

Lancashire County Council

Audit, Risk and Governance Committee

Monday 18th October 2021 at 2.00 pm in Cabinet Room 'C' - The Duke of Lancaster Room, County Hall, Preston

Agenda

Part I (Open to Press and Public)

No.	Item	
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|----|--|------------------|
| 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 26 July 2021
To be confirmed and signed by the Chair. | (Pages 1 - 6) |
| 4. | External Audit: Lancashire County Council Audit Findings Reports 2020/21 | (Pages 7 - 44) |
| 5. | External Audit: Lancashire County Pension Fund Audit Findings Report 2020/21 | (Pages 45 - 68) |
| 6. | Internal Audit Charter | (Pages 69 - 80) |
| 7. | Internal Audit Progress Report | (Pages 81 - 88) |
| 8. | Appointment of External Auditors | (Pages 89 - 92) |
| 9. | Corporate Risk and Opportunity Register - Quarter 3 Update | (Pages 93 - 130) |

10. 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.

11. Date of Next Meeting

The next meeting of the Committee will be held on Monday 31 January 2022 at 2.00 pm at County Hall, Preston.

12. 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)

13. Debt Management Policy

(Pages 131 - 142)

(Not for Publication – Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972.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 26th July 2021 at 2.00 pm in
Cabinet Room A - The Tudor Room, County Hall, Preston**

Present:

County Councillor Alan Schofield (Chair)

County Councillors

U Arif

R Swarbrick

M Maxwell-Scott

County Councillors J Berry, S Morris and Y Motala attended virtually.

County Councillor Morris replaced County Councillor Shedwick for this meeting only.

1. Apologies

Apologies were received from County Councillor Shedwick and County Councillor Bailey.

2. Constitution, Membership and Terms of Reference

The committee considered a report detailing the membership, Chairmanship and Terms of Reference for the 2021/22 municipal year.

The Chair highlighted the importance of the committee's independence, as set out in the Statement of Purpose.

Resolved: That

- i) The appointment of County Councillor A Schofield as Chair and County Councillor R Swarbrick as Deputy Chair of the Audit, Risk and Governance Committee for the 2021/22 municipal year be noted;
- ii) The membership of the committee, following the county council's annual meeting on 27 May 2021 be noted; and
- iii) The Audit, Risk and Governance Committee Terms of Reference be noted.

3. Disclosure of Pecuniary and Non-Pecuniary Interests

It was noted that the Chair, County Councillor Alan Schofield, had a non-pecuniary interest in Item 13.

4. Minutes of the Meeting held on 26th April 2021

Resolved: That the minutes of the Audit, Risk and Governance Committee meeting held on 26th April 2021 be confirmed as an accurate record.

5. Approval of the Council's Statement of Accounts 2020/21

Khadija Saeed, Head of Corporate Finance presented the Statement of Accounts 2020/21 for Lancashire County Council and the Lancashire County Pension Fund for the committee's approval.

It was highlighted that the committee training session relating to the Statement of Accounts, held on 23rd June 2021, had outlined the salient elements of the accounts and that the narrative report at the beginning also provided members with a summary of the overall position.

It was noted that, although the statutory deadline was the end of September 2021, it was important to ensure the accounts were approved in a timely way so that work could progress relating to the next financial year.

The Chair thanked Khadija Saeed and the Corporate Finance Team for their work and professionalism to produce the county council's Statement of Accounts.

Resolved: That the Statement of Accounts 2020/21 for Lancashire County Council and the Lancashire County Pension Fund be approved.

6. Treasury Management Activity 2020/21

Mike Jensen, Director of Investment presented a review of the council's treasury management activities occurring in the financial year 2020/21 and the position at 31st March 2021.

The following points were highlighted from the report:

- The report set out the economic situation nationally, including that the sharp recovery expected following the easing of Covid restrictions had been short-lived. The public's savings accumulated during the national lockdowns had not been released into the market as anticipated and the national savings rate remained high;
- The Bank of England continued to delay any planned increase in interest rates, so it was thought that a movement in interest rates remained highly unlikely in the immediate future;

- During 2020-21, the county council had reduced its total borrowing as debt matured and this decline would continue into 2021-22 with the repayment of existing loans. As a result, the total investment portfolio would also decline;
- The process to restructure the debt portfolio of the county council was ongoing and by the end of 2021-22 it was expected that the planned proportions of short-term, medium-term and long-term interest rates would be achieved;
- The impact of the treasury management strategy on the council's revenue budget had been to improve the year-end outturn by £24.5m (following a transfer to the treasury management reserve);
- The prudential indicators set out at page 294 mostly fell well within their proposed limits. The debt to Capital Financing Requirement was larger than the 2020/21 estimate, primarily due to the large bond issuance during 2020. It was expected that the indicator would return to within the proposed limits by the end of the 2021/22 financial year.

The Chair thanked Mike Jensen for the comprehensive report and noted that the committee had been privileged to receive a training session, delivered by the council's treasury management external advisors, on 6th July 2021.

Resolved: That the review of treasury management activity 2020/21, as presented, be noted.

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

Stuart Basnett, Audit Manager at Grant Thornton UK LLP, presented a report to update the committee on the proposed timescales for the external audit for 2020/21 and to provide additional information on sector developments.

It was highlighted that the full audit team would begin work remotely from late-August and report to the committee at its October 2021 meeting, though a number of tasks were already underway or completed. Interim audit work had been conducted from March 2021 and no issues had been identified to date. A full update would be provided in the audit findings report in October.

In particular, the committee's attention was drawn to the new and more extensive focus on Value for Money (VFM) under the National Audit Office's (NAO) new Code of Audit Practice, resulting in new timelines and greater flexibility in the work to assess VFM. The deadline to provide VFM conclusions now fell 3 months after the date of the overall opinion and accordingly the auditors' annual report (on VFM) could be expected at the committee meeting in January 2022.

The Chair thanked Stuart Basnett for Grant Thornton's report.

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

8. Chairman's Annual Report

County Councillor Alan Schofield, Chair of the Audit, Risk and Governance Committee presented the Chairman's Annual Report for 2020/21.

It was highlighted that the annual report had been introduced to enhance the accountability and effectiveness of the committee, as it provided a review of the committee's role, key activities, membership and meetings over the past year.

The Chair expressed his gratitude to Paul Bond, Head of Legal and Democratic Services for his work to draft the annual report.

In response to a question about the redeployment of internal audit staff during the pandemic, Ruth Lowry, Head of Internal Audit confirmed that several staff had been redeployed to operational roles across the council during 2020-21 but from April 2021 had returned to the Internal Audit Service to resume work on the full internal audit plan.

The Chair commended and thanked the staff of the Internal Audit Service for their work during the pandemic to support frontline services.

Resolved: That the Chairman's Annual Report for 2020/21, as presented, be noted.

9. Draft Work Plan 2021/22

The committee reviewed the draft work plan of the Audit, Risk and Governance Committee for 2021/22.

Paul Bond, Head of Legal and Democratic Services highlighted that the committee would also receive reports relating to the Pension Fund Risk Register in the future. It was likely that the first of these reports would be presented at the committee's meeting in October 2021.

Resolved: That the committee's draft work plan for 2021/22, as presented, be noted.

10. Urgent Business

None.

11. Date of Next Meeting

It was noted that the next meeting of the Audit, Risk and Governance Committee would be held on Monday 18th October 2021 at 2.00 pm at County Hall, Preston.

The Chair thanked the Democratic Services team for their work to organise the committee's first hybrid meeting.

12. Exclusion of Press and Public

Resolved: That the press and members of the public 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 I of Schedule 12A to the Local Government Act 1972.

It was considered that in all the circumstances, the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

13. Assurance over the Pension Fund

(Not for Publication - Exempt information as defined in Paragraph 3 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 interest in disclosing the information.)

Ruth Lowry, Head of Internal Audit presented a private and confidential report to give a summary of the assurance available over the Lancashire County Pension Fund for 2020/21.

Resolved: That the report, as presented, be noted.

L Sales
Director of Corporate Services

County Hall
Preston

Audit, Risk and Governance Committee

Meeting to be held on Monday, 18 October 2021

Electoral Division affected:
(All Divisions);

External Audit: Lancashire County Council Audit Findings Report 2020/21

(Appendix A refers)

Contact for further information:

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

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Executive Summary

The external auditor is required to report to the Audit, Risk and Governance Committee their audit findings prior to concluding their work. The report at Appendix A covers the overall findings of the external auditor in relation to:

- The audit of the annual accounts of Lancashire County Council and the proposed opinion on those accounts; and
- The Value for Money approach and findings to date.

Recommendation

The committee is asked to take note of the findings in the report, the minor disclosure updates made to the financial statements and the other issues raised by the auditor which are set out in the report.

Background and Advice

Attached at Appendix A is the external auditor's annual audit findings report for Lancashire County Council for the 2020/21 audit. The report has been produced in accordance with the National Audit Office statutory Code of Audit Practice for Local Government bodies.

Stuart Basnett, Engagement Manager, will attend the meeting to present the report and answer any questions.

Consultations

The report has been agreed with the county council's management.

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

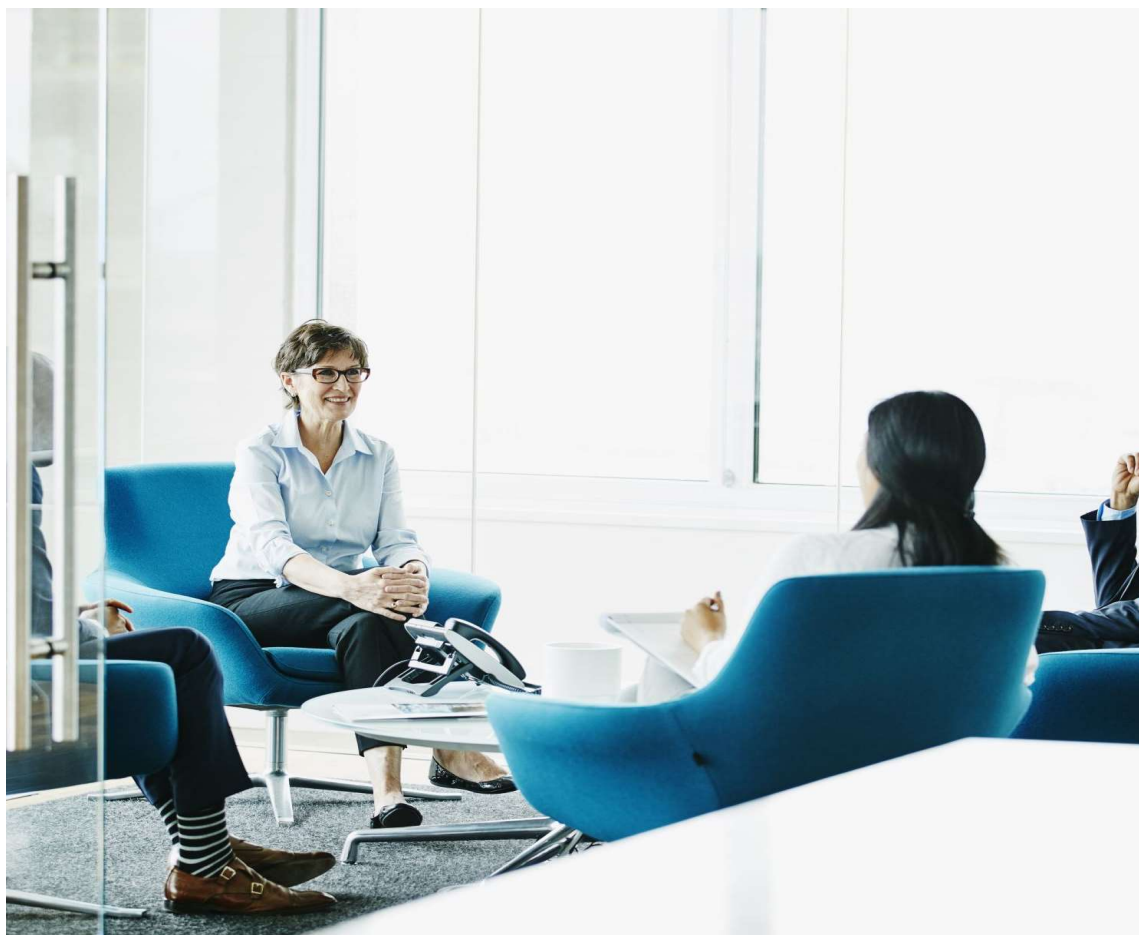
**Local Government (Access to Information) Act 1985
List of Background Papers**

Paper	Date	Contact/Tel
None		
Reason for inclusion in Part II, if appropriate		
N/A		

The Audit Findings for Lancashire County Council

Year ended 31 March 2021

6 October 2021



Contents



Your key Grant Thornton team members are:

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Key Audit Partner – Mark Bradley

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Section

1. Headlines
2. Financial statements
3. Value for money arrangements
5. Independence and ethics

Appendices

- A. Follow up of prior year recommendations
- B. Audit adjustments
- C. Fees
- D. Audit Opinion
- E. Audit letter in respect of delayed VFM work

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management.

Paul Dossett
For Grant Thornton UK LLP
Date : 6 October 2021

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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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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Lancashire County Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit is being completed on remotely during August-October. Our findings are summarised on pages 4 to 23. Whilst our audit work remains ongoing, to date, we have identified not identified any adjustments to the financial statements that have resulted in an adjustment to the Council's Comprehensive Income and Expenditure Statement. All misclassification & disclosure amendments to the accounts are detailed in Appendix B. We have not raised any new recommendations for management as a result of our audit work. Our follow up of recommendations from the prior year's audit are detailed in Appendix A.

Our work is still ongoing, at this time there are no matters of which we are aware that would require modification of our audit opinion [Appendix D] or material changes to the financial statements, however our final opinion issued is subject to the satisfactory completion of the following outstanding matters;

- Completion of our sample testing for land & buildings valuations as well as responses from our own auditor's expert and challenge over the Council's valuer
- Completion of our testing over high-risk journals
- Completion of our sample testing on the completeness of expenditure
- Completion of our audit procedures on the valuation of the net pension liability;
- Completion of our sampling procedures over non-significant risk areas as well as our work on some minor disclosure notes;
- Completing our assessment over Grants Income Recognition and Presentation
- Further responses and review of the work performed by the component auditor
- Final reviews of the audit file by the Audit Manager, Engagement Leader and Review Partner;
- Updating our post balance sheet review to the date of the audit opinion.
- receipt of management representation letter; and
- review of the final set of financial statements

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Subject to the satisfactory completion of the outstanding audit work, our anticipated audit report opinion will be unqualified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix E to this report. We are aiming to issue our Auditor's Annual Report in January 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We have not identified any risks of significant weaknesses to date.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties

We intend to delay the certification of the closure of the 2020/21 audit of Lancashire County Council in the audit report, as detailed in Appendix D, due to not having yet completed the work on assessing the council's arrangements for securing value for money or the WGA procedures. We also can not certify the closure of the audit until we have completed our consideration of matters brought to our attention by the Council in 2013. We are continuing to monitor developments with the ongoing Police investigation. Once the Police investigation is concluded, and we have had an opportunity to consider the outcome, we will assess the implications for our audit of the Council.

Significant Matters

We have not encountered any significant difficulties or identified any significant matters arising during our audit to date. Our audit is being completed remotely due to the Covid-19 pandemic with the aid of virtual meetings and sharing of electronic working papers.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the component of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that assurance was required over specific group risks of management override of controls and the valuation of investment properties. These procedures were performed by the component auditor, Beaver & Struthers, and reviewed by us as the group auditor.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter our audit plan, as communicated to you on 26 July 2021.

Conclusion

We are still in the process of completing our audit of your financial statements. Whilst no significant matters have been identified to date, subject to satisfactory completion of the outstanding queries being resolved, we anticipate issuing an unqualified audit, as detailed in Appendix D. These outstanding items are listed on page 3 of this report.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

2. Financial Statements



Our approach to materiality

The concept of 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.

Materiality levels remain the same as reported in our audit plan on 26 July 2021.

We detail in the table to the right our determination of materiality for Lancashire County Council.

	Group Amount (£m)	Council Amount (£m)	Qualitative factors considered
Materiality for the financial statements	28.134	28.108	The threshold above which could reasonably be expected to influence the economic decisions of the reader of the financial statements. We have set this at 1.25% of prior year gross expenditure
Performance materiality	21,133	21,081	The amount set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. We have set this at 75% of materiality
Trivial matters	1.406	1.406	Based upon 5% of materiality for the financial statements.
Materiality for Senior Officer Remuneration			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.



2. Financial Statements - Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan

Commentary

Management override of controls

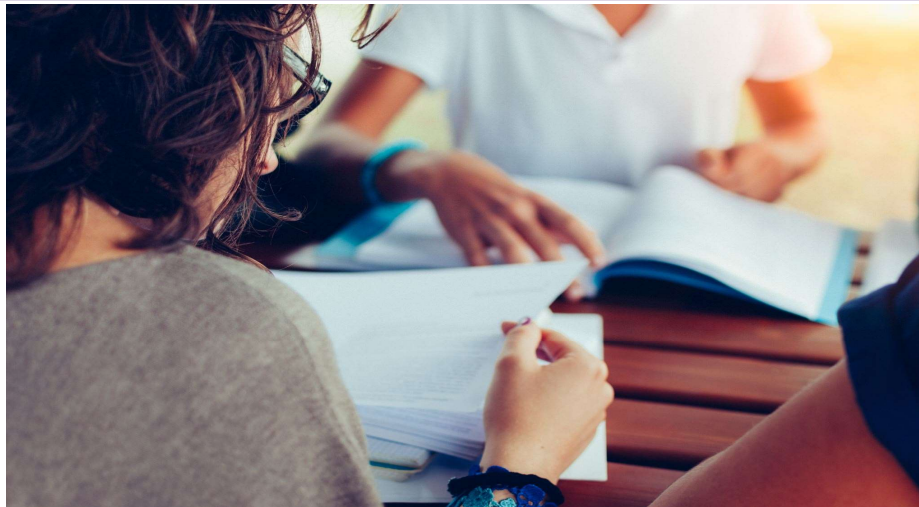
Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

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.

We have:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determined the criteria for selecting high risk unusual journals
- identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness

Our testing of a sample of journals, based upon a risk-scoring method, remains on going. From our audit procedures undertaken to date, we have not identified any evidence of inappropriate management override of controls.



2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

ISA 240 revenue improper recognition risk

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

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:

- 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.

Therefore we do not consider this to be a significant risk for Lancashire County Council.

ISA 240 improper expenditure recognition

Under ISA (UK) 240 there is a rebuttable presumed risk that expenditure may be misstated due to the improper recognition of expenditure.

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.

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.

We have:

- evaluated the Council's policy for the recognition of non-pay expenditure.
- compared listings of 2019/20 accruals to those of 20/21 to ensure completeness of significant recurring items
- documented 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.
- substantively tested a sample of expenditure recorded in 2020-21 in the general ledger
- obtained 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.
- obtained a listing from the AP system of invoices received in April and May to ensure they have been charged to the appropriate year.
- substantively tested a sample of year end creditor and accrual balances.

Our audit sample testing in this area remains on going at the time of writing this report. To date we have not identified any significant issues in relation to expenditure recognition which require reporting to Those Charged with Governance.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Valuation of Land & Buildings and Investment Property

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.

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.

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 as a significant risk for the Group and the Council, which was one of the most significant assessed risks of material misstatement.

Commentary

We have:

- 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
- written to the valuer and discussed with them the basis on which the valuation was carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- engaged our own valuer to assess the instructions to the Council's valuer, the Council's valuation report and the assumptions that underpin the valuation
- tested a sample of valuations at 31 March 2021 to understand the information and assumptions used in arriving at any revised valuations
- tested a sample of revaluations made during the year to see if they had been input correctly into the Council's asset register
- evaluated the assumptions made by management for those assets not revalued during the year and assessed how management has satisfied themselves that these are not materially different to current value at year end.
- reviewed the work of the component auditor in gaining assurance over the valuation of the investment properties held within Lancashire County Developments Limited.

We have begun addressing the planned audit procedures and will be challenging the assumptions used by management and their expert valuer. The valuation date used by the valuer was 1 April 2020. Additionally, we have challenged management's assessment that assets not revalued in year are materially stated at the balance sheet date. Management have applied indices to uplift all asset values to a projected valuation as at 31/3/21. Management's assessment is that the difference in value is £7.2m which is not materially different. We are currently discussing the appropriateness of this assessment with management, and corroborating it to our own assessment of the valuation as at 31/3/21.

We will also be reviewing the work performed by the component auditor in relation to investment properties to gain assurance over the work they have performed in relation to the investment yields applied in the valuation calculations, the level of rental collections in light of the pandemic and the overall valuation of investment property held as at 31/3/21.

Our work remains on going in relation to the valuation of land, buildings and investments. To date we have no significant matters to report to Those Charged with Governance.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Valuation of the Pension Fund Net Liability

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.

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.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.

Commentary

We have:

- updated 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;
- evaluated the instructions issued by management to their management expert (the actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- tested 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;
- undertaken 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;
- reviewed whether the pension fund has reported any material uncertainty in relation to investment property valuations as at 31 March 2021 and, if so, assessed the impact on disclosures in the financial statements and on our audit opinion; and
- obtained 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.

Our audit procedures in this area remains on going at the time of writing this report. To date we have not identified any significant issues in relation to valuation of the net pension liability which require reporting to Those Charged with Governance.

2. Financial Statements – Key findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Lancashire County Developments Limited	Beever & Struthers LLP	We have reviewed the consolidation undertaken by the Council and reviewed the work undertaken by the company's auditor on those entries that are material to the financial statements of the Group which includes work performed on the significant risks of management override of controls and the valuation of investment properties.	<p>The consolidation of Lancashire County Developments Limited has been agreed through to the supporting records of the Council and to the audited company accounts.</p> <p>We have received confirmation from the company auditor that there are no further issues that should be reflected in the group accounts, however we are still in the process of reviewing their work as well as awaiting receipt, from them, of the final signed management letter of representation.</p>

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £2,026.1m	<p>Other land and buildings comprises £1,611m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end.</p> <p>The Council has engaged its internal valuation team to complete the valuation of the majority of properties as at 1 April 2020 on a three yearly cyclical basis. To determine that the carrying value of those assets valued at 1 April 2020 (and also assets not valued in 20/21) is not materially different to their current value, management perform an indexation analysis to project the asset values and assess whether there is a material difference. The assessment is supported by market commentary and indices provided by the internal valuation team.</p> <p>Circa 37% of total assets (by value) were revalued during 2020/21. The valuation of properties valued by the valuer has resulted in a net increase of £2m in value. Management has considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 1 April 2020, based on the market review provided by the valuer as at 31 March 2021, to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties' value. The total year end valuation of other land and buildings was £2,026.1m (2019/20 £2,022.2m)</p>	<ul style="list-style-type: none"> We have assessed the Council's internal valuer, to be competent, capable and objective We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate, including floor areas We have agreed the General Fund valuation report to the Fixed Asset Register and to the Statement of Accounts. Valuation methods remain consistent with the prior year In relation to assets not revalued in the year, we have compared the Gerald Eve (valuation specialists) report indices to those used by management and challenged management on the resulting difference to the assessment of the valuation of the assets not formally valued in year. These discussions are still on going. 	Light Purple

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
Net pension liability – £1,516.2m	<p>The Council's total net pension liability at 31 March 2021 is £1,516.2m (PY £1,152.9m) comprising the Lancashire County Local Government pension scheme and unfunded defined benefit pension scheme obligations.</p> <p>The Council uses Mercers to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed at 31 March 2019, utilising key assumptions such as life expectancy, discount rates, salary growth and investment returns.</p> <p>Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. The Council has seen a £363.3m net increase in Net Liability Related to Defined Benefit Pension Scheme during 2020/21.</p>	<ul style="list-style-type: none"> We have assessed the Council's actuary, Mercers, to be competent, capable and objective We have performed additional tests in relation to accuracy of contribution figures, benefits paid, and investment returns to gain assurance over the 2020/21 roll forward calculation carried out by the actuary and have no issues to raise. We have used PwC as our auditor expert to assess the actuary and assumptions made by the actuary – see table below for our comparison of actuarial assumptions: <table border="1" data-bbox="712 596 2013 995"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.1%</td> <td>2.1 – 2.2%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.8%</td> <td>2.8%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>4.2%</td> <td>3.95 – 4.2%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>Pensioners: 22.4 years Non-pensioners: 23.9 years</td> <td>20.9 - 23.2 22.5 - 24.7</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>Pensioners: 25.1 years Non-pensioners: 26.9 years</td> <td>24.0 – 25.8 25.9 – 27.7</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate We have confirmed there were no significant changes in 2020/21 to the valuation method Management have updated the disclosures within the pension liability note for the actual employer contributions made in year (rather than the estimate used by the actuary). This has resulted in a £4m increase to the fair value of scheme assets. The estimated employee contributions was not updated for the actual contributions received. If it had been it would have decreased the fair value of scheme assets by £1.5m which is below our performance materiality level, but above our reporting threshold. Our work is still ongoing, from the procedures performed to date we are satisfied with the reasonableness of estimate of the net pension liability 	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.1%	2.1 – 2.2%	●	Pension increase rate	2.8%	2.8%	●	Salary growth	4.2%	3.95 – 4.2%	●	Life expectancy – Males currently aged 45 / 65	Pensioners: 22.4 years Non-pensioners: 23.9 years	20.9 - 23.2 22.5 - 24.7	●	Life expectancy – Females currently aged 45 / 65	Pensioners: 25.1 years Non-pensioners: 26.9 years	24.0 – 25.8 25.9 – 27.7	●	Light Purple
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Assessment

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- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £17.7m	<p>The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.</p> <p>The year end MRP charge was £17.7m, a net increase/decrease of £2.8m from 2019/20.</p>	<ul style="list-style-type: none"> MRP has been calculated in line with the statutory guidance and the Council's policy on MRP complies with statutory guidance. Annually the Council presents its MRP policy for approval from Full Council The basis of calculating MRP is reasonable, however our own benchmarking of MRP as a % of external borrowing (1.28%) and MRP as a % of the Capital Financing Requirement (1.6%) is less than we would normally expect in order for a prudent provision to be made (circa 2%). The principal reason for the lower than expected MRP level is due to the Council's policy currently allowing for a reduction in MRP due for overpayments calculated on supported borrowing from 2008-2014. The Council also undertook a new bond during 2020-21 which increased the level of borrowing in advance of need temporarily, affected the benchmark result. The level of borrowing is expected to reduce significantly by the end of 2021-22. 	Light Purple

Assessment

- Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit, Risk & Governance Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed. We have noted that there were 10 members who did not return an annual declaration form. Management have sent reminders to try to obtain the missing declarations.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, including specific representations in respect of the Group, which is to be included in the January Audit, Risk & Governance Committee papers.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's banking, investment and borrowing institutions. This permission was granted and the requests were sent. At the time of writing this report we are still awaiting several confirmation letters to be returned to us. If these confirmation letters are not received we will perform alternative procedures.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management have provided by management to date with no issues.

2. Financial Statements - other communication requirements



Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Council and the environment in which it operates the Council's financial reporting framework the Council's system of internal control for identifying events or conditions relevant to going concern management's going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified to date from our reviews of other information. We plan to issue an unmodified opinion in this respect – refer to appendix D.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <p>We have nothing to report on these matters.</p>



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold of we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work will commence on the completion of the financial statements audit.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2020/21 audit of Lancashire County Council in the audit report, as detailed in Appendix D, due to not having yet completed the work on assessing the council's arrangements for securing value for money or the WGA procedures. We also can not certify the closure of the audit until we have completed our consideration of matters brought to our attention by the Council in 2013. We are continuing to monitor developments with the ongoing Police investigation. Once the Police investigation is concluded, and we have had an opportunity to consider the outcome, we will assess the implications for our audit of the Council.</p>

3. 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.
 - Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at 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 the three specified reporting criteria.



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

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are 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

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix E to this report. We are aiming to issue our Auditor's Annual Report in January 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

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.

Our work to date has not identified any risks of significant weakness and we did not report any specific risks of significant weakness in the Audit Plan. Our work remains on going and further updates will be provided to the Audit, Risk & Governance Committee should any risks of significant weakness be identified.

4. Independence and ethics

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 and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard 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.

Details of fees charged are detailed in Appendix C.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

4. Independence and ethics

Audit and 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 following non-audit services were identified.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat, the timing of certification work is done after the audit fieldwork has been completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Non-Audit Related			
CFO Insights Subscription	£10,000	Self-Interest (because this is a recurring fee)	<p>This is an on-line software service that enables users to rapidly analyse data sets. CFO Insights is a Grant Thornton and CIPFA collaboration giving instant access to financial performance, service outcomes and socio-economic indicators for local authorities.</p> <p>It is the responsibility of management to interpret the information. The scope of our service does not include making decisions on behalf of management or recommending or suggesting a particular course of action.</p> <p>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 £10,000 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.</p> <p>These factors all mitigate the perceived self-interest threat to an acceptable level.</p>

These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit, Risk & Governance Committee. None of the services provided are subject to contingent fees.

Appendices

A. Follow up of prior year recommendations

We identified the following issues in the audit of the Council's 2019/20 financial statements, which resulted in three recommendations being reported in our 2019/20 Audit Findings report. We have followed up on the implementation of our recommendations and note that some items remain outstanding, however work is ongoing at the Council to address these matters.

Assessment

✓ Action completed

X Not yet addressed

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<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.</p>	<p>We have performed a similar review of the IT General Controls within the Council as part of our 2020-21 audit and the two items detailed in the prior year remain the two most significant weaknesses.</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>
X	<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.</p> <p>The Council should ensure all staff are removed from the system within a timely basis</p>	<p>Our procedures during the 2020-21 audit have found similar issues still remain and that there can be a significant time lag in leavers being removed from the payroll system.</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>Journal Authorisation</p> <ul style="list-style-type: none"> 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>We recommended management review the authorisation procedures in place over journal input.</p>	<p>Management reviewed the processes in place in the prior year and commented that there are personnel controls in place whereby only finance staff can post journals, with little incentive for manipulation. Along with this being part of a centralised finance function having established financial monitoring processes that allows the review of all transactions means the risk for manipulation or uncorrected errors is considered very low.</p> <p>Whilst formal journal authorisation requirements are not built into the system suitable alternative arrangements are in place.</p>

B. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

At the time of writing this report, no adjusted misstatements which impact on the key statements and the reported net expenditure for the year ending 31 March 2021 have been identified. If, in the completion of the remaining audit procedures, we identify any adjusted misstatements we will report them to Those Charged with Governance.

Impact of unadjusted misstatements

At the time of writing this report, there are no adjustments which have been identified during the 2020/21 audit which have not been made within the final set of financial statements. If, in the completion of the remaining audit procedures, we identify any adjusted misstatements we will report them to Those Charged with Governance.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes, which have been identified to date, during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
<p>Note 9 - Grant income and contributions credited to cost of services</p> <p>Our review of the draft accounts identified that it would be helpful to the reader of the accounts if further information was provided in relation to the significant value of Covid-19 grant which the Council received during 2020-21.</p>	Management have agreed to amend the accounts so that further disclosure around these grants is reflected.	✓
<p>Note 26 - Financial Instruments</p> <p>Our review of the draft accounts highlighted that it would be helpful to include a brief description for the Financial Assets held at Fair Value through Profit and loss and the Financial Liabilities held at Fair Value through Profit and Loss to improve the readability of the accounts</p>	Management have agreed to amend the accounts for these matters	✓
<p>External Audit Fees</p> <p>Our review of the draft accounts identified that it would be beneficial to update the wording in Note 13 of the Accounts as well as Note 5 of the Group Accounts to clarify that the “fees payable in respect of additional prior year work” relate to statutory audit work and not any additional services.</p>	Management have agreed to amend the accounts for these matters	✓

B. Audit Adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2019/20 financial statements. None of these items impact upon the 2020-21 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
<p>Accounting for LOBO investments</p> <p>In 2018/19 the Council bought LOBO loans from banks relating to three other Council's (value £55.1m). The motivation for this was due to the Council having just bought out their own LOBOs and saw an investment opportunity, as well as being able to help their local government authorities. In the 2018-19 accounts these assets were classified as being held at amortised cost under IFRS 9.</p> <p>In 2019/20 the Council entered the same agreements with three further Council's (value £46.7m). The Council approved the Non-Treasury Management strategy for implementation on 1/4/19 and under this strategy the Council considered that these bonds with local authorities should be classified as being held at Fair Value through Profit and Loss (FVTPL) under IFRS 9 as they were held for trading and the Council has the intention to sell them in the short term. In the 2019-20 accounts all six of the bond were classified as FVTPL with the three items from 18-19 having been reclassified.</p> <p>There are very few circumstances permitted for reclassification under IFRS 9 and, following our challenge to the Council over the classification, the Council agreed that the criteria for reclassification was not met. However, the Council reviewed the classification of amortised cost in 2018/19 and determined that this was the incorrect classification. These assets have always been intended to be held for trading and the intention has always been to sell them from soon after they were acquired.</p> <p>Management have provided us with correspondence which demonstrates this position as well as justification for these assets meeting the required business model for classification as FVTPL under IFRS 9.</p> <p>We have consulted with our technical team and accept that classification as FVTPL is appropriate and are satisfied with management's rationale that the prior year classification was incorrect.</p> <p>The impact of the error would be to increase the value of the investments as 31/3/19 (from £55.1m to £71.0m), which would generate a gain of £15.9m in the 2018/19 CIES. The corresponding effect for 2019/20 would be reduction of £15.9m in the current gain shown in the CIES. Since the assets were already shown at FVTPL in the 2019/20 draft accounts, there is no impact on the valuation of assets for 2019/20. Since the values involved are below Performance Materiality, under IAS 8 the error should be corrected in the 2019/20 accounts instead of restating the prior year. Although the gain is effectively understated in 2018/19 and overstated in 2019/20, due to IAS 8 permitting correction in year for an immaterial error in the current year, there is no amendment required to the CIES. The only unadjusted misstatement is therefore the prior year valuation of the investments</p>	£0	£15,841 (2018/19 SoFP)	£0	<ul style="list-style-type: none"> Amount is not material, under IAS 8 the error should be corrected in year rather than restating the prior year. Thus there would be no impact on the CIES and the only unadjusted error is the 2018/19 valuation of the Investments. No impact on 2020-21 Audit

B. Audit Adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2019/20 financial statements. None of these items impact upon the 2020-21 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Our testing of a sample of 35 land/building assets which were revalued during 2019/20 identified two instances where the incorrect build cost index was used in the valuation calculation. The index from the previous year was used in error. The result of this error is that the valuation of the two assets is overstated by £0.383m. We have extrapolated the errors across the remainder of the population and determined an extrapolated error of £2.034m which is above trivial but below performance materiality – giving us assurance that the balance is not materially misstated.	£0	(£2,034)	£0	<ul style="list-style-type: none"> Amount is below performance materiality No impact on 2020-21 Audit
As part of our procedures over the valuation of land and buildings, and testing of a sample of 35 assets by agreeing their accounting treatment it was identified that there had been errors made when the Council had been updating the fixed asset register with the new values and amending the depreciation which should have been charged to the assets. Manual corrections were completed for assets revaluations in 19-20 for an issue raised by the auditors in 18-19 regarding understating depreciation. When calculating these manual accounting entries, the Council have made an error in the postings to the CIES for the depreciation charge and the CIES for revaluation. The net amount posted to the balance sheet for depreciation is correct.	(£3,760)	£0	(£3,760)	<ul style="list-style-type: none"> Amount is below performance materiality No impact on 2020-21 Audit
Overall impact	(£19,601)	(£5,065)	(£19,601)	Total impact is below performance materiality

C. Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	£142,356	TBC
Total audit fees (excluding VAT)	£142,356	TBC
Non-audit fees for other services	Proposed fee	Final fee
Certification of Teachers Pension Return	£6,500	TBC
CFO Insights Subscription	£10,000	£10,000
Total non-audit fees (excluding VAT)	£16,500	TBC

The audit fees per note 13 reconcile to the proposed audit fee for 2020-21 stated to left of £142,356 as follows.

- Additional fees for 20-21 of £55,350 have not been included (they will be recorded in the 21-22 accounts once approved by PSAA)
- 2019/20 additional fees of £24,850 and 2018/19 additional fees of £9,000 which have now been approved by PSAA are included.

PSAA wrote to s.151 officers in August 2021 to inform them of an additional £5.6m of funding being made to local authorities for the additional costs of external audit. Lancashire County Council has received £17,160 of this allocation.

In addition, the Ministry of Housing, Communities & Local Government is distributing a further £15m in relation to 2020/21 external audit fee costs. Lancashire County Council is due to receive £44,852 of this allocation.

D. Audit opinion

Our draft audit opinion is included below. We anticipate we will provide the group with an unmodified audit report

Independent auditor's report to the members of Lancashire County Council

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Lancashire County Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet and the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies and the technical annex. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2021 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Executive and Director of Resources' use of the going concern basis of accounting and, based on the

audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority or group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the Chief Executive and Director of Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's or the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Executive and Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Chief Executive and Director of Resources with respect to going concern are described in the 'Responsibilities of the Authority, Chief Executive and Director of Resources' and Those Charged with Governance for the financial statements' section of this report.

Other information

The Chief Executive and Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements, and our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially

D. Audit opinion

inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the C

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

ode of Audit Practice, we are required to report to you if:

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Chief Executive and Director of Resources and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Executive and Director of Resources. The Chief Executive and Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Chief Executive and Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Executive and Director of Resources is responsible for assessing the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority and the group will no longer be provided.

The Audit, Risk & Governance Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in

D. Audit opinion

the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Local Government Act 1972, the Accounts and Audit Regulations 2015 and the Local Government Act 2003.

- We enquired of senior officers and the Audit, Risk & Governance Committee, concerning the group and Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;

- the detection and response to the risks of fraud; and

- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

- We enquired of senior officers, internal audit and the Audit, Risk & Governance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

- We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:

- Journals, in particular with regard to manual journals, posted after the year end date which have an impact on the Authority's financial position, as well as any journals made senior management personnel or with a blank description.

- The appropriateness of assumptions applied by management in determining significant accounting estimates, such as the valuation of property plant, equipment and investment property, the valuation of the net pension liability, the completeness and accuracy of provisions and accruals.

- Our audit procedures involved:

- evaluation of the design effectiveness of controls that the Chief Executive and Director of Resources has in place to prevent and detect fraud;

- journal entry testing, with a focus on manual journals, posted after the year end date which have an impact on the Authority's financial position, as well as any journals made senior management personnel or with a blank description.

- challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, investment property, accruals, provisions and defined benefit pensions liability valuations;

- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings, investment property, accruals, provisions, and defined benefit pensions liability valuations.

- Assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's and component auditors'.

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation

- knowledge of the local government sector

- understanding of the legal and regulatory requirements specific to the Authority and group including:

- the provisions of the applicable legislation

- guidance issued by CIPFA, LASAAC and SOLACE

- the applicable statutory provisions.

- In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.

D. Audit opinion

- The Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.

- For components at which audit procedures were performed, we requested component auditors to report to us instances of non-compliance with laws and regulations that gave rise to a risk of material misstatement of the group financial statements. No such matters were identified by the component auditors.

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;

- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and

- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Lancashire County Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report.

We are also unable to issue our certificate of completion of the audit 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. In addition, we cannot conclude the audit and issue an audit certificate until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2021. We are satisfied that this work does not have a material effect on the financial statements or on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Paul Dossett, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

Date:

E. Audit letter in respect of delayed VFM work

Cllr Alan Schofield
Chair of Audit, Risk & Governance Committee
Lancashire County Council
PO Box 78
County Hall
Fishergate
Preston
Lancashire
PR1 8XJ

27 September 2021

Dear Cllr Schofield

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report in January 2022.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Paul Dossett

Partner



Audit, Risk and Governance Committee

Meeting to be held on Monday, 18 October 2021

Electoral Division affected: (All Divisions);
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External Audit: Lancashire County Pension Fund Audit Findings Report 2020/21

(Appendix A refers)

Contact for further information:

Paul Dossett, Partner, Grant Thornton UK LLP, Tel: (07919) 025198,
paul.dossett@uk.gt.com

Executive Summary

The external auditor is required to report to the Audit, Risk and Governance Committee, their audit findings prior to concluding their work. The report at Appendix A covers the overall findings of the external auditor in relation to the audit of the annual accounts of Lancashire County Pension Fund and their proposed opinion on those accounts and Annual Report.

Recommendation

The committee is asked to take note of the Lancashire County Pension Fund Audit Findings Report for 2020/21.

Background and Advice

Attached at Appendix A is the external auditor's annual audit findings report for Lancashire County Pension Fund for the 2020/21 audit. The report has been produced in accordance with the National Audit Office statutory Code of Audit Practice for Local Government bodies.

Andy Ayre, Audit Manager, will attend the meeting to present the report and answer any questions.

Consultations

The report has been agreed with the Pension Fund and the county council's management.

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
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None

Reason for inclusion in Part II, if appropriate

N/A

The Audit Findings for Lancashire County Pension Fund

Year ended 31 March 2021

Lancashire County Pension Fund

1 October 2021



Contents



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Section

1. Headlines
2. Financial statements
3. Independence and ethics

Appendices

- A. Follow up of prior year recommendations
- B. Audit adjustments
- C. Fees
- D. Audit Opinion

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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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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Lancashire County Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Our audit work was completed remotely between July and September. Our findings are summarised on pages 4 to 13. We have identified no adjustments to the financial statements that have resulted in any adjustment to the Pension Fund's reported financial position. Audit adjustments are detailed in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix A.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion Appendix D or material changes to the financial statements, subject to the following outstanding matters;

- completion of work on journals;
- completion of audit partner and quality review partner reviews;
- receipt of management representation letter; and
- review of the final set of financial statements

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified. The Pension Fund audit report cannot be signed until the County Council audit is complete.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ("the Code"). Its contents will be discussed with the Audit, Risk and Governance Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unmodified audit opinion following the completion of the Lancashire County Council financial statements audit., as detailed in Appendix D. These outstanding items are listed on page 3.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

2. Financial Statements



Our approach to materiality

The concept of 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.

Materiality levels remain the same as reported in our audit plan on 26 April 2021.

We detail in the table below our determination of materiality for Lancashire County Pension Fund.

	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	92,000,000	This equates to around 1% of your forecast gross operating expenditure for the year and is considered to be the level above which users of the accounts would wish to be aware in the context of overall expenditure.
Performance materiality	69,000,000	Assessed to be 75% of financial statement materiality, to reflect the strong recent track record for producing accurate financial statements.
Trivial matters	4,600,000	This equates to 5% of materiality.
Materiality for Senior officer remuneration disclosures.	10,000	We design procedures to detect errors in specific accounts at a lower level of precision for Senior Officer Remuneration



2. Financial Statements - Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan

Commentary

Management override of controls

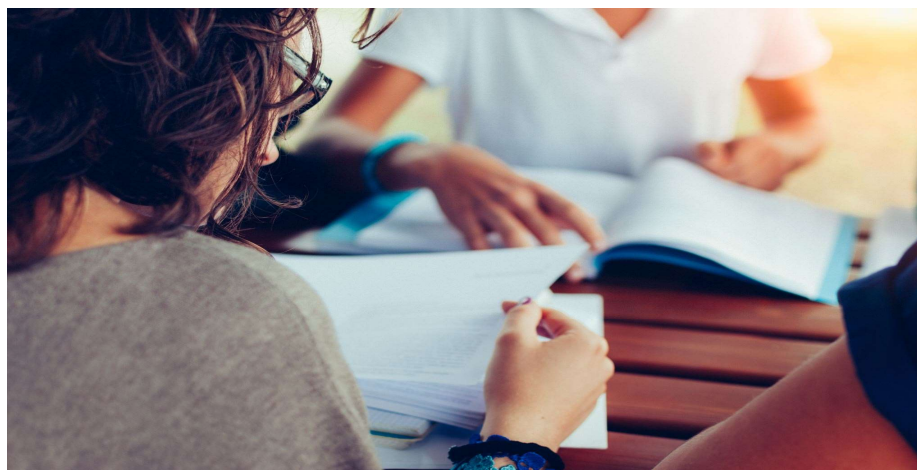
Under ISA (UK) 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities. The auditing standards do not allow this presumption to be rebutted by the auditor.

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.

We have:

- 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 Local Pensions Partnership (LPP) including review of relevant internal audit reporting during the year, and
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our work in this area is ongoing at time of drafting this report. To date, our audit work has not identified any evidence of management override of controls.



2. Financial Statements - Significant risks

Risks identified in our Audit Plan

ISA240 Revenue and expenditure recognition – the risk of revenue including fraudulent transactions and expenditure manipulation

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.

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.

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:

- 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

Therefore we do not consider these to be significant risks for Lancashire County Pension Fund.

Commentary

The risks of revenue including fraudulent transactions and expenditure manipulation were rebutted for Lancashire County Pension Fund. This assessment remains appropriate.

There are no issues to bring to your attention.



2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

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.

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.

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.

Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2021.

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.

We have:

- 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 were met
- reviewed the work of custodians, especially in respect of independent valuations of the fund
- for a sample of investments, including indirect property funds, tested the valuation by obtaining and reviewing the audited accounts, at the latest date for individual investments, agreeing these to the fund manager reports at that date, and ensured, for indirect property funds, that they were valued in line with the latest RICS guidance. Reconciled those values to the values at 31 March 2021 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, and

Our audit work has not identified any issues in respect of the valuation of Level 3 investments.

See page 9 for further explanation of our work on the key judgements and estimates around Level 3 investments.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – £3.584 billion	<p>The Pension Fund has investments in pooled property investments, fixed income funds, private equity, long term credit and infrastructure investments that are valued on the balance sheet as at 31 March 2021 at £3.584 billion.</p> <p>These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management rely on valuations provided by the funds which the Fund invests in. The value of the investment has increased by £113m in 2020/21, largely due to both realised and unrealised gains and losses during the year.</p>	<p>Management determine the value of Level 3 Investments through placing reliance on the expertise of the funds and investment managers. As such we have sought confirmations of year end valuations. We have also tested a sample of level 3 investments to audited accounts to determine if the values are estimated that they are reasonable.</p> <p>We have found an immaterial estimation uncertainty of around £48.2m in the valuation of Level 3 investments. Around 91% of this was due to LPPI investments being valued in the accounts based on their 31 December 2020 valuation due to the unavailability of audited accounts as at 31 March 2021 until after the accounts were prepared. Overall, we are satisfied that the estimates are appropriately disclosed in the accounts.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>

Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £1,074.4m	<p>The Pension Fund have investments in corporate and overseas government bonds, direct property holdings and pooled investment properties that are valued on the balance sheet as at 31 March 2021 at £1.074 billion.</p> <p>The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management rely on the information which they are given from the various fund managers and engage the services of a property valuer for direct property. The value of the investment has decreased by £61.9m in 2019/20.</p>	<p>Management determine the value of Level 2 Investments through placing reliance on the expertise of the various fund managers and a property valuer. As such we have sought confirmations of year end valuations. We have also tested a sample of unit values used to value level 2 investments to externally quoted information sources, or where they are not quoted, to unit values provided by the investment manager's own independent custodian.</p> <p>For directly held properties we have assessed the valuer used as management's expert, Avison Young, to be competent, capable and objective. We have confirmed the completeness and accuracy of the underlying information provided to the valuer used to determine the estimate. For a sample of assets, we have evaluated the method, data and assumptions used by management's expert to derive the accounting estimate to be reasonable. We confirmed that the valuation method remains consistent with the prior year. We confirmed the consistency of the estimate against the Gerald Eve report, and reasonableness of the increase in the estimate. We have confirmed the adequacy of disclosure of estimate in the financial statements.</p> <p>We have found an immaterial estimation uncertainty of around £6.2m in the valuation of Level 2 investments. This was due to LPPI investments being valued in the accounts based on their 31 December 2020 valuation due to the unavailability of audited accounts as at 31 March 2021 until after the accounts were prepared. Overall, we are satisfied that the estimates are appropriately disclosed in the accounts.</p> <p>For a similar reason, there we identified an immaterial estimation uncertainty of around £14.6m in the valuation of Level 1 investments.</p>	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

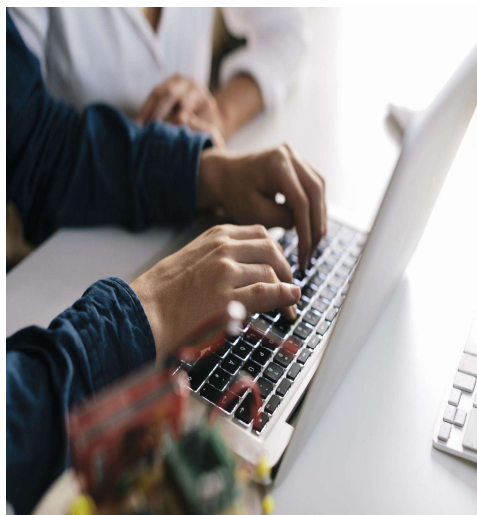
Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit, Risk and Governance Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Pension Fund, which is included in the Audit, Risk and Governance Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to Fund Managers, the Custodians and your bank for cash balances (outside the cash held by your fund managers). This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements. A couple of minor improvements were recommended for the disclosure of Assumptions made about the future and other major sources of estimation uncertainty. See Appendix B for details.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided. The financial statements were published on 26 May 2021, more than two months in advance of the statutory deadline. The financial statements were prepared to a good standard with embedded quality review processes in place. Working papers were available at the start of the audit and were detailed, and clear to understand. The responses to our audit samples and queries were comprehensive and timely.



2. Financial Statements - other communication requirements



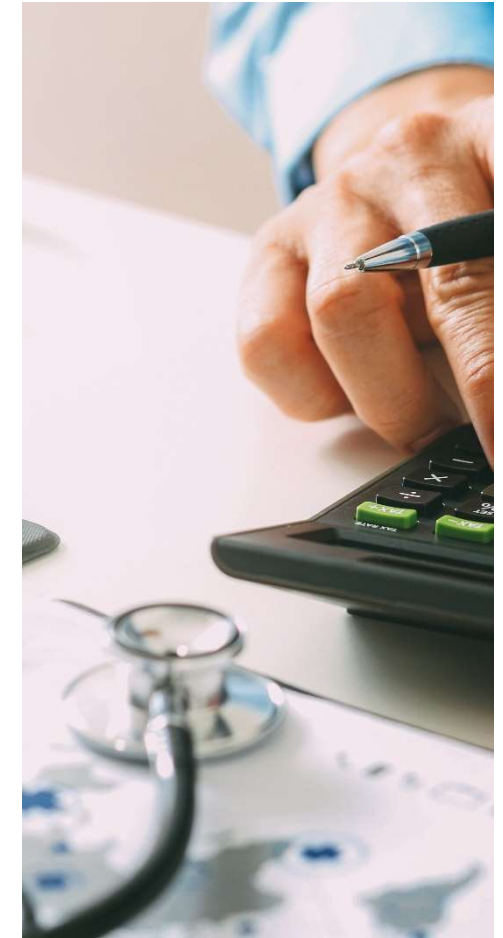
Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Pension Fund and the environment in which it operates the Pension Fund's financial reporting framework the Pension Fund's system of internal control for identifying events or conditions relevant to going concern management's going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Disclosures	Our review found no material omissions or inconsistencies in the financial statements. Details of adjustments and disclosure changes can be found at Appendix B.
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Funds Annual Report alongside the opinion on the Pension Fund Accounts. The opinion on the Pension Fund Accounts cannot be issued until the opinion on the administering body (Lancashire County Council) is issued.



3. Independence and ethics

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 and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard 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.

Details of fees charged are detailed in Appendix D

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following non-audit services were identified.

Service	Fees £	Threats identified	Safeguards
Audit related			
IAS19 assurance procedures for other bodies admitted to the Pension Fund	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			
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 Leads 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.

These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit, Risk and Governance Committee. None of the services provided are subject to contingent fees.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

Appendices

A. Follow up of prior year recommendations

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

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>Issue and Risk</p> <p>Manual journals within the financial ledger are input by approved personnel, but they are not subject to authorisation controls at the time of input.</p> <p>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</p> <p>Review the authorisation procedures in place over journal input.</p>	<p>Management response</p> <p>The same personnel-based controls remain in place as in 2018/19 and 2019/20, 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>

Assessment

- ✓ Action completed
- X Not yet addressed

B. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

There are no adjusted misstatements identified as part of the 2020/21 audit.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
<p>Audit Fees</p> <p>In the draft financial statements, the 2020/21 audit fee was disclosed as £77,060 in Note 10. This includes external audit fees for the financial statements and IAS 19 assurance, and some internal audit fees. The disclosure should show external audit fees for the financial statement audit and IAS 19 assurance work separately, and not include internal audit fees.</p>	Update the disclosure in the final version of the accounts.	✓
<p>Key management personnel</p> <p>In the draft financial statements, Note 23 notes the position of Head of Fund was covered on an interim basis by an agency member of staff from 20/10/20 – 01/03/2021. The costs of the interim cover was not included within the disclosure, as is required by the CIPFA Code.</p>	Update the disclosure in the final version of the accounts to include the agency costs of the interim cover for the Head of Fund position.	✓
<p>Assumptions made about the future and other major sources of estimation uncertainty</p> <p>In the draft financial statements, we noted two issues with the disclosure in Note 5:</p> <ul style="list-style-type: none"> • There was no sensitivity analysis for directly held properties. • There was no requirement to disclose estimation uncertainty related to the non-core property holdings as they were sold shortly after year end for close to the carrying value, so there was little estimation uncertainty. 	<p>Update the disclosure in the final version of the accounts to:</p> <ul style="list-style-type: none"> • Include sensitivity analysis for directly held properties. • Remove the estimation uncertainty disclosure for non-core property holdings. 	✓

Impact of unadjusted misstatements

There are no unadjusted misstatements identified as part of the 2020/21 audit.

Impact of prior year unadjusted misstatements

There are no prior year adjusted misstatements identified as part of the 2019/20 audit.



C. Fees

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

Audit fees	Proposed fee	Final fee
Pension Fund Audit	£39,300	£TBC
Total audit fees (excluding VAT)	£39,300	£TBC
Non-audit fees for other services		
Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services	£9,500	£9,500
Total non-audit fees (excluding VAT)	£9,500	£9,500

As noted in Appendix C an amendment was required to the disclosure of the audit fees. In the updated financial statements, the fees reconcile to the fees in the table on the right.

These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. All services have been approved by management and reported to the Audit, Risk and Governance Committee. None of the services provided are subject to contingent fees.

Lancashire County Pension Fund's share of the £15m grant for local bodies to meet anticipated rises in fees from MHCLG is £13,563.

For completeness we are reporting 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.

Audit Related Services	Proposed fee	Final fee
Local Pensions Partnership	£354,770	TBC
Authorised Contractual Scheme and investment funds structures audit		

D. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the Pension Fund with an unmodified audit report

Independent auditor's report to the members of Lancashire County Council on the pension fund financial statements of Lancashire County Pension Fund

Opinion

We have audited the financial statements of Lancashire County Pension Fund (the 'Pension Fund') administered by Lancashire County Council (the 'Authority') for the year ended 31 March 2021 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2021 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the Pension Fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Executive and Director of Resources' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

In our evaluation of the Chief Executive and Director of Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Executive and Director of Resources' use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Chief Executive and Director of Resources with respect to going concern are described in the 'Responsibilities of the Authority, the Chief Executive and Director of Resources and Those Charged with Governance for the financial statements' section of this report.

Other information

The Chief Executive and Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Pension Fund's financial statements, our auditor's report thereon, and our auditor's report on the Authority's and group's financial statements. Our opinion on the Pension Fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Pension Fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Pension Fund's financial statements or our knowledge of the Pension Fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Pension Fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice (2020) published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the Pension Fund's financial statements and our knowledge of the Pension Fund, the other information published together with the Pension Fund's financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the Pension Fund financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters in relation to the Pension Fund.

Responsibilities of the Authority, the Chief Executive and Director of Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Executive and Director of Resources. The Chief Executive and Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements,

D. Audit opinion

in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Chief Executive and Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Pension Fund's financial statements, the Chief Executive and Director of Resources is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Pension Fund will no longer be provided.

The Audit, Risk and Governance Committee is Those Charged with Governance for the Pension Fund. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- We enquired of senior officers and the Audit, Risk and Governance Committee, concerning the Authority's policies and procedures relating to:
 - the identification, evaluation and compliance with laws and regulations;
 - the detection and response to the risks of fraud; and
 - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit, Risk and Governance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation

of the financial statements. This included the evaluation of the risk of management override of controls and fraudulent financial reporting. We determined that the principal risks were in relation to:

- large and unusual journals that impacted the fund account made during the year and after the balance sheet date; and
 - accounting estimates and critical judgements made by management.
- Our audit procedures involved:
 - evaluation of the design effectiveness of controls that the Chief Executive and Director of Resources has in place to prevent and detect fraud;
 - journal entry testing, with a focus on manual journals that were unusual and high-risk journals;
 - challenging assumptions and judgements made by management in its significant accounting estimates in respect of level 3 investments, directly held investment property and IAS 26 pensions liability valuations;
 - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
 - These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
 - The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to level 3 investments, directly held investment property and IAS 26 pensions liability valuations;
 - Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
 - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
 - knowledge of the local government pensions sector
 - understanding of the legal and regulatory requirements specific to the Pension Fund including:
 - the provisions of the applicable legislation
 - guidance issued by CIPFA, LASAAC and SOLACE
 - the applicable statutory provisions.
 - In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent

D. Audit opinion

permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Paul Dossett, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor
London

[Date]



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Audit, Risk and Governance Committee

Meeting to be held on Monday, 18 October 2021

Electoral Division affected: (All Divisions);
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Internal Audit Charter

(Appendix A refers)

Contact for further information:

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

Executive Summary

The Internal Audit Service is a key element of the council's governance arrangements, and is a statutory service in the context of the Accounts and Audit Regulations 2015.

The relevant standard setters, responsible for defining proper practices in terms of the Accounts and Audit Regulations, issued revised Public Sector Internal Audit Standards (PSIAS) in 2017 that require the Internal Audit Service to establish and periodically review a charter. The current Internal Audit Charter was reviewed and approved by the Audit and Governance Committee in May 2016 although it has been reviewed and been subject to minor amendments since then. A revised document is attached at Appendix A and is submitted for the committee's consideration and approval.

Recommendation

The committee is asked to consider and approve the revised Internal Audit Charter.

Background and Advice

Over the period since the current Internal Audit Charter was approved, the council has experienced a number of changes and it is therefore appropriate that the document is reviewed and amended to reflect the council's current arrangements.

Consultations

The Chief Executive and Director of Resources (Section 151 officer) and the Director of Finance have been consulted.

Implications:

This item has the following implications, as indicated:

Risk management

There is a risk that, if this document is not periodically reviewed and revised to ensure its conformity with Public Sector Internal Audit Standards, the council's Internal Audit Service will not comply with the professional standards that underpin its statutory operation.

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

Paper	Date	Contact/Tel
Public Sector Internal Audit Standards, 2017	2017	Ruth Lowry, 01772 534898

Reason for inclusion in Part II, if appropriate

N/A

Lancashire County Council Internal Audit Service Charter

1 Introduction

- 1.1 This charter establishes the framework within which Lancashire County Council's Internal Audit Service operates to best serve the council and to meet its professional obligations under applicable professional standards. It defines the purpose, authority and responsibility of internal audit activity, establishes the Internal Audit Service's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.
- 1.2 It will be subject to periodic review by the Head of Service – Internal Audit ('head of internal audit') and presented to the council's Corporate Management Team and Audit, Risk and Governance Committee for approval.
- 1.3 Where the Internal Audit Service provides the internal audit function for other organisations external to the county council, the purpose, authority and responsibility of internal audit activity for those organisations is set out in separate charters for those organisations. Where the Internal Audit Service provides either the internal audit function or ad hoc assurance to an external organisation, its work is also set out in an engagement letter agreed with that organisation.

2 Relevant regulations and interpretation

- 2.1 The requirement for an internal audit function in local government is set out in the Accounts and Audit Regulations 2015 ('the Regulations').
- "Internal audit: A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance." *Regulation 5. (1)*
Accounts and Audit Regulations 2015
- 2.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) is the relevant standard setter for internal audit in local government in the United Kingdom. CIPFA has published Public Sector Internal Audit Standards ('PSIAS'), which encompass the Mission of Internal Audit and the mandatory elements of the Global Institute of Internal Auditors' International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards and the Definition of Internal Auditing). These documents are therefore mandatory for internal audit in local government in the United Kingdom, and they are supplemented within PSIAS by additional public sector interpretation and guidance. CIPFA has also published a Local Government Advisory Note setting out sector-specific requirements for local government within the United Kingdom.

- 2.3 Lancashire County Council's Internal Audit Service therefore operates in accordance with this mandatory definition, code, standards and advice.
- 2.4 Section 151 of the Local Government Act 1972 states that every local authority in England and Wales should "make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs". In its Statement on the Role of the Chief Financial Officer in Local Government CIPFA has defined 'proper administration' as including compliance with the statutory requirements for accounting and internal audit. It also requires the chief executive and director of resources (S151) to ensure an effective internal audit function is resourced and maintained.

3 Definitions

- 3.1 Both the Global Institute of Internal Auditors and PSIAS set out the following definition of internal auditing:

"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."

*Global Institute of Internal Auditors, and
Public Sector Internal Audit Standards, 2017*

- 3.2 The Global Institute of Internal Auditors and PSIAS also refer to the 'board' and 'senior management' and PSIAS recognises that these terms need to be interpreted in the context of the council's own governance arrangements.
- 3.3 PSIAS defines the board as:
- "The highest level of governing body charged with the responsibility to direct and/ or oversee the activities and management of the organisation. [...] 'Board' may refer to an audit committee to which the governing body has delegated certain functions."
- Public Sector Internal Audit Standards, 2017*
- 3.4 Within Lancashire County Council the board is defined as the Audit, Risk and Governance Committee.
- 3.5 Senior management is defined as the council's Corporate Management Team. This consists of the chief executive and director of resources (S151); executive director of growth, environment & transport; executive director of education & children's services, executive director of adult services and health & wellbeing, director of finance, director of strategy and performance, and director of corporate services.
- 3.6 PSIAS also refers to the 'chief audit executive' who, at Lancashire County Council, is deemed to be the head of internal audit.

Responsibilities

- 3.7 The Regulations set out that the county council must ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective; and includes effective arrangements for the management of risk.
- 3.8 It is the role of the Internal Audit Service to provide independent assurance that these risk management, control and governance processes are adequately designed and effectively operated. PSIAS makes clear that the provision of this assurance is internal audit's primary role and that this requires the head of internal audit to provide an annual opinion based on an objective assessment of the framework of governance, risk management and control.
- 3.9 This assessment will be supported by the identification, analysis, evaluation and documentation of sufficient information on each individual audit assignment, and the completion of sufficient assignments to support an overall opinion for the organisation as a whole. The scope of internal audit's work therefore encompasses all of the council's functions and services and all of its activities.
- 3.10 The requirement to be independent and objective means that the Internal Audit Service cannot assume management responsibility for risk management, control or governance processes. However the Internal Audit Service may support management by providing consultancy services. These are advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control. They will also contribute to the overall assurance opinion.
- 3.11 Accountability for responses to the Internal Audit Service's advice and recommendations for action lies with the council's managers, who either accept and implement the advice or accept the risks associated with not taking action. Advice, including where the Internal Audit Service has been consulted about significant changes to internal control systems, is given without prejudice to the right of the Internal Audit Service to review and recommend further action on the relevant policies, procedures, controls and operations at a later date.
- 3.12 The head of internal audit will provide an annual report incorporating an overall opinion, a summary of the work that supports that opinion, a statement of conformity with PSIAS, and the results of the quality assurance and improvement programme.
- 3.13 A note of the responsibilities of the Corporate Management Team ('senior management') and the Audit, Risk and Governance Committee ('the board') in relation to the internal audit function are set out in the appendix to this charter. The Internal Audit Service's responsibilities are

set out in PSIAS, and these are supported by detailed operational policies and procedures that are regularly reviewed and updated as necessary.

4 Independence, objectivity and integrity

- 4.1 The Internal Audit Service remains independent of the council's other functions and, with the exception of its support to management in relation to counter fraud and investigatory work, no member of the Internal Audit Service has any executive or operational responsibilities. Auditors are expected to deploy impartial and objective professional judgement in all their work, whether on audit work or investigations.
- 4.2 The Internal Audit Service's work programme and priorities are determined in consultation with the Corporate Management Team and the Audit, Risk and Governance Committee, but remain a decision for the head of internal audit. The head of internal audit has direct access to and freedom to report in her own name and without fear or favour to all officers and members, and specifically the Audit, Risk and Governance Committee. She has the formal opportunity prior to each committee meeting to meet with the chair and deputy chair of the Audit, Risk and Governance Committee.
- 4.3 The independence of the head of internal audit is further safeguarded by ensuring that her remuneration and performance assessment are not inappropriately influenced by those subject to audit.
- 4.4 All auditors make an annual declaration of their interests and update this during the year as necessary, and where any auditor has a real or perceived conflict of interest this is managed to maintain the operational independence of the service as a whole. If independence or objectivity are impaired in fact or appearance, then the nature of the impairment is disclosed as appropriate. The head of internal audit makes an annual declaration that the internal audit function is operationally independent.
- 4.5 All auditors also make an annual declaration that they have read and am aware of the obligations placed on them by the Public Sector Internal Audit Standards and, specifically the Code of Ethics. They each acknowledge that they must adhere to the Code of Ethics and demonstrate integrity, objectivity, competence and confidentiality in the discharge of all their duties.

5 Reporting lines and relationships

- 5.1 The head of internal audit reports functionally to the Audit, Risk and Governance Committee and organisationally to the director of finance. She has direct access to the chief executive and director of resources, who is also council's finance officer under s.151 of the Local Government Act, 1972.
- 5.2 The head of internal audit has, in addition, regular access to the chair of the Audit, Risk and Governance Committee which normally meets at least four times each year, and the head of internal audit reports to each meeting of that committee under its terms of reference. The Audit,

Risk and Governance Committee is responsible for approving the annual audit plan.

- 5.3 The head of internal audit, the Internal Audit Service as a whole, and the county council adhere to the requirements of CIPFA's Statement on the Role of the Head of Internal Audit.
- 5.4 The Internal Audit Service and the council's external auditor operate to a protocol which sets out the relationship between internal and external audit, and supports regular liaison between the two services, leading to the effective performance of both and avoiding duplication of work.

6 Access to information

- 6.1 The Internal Audit Service has the right of unrestricted and direct access to the county council's records however held, its assets, premises and officers. In entering into partnership arrangements with external organisations the council ensures that the same rights of audit access apply to partners' records, assets, premises and officers. The Internal Audit Service has the authority to obtain all such information and explanations as it considers necessary to fulfil its responsibilities.
- 6.2 Internal auditors respect the value and ownership of information they receive and the reports they produce, and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so. They are prudent in the use and protection of information acquired in the course of their duties and shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the council's legitimate and ethical objectives.

7 Internal audit resources

- 7.1 Lancashire County Council has taken the strategic decision to provide its internal audit service largely in-house and is committed to providing a service that meets the best quality standards. However the council has decided that, to meet the requirement that assignments are performed with proficiency and due professional care, it will obtain additional support where specialist knowledge is required. This is obtained specifically in respect of assurance over the council's information technology management and control systems.
- 7.2 The chief executive and director of resources ensures that internal audit resources are sufficient to meet its responsibilities and achieve its objectives. If the head of internal audit or the Audit, Risk and Governance Committee considers that the level of audit resources in any way limits the scope of internal audit, or prejudices the ability of the Internal Audit Service to deliver a service consistent with its statutory and related requirements, they will advise the Council accordingly.
- 7.3 Nonetheless, the Internal Audit Service has finite resources and its workforce is therefore deployed to meet an annual audit plan that pays regard to the relative risks accepted, and levels of assurance required, by Lancashire County Council.

8 Competency

- 8.1 The head of internal audit and audit managers are required to hold appropriate professional audit qualifications. These are defined as full membership of one of the institutes of the Consultative Committee of Accountancy Bodies or professional membership of the Chartered Institute of Internal Auditors. It is expected that senior auditors will either hold, or be close to and actively working towards full professional qualification but, exceptionally, they may be qualified by experience at a demonstrably professional level.
- 8.2 The county council's performance and development opportunities are applicable to all staff within the Internal Audit Service, which supports continuous staff performance appraisal and development.

9 Quality assurance and improvement

- 9.1 The head of internal audit operates a quality assurance and improvement programme that both monitors the on-going performance of internal audit activity and periodically assesses the Internal Audit Service's compliance with PSIAS. This includes both internal and external assessments and is set out in a separate quality assurance and improvement programme.
- 9.2 The results of the quality assurance and improvement programme including any areas of non-conformance with PSIAS are reported annually to the Corporate Management Team and the Audit, Risk and Governance Committee. This report will include information regarding:
- The scope and frequency of both the internal and external assessments.
 - The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest.
 - Conclusions of assessors.
 - Corrective action plans.

10 Non-audit work: investigations and counter-fraud services

- 10.1 PSIAS recognises that the Internal Audit Service may go beyond the work needed to meet its assurance responsibilities and provide services to support management, including consultancy services or assistance with the investigation of suspected fraud or corruption. Such services apply the professional skills of internal audit and contribute to the overall assurance opinion.
- 10.2 The Internal Audit Service operates the council's whistle-blowing helpline and, where appropriate investigates instances of suspected or actual fraud, corruption or impropriety. It also facilitates the council's participation in the National Fraud Initiative, which matches data from the council's information systems with information held by other bodies to identify potentially fraudulent activity.

- 10.3 The Internal Audit Service is not responsible for the prevention or detection of fraud and corruption. Managing the risk of fraud and corruption is management's responsibility. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that fraud and corruption may have occurred. Internal audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.
- 10.4 The head of internal audit should be informed of all suspected or detected fraud, corruption or impropriety and will consider the implications for her opinion on the adequacy and effectiveness of the relevant controls, and the overall internal control environment.

Responsibilities in relation to the internal audit function

The council's Corporate Management Team ('senior management')

The Corporate Management Team will:

- Consider the Internal Audit Charter, including the internal audit function's purpose and authority, the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework;
- Consider, and contribute to the development of the risk-based internal audit plan, supporting its completion within the organisation;
- Make appropriate enquiries to determine whether there are inappropriate scope and/ or resource limitations to the internal audit function;
- Receive reports from the head of internal audit on the Internal Audit Service's performance and audit findings, including the head of internal audit's annual report and overall opinion for the year;
- Consider the scope of the external assessment, and internal quality assurance and improvement programme, and receive and consider the results of both, including areas of non-conformance with PSIAS.

The Audit, Risk and Governance Committee ('the board')

The Audit, Risk and Governance Committee will:

- 1 Approve the internal audit charter.
- 2 Approve the risk-based internal audit plan, including the Internal Audit Service's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- 3 Approve significant interim changes to the risk-based internal audit plan and resource requirements.
- 4 Make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- 5 Consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:
 - a. Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.
 - b. Regular reports on the results of the quality assurance and improvement programme.
 - c. Reports on instances where the Internal Audit Service does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-

conformance is significant enough that it must be included in the annual governance statement.

- 6 Consider the head of internal audit's annual report:
 - a. The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the quality assurance and improvement programme that supports the statement.
 - b. The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion, which will assist the committee in reviewing the annual governance statement.
- 7 Consider summaries of specific internal audit reports as requested.
- 8 Receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the Council or there are concerns about progress with the implementation of agreed actions.
- 9 Contribute to the quality assurance and improvement programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
- 10 Support the development of effective communication with the head of internal audit.
- 11 Advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Audit, Risk and Governance Committee

Meeting to be held on Monday, 18 October 2021

Electoral Division affected: (All Divisions);
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Internal Audit Progress Report

(Appendix A refers)

Contact for further information:

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

ruth.lowry@lancashire.gov.uk

Executive Summary

In the context of the committee's responsibility to oversee the Internal Audit Service's work, the committee is asked to consider the Internal Audit Progress Report and outcomes of the work for the period to 30 September 2021.

Recommendation

The committee is asked to consider the report.

Background and Advice

This report sets out for the committee the internal audit work performed under the audit plan for 2021/22 approved in April 2021.

Appendix A to this report highlights key issues that the Audit, Risk and Governance Committee should be aware of in fulfilling its role of providing independent oversight of the adequacy of the council's governance, risk management and internal control framework.

Consultations

Each of the Directors and Heads of Service who have sponsored the audit work reported here has been consulted.

Implications:

This item has the following implications, as indicated:

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
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None		
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Reason for inclusion in Part II, if appropriate

N/A

Matters arising from internal audit work completed during the period to 30 September 2021

1 Introduction

- 1.1 This report highlights key issues that the Audit, Risk and Governance Committee should be aware of in fulfilling its role of providing independent oversight of the adequacy of the council's governance, risk management and internal control framework. It highlights the issues arising from the work undertaken during the period to 30 September 2021 by the Internal Audit Service under the audit plan for 2021/22.

2 Progress against the internal audit plan

- 2.1 Audit work is progressing well and a number of audits are reported below. Risk and control frameworks are being developed with service managers and detailed testing already under way, with more being planned at present. More information is provided at section 3 below.
- 2.2 Excluding follow-up work and ad hoc grant audits, there are now 72 audits on the plan for the year. These have progressed as follows.

Stage of audit process	Number	Percentage
Complete and reported to committee	7	10%
Complete but will be reported as a suite of connected audits with one report still in draft	2	3%
At draft report stage	4	5%
Progressing	23	32%
Not yet started/ at the planning stage	36	50%
Total number of audits	72	100%

- 2.3 At this point, half of the audit work for the county council, and more than half for the service's external clients, has begun and is progressing.
- 2.4 Summaries of the findings of the seven audits completed and reported to the county council during the last quarter are reported below. Two reports on health and safety in depots have been completed but will be reported with a third on health and safety at waste treatment plants, which is currently being drafted. Draft reports are also being prepared and discussed with managers on the supervision and support arrangements in both the Children's Services Directorate and in adult social care services, and also on contract monitoring (provider-led reviews) in adult social care services.

3 The assurance available from completed audit work

- 3.1 A brief summary of the assurance provided is provided in the table on the page below.

Control area	Assurance
Service delivery: Adult Services and Health & Wellbeing	
Staff induction, including the Social Care Academy	Moderate
Service delivery: Education & Children's Services	
Prevention of child exploitation	Moderate
Service delivery: Growth, Environment & Transport	
Covid-19 vaccination programme	Moderate
Procurement of fleet vehicles	Substantial
Support for the county's economy	Moderate
Service delivery: Finance	
Schools' payroll	Moderate
Business processes	
Purchase cards	Substantial

Grant certification and testing

- 3.2 In addition to providing assurance to the council some audit work is required by various central government departments, to provide them with assurance over the council's use of grant funding and attainment of funding conditions.
- 3.3 Work has been completed to provide assurance to the Department for Transport that the conditions set for the council's use of funds granted in relation to local transport capital funding have been met. (These amount to £30.98 million in total.)
- 3.4 Continuous audit work is required by the Ministry for Housing, Communities and Local Government's Troubled Families Unit to certify 10% of the outcomes being claimed by the council under the Troubled Families programme. We expect that approximately 1,460 outcome claims will be submitted and 150 claims audited for the Troubled Families Unit during the current year.

4 Issues arising from completed audit work

- 4.1 The matters arising from each of the completed audits are set out in the narrative below.

Staff induction, including the Social Care Academy (Moderate assurance)

- 4.2 The Social Care Academy programme provides a structured and consistent two-week induction into adult social care, supporting social workers, occupational therapists and social care support workers who are in the first year of their career. It moved to online delivery quickly in April 2020 and continued to deliver training under difficult circumstances. It complements the specific training planned through supervision discussions between an individual and their manager.
- 4.3 Attendance is mandatory for new starters who meet the eligibility criteria but, despite the best efforts of the Principal Social Worker and her team, a small number of eligible staff have not yet attended. Action is being taken to rectify this, but some managers do not yet consistently refer eligible staff to the academy, and applications can be delayed.

- 4.4 Feedback is obtained from delegates (but not their managers) on matters including team induction, job shadowing, supervision arrangements and managers' support for their training. However, the academy's performance is not adequately monitored or formally analysed to assess its impact on attendees' learning and the resulting impact on their professional practice and retention.

Prevention of child exploitation (Moderate assurance)

- 4.5 Child exploitation is defined as 'the act of using a minor child for profit, labour, sexual gratification, or some other personal or financial advantage', and often results in cruel or harmful treatment causing emotional, physical, and social problems. It may be categorised as sexual, criminal, or modern-day slavery.
- 4.6 The Children's Social Care teams from the county council and the two unitary authorities, combined with the police and NHS bodies, form the Contextual Safeguarding Team. This is divided into three areas that cover the whole county and work closely with colleagues in education, youth offending, the voluntary sector and commissioned services. As at March 2021, the whole team was working with 140 children at risk of exploitation.
- 4.7 Early in 2019 we reviewed the action being taken to combat child exploitation and, at that time, we could provide only limited assurance over its adequacy and effectiveness. Considerable improvement has been made since then and the Contextual Safeguarding Team is working effectively to address the areas where further improvement is still necessary.
- 4.8 Cases are now generally managed in accordance with a new Complex Safeguarding Protocol and there is a comprehensive and effective performance management system in place at both the operational and strategic level, although cases are still not being managed quickly enough. Only 30% of assessments for the cases we tested had been completed within the agreed timescale of 30 days. The team works with other services to address complex safeguarding needs, and there is evidence of active engagement with partners through daily intelligence meetings and monthly multi-agency meetings.

Covid-19 vaccination programme (Moderate assurance)

- 4.9 Through a range of working groups, including representatives from all essential services, the council has been able to support the NHS effectively in implementing the vaccination programme. This has included assisting in establishing mobile units (particularly supporting vulnerable people), disseminating current and accurate information, disposing of waste, ensuring adequate car parking arrangements and providing transport for service users in care homes.
- 4.10 Whilst our audit work has been limited to governance, communication, and data collection and analysis, the arrangements the council put in place have been entirely appropriate. Suitably senior officers have been involved at the right times and the working groups have ensured that responses during the pandemic were, and continue to be, sufficiently swift.
- 4.11 Work is continuing to support uptake of the vaccines, in particular supporting care homes in advance of the requirement that all care workers in Care Quality Commission (CQC) registered care homes are fully vaccinated by 11 November 2021.

Procurement of council fleet vehicles

(Substantial assurance)

- 4.12 The control framework is adequately designed to mitigate the risks that the vehicle fleet is properly specified to support delivery of the council's services and is procured in compliance with legislation and policy. Key controls include clear procurement procedures, the Procurement Service's involvement in the process, and the Fleet Service's role in working with services to assess their needs and specify appropriate vehicles, and then ensuring these are delivered.

Support for the county's economy

(Moderate assurance)

- 4.13 The council has received and spent funding from various sources to support the county's economy during the course of the covid pandemic. We have examined and can give moderate assurance collectively over the adequacy and effectiveness of the controls over the grants funded by: the European Regional Development Fund's Boost schemes, 'Boost Your Recovery' and 'Kickstart Tourism'; the Department of Environment, Food and Rural Affairs' emergency food grants and support to the extremely clinically vulnerable during the tiered and national restrictions of December 2020 and January 2021; and the Department for Work and Pensions' COVID Winter Grant Scheme supporting those who are at risk of experiencing poverty, arising from the pandemic.
- 4.14 We also examined the council's own funding for taxi operators who would normally provide school transport services to ensure that taxi drivers continued to be paid.
- 4.15 We assessed the risk and control frameworks for each funding stream, supporting the council's objective of providing support to the economy during the pandemic and found no issues of concern to report.

Schools' payroll

(Moderate assurance)

- 4.16 We tested a range of 12 schools using a variety of external payroll providers from large national companies using bespoke payroll software to smaller local firms using off-the-shelf software. Overall, schools have effective procedures in place to support their payroll processes. All schools have pay policies in place and approved by the governing bodies, mostly based on the council's model policy. All but one of the schools has a formal service level agreement or contract with their payroll provider although these do not always adequately define the roles and responsibilities of both parties.
- 4.17 There are systematic processes in place for preparing and approving staffing budgets which involve key stakeholders, and draft budgets are considered and approved by the schools' governing bodies. Most schools have appraisals which inform the award of pay progression and honorariums and these are approved by governors.
- 4.18 Processes around new starters and leavers generally operate effectively, and employees are paid promptly and correctly in their first and last months' pay. Adjustments for statutory and occupational maternity and sickness pay are generally made promptly. All schools undertake monthly payroll and bank reconciliations although not all schools are able to achieve a segregation of duties between staff authorising transactions and reconciling bank statements to the payroll.

Purchase cards

(Substantial assurance)

- 4.19 The council operates a corporate charge card scheme provided by Barclaycard Business. Cards are provided to staff to facilitate electronic ordering and payment and, in May 2021, 175 cards were held by individual employees for use on behalf of their service. There are also 27 group purchase cards that enable the purchase of stationery from the corporate contractor. During 2020/21 more than £1.6 million was spent on all purchase cards through 17,217 transactions.
- 4.20 The Procurement Information Management (PIM) Team administers the purchase cards. The use of the cards is well controlled, and processes have been modified appropriately during the covid pandemic.

5 Follow-up of actions agreed arising from earlier audit work

- 5.1 The Internal Audit Service normally aims to follow up the action plans agreed by managers to address the risks identified through the audit process, to confirm that action has been taken. The plan for the year therefore includes an allocation of time for this work and the actions agreed in earlier years are being reviewed with the responsible officers. Managers across the council have been focussed on responding to the pandemic and in some cases systems and processes have been changed to accommodate different requirements or are still being changed.
- 5.2 The first response to our follow-up work is as follows.

Premises' compliance: health and safety in properties managed by the council

- 5.3 Audit work was undertaken in 2019/20 that resulted in limited assurance that properties managed by the council are compliant with statutory and other requirements.
- 5.4 The Asset Management compliance team has now been in place for just over three years and whilst efforts have been made to introduce a corporate process, there has been limited progress towards the improvement that management would like to achieve. The Head of Service is now in the process of reconfiguring the function, which will establish a performance team and incorporate the compliance function alongside wider premises data and information requirements. The Head of Service has also commissioned Digital Services to analyse the processes by which the council's statutory and regulatory responsibilities are managed and to recommend improvements.
- 5.5 This work will define the council's statutory responsibilities, identify the properties and elements that require monitoring, review the existing systems and procedures, and identify available data sets to support premises management compliance.

Audit, Risk and Governance Committee

Meeting to be held on Monday, 18 October 2021

Electoral Division affected: (All Divisions);
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Appointment of External Auditors

Contact for further information:

Khadija Saeed, Head of Corporate Finance, Tel: 01772 536195,
khadija.saeed@lancashire.gov.uk

Executive Summary

Following the abolition of the Audit Commission, the council took advantage of the national collective scheme administered by Public Sector Audit Appointments Limited (PSAA) for the appointment of external auditors for the five consecutive financial years commencing 1 April 2018. This covers the audits of accounts for Lancashire County Council and Lancashire County Pension Fund for the financial years 2018/19 to 2022/23.

The second appointing period is to span the five consecutive financial years commencing 1 April 2023 and cover the audits of accounts for the financial years 2023/24 to 2027/28.

The council is required to consider the options available and put in place arrangements to appoint an external auditor by 31 December 2022. If the council's preferred option is to re-commission PSAA to undertake the appointment process, the council must inform PSAA of this decision by 11 March 2022 following a decision of the Full Council.

Recommendation

The committee is asked to agree **to recommend to Full Council** to opt into an approved sector led body, specifically Public Sector Audit Appointments Limited, to act as the appointing person for the appointment of external auditors for Lancashire County Council and Lancashire County Pension Fund.

Background and Advice

The appointment of the council's current external auditors is administered by Public Sector Audit Appointments Limited (PSAA) and the appointment covers the audits of accounts for Lancashire County Council and Lancashire County Pension Fund for the financial years 2018/19 to 2022/23.

The second appointing period is to span the five consecutive financial years commencing 1 April 2023 and cover the audits of accounts for the financial years 2023/24 to 2027/28.

The council is required to appoint an external auditor by 31 December 2022 to commence 1 April 2023. There are three options available to the council for appointing its external auditor:

Option 1

Establish its own independent auditor panel under part 3, section 9 and schedule 4 of the Local Audit and Accountability Act 2014. The panel must be made up of a majority, or of wholly independent members and must be chaired by an independent member. It would therefore be necessary to undertake a selection process to appoint the panel, whose members may be remunerated. The panel's role would be to advise the council on the selection of its external auditor and therefore to oversee a procurement process.

Option 2

Establish a joint independent auditor panel to carry out the function on behalf of two or more councils which would therefore have to agree on the selection criteria firstly for the panel's members and then for the external auditor, and then oversee a procurement process.

Option 3

Opt into PSAA's sector led national scheme. Full Council approval would be required to opt into the sector led body approach as required by the Local Audit (Appointing Person) Regulations 2015. No significant further action would then be required by the council.

On 22 September 2021 PSAA invited all principal local government bodies to become opted-in authorities. Eligible bodies have until 11 March 2022 to formally respond and accept the opt-in invitation.

The national scheme is considered to represent the best option as the council will benefit from PSAA's experience of working within the context of the Regulations to appoint auditors, manage contracts with audit firms, setting and determining audit fees. It avoids the necessity to establish an independent auditor panel and undertake a procurement exercise and assures the independence of the auditor's appointment for the council.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Financial

The external audit fee levels are likely to increase when the current contract through PSAA ends. The impact of any increase will be built into the updated medium-term financial strategy if this is in excess of the additional funding provided to councils to reflect the increasing cost of external audit following the outcome of the Redmond Review.

The recommendation to proceed with PSAA as the appointing body is expected to deliver the most economically advantageous option from the three available options, given the bargaining power and experience PSAA can bring to bear.

Legal

Section 7 of the Local Audit and Accountability Act 2014 requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year.

Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable PSAA to be the 'appointing person'.

Risk management

Section 12 of the Local Audit and Accountability Act 2014 makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.

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

Paper	Date	Contact/Tel
N/A	N/A	N/A

Reason for inclusion in Part II, if appropriate

N/A

Audit, Risk and Governance Committee

Meeting to be held on Monday, 18 October 2021

Electoral Division affected: (All Divisions);
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Corporate Risk and Opportunity Register Quarter 3 2021/22

(Appendices A and B refer)

Contact for further information:

Paul Bond, Head of Legal and Democratic Services, Tel: 01772 534676

Paul.bond@lancashire.gov.uk

Executive Summary

This report provides an updated (Quarter 3) Corporate Risk and Opportunity Register and Summary Risk profile for the committee to consider and comment on.

Recommendation

The committee is asked to:

- i) Note the Corporate Risk and Opportunity Register, as set out at Appendix A; and
- ii) Note the Summary Risk Profile, as set out at Appendix B.

1. Background and Advice

This is the first time the committee has reviewed the corporate register following its suspension as a result of the pandemic. Therefore, the current risk entries in the corporate register reflect the governance issues for 2021/22, as set out in the Annual Governance Statement 2020/21 that was agreed by this committee earlier this year. The Corporate Register is used to monitor progress against those governance issues and quarterly progress reports are also presented to the Corporate Management Team (CMT) and the Cabinet Committee on Performance Improvement.

Following a review of directorate risk registers, the Corporate Management Team have included an additional risk on the corporate register that focuses on demand for client led services together with some opportunities. The updated register is attached as Appendix A.

There is a separate risk register for the Pension Fund and the full register is reviewed by the Local Pension Board and presented to the Pension Fund Committee

every six months. Any risks currently on the Fund risk register which relate to the Authority as a shareholder of the Local Pensions Partnership, will be included on future corporate registers presented to this committee.

2. Review of the Risk Management Process

Prior to lockdown, the Corporate Management Team agreed that the way risk information was presented did not necessarily lend itself to decision making as the information was difficult to digest and suggested that a review be undertaken.

As a result of the review, the following recommendations were implemented:

- Directorate level risk registers were introduced that would be updated quarterly and presented to directorate senior management team meetings for monitoring and discussion. Directorate risks and opportunities would continue to be assessed quarterly and any having a residual (target) risk (this is the score after mitigation actions have been put in place) or opportunity score of 12 or above would be presented to the Corporate Management Team for consideration and possible inclusion on the corporate register.
- The risk registers have been reformatted so that they are easier to digest. Additional information has been included, such as target (residual) scores and target dates, together with control and mitigation owners, to improve transparency and accountability.
- The introduction of a Summary Risk Profile. This document will:
 - Show the target dates by which the risk rating would become acceptable;
 - Allow progress monitoring on a quarterly basis (using RAG rating). This will highlight and provide the information on which management decisions can be made; and
 - Provide clearer accountability for actions.

The summary risk profile is attached at Appendix B.

3. A summary of the key risks and opportunities

Corporate Risks

CORP1 – Reshaping the County Council

This risk remains on the register but has been updated to reflect the current position. Whilst this risk still focuses on ensuring we have the capacity and skills to ensure we are sufficiently innovative/radical to transform services at the required pace, in order to achieve the scale of change needed to deliver a balanced budget, the focus is now on:

- The change programme, including capacity to deliver;
- Our Ways of working;
- Improved partnership working;
- A new County Council; and
- Financial Sustainability.

CORP2 – Family Safeguarding Model

Work continues to implement the new Family Safeguarding model to ensure children and families receive timely and effective support. This is making good progress against the implementation plan.

CORP3 – Special Educational Needs and Disability Improvement Plan

Continued positive progress in delivery of the Improvement Plan with accelerated improvement plans agreed and the risks being managed.

CORP4 – Integration & Innovation

Responding to the Government legislative proposals for greater collaboration across the health and social care sector. The Adult Social Care and Health Partnership Board has agreed a joint work programme. Engagement with members and senior officers is taking place.

CORP5 – ICT Provision

This risk focuses on the transition from Oracle R12 to Oracle Fusion, the use of data to plan and improve service provision and improving the council's core systems to promote innovation and implement best practice.

CORP6 – Covid 19 Impact on Services & Communities

This risk focuses on the council's response to the pandemic and the demand the response has put on both staff and service delivery. Parts of the organisation are still responding to the crisis whilst others have returned to business as usual as part of the recovery. A phased return to the office is underway.

CORP7 – Impact on Community and Services

The demand for client-based services continues to increase so there is a risk that this may result in increased budget pressures and poor outcomes for those people in receipt of our services.

Opportunities

CO1 – Strengths Based Working

New ways of working in Adult Social Care as a result of covid being a catalyst for change - The 'lessons learned' have provided a platform for future ways of working. We have made a significant number of changes that we will endeavour to maintain.

CO2 – Environmental Improvements

Reduce the Authority's Carbon Footprint and reduce the impact on air quality from operations, especially in urban areas to improve health outcomes.

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 develop and maintain a Corporate Risk and Opportunity Register means the council would be negligent in its responsibilities for ensuring accountability and the proper conduct of public business.

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

Lancashire County Council Corporate Risk & Opportunity Register 2021/22 Q3

Risk ID Corp 1 – Reshaping the County Council: Our Improvement Journey		Current risk score: 16		Target Risk Score: 9
Risk Description <ul style="list-style-type: none"> • That the council will not be sufficiently radical or innovative to transform services at the required pace to achieve the scale of change needed over the next 12 months and beyond • Inability to secure sufficient resource (capacity) across the organisation to deliver on some areas of the Improvement Journey due to competing priorities and the need to prioritise capacity towards ongoing COVID-19 response and recovery. • Risk of not having a joined up, cohesive, corporate wide LCC change programme with CMT oversight and appropriately allocated resources. • Risk of multiple front doors with multiple gatekeepers to initiate change – Digital Services, 	Risk Consequences <p>Capacity</p> <ul style="list-style-type: none"> • Inability to deliver full programme of staff and customer experience improvement • Inability to identify improvement opportunities that could contribute to service efficiencies / improved outcomes <p>Change programme</p> <ul style="list-style-type: none"> • Priority change activities are not happening as quickly as they could/should, and as a consequence, the benefits for citizens/staff are not being realised as soon as they could be. • Resources are not focused on the priority change activities; and the competing demands on resource time results in focus being across too many initiatives and therefore the delivery is not as effective or efficient as needed. • There are financial costs for LCC, either for additional resources or delayed benefit realisation, as a consequence of the current approach, with the potential to failure to deliver key programmes. <p>Our ways of working</p> <ul style="list-style-type: none"> • Our future workplace model does not optimise the performance of our people, places, processes and technology. We are unable to leverage the best of 	Risk Owner Corporate Management Team (CMT)/Director of OD & Change Target date March 2022/Ongoing	Current Likelihood Major (4) Target Likelihood Possible Target Risk Confidence <div style="background-color: orange; width: 100px; height: 20px; margin-top: 5px;"></div>	Current Impact Major (4) Target Impact Moderate

<p>Customer Access, operational services etc. This leads to:</p> <ul style="list-style-type: none"> • A lack of strategic prioritisation, sequencing and link to organisational objectives • Too many competing asks • Silo working approach • Inconsistent approach to prioritisation and delivery of change projects <ul style="list-style-type: none"> • Inability to deliver a balanced budget post 2023/24 	<p>what is possible today and continuously improve & adapt in response to future challenges.</p> <ul style="list-style-type: none"> • Inability to deliver full programme of staff and customer experience improvement • Inability to identify improvement opportunities that could contribute to service efficiencies / improved outcomes <p>Improved Partnership working</p> <ul style="list-style-type: none"> • Unable to build on the improved partnership working that has been a key feature of our response to the pandemic. The inability to build better alliances with our partners may have a detrimental impact on the outcomes for the people of Lancashire. <p>A New County Council</p> <ul style="list-style-type: none"> • County Councillors do not have the support they need to fulfil their roles within both the County Council and their communities. <p>Financial Sustainability</p> <ul style="list-style-type: none"> • Change opportunities may be missed that result in the council not meeting the needs of service users • Services become unsustainable and we cannot fulfil our statutory duties • Insufficient reserves • Unable to meet savings targets • External intervention if the council is unable to deliver a balanced budget in future years • Due to the pandemic there have been significant delays in the delivery of savings 			
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<p>Current Controls</p> <p>Capacity</p> <ul style="list-style-type: none"> • "Front Door to Change" designed and implemented to support prioritisation & allocation of resource for change across organisation. • Core roles appointed to lead on the major elements (Staff Experience Lead, Customer Experience Lead, Analysis & Design Lead & PM Lead) who will drive and monitor progress against critical elements. <p>Change Programme</p> <ul style="list-style-type: none"> • Detailed PMO roadmaps developed with Adults, ECS and PH, and resourcing issues resolved. • Director of OD & Change involvement in LCC change programme. <p>Our ways of working</p> <ul style="list-style-type: none"> • Improvement Journey priorities aligned with corporate priorities, subject to regular review by Strategic Improvement Board • Staff Experience <ul style="list-style-type: none"> ○ Staff Experience Board established, with plan in place for priority outcomes & deliverables for the next 12 months • Values & Behaviours developed and disseminated • Customer Experience: <ul style="list-style-type: none"> ○ Customer Experience SRO appointed and funding in place to recruit customer experience lead • Programme governance: <ul style="list-style-type: none"> ○ Head of Improvement appointed to drive Improvement Journey programme ○ Corporate Programme Office transferred to Director of OD & Change to support alignment of capacity & focus with agreed strategic & Improvement Journey priorities • Data & Insight: <ul style="list-style-type: none"> ○ Adoption of Power Business Intelligence and agreement that it will become our core business analytics tool • M365 landed – new tools and tech allowing flexible working 	<p>Control Owner</p> <p>Director of OD & Change</p>
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- Significant programme of review of HR policy and procedure underway influencing flexible working and supporting desired new ways of working
- Leadership and management development offer in place and evolving to meet needs of new ways of working
- Budget allocation agreed for recruitment of core team to develop & monitor IJ programme
- Development of framework to create "Front Door to Change" in order to agree priorities, allocate appropriate resources
- The council has a number of work streams that support the corporate strategy and our ways of working e.g. digital connectivity: inequalities workshops etc

Improved Partnership Working

- Through the refreshed corporate strategy, we will set out the county council's vision and approach, but we will also acknowledge that we cannot achieve this on our own. We will adopt a flexible approach to partnerships that will allow us and the people and businesses of Lancashire to respond to the needs of the county, in a way that benefits everyone.
- We are maintaining a number of the joint/strategic decision-making groups e.g. Adult Social care and Health Partnership (Formerly ASC cell), OOH cell to build on the collaborative ways of working
- These joint boards have decision making ability and will feed into the new Strategic Commissioning Board

A New County Council

- All administrative procedures relating to county councillor appointments completed.
- Induction programme completed
- All councillors supplied with appropriate IT/telephony equipment

Financial Sustainability

- Updates provided to Cabinet through the money matters reports covering in-year financial position and medium-term financial strategy on a quarterly basis
- Directorate Leadership Teams (DLT's) meet regularly and have a monthly focus on financial position and savings delivery chaired by the relevant Executive Director
- Programme Office is supporting the overall programme of savings activity

CMT

Director of Corporate Services

Chief Executive & S151 Officer/Director of Finance

<ul style="list-style-type: none"> • Financial Benchmarking information (with other County Councils) produced and reviewed annually as a basis for identifying those service areas with most scope for further efficiencies • Continue to monitor the impacts of price changes via our regular monitoring activity updating our forecast outturn and the MTFS • Continue to work with staff to develop new options savings options and revisit options • Continue to seek out, learn from and adapt services to follow best practice 	
<p>Mitigating Actions</p> <p>Capacity</p> <ul style="list-style-type: none"> • Agree core team roles and requirements and recruited to agreed positions. Will continue to recruit to remaining positions and key matrix roles • Regular engagement with CMT to understand capacity challenges and prioritisation requirements • Identify opportunities for realignment of roles / activities in complementary areas to support IJ delivery, including Directorate change hubs which will help to identify, prioritise & deliver priorities using the full range of available resources. • Develop resource profile for activity in scope of IJ and identify any potential shortfalls with associated options / costings for filling gaps • Implement "Front Door to Change" framework and recommended actions including mapping of change capacity & demand, and prioritisation across directorates. <p>Change Programme</p> <ul style="list-style-type: none"> • Develop a joined up, cohesive view of all change activity. • Support CMT to have greater visibility and discussion on the entire change programme. • Agree governance which will allow effective prioritisation and sequencing of change activity at a corporate level. <p>Our Ways of Working</p> <ul style="list-style-type: none"> • Link values & behaviours to performance & development discussions • Recruit Staff Experience Lead to lead implementation of staff experience programme deliverables 	<p>Mitigation Owner Director of OD & Change</p>

- Introduce new staff survey / engagement approaches to improve data, insight and understanding of staff experience
- Establish Customer Experience board to co-ordinate and deliver customer service improvement programme
- Align programme office skills and capacity to agreed priorities
- Implement upgraded programme management system and embed adoption within all core projects and programmes
- Establish corporate Data and Insight Board with remit to identify priority requirements and develop solutions
- Determine which premises offer strategic fit
- Identify where flexible use of space can support collaboration and front-facing delivery
- Prototype in early adopter location, iterative approach to deliver some quick wins
- Alternate use or disposal of premises no longer required for operational delivery
- Transform main offices into collaborative space
- Agree core team roles and requirements and recruit to agreed positions
- Regular engagement with CMT to understand capacity challenges and prioritisation requirements
- Identify opportunities for realignment of roles / activities in complementary areas to support IJ delivery
- Develop resource profile for activity in scope of IJ and identify any potential shortfalls with associated options / costings for filling gaps
- Implement "Front Door to Change" framework and recommended actions

Improved Partnership Working

- Improved Partnership working is an explicit cross cutting theme within the Corporate Strategy
- Adult Social Care is continuing to feed into the county council's position on the levelling up agenda
- Exec Director and Unitary Directors of Adult Services continue to highlight the importance of Adult Social Care at strategic health led discussions

CMT

<p>A New County Council</p> <ul style="list-style-type: none"> • Member development programme in place • Overview & Scrutiny work programme developed • AGM & appointments to Cabinet & all committees • Review of constitution <p>Financial Sustainability</p> <ul style="list-style-type: none"> • DLT's review progress and are each chaired by the relevant Executive Director • Revenue position includes a planned contribution from reserves to support savings delivery and the 2021/22 funding gap • Savings plans have been subject to review as part of the budget monitoring process 	<p>Director of Corporate Services</p> <p>Chief Executive & S151 Officer/Director of Finance</p>	
<p>Progress:</p> <p>Capacity</p> <ul style="list-style-type: none"> • Recruitment to core team underway. "Front Door to Change" design work & key engagement completed. <p>Change Programme</p> <ul style="list-style-type: none"> • AMEO consultants' recommendations for single front door and Gateway approval process endorsed by CMT. • High level action plan to implement the single front door and gateway approval process has been developed. • Additional resource identified to help plan and deliver is due to start Sept 2021. • Rapid progress will be made once the additional resource starts. <p>Our ways of working</p> <ul style="list-style-type: none"> • Supporting a return to offices in the autumn • Key office sites to reopen late summer/early Autumn 2021 (Public Health will guide on timescale) – County Hall Complex – CCP and Lancashire Point only (CHOB offices to remain closed with access only for meetings and exceptional circumstances) – White Cross Neighbourhood Centre, Lancaster 		

- Reopening for single agile work style with enhanced sharing of facilities and desk booking pilot
- Work ongoing to prioritise individual services return to offices and appropriate timelines
- District office sites that remained open during lockdown to remain open for essential users
- Return to office planning - design principles developed to implement a future workplace model
- Communications plan to start to share high level information
- 'Working From home' survey completed
- Engage with key Equality & Diversity groups re: emerging proposals
- Virtual focus groups with staff undertaken to ensure engagement with groups not subject of formal meeting structures e.g. working parents, younger colleagues, first line managers
- Comprehensive proposals presented to CMT and shared with SLT
- Recruitment to core team underway. "Front Door to Change" work nearing completion including mapping of change capacity & demand, and proposals for prioritisation across directorates.

A New County Council

- Political Governance Working Group to convene to consider aspects of the constitution
- Independent Remuneration Panel have reviewed member allowance scheme and have reported recommendations to Full Council
- Discussions taking place with political groups to improve communications with members on key issues
- Member development programme in place with all core and committee training delivered. Programme of bite sized briefings in place together with Vodcasts
- Member Development Working Group convening shortly

Improved partnership working


- Discussions with partners continue to focus on more joined up approaches and opportunities to improve outcomes and save money
- Adult Social Care and Health Partnership Board continues to build on benefits of joint working

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Financial Sustainability

- Further savings to be identified to reduce the future requirement from reserves. This will be achieved ideally through a combination of efficiencies, more effective demand management and income generation but may also involve a reduction in some services.
- Detailed work will be undertaken to determine the extent to which any of the underspending areas represent structural underspends not yet fully adjusted for within the MTFS for future years
- Overspending areas are also being reviewed to determine the extent that it is recurrent and not reflected in the MTFS
- Prepare for the introduction of a new fair funding formula and 75% business rates retention
- Impact of the recent Government 'Build Back Better' on health and social care being assessed

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Risk ID Corp 2		Title: Family Safeguarding Model		Current risk score: 12		Target Risk Score: 8	
Risk Description The Hertfordshire Family safeguarding approach does not deliver the expected outcomes		Risk Consequences <ul style="list-style-type: none"> Children and families do not receive timely and effective support Needs of children and families escalate, resulting in children coming into the care of the local authority when this could have been appropriately and safely avoided 		Risk Owner Director of Education and Children's Services Target date March 2022		Current Likelihood Possible (3) Target Likelihood Unlikely (2) Target Risk Confidence 	
Current Controls <ul style="list-style-type: none"> Bid successful Diagnostic undertaken by Herts team High level implementation plan developed Appointed to Head of Service lead and practice/systems roles Family safeguarding Group provides oversight, reporting to Keeping Children Safe Board 				Control Owner Director of Children's Social Care			
Mitigating Actions <ul style="list-style-type: none"> Delivery of implementation plan 				Mitigation Owner Director of Children's Social Care			
Progress: <ul style="list-style-type: none"> Family safeguarding teams in place Launch events complete Mechanism to secure adult workers agreed Recruitment to adult workers in progress and good oversight of recruitment 							

Risk ID Corp 3		Title: SEND Partnership Improvement Plan		Current risk score: 12		Target Risk Score: 8													
Risk Description Insufficient progress in delivering against the targeted action plan to address the five areas which continue to require improvement leading to ongoing intervention.		Risk Consequences <ul style="list-style-type: none"> • Children and families do not receive timely and effective support • DfE Challenge/Support • Loss of confidence of children, young people, parents and carers 		Risk Owner Director of Education and Children's Services Target date March 2022		<table border="1"> <tr> <td>Current Likelihood</td> <td>Possible (3)</td> <td>Current Impact</td> <td>Major (4)</td> </tr> <tr> <td>Target Likelihood</td> <td>Unlikely (2)</td> <td>Target Impact</td> <td>Major (4)</td> </tr> <tr> <td>Target Risk Confidence</td> <td></td> <td></td> <td></td> </tr> </table>		Current Likelihood	Possible (3)	Current Impact	Major (4)	Target Likelihood	Unlikely (2)	Target Impact	Major (4)	Target Risk Confidence			
Current Likelihood	Possible (3)	Current Impact	Major (4)																
Target Likelihood	Unlikely (2)	Target Impact	Major (4)																
Target Risk Confidence																			
Current Controls <ul style="list-style-type: none"> • Accelerated improvement plans agreed by DfE/NHSE • Regular reports to Scrutiny Committee and Health and Wellbeing Board • Governance through SEND Partnership Board 				Control Owner Director of Education and Skills															
Mitigating Actions <ul style="list-style-type: none"> • Ongoing delivery of plan and oversight of Partnership Board and Health and Wellbeing Board / Subgroup 				Mitigation Owner Director of Education and Skills															
Progress: <ul style="list-style-type: none"> • Accelerated Improvement Plans agreed and monitoring arrangements in place • Sighted on risks including local offer service directory, transitions in health care and ASD pathways 																			

- | | |
|---|--|
| <ul style="list-style-type: none">• Significant investment needed to strengthen specialist nursing services which is being considered alongside other NHS investment bids through ICS governance arrangements | |
|---|--|

Risk ID Corp 4		Title: Integration & Innovation		Current risk score: 6		Target Risk Score:20	
Risk Description	Risk consequences	Risk Owner	Current Likelihood	Current Impact	Target Likelihood	Target Impact	Target Risk Confidence
<p>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:</p> <ul style="list-style-type: none"> • 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 CQC • Creating a standalone power for Better Care Fund • Encouraging joint appointments of executive directors to support integrated care/working • Strengthening the role of Health and Wellbeing Boards <p>As mentioned above, several themes are particularly relevant to the future</p>	<p>Lack of clarity on governance during and following the White Paper reforms</p> <p>Uncertainty of health workforce during reforms leading to joint working on programmes / projects not moving forward at the pace needed so as not to lose the excellent progress made during the pandemic in relation to integration, decision making etc.</p> <p>Possible issues relating to finances, particularly if Covid temporary funding is ending as well as current NHS deficit</p> <p>Concerns from social care staff on future assurance inspections by CQC</p>	<p>Adult Social Care in conjunction with CMT and partners</p> <p>Target date March 2022</p>	<p>Possible</p> <p>Target Likelihood Certain</p> <p>Target Risk Confidence</p> <div style="background-color: #FFD700; width: 50px; height: 20px; margin-left: 20px;"></div>	<p>Minor</p> <p>Target Impact Major</p>			

<p>working relationship between health and local government, and we will be looking to develop these through 21/22.</p> <p>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.</p>				
<p>Current Controls</p> <ul style="list-style-type: none"> We are maintaining a number of the joint/strategic decision-making groups e.g. Adult Social Care & Health Partnership, OOH cell, to build on the collaborative ways of working 	<p>Control Owner Directors & HoS</p>			
<p>Mitigating Actions</p> <ul style="list-style-type: none"> Joint work programmes agreed between Adult Social Care and Health 	<p>Mitigation Owner Directors & HoS</p>			
<p>Progress:</p> <ul style="list-style-type: none"> Adult Social Care and Health Partnership Board has agreed a joint work programme and work is progressing At a senior level the County Council is involved in the ICP Development Advisory Group (Exec Director) and at the ICS Development Oversight Group (Chief Executive). This is pivotal to ensuing local government context and opportunity is understood and reflected in all plans and priorities Regular Internal health integration meetings (cross directorate) chaired by the Chief Executive to ensure clear and consistent approach to all meetings with NHS Briefings for county councillors involved in NHS meetings is being reinstated. Weekly meetings with lead cabinet members are taking place. 				

Risk ID Corp 5		Title: ICT Provision		Current risk score: 16		Target Risk Score: 8	
Risk Description		Risk Consequences		Risk Owner		Current Likelihood	
<p>Oracle R12 to Fusion Oracle vR12 supports the heart of the council's people and financial resources. R12 is now end of life and is approaching the end of the final extended support period. LCC have embarked on a programme to replace R12 with Oracle Fusion and associated new processes for managing our money and our people information for 45,000 users.</p> <p>Further risk of challenge to implement Fusion exists when contract novation from BTLS to LCC is executed.</p> <p>Failure to assign resources to the Oracle Fusion Programme will leave LCC without the ability to complete the project on time</p> <p>Data The organisation fails to use its data resource to good effect for the benefit of Lancashire residents</p> <p>Core Systems Lancashire has built up a 'technology debt' with regards to its major</p>		<p>Should the Fusion Programme fail, major disruption can be expected in the management of the Council's money, suppliers, customers, debtors, creditors, current workforce, retired workforce and impact for other beneficiaries of the system outside of LCC specifically with payroll services.</p> <p>Contract award to Oracle has been made via BTLS and novation challenge could halt project progress without the ability to extend the programme end date past March 2022</p> <p>Un-optimised service provision with failure to plan service intervention and service delivery at appropriate times.</p> <p>These line of business (LOB) systems restrict the council from operating efficiently and hamper teams from innovation, automation and modern best practice.</p>		<p>Director of Strategy & Performance/ Director of Finance</p> <p>Target date March 2022</p>		<p>4</p> <p>Target Likelihood 2</p> <p>Target Risk Confidence</p>	
						Current Impact 4	
						Target Impact 4	

systems which help the organisation function in a modern, efficient, effective way.				
<p>Current Controls</p> <p>Oracle Fusion Fusion Project Board established, SRO identified, programme under active management of the Chief Digital Officer.</p> <p>Data Some management information is provided through appropriate Service Management Line of Business Systems. These systems are supported through best practice reporting and through the contribution of the Business Intelligence Team. This team are a stretched resource and cannot cover all data for the County Council.</p> <p>Core Systems Controls for this are informal and exist on a basis of replacing the systems at the very end of their life as they are about to, or following, the data they go out of support by their vendor.</p>		<p>Chief Digital Officer</p> <p>Director of Strategy and Performance</p> <p>Director of Strategy and Performance</p>		
<p>Mitigating Actions</p> <p>Oracle Fusion</p> <ul style="list-style-type: none"> • Replace R12 with Oracle Fusion • Let contract with Oracle • Appoint Systems Integrator and deliver technical implementation • Appoint Change Partner and with them adopt new processes for all Fusion capabilities • Appoint Data migration partner and secure LCC resource to ensure data is R12 is cleaned and migrated in a timely manner to Fusion <p>Data</p> <ul style="list-style-type: none"> • New head of data has been recruited and is in post. The post supports the needs of the organisations data requirements and to ensure they are designed and architected in optimal ways to support service delivery and customer experience. 		<p>Mitigation Owner Oracle Fusion Programme Manager</p> <p>Chief Digital Officer</p>		

<p>Core Systems</p> <ul style="list-style-type: none"> The appointment of the Chief Digital Officer, the insourcing of the IT function and the creation of a Head of Architecture are helping to support the development of improved ways of working. The Head of Architecture is responsible for having agreed roadmaps for maintain products either via a SaaS (Software as a Service) route or regular updates products to enable business department to have LOB systems that provide the support for their respective function. The top SaaS product is the migration to Oracle Fusion which is the subject of a separate risk. A Head of Digital Business Engagement post has also been created and filled to ensure that digital services understand and help to deliver service needs. 	<p>Chief Digital Officer</p>
<p>Progress:</p> <p>Oracle Fusion</p> <ul style="list-style-type: none"> Reviewed the Fusion Programme delivery plan due to a delay in sign off for HR & Payroll solution design, which would allow us to move into the build then testing phases of the programme. At the same time, we have been assessing options to accommodate historical data in the Fusion system for Lancashire Constabulary (LanCon). This replanning activity has resulted in a delay to the delivery of Fusion, and the target Go Live dates are now June for Finance and Procurement (ERP) and early July for HR & Payroll (HCM). In addition, following a series of discussions with LanCon and LCC senior stakeholders, it has been agreed that LanCon will separate from the Programme. Over the coming weeks, we will focus on working with LanCon to support them in the transition, and on impact assessing the Programme scope change. ICT Digital Services will continue to provide support for LanCon through a transition programme, which is to be initiated. During August, our Change Network were briefed about the replanning and delay to Go Live. Business Readiness Leads have been briefed about the revised Roadmap and target June / July 2022 Go Live, and further 'All Staff' communication has been shared. <p>Data</p> <ul style="list-style-type: none"> Head of Data post in place as part of the new Digital Services structure. 	

Core Systems

- All senior management posts in the service are appointed with staff in place.

Risk ID Corp 6		Title: Covid-19 Impact on Services & Communities	Current risk score: 20	Target Risk Score: 12	
Risk Description	Risk Consequences	Risk Owner	Current Likelihood	Current Impact	
<p>Inability to adequately respond to the demands placed on Services as a consequence of increasing demands, capacity issues, and reduced resilience of staff.</p> <p>Staff across all services have worked in crisis response mode from the outset of the pandemic. Alongside this business as usual work is being undertaken across many services.</p>	<p>Inability to meet service requests as demand outstrips current capacity because staff are dealing with both pandemic and BAU issues</p>	<p>Corporate Services leadership in conjunction with CMT and partners</p> <p>Target date March 2023</p>	Certain	Major	
	<p>Staff fatigue - risk of reduced energy levels to meet the constantly evolving demands and pressures. Risk of burnout.</p> <p>A reduction in staff availability/productivity due to the effects of the pandemic across services eg an increase in infection rates, local restrictions, child care/family/personal issues etc</p> <p>Risk to creativity and innovation with regard to developing and maintaining high quality outcomes for service clients</p> <p>Potential reduction in productivity and throughput will increase pressures</p> <p>Potential to negatively impact on internal and external customer/partner relationships</p> <p>Potential for increasing costs, loss of income and pressure on budgets as some services are having to increase resources.</p>		<p>Target Likelihood</p> <p>Likely</p> <p>Target Risk Confidence</p> <div style="background-color: #FFD700; width: 50px; height: 20px; margin: 5px 0;"></div>	<p>Target Impact</p> <p>Moderate</p>	

<p>Current Controls</p> <ul style="list-style-type: none"> • Corporate Emergency Response Team (CERT) continues to meet at least fortnightly and considers current situation reports • Contingency plans are available to be activated as needed which would primarily stand down business as usual/non-critical work and where possible, redeploy staff to support priority work areas • Ongoing situation monitored at leadership team meetings • Increase capacity through sourcing additional resource • Ensure all staff take their annual leave entitlements • Team managers keep the focus on staff wellbeing in 1:1s and team meetings • Ensure a sensible and reasonable approach to further changes, to support staff to meet the challenges 	<p>Control Owner CMT</p>
<p>Mitigating Actions</p> <ul style="list-style-type: none"> • Mitigating actions for loss of staff encapsulated for each individual service within the business continuity arrangements found in the Service Resilience Plans (SRPs); this includes identification of critical posts/functions, alternative arrangements for critical posts/functions, critical function analysis, specific responses in relation to Pandemic flu • These arrangements need to be viewed in line with the Corporate Emergency Response Plan (CERP) which provides the incident management and wider support structures in place. • Continue to monitor capacity and demand levels • CEX, ED, Director and HofS to continue to share messages of thanks and appreciation • Raise issues at CERT if corporate guidance/action required • Consider the need to stand down business as usual to focus on the pandemic response or seek financial support to increase resources to maintain overall continuity of services • Covid- 19 incident management • Vaccination programme • Local contact tracing • Community Testing/workplace testing 	<p>Mitigation Owner As above</p>

- Monthly staff webinars led by Directors to continue to share messages of thanks, appreciation and enable staff to showcase their best practice and fantastic response to the pandemic
- Staffing issues and in particular staff welfare is a constant feature in leadership meetings

Progress:

- Overall, controls are in place and functioning well at this point in time
- Lancs-12 testing strategy refreshed to prioritise care homes.
- Care sector levels vaccination to be tracked through IMT meetings.
- Lancashire now part of a principal trial for anti-viral, via the Oxford group.
- Local policy to encourage testing and non-attendance for those who are positive/symptomatic.
- Revise 5-step community testing plan
- Given escalating situation regarding infection rates consideration being given to re-establish response rather than recovery. This will potentially mean LRF Business Continuity group to stand back up.
- Continued support for schools
- Vaccination in care settings continues. Using buses as mobile units for targeted areas to promote vaccination campaign, leaflet drops etc. Once resources are identified these will also act as vaccination buses.
- Developing a system for members of the public who don't have access to transport to call a designated line through Customer Access Service who can arrange a taxi and will act as a 'drive-thru' vaccination service. Finalising detail with NHS colleagues.
- Children's Social Workers are now undertaking twice-weekly tests (with EDT testing three times a week to reflect the vulnerability of the public they come into contact with)
- Initial preparations in terms of data collection and archiving in relation to the independent inquiry recently announced by the government
- Support vaccination programme – HR protocol to be published/SMART team continuing to support community engagement awareness raising
- Testing programme:


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| <ul style="list-style-type: none">▪ Continuing link with Districts regarding local strategies for now until December and then on to March 2022▪ Rolling out testing to Afghan refugee settlement programme▪ District Advice for contain functions (tracing, testing and community engagement) will be going to Health Protection Board this week▪ Continuing to support districts with Out of Hours contact tracing• Support safe return to buildings (in line with Government guidance):<ul style="list-style-type: none">○ Phased return/reopening has been taking place over summer 2021- in line with government guidance - relaxations/arrangements have been considered by Safer Working Group, CERT and CMT○ Documents to support on risk assessments○ Key messages being produced on dos and don'ts when returning to office | |
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Risk ID Corp 7		Title: Impact on Community & Services		Current risk score: 16	Target Risk Score: 12
<p>Risk Description</p> <p>Demand for client-based services continues to increase resulting in increased budget pressures and poor outcomes for those people in receipt of our services</p>	<p>Risk Consequences</p> <p>Adult Social Care Significant risk of provider failure, particularly for residential care and day service providers</p> <p>Further waves of Covid exacerbate these issues</p> <p>Risk of reduction in quality standards/not meeting CQC requirements and potential for an increase in safeguarding issues</p> <p>Potential for increased costs for the county council in maintaining provider income levels in order to 'shore up' the market and protect people's homes</p> <p>Some care home providers taking people for the 6 weeks 'discharge to assess' period at inflated rates. Risk to families if the placement needs to continue or very high 3rd party top ups, and to LCC if no other placement available and the top up needs to be absorbed by the council.</p> <p>Providers may increase their fees in order to maintain their ability to operate/generate sufficient returns. Could result in increased costs for the county council and for self-funders</p> <p>Risks for in-house services – ability to continue to operate/compete in the wider market</p>	<p>Risk Owner</p> <p>ASC leadership</p> <p>Target date</p> <p>March 2022</p>	<p>Current Likelihood</p> <p>Likely</p> <p>Target Likelihood</p> <p>Possible</p> <p>Target Risk Confidence</p> <div style="background-color: yellow; width: 80px; height: 20px; margin: 5px 0;"></div>	<p>Current Impact</p> <p>Major</p> <p>Target Impact</p> <p>Major</p>	


	<p>Potential for increased complaints and less choice. Increase in number of safeguarding alerts</p> <p>People may not be receiving services in a setting assessed as appropriate. Families and care providers are under pressure and are reporting being concerned that they are not able to safely manage risk, leading to increased potential harm or death. Increased risk to others in residential care settings.</p> <p>As yet, the future demand for such services is difficult to quantify. Some aspects of daytime support /accommodation-based services may require complete redesign.</p> <p>People are waiting many days for MH beds that have been recommended by Adults Mental Health Practitioners (AMHPs) and medics, leaving people in the community or in residential care who have been assessed as requiring detention under the Mental Health Act</p> <p>Puts families under more pressure and risks people being admitted to hospital, residential care or being placed out of Lancashire.</p> <p>Puts pressure on the budget as we are not able to fill voids in a timely way, meaning that there are supported living settings with empty rooms rendering the care therein less cost effective.</p>			
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<ul style="list-style-type: none"> • Ongoing consideration of Covid impact • Provide input into the developing NHS operational plan for CAMHS service developments and be sighted on / support ICS discussions on CAMHS related NHS investment proposals <p>SEND</p> <ul style="list-style-type: none"> • Delivery of priorities within the SEND sufficiency strategy • Consulted on Strategy • Ongoing consideration of Covid impact 	Director of Education and Skills
<p>Progress:</p> <p>Adult Social Care</p> <ul style="list-style-type: none"> • Quality Improvement Strategy in progress CQC resuming targeted inspections on key areas April 21 onwards <p>Children's Social Care</p> <ul style="list-style-type: none"> • Early Help Strategy agreed. Delivery is ongoing. • Family Safeguarding launched. • Outreach services expanded. • Family Group Conferencing evaluation planned as part of national programme, with additional national funding provided. Pilot VCFS provision in place supporting referrals from Children's Social Care Teams and funding agreed to extending service for further 12 months. • "Where Our Children Live" project reported to Cabinet January 2021 and delivery plan in development • Shifted block residential provision to establish more for children and young people with most complex needs. Continued focus on step down fostering placements with option to pay retainers to secure provision. • Rates for Child in Need, Child Protection and Children Looked After all reducing but continued oversight in event of surge in Autumn 2021 <p>SEND</p> <ul style="list-style-type: none"> • SEND Sufficiency Strategy agreed by Cabinet January 2020. 	

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| <ul style="list-style-type: none">• Increased Government funding provides some mitigation, but substantial pressure remains• Additional investment to reduce SENDO caseloads• Additional inclusion teachers and support workers provide direct support to enable the full-time attendance and inclusion of pupils with EHC plans who are either experiencing difficulties with their mental health that prevents their attendance at school or who are at risk of exclusion. | |
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Opportunity ID: CO1		Title: Strengths Based Working		Current Opp score: 15		Target Opp Score: 20	
Opportunity Description	Opportunity Consequences	Opp Owner	Current Likelihood	Current Impact	Target Likelihood	Target Impact	Target Opp Confidence
<p>Covid has been a catalyst for a number of positive changes to the way we work.</p> <p>Remote working has enabled people to adopt a more flexible approach to their work/life balance, we have embraced technology as a way of staying in touch with our teams and our service users and providers, we have used people's skills in a more flexible way and have trusted them to get on and do, we have spent far less time in planning and more time in doing, we have maintained 'light touch' governance and stuck to the decisions that we have made, and we have proved to ourselves and our partners that we can continue to provide high levels of customer service and response in a crisis.</p> <p>There are many 'lessons learned' with our partners including our health and district colleagues and we have demonstrated that spending time arguing about 'who pays' is unproductive and unhelpful for our citizens.</p>	<p>The 'lessons learned' have provided a platform for future ways of working. We have made a significant number of changes that we will endeavour to maintain.</p> <p>We will build on the relationships that we have developed with our partners and will continue to take a 'system wide' approach to decision making.</p> <p>We will trust our staff to work at home, but we must be mindful not to disregard the disbenefits of home working and will seek to achieve a more balanced approach when we are able to.</p> <p>We are able to take advantage of technology to improve the way we work and also improve and enhance our service offer.</p> <p>We will pursue the 'joint funding' approach and seek to agree the use of pooled budgets where appropriate.</p> <p>We will maintain the level of engagement that we have achieved with our valued providers. We will move forward at pace our market shaping work and will involve providers and service users at the forefront of our thinking.</p> <p>We have used our staff flexibility. Many of them have stepped forward to take on new roles and have been very successful. We have recognised the huge amount of talent and commitment that we have across all of our teams.</p>	<p>ASC leadership</p> <p>Target date March 2022</p>	<p>Certain</p> <p>Certain</p> 	<p>Moderate</p> <p>Major</p>			

<p>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.</p>	<p>Many of our lessons learned, new ways of working and innovative approaches to service delivery should enable financial savings to be achieved.</p>			
<p>Current Controls</p> <ul style="list-style-type: none"> • ASC leadership team continue to seek best practice examples and share learning • Ongoing reviews of services will capture potential financial savings • Discussions with partners continue to focus on more joined up approaches and opportunities to improve outcomes and save money 		<p>Control Owner ASC Directors and HoS</p>		
<p>Progress:</p> <ul style="list-style-type: none"> • ASC themed discussion on lessons learned/new ways of working. Seeking to build on the positives achieved through the pandemic. • Ongoing discussions with partners 		<p>Mitigation Owner As above</p>		
<p>Actions to realise: Partners4Change project will build on new ways of working Adult Social Care and Health Partnership Board continues to build on benefits of joint working</p>				

Opportunity ID: CO2		Title: Environmental Improvements		Current Opportunity score: 6		Target Opportunity Score: 16	
Opportunity Description Environmental Improvements (Air Quality, Noise and Safety) Green Fleet <ul style="list-style-type: none"> • Electric Vehicles (EV) • Ultra Low Emission Vehicles (ULEV) • Alternative Fuels (CNG and Hydrogen) • Lower Emission combustion engines 		Opportunity Consequences <ul style="list-style-type: none"> • Reduce Authorities Carbon Footprint • Reduce impact on air quality from LCC operations especially in urban areas by removing or reducing tailpipe emissions of noxious gases and particulates which impact adversely on health. 		Risk Owner HoS P&IT	Current Likelihood 3	Current Impact 2	
				Target date Ongoing	Target Likelihood 4	Target Impact 4	
					Target Confidence 		
Progress to date <ul style="list-style-type: none"> • Replacement of older significantly less environmentally friendly vehicles with newer lower emission vehicles and plant as part of Capital Fleet Replacement Programme (Note latest Euro specification vehicles emit exponentially less than earlier Euro standard vehicles). • Looking at Electric Vehicles (EV's) but ranges and charging remain an issue • Working group formed with Fleet, Property and D&C and proposals being completed for pilot for single dual point 22 KW charging facilities at Bamber Bridge and N65 to trial EV's in Fleet and inform the working group to enable further roll out of infrastructure and EV's within LCC. • Three EV mid-sized vans now in Fleet Services (delivered April 21) which will inform further the feasibility and actions that may need to be considered with a larger roll out of EV and ULEV's; one of the vans will initially be used by user departments and teams on extended trials and to inform of possible changes to working practices and infrastructure requirements to achieve zero emission vehicles in practical operational use. • Investigation and trialling of various EVs (vans and cars) with Parking Services re enabling the use of suitable EV's for the Parking Services operations moving in-house this year. 				Control Owner HoS P&IT Fleet Manager and Property Service			

Actions to realise <ul style="list-style-type: none"> Corporate Charging infrastructure for Electric Vehicles 	Opportunity Owner Director of Highways & Transport
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Key to Scores

	CATASTROPHIC (for risk) OUTSTANDING (for opportunity)	5	10	15	20	25
	MAJOR	4	8	12	16	20
	MODERATE	3	6	9	12	15
IMPACT	MINOR	2	4	6	8	10
	INSIGNIFICANT	1	2	3	4	5
		RARE	UNLIKELY	POSSIBLE	LIKELY	CERTAIN
			LIKELIHOOD			

Lancashire County Council Corporate Summary Risk Profile 2021/22

Risk ID	Risk Description	Current Risk Rating	Target Risk Rating	Target Date	Risk Confidence Q1	Risk Confidence Q2	Risk Confidence Q3	Risk Confidence Q4	Direction of travel
Corp1	Reshaping the County Council: Our Improvement Journey	16	9	March 2022/Ongoing					+ve
Corp2	Family Safeguarding Model	12	8	March 2022					+ve
Corp3	SEND Partnership Improvement Plan	12	8	March 2022					+ve
Corp4	Integration & Innovation	20	6	March 2022					+ve
Corp5	ICT Provision	16	8	March 2022					+ve
Corp6	Covid-19 Impact on Services & Communities	20	12	March 2023					+ve
Corp7	Impact on Community & Services	16	12	March 2022					+ve
Opp ID	Opportunity Description	Current rating	Target Rating	Target Date	Opportunity Confidence Q1	Opportunity Confidence Q2	Opportunity Confidence Q3	Opportunity Confidence Q4	Direction of Travel
CO1	Strength Based Working	15	20	March 2022					+ve
CO2	Environmental Improvements	6	16	Ongoing					+ve

Agenda Item 13

(NOT FOR PUBLICATION: By virtue of paragraph(s) 3 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) 3 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

