

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| | confidentiality (where it is proper and appropriate to do so). | <ul style="list-style-type: none">• Director of Public Health Annual Report• Draft Children's Partnership Plan• Statement of Accounts• Scrutiny Reports• County Council Website• Joint Strategic Needs Assessment• Strategic Assessment of Crime & Anti-Social behaviour• Anti-Bribery Policy• Anti-Fraud & Corruption Strategy• Anti-Money Laundering Policy• Calendar of meetings• Companies - Companies database, Companies House database, Compliance with the Companies Act 2006, Directors duties, LCDL - 2018/19 Statement of Accounts, LEP Assurance Framework, LEP website• Employee Policies and Procedures• Equalities, Cohesion and Integration Strategy• Equality Impact Analysis• External inspections of accounts• Grants rules, process, decisions and website• Health and Safety Policies and Procedures• Information Governance Framework 2021• Information Security Policy 2021 |
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| | | <ul style="list-style-type: none">• Information sharing policy 2020 Partnership Protocol• Privacy Impact Analysis• Privacy Notice 2021• Procedure for complaints against Councillors• Publication of Members' Allowances paid 19/20• Privacy Impact Analysis• Scheme for access of information• Local Resilience Forum Agreement (Covid-19)• Structures to reflect LRF response to Covid-19• Service response to Covid-19 pandemic (see Annual Governance Statement 2020/21)• Outbreak Management Plan• Community Safety Strategy |
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Lancashire County Council Code of Corporate Governance (Principle 3)

| Principle 3: Defining outcomes in terms of sustainable economic, social and environmental benefits | | |
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| Supporting Principles | To meet the requirements of this Principle, Lancashire County Council will; | This will be evidenced by: |
| <ul style="list-style-type: none"> • Defining outcomes • Defining outcomes benefits | <ul style="list-style-type: none"> • Make a clear statement of the council’s purpose and priorities and use it as a basis for corporate and service planning. • Publish reports to communicate the council’s activities and achievements, its financial position and performance. • Ensure that those making decisions are provided with financial and non-financial information that is fit for the purpose – relevant, timely and gives clear explanations of technical issues and their implications. • Identify and monitor service performance indicators which demonstrate how the quality of service for users is to be measured. • Maintain a prudential financial framework, balance commitments with available resources; and monitor income and expenditure levels to ensure this balance is achieved. • Ensure compliance with the CIPFA codes regarding a Prudential Framework for Capital Finance and Treasury Management. | <ul style="list-style-type: none"> • Corporate Strategy • Family Safeguarding model • Special Educational Needs and Disabilities Improvement Plan • The Care, Support and Wellbeing of Adults in Lancashire Vision • The Housing with Care Strategy • Money Matters Budget Reports • Director of Public Health Annual Report • Reports to Audit, Risk & Governance Committee • Quality of Service Reports • Performance reports to Cabinet Committee on Performance Improvement • Monthly budget monitoring reports • Statement of Accounts • External Auditors letter & reports • External Inspections • Approach to Risk & Opportunity • Treasury Management Strategy • Capital Investment Strategy • Adult Services Annual plan |

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| | | <ul style="list-style-type: none">• Boost Lancashire's Business Growth Hub• Care Act Policies, Procedures and Guidance• Children's Social Care• Community & Resilience Plan• Companies - annual business plans• Consultancy Code• Consultation and Engagement Procedures• Corporate Procurement Strategy, policies and guidance• Customer Access Strategy• Development Plan• Digital by Default Strategy• Equalities, Cohesion and Integration Strategy• Full Council Framework documents• Health and Wellbeing Strategy Delivery Plan• Lancashire Children Looked After Sufficiency Strategy• Lancashire CLA Residential Strategy• Lancashire County Council Dementia Strategy• Lancashire Economic Development Strategy• Lancashire Economic Partnership (LEP)• Lancashire Environment Strategy• Lancashire Health and Wellbeing Strategy |
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| | | <ul style="list-style-type: none">• Lancashire Renewables• Libraries, museums and culture strategy• Local Transport Plan• Notice of forthcoming Executive Key Decisions (Forward Plan) and intention to conduct business in private• Prevent Strategy and Delivery Plan• Property Asset Management Strategy• Risk Management Strategy• Roads, parking and travel plans• Treasury Management Strategy• Youth Justice Plan• Digital First Strategy• Adult Social Care Winter Plan• Strategy for Libraries, Museums, Culture and Archives 2019-24• Capital Strategy for Schools• Service response to CV-19 pandemic (see Annual Governance Statement 2020/21)• Community Safety Strategy• Outbreak Management Plan• Family Safeguarding model• Adherence to the Financial Management Code |
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Lancashire County Council Code of Corporate Governance (Principle 4)

| Principle 4: Determining the interventions necessary to optimise the achievement of the intended outcomes | | |
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| Supporting Principles | To meet the requirements of this Principle, Lancashire County Council will; | This will be evidenced by: |
| <ul style="list-style-type: none"> • Determining interventions. • Planning interventions • Optimising achievement of intended outcomes | <ul style="list-style-type: none"> • Make a clear statement of the council’s purpose and priorities and use it as a basis for corporate and service planning. • Have risk management arrangements in place including mitigating actions to support the achievement of the council’s intended outcomes. • Ensure that there are effective arrangements in place to monitor service delivery • Put in place effective arrangements to deal with a failure in service delivery and explore options for improving service delivery and outcomes for our residents. • Have prepared contingency arrangements including a disaster recovery plan, business continuity plan and arrangements for delivering services during adverse weather conditions. • Provide senior managers and Members with timely financial and performance information. • Ensure that budget calculations are robust and reserves are adequate. • Align financial and performance data to provide an overall understanding of performance. | <ul style="list-style-type: none"> • Corporate Strategy • Family Safeguarding model • Special Educational Needs and Disabilities Improvement Plan • The Care, Support and Wellbeing of Adults in Lancashire Vision • The Housing with Care Strategy • Our approach to Risk & Opportunity Management • Corporate Risk & Opportunity Register • Corporate & service performance dashboards • Highlight Reports • Business Continuity Plans • Emergency Plan • Money Matters Budget Reports • Social Value Policy & Framework • Anti-Fraud & Corruption Strategy • Committee specific training for Scrutiny members • Companies - Articles of association, Directors duties, LEP Assurance Framework, Service level agreements • Education Scrutiny Committee |

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| | | <ul style="list-style-type: none">• External Scrutiny Committee• Health and Wellbeing Strategy Delivery Plan• Health Scrutiny Committee• Internal Scrutiny Committee• Scrutiny Task Group Meetings/Reports• Webcast of all Scrutiny Committee meetings• Service response to Covid-19 pandemic (see Annual Governance Statement 2020/21)• Covid-19 Situation Reports |
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Lancashire County Council Code of Corporate Governance (Principle 5)

| Principle 5: Developing the county council's capacity, including the capability of its leadership and the individuals within it | | |
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| Supporting Principles | To meet the requirements of this Principle, Lancashire County Council will; | This will be evidenced by: |
| <ul style="list-style-type: none"> • Developing the county council's capacity • Developing the capability of the county council's leadership and other individuals | <ul style="list-style-type: none"> • Through the constitution set out a clear statement of the respective roles and responsibilities of the council's Executive Committee and the Members individually. • Set out a clear statement of the respective roles and responsibilities of the council's other committees and senior officers. • Have developed protocols to ensure effective communication between council Members and officers in their respective roles. • Have developed protocols to ensure that the Leader and Chief Executive negotiate their respective roles early in their relationship and that a shared understanding of roles and objectives is maintained. • Set out the terms and conditions for remuneration of Members and officers and publish an Annual Pay policy statement in accordance with the requirements of the Localism Act 2011. • Have determined a scheme of delegated and reserved powers within the constitution and ensure that the scheme is monitored and updated when required. • Ensure that effective management arrangements are in place at the top of the organisation. • Ensure the Chief Executive is responsible and accountable to the council for all aspects of operational management. • Ensure the Section 151 Officer is responsible to the county council for ensuring that appropriate advice is | <ul style="list-style-type: none"> • Constitution • Annual Pay Policy • Scheme of Delegation • Leadership Development Programme • Performance Engagement Reviews • Member Development Strategy and Programme • Member Induction Working Group • Getting to Good Plan • Special Educational Needs and Disabilities Improvement Plan • Scheme of delegation to officers • Induction programme • Health & Wellbeing Policy • Children's Partnership Board - Terms of reference • Code of conduct training for councillors • Companies - Articles of association, Directors duties, Directors induction packs, Directors induction training, Internal controls manuals • Corporate induction e-learning |

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| | <p>given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control.</p> <ul style="list-style-type: none"> • Have appointed a professionally qualified and experienced Director of Finance who will lead the promotion and delivery of good financial management, safeguarding public money and ensuring appropriate, economic, efficient and effective use of funds; together with professional accountability for finance staff throughout the county council . • Ensure the Monitoring Officer is responsible to the county council for ensuring that the constitution is adhered to. • Assess the skills required by Members including the understanding of financial systems. We will agree a personal development plan to develop skills and address any training gaps, to enable roles to be carried out effectively. • We will assess the skills required by officers through the performance engagement process and address any training gaps, to enable roles to be carried out effectively. • We will develop skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed. • We will ensure that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the council. • We provide the Director of Finance with the resources, expertise and systems necessary to perform the role effectively within the county council. | <ul style="list-style-type: none"> • Councillors - Internet and email acceptable use policy, Provision and use of resources, Use of social media, Fair Use Policy for Mobile Phones • County Councillor Training Records • Generic Job descriptions/specifications for officers • Internet, Email and Telephone Acceptable Use Policy for staff • Lancashire County Council Behaviour Framework • Leadership Development Programme • Mandatory e-learning modules • Recruitment & Selection Policy • Local Resilience Forum Agreement (LRF) (Covid-19) • Structures to reflect LRF response to Covid-19 • Revised decision making arrangements (Covid-19) and virtual Cabinet and committee meetings • LRF accountable body • Service response to Covid-19 pandemic (see Annual Governance Statement 2020/21) • Our Improvement Journey organisational development programme |
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| | <ul style="list-style-type: none">• We will provide the Executive Director Education & Children's Services with the resources, expertise and systems necessary to perform the role effectively within the Council and respond to the last Ofsted & Special Educational Needs & Disability inspections. | |
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Lancashire County Council Code of Corporate Governance (Principle 6)

| Principle 6: Managing risks and performance through robust internal control and strong public financial management | | |
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| Supporting Principles | To meet the requirements of this Principle, Lancashire County Council will; | This will be evidenced by: |
| <ul style="list-style-type: none"> • Managing risk • Managing performance • Robust internal control. • Managing data. • Strong public financial management | <ul style="list-style-type: none"> • Maintain an effective Audit, Risk & Governance Committee which is independent of the executive and scrutiny functions. • Enable the Director of Finance to bring influence to bear on all material decisions and provide advice on the levels of reserves and balances to be retained. • Ensure that risk management is embedded into the culture of the county council, with Members and managers at all levels recognising that risk management is part of their job. • Ensure our arrangements for financial and internal control and management of risk are formally addressed within the annual governance reports. • Ensure effective internal control arrangements exist for sound financial management systems and processes. • Ensure that a Corporate Performance Summary is presented to the Cabinet Committee for Performance Improvement on a quarterly basis. • Ensure that quarterly performance reports are produced and used to hold Cabinet Members and officers to account. | <ul style="list-style-type: none"> • Audit, Risk & Governance Committee • Money Matters Budget Reports • Approach to Risk Management and publication of a quarterly Corporate Risk & Opportunity Register • Annual Governance Statement • Performance reports presented to CCPI • Internal Audit Reports • Project Accuracy • O&S arrangements • Information Governance Strategy • Data Protection Policy • Companies - account filed in accordance with all regulations, Companies House Database, LEP performance committee, own audit & finance committees e.g. active companies, Quarterly |

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| | | <p>monitoring reports, Regular financial monitoring reports, Risk Management reports</p> <ul style="list-style-type: none"> • Audit, Risk & Governance Committee - terms of reference • External Auditors letter & reports • Internal Audit Plan 2021/2022 • Internal Audit Reports • Lancashire County Pension Fund - Annual Governance Statement • Peer Reviews • Local Code of Corporate Governance • External reports protocol • Directors Assurance statement • Project Plans and Risk Registers • Health and Wellbeing Board revised terms of reference • Health and Wellbeing Strategy Delivery Plan • Lancashire Insight website • Medium Term Financial Plan |
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| | | <ul style="list-style-type: none">• Minutes of committee meetings• Monthly budget monitoring reports• Notice of forthcoming Executive Key Decisions (Forward Plan) and intention to conduct business in private• Partnership Protocol• Peer Review• Performance Management• Quarterly Performance Highlight Reports• Statement of Accounts 2020/2021• Treasury Management Strategy• Webcasting of committee meetings• Public Bond issue• Covid-19 weekly Risk situation reports• Covid-19 Scenario planning and recovery plans• Service response to Covid-19 pandemic (see Annual Governance Statement 2020/21) |
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Lancashire County Council Code of Corporate Governance (Principle 7)

| Principle 7: Implementing good practices in transparency, reporting and audit to deliver effective accountability | | |
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| Supporting Principles | To meet the requirements of this Principle, Lancashire County Council will; | This will be evidenced by: |
| <ul style="list-style-type: none"> • Implementing good practice in transparency • Implementing good practices in reporting • Assurance and effective accountability | <ul style="list-style-type: none"> • Comply with the local government transparency code and publish all required information in a timely manner. • Have established a medium term business and financial planning process in order to deliver - a financial strategy ensuring sustainable finances, a robust annual budget process ensuring financial balance and an adequate monitoring process; all of which are subject to regular review. • Put in place effective transparent and accessible arrangements for dealing with complaints. • Maintain an effective scrutiny function which encourages constructive challenge and enhances the council’s performance overall. • Maintain an effective Audit, Risk & Governance Committee which is independent of the Executive and Scrutiny committees. • Ensure an effective internal audit function is resourced and maintained. • Maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based. • Attempt to publish all committee agenda items under “part 1” unless there is the need to preserve confidentiality where it is proper and appropriate to do so. • Put in place arrangements for whistle-blowing to which staff and all those contracting with the county council have access. • Produce clear, timely, complete and accurate information for budget holders and senior officers relating to the budgetary and financial performance of the council. | <ul style="list-style-type: none"> • Medium Term Financial Strategy • Complaints Procedures • Scrutiny Committees • Audit, Risk & Governance Committee • Constitution • Modern.Gov • Whistle-blowing Policy • Monthly budget monitoring reports • Annual Pay Policy • Statement of Accounts • External Audit Reports • Annual Governance Statement • Approach to Risk Management & publication of a quarterly Risk & Opportunity register • Companies - Companies House database, LCDL - 2020/21 Statement of Accounts, LEP Assurance Framework, own audit & |

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| | <ul style="list-style-type: none"> • Maintain effective arrangements for determining the remuneration of senior staff and publish an Annual Pay Policy statement in accordance with the requirements of the Localism Act 2011. • Publish annually details of County Councillors remuneration and expenses. | <p>finance committees e.g. active companies</p> <ul style="list-style-type: none"> • Data Protection Policy • External inspections e.g. Ofsted • External inspections of accounts • Information Governance Framework • Internal Audit Plan • Internal Audit Reports • Money Matters Budget Reports • O&S arrangements • Performance Reports • Project Accuracy • Service response to Covid-19 pandemic (see Annual Governance Statement 2020/21) • Virtual Cabinet, Committee and Full Council meetings |
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Audit, Risk and Governance Committee

Meeting to be held on Monday, 26 April 2021

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| Electoral Division affected: (All Divisions); |
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Response to the Information Request from the External Auditor

Appendix A refers

Contact for further information:

Neil Kissock, Director of Finance, Tel: 01772 536154,

neil.kissock@lancashire.gov.uk

Executive Summary

The Audit, Risk and Governance Committee is asked to consider whether the responses included at Appendix A are consistent with its understanding of management procedures.

Recommendation

The committee is asked to agree the management response to the external auditor's information request, as set out at Appendix A.

Background and Advice

To comply with International Auditing Standards, each year Grant Thornton as the external auditor is required to establish an understanding of the management processes in place to prevent and detect fraud and to ensure compliance with law and regulation. They are also required to make enquiries as to management's knowledge of any actual, suspected or alleged fraud and to document management's view on some key areas affecting the financial statements.

A response to the questions posed by Grant Thornton has been prepared for consideration by the committee and is attached at Appendix A.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

The response to Grant Thornton will provide information to the external auditor to support their role in determining an opinion on the council's statement of accounts and value for money arrangements for 2020/21.

Local Government (Access to Information) Act 1985 List of Background Papers

| Paper | Date | Contact/Tel |
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N/A

Reason for inclusion in Part II, if appropriate

N/A

General Enquiries of Management

| Question | Management response |
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| <p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?</p> | <p>The council received a number of grants as part of the government's efforts to mitigate the effects on local residents and businesses of the Coronavirus pandemic during 2020/21. The financial statements will reflect the receipt and use of these grants.</p> <p>Changes in demand for services due to the pandemic may also affect spending and income reflected in the Comprehensive Income and Expenditure Statement.</p> |
| <p>2. Have you considered the appropriateness of the accounting policies adopted by Lancashire County Council?</p> <p>Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p> | <p>The accounting policies have been reviewed, and the policies to be adopted for the 2020/21 accounts were approved by the Audit, Risk and Governance committee in January 2021.</p> <p>There have been no events or transactions that have caused a change to the accounting policies since 2019/20.</p> |
| <p>3. Is there any use of financial instruments, including derivatives?</p> | <p>Yes, the financial instruments recognised in the Comprehensive Income and Expenditure Statement are detailed in a note to the statement of accounts. These include:</p> <ul style="list-style-type: none"> - Financial assets and liabilities at amortised cost - Other financial assets measured at fair value |
| <p>4. Are you aware of any significant transaction outside the normal course of business?</p> | <p>No.</p> |
| <p>5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?</p> | <p>The note on 'Property, plant and equipment' within the statement of accounts will show any changes in the value of non-current assets during 2020/21.</p> |

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| 6. Are you aware of any guarantee contracts? | The council provides a pension indemnity to its wholly owned companies: Active Lancashire and Marketing Lancashire. |
| 7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? | The council sets aside a provision for self-insured unasserted claims, and these claims are subject to an actuarial valuation every three years. |
| 8. Other than in house solicitors, can you provide details of those solicitors utilised by Lancashire County Council during the year. Please indicate where they are working on open litigation or contingencies from prior years? | The county council utilises external solicitors and counsel on a range of issues. The litigation team within the council's legal services deals with on-going claims and litigation on issues such as highways, child protection and employment matters. The council maintains extensive records relating to both historic and current cases. |
| 9. Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? | No material issues reported. |
| 10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted? | As a large and complex organisation, the council uses a wide range of internal and external advisors to support the proper discharge of its responsibilities. |

Fraud Risk Assessment

| Question | Management response |
|--|--|
| <p>1. Have Lancashire County Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p> | <p>The council's medium-term financial position is identified as a key risk on the council's risk register.</p> <p>The council has a robust system of governance through its frameworks of governance, risk management and control that seek to mitigate risk of fraud in the first instance.</p> <p>The council's senior management and political leadership regularly receive reports on the council's current and longer term financial position.</p> <p>Financial reports are produced routinely on a monthly basis with an annualised forecast produced by budget holders with support from the finance team for more complex service areas such as adult social care.</p> <p>Budgets are composed on a hierarchical basis, such that the level of reporting from detail to corporate summary can be obtained dependant on need.</p> <p>The financial position is reported to Cabinet on a quarterly basis, which provides a commentary on the main risks and opportunities to date. Particularly focussing on the high value and demand led services such as waste, children and adult's social care.</p> <p>Corporate accountability for budgets is held at Director and Heads of Service levels, allowing for corrective actions to be employed effectively at an appropriate scale.</p> <p>The council continues to look to improve the integration of reporting across finance, performance and human resources such as to further support risk management outcomes.</p> |

2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?

Clearly all financial systems are susceptible to fraud. However, the transactions that yield the greatest number of potential and actual frauds as well as some of the largest values, are direct payments to service users or their representatives.

The distribution through the council of grants from government, as a response to the Covid-19 pandemic, at speed to a wide variety of services and suppliers naturally brings an increased risk of fraudulent use of funds by recipient organisations and individuals.

3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Lancashire County Council as a whole or within specific departments since 1 April 2020?

At this point there have been no significant instances of fraud, error, or other irregularity identified during the period either singly or collectively.

As a management team, how do you communicate risk issues (including fraud) to those charged with governance?

The Internal Audit service provides a progress report to each meeting of the Audit, Risk and Governance Committee that highlights any unmitigated risks arising from the audit work undertaken. The committee has a record of interest in such matters and periodically invites directors to explain their responses to the risk issues raised and provide assurance regarding the action being taken.

In a normal year all services update their risk and opportunity registers quarterly, these are assessed by the Deputy Monitoring Officer, and a corporate risk and opportunity register prepared and presented to the Corporate Management Team. This corporate risk and opportunity register is then reported to both the Cabinet Committee for Performance Improvement and Audit, Risk and Governance Committee on a quarterly basis. During 2020/21 this process has been superseded by alternative processes within the framework of the corporate response to Covid-19.

4. Have you identified any specific fraud risks?

No.

Do you have any concerns there are areas that are at risk of fraud?

Are there particular locations within Lancashire County Council where fraud is more likely to occur?

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| <p>5. What processes do Lancashire County Council have in place to identify and respond to risks of fraud?</p> | <p>The council employs an investigator who reports to the Head of Internal Audit. That individual undertakes proactive counter fraud work, in particular directing the council's participation in the National Fraud Initiative, monitors and responds to the financial whistleblowing help-line, and undertakes investigations in accordance with the council's Fraud Response Plan.</p> |
| <p>6. How do you assess the overall control environment for Lancashire County Council, including:</p> <ul style="list-style-type: none"> • the existence of internal controls, including segregation of duties; and • the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p> | <p>The frameworks of governance, risk management and control have been referred to in the response to question 1 in this section.</p> <p>These are subject to assurance through the three lines of defence operated by the council's service managers, assurance functions and internal audit, which functions independently and regularly reports to those charged with governance. Further, a range of external regulators assess whether the control environment is working effectively, from the Care Quality Commission and Ofsted to the Driver and Vehicle Standards Agency.</p> <p>The Head of Internal Audit has provided favourable assurance over the council's control environment in recent years. The work to support this has included audits of the council's financial controls including those designed to manage the risk of fraud. Due to the particular circumstances of the Covid-19 pandemic, the Internal Audit Service was unable to conduct its work to the usual extent during 2020/21, and a degree of reliance has been placed on the prior assurances secured. This has been reported transparently to those charged with governance.</p> |
| <p>7. Are there any areas where there is potential for misreporting?</p> | <p>The council's political decision-making reports are subject to an internal clearance process, requiring legal and financial clearance as a minimum, thus reducing the risk of misreporting through professional oversight.</p> |
| <p>8. How do Lancashire County Council communicate and encourage ethical behaviours</p> | <p>There are several mechanisms that include:</p> <ul style="list-style-type: none"> - Induction - Intranet pages |

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| <p>and business processes of its staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p> | <ul style="list-style-type: none"> - Staff notices - Cascade briefings - Performance Development Reviews - Bite sized briefings - Specific training - Staff conferences - Blogs - Videos - Whistle-blowing helplines addressing both financial and non-financial matters |
| <p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p> | <p>The decision-making abilities of the most senior positions in the organisation would mean that these posts have the greatest ability to pose a fraud and corruption risk, however the council's scheme of delegation and professional oversight of political decision-making allows these risks to be mitigated.</p> |
| <p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p> | <p>There is a range of relationships between the council and other organisations within the county and therefore the potential for these relationships to be used inappropriately. However, the only scope for significant fraud lies with post-holders at the level of a Head of Service or Director and it is expected that these individuals will operate within the seven principles of public life. Further, the council maintains a register of interests and any related parties should be clearly identified by post-holders to their line managers.</p> <p>No relationships are known to the council that could give rise to instances of fraud.</p> |
| <p>11. What arrangements are in place to report fraud issues and risks to the Audit, Risk and Governance Committee?</p> <p>How does the Audit, Risk and Governance Committee exercise oversight over management's processes for identifying and</p> | <p>The committee receives an annual report on counter fraud, investigations and whistleblowing activity.</p> <p>There have been very few investigations or whistleblowing activity during 2020/21.</p> |

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| <p>responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p> | |
| <p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p> | <p>There have been 25 instances of whistleblowing during the year. Of these, four have been closed and the underlying issues addressed, four have been closed but not upheld, six have been passed to school governing bodies to address locally and work on the remaining eleven is ongoing.</p> |
| <p>13. Have any reports been made under the Bribery Act?</p> | <p>No.</p> |

Impact of Laws and Regulations

| Question | Management response |
|--|---|
| <p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Lancashire County Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p> | <p>There are a number of policies and procedures that are available to all employees via the intranet. These include:</p> <ul style="list-style-type: none"> - The constitution - Scheme of delegation - Political decision making arrangements - Assurance statements <p>This is supplemented by internal audit reviews.</p> <p>There were no changes to the council's regulatory environment in 2020/21 that may have a significant impact on the council's financial statements.</p> |
| <p>2. How is the Audit, Risk and Governance Committee provided with assurance that all relevant laws and regulations have been complied with?</p> | <p>All committee reports are required to undergo an internal clearance process whereby relevant input is obtained from finance, legal, procurement, HR and other support services, before decisions are taken.</p> |
| <p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p> | <p>No material issues identified.</p> |
| <p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p> | <p>The council sets aside a provision for self-insured unasserted claims, and these claims are subject to an actuarial valuation every three years.</p> |
| <p>5. What arrangements does Lancashire County Council have in place to identify, evaluate and account for litigation or claims?</p> | <p>The county council identifies litigation and claims from several sources that include service managers, external bodies serving notice and individuals submitting claims through established claims procedures. The litigation team within the council's legal services deals with on-going claims and litigation on issues such as highways,</p> |

child protection and employment matters. The council maintains extensive records relating to both historic and current cases.

The council generally self-insures for claims up to £1m, above which insurance is procured. A provision is held on the council's balance sheet to cover the accruing liabilities based on an external actuarial valuation.

6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?

No material issues reported.

Related Parties

| Question | Management response |
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| <p>1. Have there been any changes in the related parties including those disclosed in Lancashire County Council's 2019/20 financial statements?</p> <p>If so, please summarise:</p> <ul style="list-style-type: none">• the nature of the relationship between these related parties and Lancashire County Council• whether Lancashire County Council has entered into or plans to enter into any transactions with these related parties• the type and purpose of these transactions | <p>There have been no changes to the related parties to date.</p> |
| <p>2. What controls does Lancashire County Council have in place to identify, account for and disclose related party transactions and relationships?</p> | <p>The group boundary assessment is updated annually by officers in legal and democratic services.</p> <p>All members and senior officers are required to complete a related parties disclosure each year.</p> <p>Enquiries are made across finance department teams to identify any new related party entities.</p> |
| <p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p> | <p>The council's related parties in the main are its owned companies, that operate under the direction of their own Board of Directors transacting with the council through the council's normal decision-making processes.</p> |
| <p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p> | <p>The council has an urgent decision-making procedure managed by the Democratic services team.</p> |

Accounting Estimates – General Enquiries of Management

| Question | Management response |
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| 1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures? | Fair value estimations relating to Property and Pensions. |
| 2. How does the Council's risk management process identify and addresses risks relating to accounting estimates? | The accounting policies are reviewed annually by the Audit, Risk and Governance committee which considers the approach to accounting estimates in light of current issues and regulatory requirements. |
| 3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates? | The corporate finance department employs a team of suitably qualified and experienced accountants who can commission the work of experts as well as exercise their own professional judgement in determining the most appropriate accounting estimates. |
| 4. How do management review the outcomes of previous accounting estimates? | The corporate finance department employs a team of suitably qualified and experienced accountants who can commission the work of experts as well as exercise their own professional judgement in determining the most appropriate accounting estimates. |
| 5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these? | No. |
| 6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates? | The corporate finance department employs a team of suitably qualified and experienced accountants who can commission the work of experts as well as exercise their own professional judgement in determining the most appropriate accounting estimates. |

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| <p>7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p> | <p>The corporate finance department employs a team of suitably qualified and experienced accountants who can commission the work of experts as well as exercise their own professional judgement in determining the most appropriate accounting estimates.</p> |
| <p>8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p> | <p>The corporate finance department employs a team of suitably qualified and experienced accountants who can commission the work of experts as well as exercise their own professional judgement in determining the most appropriate accounting estimates.</p> |
| <p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. | <p>See Annex A.</p> |
| <p>10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Annex A)?</p> | <p>None to date.</p> |
| <p>11. Are the management arrangements for the accounting estimates, as detailed in Annex A reasonable?</p> | <p>Yes, the approaches are compliant with the CIPFA code of practice.</p> |

12. How is the Audit, Risk and Governance Committee provided with assurance that the arrangements for accounting estimates are adequate?

The corporate finance department employs a team of suitably qualified and experienced accountants who can commission the work of experts as well as exercise their own professional judgement in determining the most appropriate accounting estimates.

The accounting policies are reviewed annually by the Audit, Risk and Governance committee which considers the approach to accounting estimates in light of current issues and regulatory requirements.

Annex A

Accounting Estimates

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether Management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|-------------------------------|--|-------------------------------------|--|---|---|
| Land and buildings valuations | The council's internal valuers provide valuations as at 1 April based on a three-year rolling programme of valuations. | Internal professional review. | <p>The valuations are undertaken by qualified valuers in accordance with the Royal Institute of Chartered Surveyors (RICS) professional standards using recognised measurement techniques.</p> <p>External valuations have been obtained for the waste facilities and investment properties.</p> | <p>The balance of assets not revalued in year are reviewed by applying local movement in prices and appropriate cost indices to ensure that the value of the council's assets are not materially misstated at the balance sheet date.</p> <p>A variation of 10% in the value of the council's land and buildings is stated in the accounts.</p> | No. |
| Depreciation | Depreciation is calculated based on the useful lives of the assets as set out in | Internal professional review. | The valuations are undertaken by qualified valuers in accordance with | An assessment is made of the impact of a change of one year in the useful lives of the assets. | No. |

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| | the accounting policies. | | the Royal Institute of Chartered Surveyors (RICS) professional standards using recognised measurement techniques. | | |
| PFI Liabilities | PFI model | Internal professional review. | No. | The PFI models are updated each year in line with RPI. | No. |
| Valuation of defined benefit net pension fund liabilities | The net liability to pay pensions is calculated every 3 years with annual updates in the intervening years. | Internal professional review. | Yes. A firm of consulting actuaries (Mercer) is engaged to provide the Council with expert advice about the assumptions to be applied. | Changes to underlying assumptions can result in significant variances in the calculated liability. The assumptions and complex judgements applied include the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. | No. |
| Fair Value Investments Estimates | Dependant on the specific investment. | Specialist review through the council's external advisors, Arlingclose. | Dependant on the specific investment. | Dependant on the specific investment. | No. |
| Fair value liability estimates | Dependant on the specific liability. | Specialist review through the council's external advisors, Arlingclose. | Dependant on the specific liability. | Dependant on the specific liability. | No. |

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|---------------------------------------|--|---|--|---|-----|
| Provisions | Actuarial valuation of the insurance provision is carried out every three years. | Claims handling and record keeping carried out through the council's internal legal team who use the information to identify any relevant trends and/or regulatory changes. | An actuarial valuation is carried out by AJ Gallaghers. | The council's claims history and records form the basis of the actuarial valuation and is used as a basis of evaluating the need for alternative estimates. | No. |
| Accruals | Management accounting models and business information. | Internal professional review. | The finance team is able to commission experts where considered necessary due to complexity and/or risk. | Dependant on the nature of the accrual. | No. |
| Credit loss and impairment allowances | Historic debt collection records are used to model collection rates per client categories. | Internal professional review. | The finance team is able to commission experts where considered necessary due to complexity and/or risk. | The council's debt collection history and records form the basis of the estimates and is used as a basis of evaluating the need for alternative estimates. | No. |

Audit, Risk and Governance Committee

Meeting to be held on Monday, 26 April 2021

| |
|--------------------------------------|
| Electoral Division affected: N/A; |
|--------------------------------------|

Matters arising under Urgent Business since the last meeting

Contact for further information:

Josh Mynott, Democratic and Member Services Manager, Tel: (01772) 534580,
Josh.Mynott@lancashire.gov.uk

Executive Summary

The public webcast of the last meeting of the Audit, Risk and Governance Committee, held on 25 January 2021, failed prior to the recommendations for Items 8, 9 and 10 being approved.

Although the recommendations were agreed in the meeting, it is a requirement that remote public meetings are webcast.

As agreed with the Chair and Deputy Chair of the Audit, Risk and Governance Committee, the Director of Corporate Services approved as a matter of Urgent Business the following recommendations, as approved by the Audit, Risk and Governance Committee at its meeting on 25 January 2021:

- (i) Agenda Item 8: External Audit Progress Report and Sector Update 2020/21 as of January 2021. The Director of Corporate Services having recognised that the committee received the report and agreed to note it, considers this report as noted on behalf of the committee.
- (ii) Agenda Item 9: The position in relation to the external audit of the council's Statement of Accounts for 2019/20. The Director of Corporate Services having recognised that the committee received the report and agreed to note it, considers this report as noted on behalf of the committee.
- (iii) Agenda Item 9: The Accounting Policies for 2020/21 be approved.
- (iv) Agenda Item 10: The Treasury and Non-Treasury Management Strategies and the Minimum Revenue Provision Policy Statement for 2021/22, be recommended to Full Council for approval.

Recommendation

The committee is asked to note the matters arising under Urgent Business since its last meeting.

Background and Advice

N/A

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

N/A

**Local Government (Access to Information) Act 1985
List of Background Papers**

| Paper | Date | Contact/Tel |
|-------|------|-------------|
| None | - | - |

Reason for inclusion in Part II, if appropriate

N/A

Agenda Item 16

(NOT FOR PUBLICATION: By virtue of paragraph(s) 2,3,7 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered that all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information)

Document is Restricted

Appendix A

(NOT FOR PUBLICATION: By virtue of paragraph(s) 2,3,7 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered that all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information)

Document is Restricted

