

**Lancashire County Council**

**Audit, Risk and Governance Committee**

**Monday 24th July 2023 at 2.00 pm in Committee Room 'B' - The Diamond Jubilee Room, County Hall, Preston**

**Agenda**

**Part I (Open to Press and Public)**

**No. Item**

- 1. Apologies**
- 2. Constitution, Membership and Terms of Reference** (Pages 1 - 6)
- 3. 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.
- 4. Minutes of the Meeting held on 24 April 2023** (Pages 7 - 14)  
  
To be confirmed and signed by the Chair.
- 5. Treasury Management Activity 2022/23** (Pages 15 - 26)
- 6. Statement of Accounts 2022/23** (Pages 27 - 30)
- 7. External Audit - Lancashire County Council Audit Plan 2022/23** (Pages 31 - 62)
- 8. External Audit - Lancashire County Pension Fund Audit Plan 2022/23** (Pages 63 - 88)
- 9. External Audit - Audit Progress Report and Sector Update** (Pages 89 - 106)
- 10. Internal Audit Progress Report** (Pages 107 - 156)
- 11. Internal Audit Annual Report 2022/23** (Pages 157 - 182)



12. **Internal Audit Charter** (Pages 183 - 192)
13. **Review of Arrangements for the Oversight of Council Controlled Companies** (Pages 193 - 198)
14. **Corporate Risk and Opportunity Register – Quarter 1 Update** (Pages 199 - 224)
15. **Chairman's Annual Report** (Pages 225 - 238)
16. **Draft Work Plan 2023/24** (Pages 239 - 242)
17. **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.

18. **Date of Next Meeting**

The next meeting of the committee will be held on Monday 16 October 2023 at 2.00 pm at County Hall, Preston.

19. **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)**

20. **Appendix 'B' to Item 14** (Pages 243 - 252)

(Not for Publication – Exempt information as defined in Paragraphs 3 and 7 of Part 1 of Schedule 12A to the Local Government Act, 1972.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



**21. Counter Fraud, Special Investigations and Whistleblowing Annual Report**

(Pages 253 - 266)

(Not for Publication – Exempt information as defined in Paragraphs 2, 3 and 7 of Part 1 of Schedule 12A to the Local Government Act, 1972.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

County Hall  
Preston

H MacAndrew  
Director of Law and Governance





**Audit, Risk and Governance Committee**  
Meeting to be held on Monday, 24 July 2023

Electoral Division affected:  
N/A;

**Constitution, Membership and Terms of Reference**  
(Appendix 'A' refers)

Contact for further information:  
Hannah Race, Senior Democratic Services Officer, Tel: 01772 530655,  
Hannah.Race@lancashire.gov.uk

**Brief Summary**

This report sets out the membership, Chair and Deputy Chair, and the Terms of Reference of the Audit, Risk and Governance Committee for the remainder of the municipal year 2023-24.

**Recommendation**

The committee is asked to note:

- i) The appointment of County Councillor A Schofield as Chair and County Councillor J Singleton as Deputy Chair of the Audit, Risk and Governance Committee for the 2023-24 municipal year;
- ii) The membership of the committee, following the county council's Annual Meeting held 25 May 2023; and
- iii) The Audit, Risk and Governance Committee Terms of Reference.

**Detail**

The county council at its Annual Meeting on 25 May 2023 agreed that the Audit, Risk and Governance Committee shall comprise eight county councillors (on the basis of five Conservative members and three Labour members). The following councillors have subsequently been nominated to service on the Audit, Risk and Governance Committee for the following year:

|            |                 |
|------------|-----------------|
| N Aziz     | J Berry         |
| M Clifford | J Couperthwaite |
| C Edwards  | A Schofield     |
| J Shedwick | J Singleton     |

The Full Council appointed County Councillors A Schofield and J Singleton as Chair and Deputy Chair respectively of the Audit, Risk and Governance Committee for the 2023-24 municipal year.

A copy of the committee's Terms of Reference is attached at Appendix 'A' and can also be found in Part 2 – Article 7 of the Constitution:

<https://council.lancashire.gov.uk/ieListDocuments.aspx?CId=914&MId=2916&Ver=4&info=1&bcr=1>

## Appendices

| Appendix   | Title   |
|------------|---|
| Appendix A | Audit, Risk and Governance Committee Terms of Reference |

## Consultations

N/A

## Implications:

This item has the following implications, as indicated:

## Risk management

No significant risks have been identified.

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

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

N/A

Reason for inclusion in Part II, if appropriate

N/A



# Appendix A

## **Audit, Risk and Governance Committee**

Meetings are open to the public but they may be excluded where information of an exempt or confidential nature is being discussed – see Access to Information Procedure Rules set out at Appendix ‘H’ to this Constitution.

### **Membership**

The members of the Audit, Risk and Governance Committee shall comprise eight councillors.

### **Statement of purpose**

1. The Audit, Risk and Governance Committee is a key element of Lancashire County Council's corporate governance. It provides an independent and high-level focus on the risk management, audit, assurance and reporting arrangements that underpin good governance and financial standards.
2. The primary purpose of the Committee is to provide independent assurance to the members (being those charged with governance) of the adequacy of the risk management framework and the internal control environment. It provides independent review of the Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.
3. The Committee's members should therefore behave objectively and independently in their deliberations and decisions.
4. The Committee is also required to fulfil other functions relevant to its overall responsibilities as required by the Council. In particular, the Committee oversees the Council's treasury management activity.

### **Governance**

The Committee will:

5. Review the council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
6. Review and recommend the code of corporate governance for adoption by the Council.
7. Review the annual governance statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account the head of internal audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

8. Consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
9. Consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.
10. Consider the Council's arrangements for discharging its duties in relation to promotion and maintenance of high standards of conduct by members and co-opted members, in accordance with the Localism Act 2011.

### **Risk management and control**

The Committee will:

11. Monitor the effective development and operation of the risk management framework and processes across the Council.
12. Monitor progress in addressing risk-related issues reported to the Committee.
13. Consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
14. Review the assessment of fraud risks and potential harm to the Council from fraud and corruption.
15. Monitor the counter-fraud strategy, actions and resources.

### **Internal audit**

The Committee will:

16. Approve the internal audit charter.
17. 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.
18. Approve significant interim changes to the risk-based internal audit plan and resource requirements.
19. Make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
20. 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.
21. 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.
22. Consider summaries of specific internal audit reports as requested.
23. 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.
24. 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.
25. Support the development of effective communication with the head of internal audit.
26. Advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

### **External audit**

The Committee will:

- 27. Consider appointment of the Council's external auditor proposed by the appointing person under the Local Audit (Appointing Person) Regulations 2015 and assess whether there are any valid reasons for the Council to object.
- 28. Approve the letters of representation required by the external auditor and consider the external auditor's annual letter, audit opinion, relevant reports, and the report to those charged with governance.

29. Consider specific reports as agreed with the external auditor.
30. Comment on the scope and depth of external audit work and to ensure it gives value for money.
31. Commission additional work from the external auditor as necessary.

### **Financial reporting**

The Committee will:

32. Review and approve the annual statement of accounts of the Council and the Lancashire Pension Fund. Specifically, it will consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit work that need to be brought to the attention of the Council.
33. Consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

### **Accountability arrangements**

The Committee will:

34. Report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks; financial reporting arrangements; and internal and external audit functions.
35. Prepare a report annually on the Committee's performance in relation to the terms of reference and the effectiveness of the Committee in meeting its purpose.

### **Treasury management**

The Committee will:

36. Oversee and scrutinise the Council's treasury management function, receiving regular advice and reports on treasury management activity.
37. Consider and recommend the treasury management strategy for Council's approval.
38. Consider and recommend changes to the borrowing and investment strategy for Council's approval.
39. Consider and recommend the prudential indicators for Council's approval.
40. Consider and recommend the treasury management indicators for Council's approval.

**Lancashire County Council**

**Audit, Risk and Governance Committee**

**Minutes of the Meeting held on Monday 24th April 2023 at 2.00 pm in  
Committee Room 'B' - The Diamond Jubilee Room, County Hall, Preston**

**Present:**

County Councillor Alan Schofield (Chair)

**County Councillors**

|                 |                  |
|-----------------|------------------|
| U Arif          | J Shedwick       |
| M Clifford      | J R Singleton JP |
| J Couperthwaite |                  |

**1. Apologies**

Apologies were received from County Councillor Rob Bailey and County Councillor Julia Berry.

**2. Disclosure of Pecuniary and Non-Pecuniary Interests**

None.

**3. Minutes of the Meeting held on 30 January 2023**

**Resolved:** That the minutes of the Audit, Risk and Governance Committee meeting held on 30 January 2023 be confirmed as an accurate record.

Subsequently, the following points were clarified:

- Regarding Minute Item 9, External Audit – Lancashire County Pension Fund Audit Findings Report 2021/22, and the reference to Local Pensions Partnership Investment Limited's review of service auditor reports, for future audits Grant Thornton would ask to see evidence that management had conducted reviews of these reports.
- Regarding Minute Item 18, Review of Arrangements for the Oversight of Council Controlled Companies, a report would be presented to Cabinet on this matter at its meeting on Thursday 4 May. Following that, the requested report would be presented to the committee's next meeting on 24 July 2023.



- The further report on the overpayment of salaries had, with the Chair's agreement, been deferred to the next meeting of the committee on 24 July 2023.

#### 4. **External Audit: Interim Auditor's Annual Report on Lancashire County Council 2021/22**

Sarah Ironmonger, Partner at Grant Thornton UK presented the Interim Auditor's Annual Report on Lancashire County Council for 2021/22.

It was noted that the report was interim until Grant Thornton finalised their audit opinion. No significant weaknesses in the council's arrangements had been identified, though the report included some improvement recommendations.

In response to questions from members, it was highlighted that:

- Changes to the council's overview and scrutiny arrangements had been implemented during 2022/23, so the next year's audit would review these changes in more detail.
- The improvement recommendation relating to governance reflected that other local authorities shared more of their reports in public. Members were reassured that councillors and officers at Lancashire County Council had previously identified that the number of private (Part II) Cabinet reports was too high, and thus there had already been a notable improvement from 2022 onwards.

**Resolved:** That the auditor's findings on the council's arrangements for securing value for money in its use of resources, and the improvement recommendations made, be noted.

#### 5. **Internal Audit Progress Report**

Andy Dalecki, Head of Internal Audit presented a report which provided an update on the Internal Audit Service's work and outcomes for 2022/23, for the period to 20 March 2023.

It was highlighted that 82% of the audit plan had been completed or was in progress. Any outstanding work would be completed before the next committee meeting in July and inform the Head of Internal Audit's overall opinion. Any audits not started in 2022/23 would be included in the audit plan for 2023/24, either directly or in scope.

In response to questions, members were informed that:

- There was a financial element to the audit of Highways Equipment Hire, which had received limited assurance. Better processes and coordination of equipment would lower costs. The weaknesses identified were unlikely to increase the risk of an accident occurring, or to risk the council's reputation. The Highways Service was working towards improvements, which would be documented as part of the follow-up audit work.



- Additional information about the years to which the follow-up audit work related, including the severity of risks, would be provided after the meeting and could be included in future progress reports.

**Resolved:** That the Internal Audit Progress Report be noted.

## **6. Internal Audit's External Quality Assessment**

Andy Dalecki, Head of Internal Audit presented the findings of the External Quality Assessment of the Internal Audit Service, which was undertaken by the Chartered Institute of Internal Auditors in February 2023.

In response to questions, members were informed that:

- External assessments were a statutory requirement and ensured internal audit teams met the required standards. Although benchmarking information was not available, the council had received fewer recommendations than would normally be issued following an assessment.
- The contract for specialist IT audit work was held by Mersey Internal Audit Agency, though the current contract would expire by 2024. It was important to expand the Internal Audit team's own IT knowledge, so that more work could be completed internally, and the team benefited from working closely with Mersey Internal Audit Agency colleagues.
- Regarding the second recommendation, there was not a confirmed date for a skills assessment; however, development of an internal skills strategy could be completed quickly.

The committee congratulated the Internal Audit Service on the positive review outcome.

**Resolved:** That the report on the External Quality Assessment, and actions proposed, be noted.

## **7. Internal Audit Annual Plan**

Andy Dalecki, Head of Internal Audit presented the Internal Audit Annual Plan for 2023/24.

It was noted that recruitment and retention challenges were affecting the sector as a whole, but there were no concerns about filling the auditor post which was currently vacant.

Audit work included on the plan was not generally ordered based on severity of risk. Risk areas were already prioritised during the drafting of the plan and the service ensured good coverage of all risk areas, even in the event where some audits may get delayed.



**Resolved:** That the Internal Audit Annual Plan for 2023/24, as set out in the report, be approved.

## **8. The Council's Annual Governance Statement 2022/23 and Code of Corporate Governance 2023/24**

Paul Bond, Head of Legal, Governance and Registration presented the council's draft Annual Governance Statement for 2022/23 and updated Code of Corporate Governance for 2023/24.

It was highlighted that the Annual Governance Statement included the Head of Internal Audit's provisional opinion for 2022/23, which had changed from moderate to limited assurance. This was primarily due to the implementation of Oracle Fusion and its impact on council services, particularly finance. A project was underway to identify and resolve issues relating to Fusion; however, at the time of the opinion this work was incomplete.

In response to questions from members, it was highlighted that:

- 50% was a good response rate to the staff survey given the council's varied workforce, although more could be done to increase responses. The survey was anonymous and had been available to staff digitally and on paper.
- The council was actively working to address recruitment, retention and skills issues, such as through the development of a People Strategy, but these challenges were not unique to Lancashire County Council.
- Work was ongoing to increase school place provision across the county. The Children, Families and Skills Scrutiny Committee had recently agreed to hold an enquiry day to investigate these challenges in more detail, and members were encouraged to raise concerns through members of that committee.

**Resolved:** That

- i) The draft Annual Governance Statement for 2022/23, as presented, be approved for inclusion in the draft Statement of Accounts for 2022/23;
- ii) The Director of Law and Governance be authorised to make any subsequential changes to the Annual Governance Statement for 2022/23, in consultation with the Chair of the Audit, Risk and Governance Committee;
- iii) The signing of the Annual Governance Statement by the Chief Executive and the Leader of the Council, following final approval of the Statement of Accounts, be noted; and
- iv) The updated Code of Corporate Governance for 2023/24, as presented, be recommended to Full Council for approval.



## 9. Corporate Risk and Opportunity Register - Quarter 4 Update

Paul Bond, Head of Legal, Governance and Registration presented the updated Corporate Risk and Opportunity Register for Quarter 4 of 2022/23.

**Resolved:** That the updated Corporate Risk and Opportunity Register be noted.

## 10. Local Member Grants Scheme Annual Report

Josh Mynott, Democratic and Member Services Manager presented the Local Member Grants Scheme Annual Report for the period January 2021 to September 2022.

The following additional information was also provided to committee members before the meeting:

|                     | Total unspent | Carried forward by councillors<br>(ie £200 and under) | Amount to care leavers / Looked after children |
|---------------------|---------------|---|--|
| Jan - Mar 2022      | £13,175       | £7,600  | £5,575   |
| Apr 2022 - Mar 2023 | £36,406       | £8,216  | £28,190  |

In response to questions, members were informed that:

- Officers were currently working to develop an enhanced system to support the processing of Local Member Grants. The suggestion to record how grants were awarded by theme would be considered as part of this work.
- The Community, Cultural and Corporate Services Scrutiny Committee had recently recommended that the Local Member Grants Scheme be expanded to allow applications from parish and town councils. This recommendation had been shared with the Cabinet Member for Community and Cultural Services for consideration.
- £200 of each councillor's annual budget could be carried over to the following year if unspent. Any other unspent funds were transferred to the Care Leavers / Looked After Children budget, so the money was not lost.

**Resolved:** That

- i) The Local Member Grants Scheme Annual Report be noted; and
- ii) A further report on the Local Member Grants Scheme be provided at the Audit, Risk and Governance Committee meeting on 16 October 2023, to include updated figures for 2022/23.



## 11. Urgent Business

None.

## 12. Date of Next Meeting

It was noted that the next meeting of the Audit, Risk and Governance Committee would be held on Monday 24 July 2023 at 2.00 pm at County Hall, Preston.

## 13. 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.

## 14. Appendix 'B' to Item 9 - Corporate Risk and Opportunity Register - Quarter 4 Update

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

The committee considered the private and confidential Appendix B to Item 9 – Corporate Risk and Opportunity Register – Quarter 4 Update.

It was noted that the target date included on page 217 should have been September 2023.

**Resolved:** That the Appendix B to Item 9 – Corporate Risk and Opportunity Register – Quarter 4 Update be noted.

## 15. Data and Analytics Risks

(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).

Mark Greenwood, Head of ICT Architecture and Data presented a private and confidential report on the risks associated with the council's use of data and analytics.

It was requested that an update on progress to address the risks outlined in the report be provided to the committee in 12 months' time. This would include some more specific target dates.





**Resolved:** That

- i) The report on data and analytics risks be noted; and
- ii) A further report on data and analytics risks be provided at the Audit, Risk and Governance Committee meeting on 22 April 2024, to include more specific target dates.

## **16. Oracle Fusion Data Breach**

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

Jo Winston, Information Governance Manager presented a private and confidential report on the Oracle Fusion data breaches reported to the Information Commissioner's Office and the steps taken by the county council in response.

It was noted that future matters of concern would be reported to committee.

**Resolved:** That

- i) The report on the Oracle Fusion Data Breach be noted; and
- ii) A further report on ongoing actions be provided at the Audit, Risk and Governance Committee meeting on 16 October 2023, or sooner if considered necessary by officers.

H MacAndrew  
Director of Law and Governance

County Hall  
Preston





**Audit, Risk and Governance Committee**  
Meeting to be held on Monday, 24 July 2023

Electoral Division affected:  
N/A;

**Treasury Management Activity 2022/23**  
(Appendix 'A' refers)

Contact for further information:  
Neil Kissock, Director of Finance, Tel: 01772 534170,  
neil.kissock@lancashire.gov.uk

**Brief Summary**

The report provided at Appendix A provides a review of the council's treasury management activities occurring in the financial year 2022/23 and the position at 31 March 2023.

**Recommendation**

The Audit, Risk and Governance Committee is asked to review the treasury management activity for the year ending 31 March 2023.

**Detail**

The council's treasury management activity is underpinned by the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management. This report addresses the Code's recommendation that a treasury management report for members is produced after the end of each financial year. The Audit, Risk and Governance Committee oversees treasury management activities as part of its role.

The report provided at Appendix A provides a review of the council's treasury management activities that occurred in 2022/23 and provides details of the investments and borrowing at 31 March 2023.

Overall, the Treasury Management Service produced a net underspend of £7.4m against its budget. The level of borrowing and investments held at 31 March 2023 show small reductions from those held at 31 March 2022.

## Consultations

Arlingclose Ltd are the council's external treasury management advisers and their advice and analysis are referenced in the council's treasury management activity review.

### Implications:

This item has the following implications, as indicated:

### Risk management

The council's Treasury Management Strategy sets out a policy in respect of managing the risks associated with the council's borrowing and investment activity. The review at Appendix A describes how the council performed in relation to this strategy.

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

| Paper  | Date | Contact/Tel                 |
|--|------|-----------------------------|
| The Chartered Institute of Public Finance and Accountancy Treasury Management Code of Practice | 2021 | Paul Dobson<br>01772 534725 |
| The Chartered Institute of Public Finance and Accountancy Prudential Code                      | 2021 | Paul Dobson<br>01772 534725 |

Reason for inclusion in Part II, if appropriate

N/A



## **Review of Treasury Management Activity 2022/23**

---

### **Introduction**

The council's treasury management activity is underpinned by the Chartered Institute of Public Finance and Accountancy's Codes of Practice on Treasury Management ("the Code") and the related Prudential Code. These were last updated in 2021. The council is required to produce Prudential Indicators and a Treasury Management Strategy Statement on the financing and investment activity annually which was approved by Full Council on 9 February 2023. As a consequence of changes to the Prudential Code, the county council no longer had a non-treasury management investment portfolio in 2022/23.

Investment and borrowing decisions are taken based upon long-term borrowing requirements, the estimated level of reserves and actual and estimated cash-flow. They are also taken in the context of the current and forecast economic conditions. Consideration is also given to risks and compliance with Prudential Indicators. Therefore, this report provides commentary on the following factors for 2022/23:

- Economic environment
- Borrowing activity
- Investment activity
- Performance against the Prudential Indicators

### **Economic environment during 2022/23**

The key economic features of the year were increasing inflation and the subsequent rise in interest rates as central banks globally tried to bring inflation under control. Global inflation continued to be above central bank targets largely as a consequence of the war in Ukraine. In the UK economic outlook remained relatively weak with forecasts indicating there was a chance of a mild recession.

Starting the financial year at 5.5%, the annual Consumer Prices Index (CPI) measure of UK inflation rose strongly to 10.1% in July and then 11.1% in October. Inflation remained high in subsequent months but appeared to be past the peak, before unexpectedly rising again in February to 10.4% before falling back a little to 10.1% in March. However, the expectation was that the rate of inflation would fall, potentially quite sharply, over the next few months as the impact of the large increases in energy costs fell out of the calculation.

In response to the high inflation The Bank of England increased the official Bank Rate several times during the year. At March 2022 the Bank Rate stood at 0.75%. The Monetary Policy Committee (MPC) increased the rate at its every meeting in the financial year. Increases of 0.5% in December and February and then 0.25% in March saw the rate rising to 4.25%.

Uncertainty continued to be a key driver of financial market sentiment and bond yields remained relatively volatile due to concerns over elevated inflation and higher

interest rates, as well as the likelihood of the UK entering a recession and for how long the Bank of England would continue to tighten monetary policy. Towards the end of the period, fears around the health of the banking system following the collapse of Silicon Valley Bank in the US and purchase of Credit Suisse by UBS caused further volatility.

This continuing uncertainty has seen gilt yields increase. The costs of authorities borrowing from the Public Loans Work Board (PWLB) are related to the bond yields and therefore the cost of borrowing has increased. For example, a 10-year PWLB fixed rate loan taken on the 1 April 2022 had an interest rate of 1.61%. An equivalent loan taken on 31 March 2023 was 3.49%.

The picture seen in the UK was similar in many of the world economies. Europe and America have seen increases in inflation. The Bank of England, US Federal Reserve, and European Central Bank all increased interest rates over the period, even in the face of potential economic slowdowns in those regions.

### **Treasury Management Portfolio 2022/23**

In summary, the holdings at 31 March 2023 are shown as follows compared to the balances at the end of the previous year:

|                               | <b>31/3/2023</b> | <b>31/3/2022*</b> |
|-------------------------------|------------------|-------------------|
|                               | £m               | £m                |
| Long term borrowing           | 879.6            | 884.6             |
| Short term borrowing          | 296.7            | 318.8             |
| <b>Total borrowing</b>        | <b>1,176.3</b>   | <b>1,203.4</b>    |
|                               |                  |                   |
| Long term investments         | 700.1            | 660.4             |
| Short term investments        | 180.0            | 224.7             |
| <b>Total investments</b>      | <b>880.1</b>     | <b>885.1</b>      |
| <b>Net borrowing position</b> | <b>296.2</b>     | <b>318.3</b>      |

\*For comparative purposes the 2021/22 position has been restated to include Non treasury management investments which were shown separately in the 2021/22 report.

### **Borrowing Activity 2022/23**

The Code requires that the council, in the medium term, only borrows for capital purposes (with the underlying need to borrow for capital purposes being measured by the Capital Financing Requirement). Total borrowing in the year was managed within the operational and authorised borrowing limits as approved in the Treasury Management Strategy which reflects the underlying need to borrow for capital purposes.

The year saw a fall of £27m in the total borrowing held. This was a planned reduction as reported to this committee on 25 July 2022 as the borrowing held at 31 March 2022 was greater than required due to the council having taken advantage of market conditions to borrow in advance of need to secure lower borrowing rates. It was therefore anticipated that borrowing would fall by 31 March 2023, reflected in the following table.

| Debt<br>31/03/2022 | Borrowing | Repayments | Debt<br>31/03/2023 |   |
|--------------------|-----------|------------|--------------------|---|
| £m                 | £m        | £m         | £m                 | % |

#### **Fixed Rate Funding**

|                                 |              |              |               |              |    |
|---------------------------------|--------------|--------------|---------------|--------------|----|
| Public Works Loan Board         | 284.6        | 0.0          | -5.0          | 279.6        | 24 |
| Bond                            | 250.0        | 0.0          | 0.0           | 250.0        | 21 |
| Market Borrowing                | 247.0        | 409.6        | -439.6        | 217.0        | 18 |
| <b>Total Fixed Rate Funding</b> | <b>781.6</b> | <b>409.6</b> | <b>-444.6</b> | <b>746.6</b> |    |

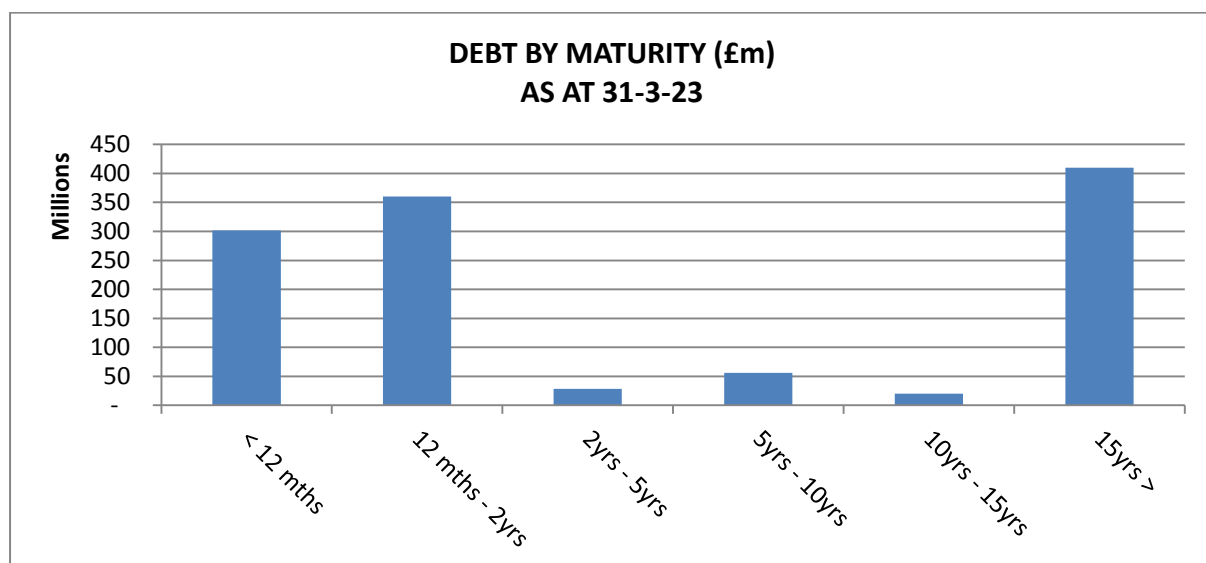
#### **Variable Rate Funding**

|                                    |              |              |               |              |    |
|------------------------------------|--------------|--------------|---------------|--------------|----|
| Bond                               | 350.0        | 0.0          | 0.0           | 350.0        | 30 |
| Shared Investment Scheme           | 71.8         | 626.2        | -618.3        | 79.7         | 7  |
| <b>Total Variable Rate Funding</b> | <b>421.8</b> | <b>626.2</b> | <b>-618.3</b> | <b>429.7</b> |    |

|                        |                |                |                 |                |            |
|------------------------|----------------|----------------|-----------------|----------------|------------|
| <b>Total Loan Debt</b> | <b>1,203.4</b> | <b>1,035.8</b> | <b>-1,062.9</b> | <b>1,176.3</b> | <b>100</b> |
|------------------------|----------------|----------------|-----------------|----------------|------------|

Despite the moves towards longer term borrowing in previous years the short-term debt is still significant with some £302m of debt at 31 March 2023 due to mature within 12 months.

The two bonds issued by the council form approximately half of the total council borrowing.



Overall, the average rate of interest paid in 2022/23 on borrowing by the council was 2.93% per annum compared with an average rate of 1.97% in 2021/22.

The council did not enter into any new other long term liability arrangements in the year.

The outstanding Private Finance Initiative liability at 31 March 2023 was £126m.

### Investment Activity

The council invests its reserves and other cash balances. The total value of investments held (excluding fair value adjustment), at 31 March 2023 for treasury management purposes was £880.1m. This is £5m lower than at 31 March 2022. The table below shows the investment holdings and the movements during the year:

| <b>Maturity Range</b>                 | <b>Position* at<br/>31/3/2022<br/>£m</b> | <b>Movement<br/>£m</b> | <b>Position at<br/>31/3/2023<br/>£m</b> |
|---------------------------------------|--|------------------------|---|
| Call accounts and under 1 year        | 71.0                                     | -16.3                  | 54.7                                    |
| Local Authority deposit 1-2 years     | 0.0                                      | 10.0                   | 10.0                                    |
| Local authority deposits 2-3 years    | 10.0                                     | -10.0                  | 0.0                                     |
| Local authority bonds                 | 34.5                                     | -2.9                   | 31.6                                    |
| UK Government and supranational bonds | 769.6                                    | 14.2                   | 783.8                                   |
| <b>Total</b>                          | <b>885.1</b>                             | <b>-5.0</b>            | <b>880.1</b>                            |

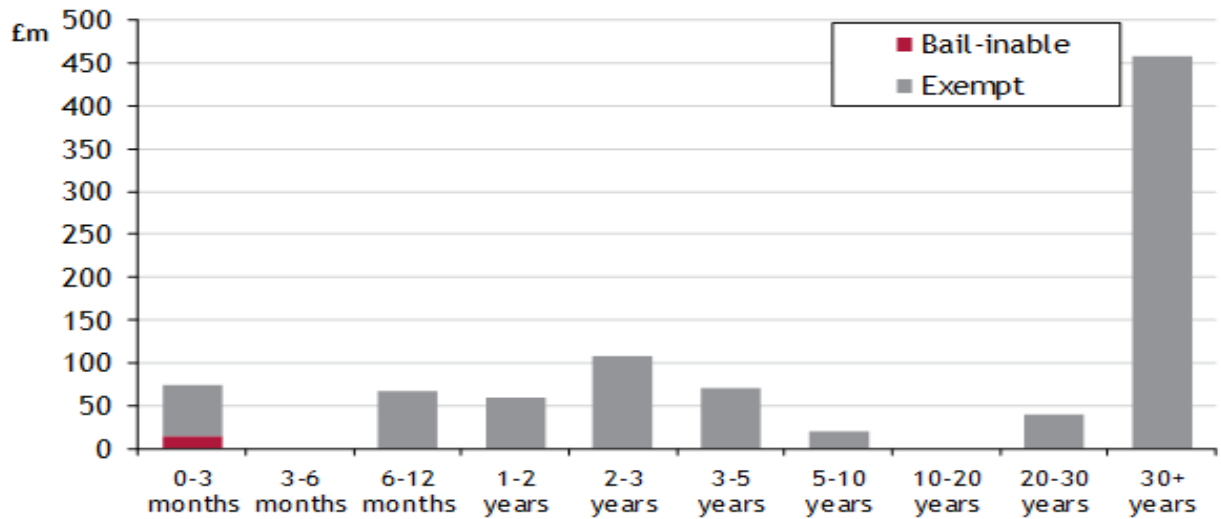
\* In line with the new Prudential Code and the approved treasury management strategy for 2022/23 the council made no 'non-treasury' management investments in 2022/23 and the existing non-treasury management investments were managed within the treasury management limits. Therefore, the table reflects the adjusted position for 2021/22 including the reclassification for comparative purposes.

In undertaking investments consideration is given to the risk and liquidity within the portfolio which are affected by the maturity of the investment, asset type, country invested in and the credit rating. The position of the investment portfolio on these areas at the end of the year were as follows.

### Investments by Maturity

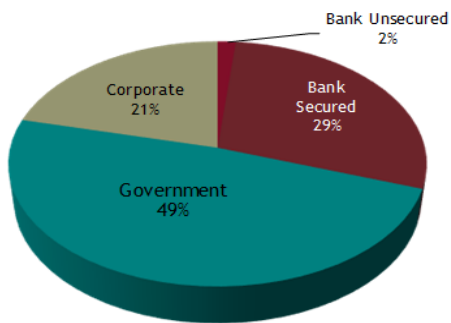
The following graph shows the maturity dates of assets along with the exposure to bail-in in the event of a bank default (i.e. the risk that the investment may be lost, or the principal repaid significantly reduced). As can be seen the exposure to bail in is relatively low and arises mainly in the short term with the use of call accounts. The very long-term investments are principally investment in the UK government via gilts. Therefore, the credit risk is considered low. The assets are saleable and do not need to be held to maturity, however market prices fluctuate and this market risk requires management.



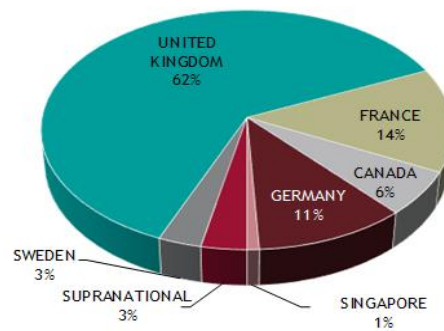


## Security

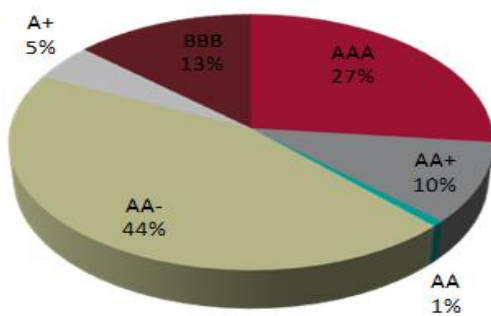
Total investments analysed by asset type



Total Investments analysed by Country



Total Investments analysed by credit rating



Security of capital remained the council's main investment objective. This was maintained by following the council's Counterparty Policy, as set out in its Treasury Management Strategy Statement for 2022/23. This defined 'high credit quality' organisations as those having a minimum long-term credit rating of A+. In practice the average credit rating in 2022/23 was higher at AA, with the lowest rating being BBB which relates to the holding of bonds issued by the energy company EDF which is largely owned by the French government.

Investments with banks were held in call accounts only, with other short-term deposits restricted to deposits with other local authorities.

### **Liquidity Management**

The council maintained a minimum level of primary liquidity through the use of Call Accounts. The council also has bond portfolios which are available for sale, at current market prices, if needed as 'secondary' liquidity.

The council undertakes cash flow forecasting daily to determine the maximum period for which funds may prudently be committed.

### **Yield**

The rates of return on the council's investments reflect prevailing market conditions and the council's objective of optimising returns commensurate with the principles of security and liquidity.

Overall, the treasury management investment portfolios returned an average rate of 3.49% in 2022/23 which can be attributed to the categories as follows:

| <b>Maturity Range</b>                       | <b>Average Balance<br/>£m</b> | <b>Average<br/>Rate</b> |
|---|-------------------------------|-------------------------|
| Call account and under 1 year               | 87.3                          | 2.15%                   |
| Bank and local authority deposits 3-5 years | 10.0                          | 2.95%                   |
| Local authority bonds                       | 31.9                          | 3.18%                   |
| UK government and other bonds               | 856.8                         | 3.65%                   |
| <b>Total</b>                                | <b>986.0</b>                  | <b>3.49%</b>            |

### **Impact of Treasury Management activity on the council's revenue budget**

In total there was a net underspend against budget of £7.4m as shown in the following table.

|                                   | <b>22/23<br/>Budget</b> | <b>31 March<br/>2023</b> | <b>Variance</b> |
|-----------------------------------|-------------------------|--------------------------|-----------------|
|                                   | <b>£m</b>               | <b>£m</b>                | <b>£m</b>       |
| Minimum Revenue Provision         | 23.9                    | 27.1                     | 3.2             |
| Interest Paid                     | 25.2                    | 38.0                     | 12.8            |
| Interest Received/surplus on sale | (18.9)                  | (42.3)                   | (23.4)          |
| <b>Total</b>                      | <b>30.2</b>             | <b>22.8</b>              | <b>(7.4)</b>    |

Income received in the year was £23.4m higher than budgeted. This was largely due to the gains of £14.2m realised on the buy-out of a £40m shorts position. The shorts position arose as in 2019/20 the council entered into a forward contract agreement in which it agreed to purchase £90 million of UK government bonds at a future time for a sale price of £150.2 million, to mitigate market risk relating to local authority loans made to other local authorities.

The increase in the bank base rate also contributed to the income received for variable investments and the fair value gains on the remaining hedge position.

The amount of interest paid was more than budget due to the increases in the bank base rate affecting variable rate debt costs.

### **Treasury Management and Prudential Indicators 2022/23**

The Local Government Act 2003 and supporting regulations require the council to have regard to the Prudential Code and to set prudential indicators to ensure the council's capital investment plans are affordable, prudent and sustainable. A comparison of the actual position at 31 March 2023 compared to the 2022/23 indicators set in the Treasury Management Strategy is as follows. All activity in the year complied with the Prudential Indicators and Treasury Management Strategy Statement for the year.

#### **Prudential Indicators**

| <b>Authorised limit for external debt</b><br>The authorised limit is a prudent estimate of debt which reflects the council's capital expenditure plans and allows sufficient headroom for unusual cash movements. | <b>2022/23</b> | <b>Actual</b> |
|---|----------------|---------------|
|   | <b>£m</b>      | <b>£m</b>     |
| Borrowing   | 1,700          | 1,176         |
| Other long term liabilities (PFI schemes)   | 400            | 126           |
| <b>TOTAL</b>  | <b>2,100</b>   | <b>1,302</b>  |

| <b>Operational boundary for external debt</b>  | <b>2022/23</b> | <b>Actual</b> |
|--|----------------|---------------|
| The operational boundary is a prudent estimate of debt but has no provision for unusual cash movements. It represents the estimated maximum external debt arising as a consequence of the council's current plans. |                |               |
|  | <b>£m</b>      | <b>£m</b>     |
| Borrowing  | 1,400          | 1,176         |
| Other long term liabilities (PFI schemes)  | 160            | 126           |
| <b>TOTAL</b>   | <b>1,560</b>   | <b>1,302</b>  |

| <b>Loans Capital Financing Requirement to Gross debt</b>   | <b>2022/23</b> | <b>Actual/<br/>Estimate<br/>31/3/23</b> |
|--|----------------|---|
| For the purposes of managing activity the CFR and gross debt comparison exclude the PFI schemes. |                |   |
|  | <b>£m</b>      | <b>£m</b>                               |
| Capital Financing Requirement  | 1,080          | 1,023                                   |
| Estimated gross debt   | 1,157          | 1,176                                   |
| Debt to Capital Financing Requirements   | 107%           | 115%                                    |

The Capital Financing requirement is the underlying need to borrow for capital purposes. This is the cumulative effect of past borrowing decisions and future plans. This is not the same as the actual borrowing requirement on any one day, as day to day borrowing requirements incorporate the effect of cash flow movements relating to both capital and revenue expenditure and income. The financing of the 2022/23 capital expenditure has not yet been finalised therefore the Capital Financing Requirement is based on an estimated use of borrowing and is subject to change.

Gross debt includes borrowing for premiums, long term debtors and transferred debt. Under the Prudential Code when comparing debt to the Capital Financing Requirement these should be removed from the gross debt. The non-adjusted gross debt is above the Capital Financing Requirement by £153m but once the adjustments are made the borrowing is £76m above Capital Financing Requirement. This largely reflects the on-going impact of advance borrowing and the capital expenditure funded from borrowing being estimated to be higher than initial forecasts. The amount above the Capital Financing Requirement will be eliminated as debt matures.

### Treasury Management Indicators

| <b>Interest rate exposure</b> | <b>Upper Limit</b> | <b>Actual</b> |
|-------------------------------|--------------------|---------------|
|-------------------------------|--------------------|---------------|

|   |           |           |
|---|-----------|-----------|
| Measures the council's exposure to the risk of interest rate movements. The one-year impact indicator calculates the theoretical impact on the revenue account of an immediate 1% rise in all interest rates over the course of one financial year. |           |           |
|   | <b>£m</b> | <b>£m</b> |
| 1 year impact of a 1% rise  | 50.0      | 0.3       |

|   |                         |                    |
|---|-------------------------|--------------------|
| <b>Maturity structure of debt</b><br>Limits on the maturity structure of debt helps control refinancing risk. | <b>Upper Limit</b><br>% | <b>Actual</b><br>% |
| Under 12 months   | 75                      | 26                 |
| 12 months and within 2 years  | 75                      | 31                 |
| 2 years and within 5 years  | 75                      | 2                  |
| 5 years and within 10 years   | 75                      | 5                  |
| 10 years and above  | 75                      | 36                 |

|   |                  |               |
|---|------------------|---------------|
| <b>Minimum Average Credit Rating</b><br>To control credit risk the council requires a very high credit rating from its treasury counterparties. | <b>Benchmark</b> | <b>Actual</b> |
| Average counterparty credit rating  | A                | AA            |



**Audit, Risk and Governance Committee**  
Meeting to be held on Monday, 24 July 2023

Electoral Division affected:  
(All Divisions);

### **Statement of Accounts 2022/23**

Contact for further information:  
Neil Kissock, Director of Finance, Tel: 01772 535611,  
neil.kissock@lancashire.gov.uk

#### **Brief Summary**

The Accounts and Audit Regulations 2015 require the draft statement of accounts for the council to be published for the public to exercise their rights to inspect during the first 10 days of June following the end of the financial year.

Due to the council implementing a new accounting ledger in January 2023 additional work is required to produce the accounts for 2022/23. Furthermore, with the external audit of the 2021/22 accounts still to be finalised, these accounting balances may be subject to change. Therefore, delayed publication is considered appropriate to reduce the amount of time required for any reworking.

It is expected that the external audit of the 2021/22 accounts and the publication of the draft 2022/23 accounts will be completed by the end of July 2023. The planned approach has been discussed with the council's external auditors, Grant Thornton LLP, who are satisfied with the intended approach and have scheduled their audit work accordingly.

#### **Recommendation**

The Audit, Risk and Governance Committee is asked to consider and note the delay to the publication of the council's statement of accounts for the financial year 2022/23.

#### **Detail**

The Accounts and Audit regulations 2015 require the draft statement of accounts for the council to be published for the public to exercise their rights to inspect during the first 10 days of June following the end of the financial year.

Due to the implementation of a new accounting ledger during the financial year, additional work is required to produce the accounts for 2022/23. The implementation

of the new financial system has meant the following additional verification has had to take place before the accounts can be produced:

1. Review balances have been appropriately transferred from the old to the new ledgers;
2. The accounting integration of subledgers have been reconciled to the general ledger; and
3. Review accounting for transactions occurring during the data migration period are complete.

These tasks are considered essential in ensuring accounts can be produced that present a true and fair view of the council's financial position and performance.

New reports have also needed to be developed and tested to allow the verification of balances and to collate working papers supporting the maintenance of appropriate financial reporting standards. Additionally, with the external audit of the 2021/22 accounts still to be finalised, these accounting balances may be subject to change.

Therefore, delayed publication is considered appropriate to reduce the amount of time required for any reworking.

It is expected that the external audit of the 2021/22 accounts and the publication of the draft 2022/23 accounts will be completed by the end of July 2023.

## **Consultations**

The planned approach has been discussed with the council's external auditors, Grant Thornton LLP, who are satisfied with the intended approach and have scheduled their audit work accordingly.

## **Implications:**

This item has the following implications, as indicated:

## **Risk management**

## **Legal**

In accordance with the Local Audit and Accountability Act 2014 the Council must prepare a statement of account in respect of each financial year and these must be audited.

The audit procedure includes the publication of the statement of accounts and a period of time for the public to exercise their right to inspect and raise any objections.

Regulation 15 of the Accounts and Audit Regulations 2015 requires that the commencement of the period for the exercise of public rights takes place on such a day that ensures that the period includes the first 10 working days of June of the





financial year immediately following the end of the financial year to which the statement relates.

As this is not possible, Regulation 15 (1A) requires the council to publish (which must include publication on the authority's website) as soon as reasonably practicable a notice stating that it has not been able to commence the period for the exercise of public rights and its reasons for this; and publish the statement of accounts and commence the period for the public to inspect and raise any objections as soon as reasonably practicable.

Although a statement for information purposes has been placed on the council's website (<https://www.lancashire.gov.uk/council/performance-inspections-reviews/corporate/statement-of-accounts/>) a formal notice will be published.

At this time, this delay to the timetable is not envisaged to affect approving the statement of accounts.

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

| Paper   | Date | Contact/Tel |
|---|------|-------------|
| N/A   |      |             |
| Reason for inclusion in Part II, if appropriate |      |             |
| N/A   |      |             |





**Audit, Risk and Governance Committee**  
Meeting to be held on Monday, 24 July 2023

**Part I**

Electoral Division affected:  
None

**External Audit – Lancashire County Council Audit Plan 2022/23**  
(Appendix 'A' refers)

Contact for further information:  
Sarah Ironmonger, Partner at Grant Thornton UK LLP, Tel: 0161 953 6499,  
Sarah.L.Ironmonger@uk.gt.com

**Brief Summary**

Appendix 'A' to this report sets out the Lancashire County Council Audit Plan provided by the council's external auditors, Grant Thornton, for the year ending 31 March 2023.

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

**Recommendation**

The Audit, Risk and Governance Committee is asked to consider the Lancashire County Council Audit Plan for 2022/23, as presented and raise any issues, clarifications and questions with the external auditor.

**Detail**

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

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

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

### **Consultations**

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

### **Implications:**

This item has the following implications, as indicated:

### **Risk management**

External audit is a statutory function required by the Local Audit and Accountability Act 2014. The audited accounts are required by to be published by 30 September 2023.

### **List of Background Papers**

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

None

Reason for inclusion in Part II, if appropriate

N/A



# Lancashire County Council

Year ending 31 March 2023

4 July 2023



# Contents



## Your key Grant Thornton team members are:

### Sarah Ironmonger

Key Audit Partner

T 0161 953 6499

E [Sarah.L.Ironmonger@uk.gt.com](mailto:Sarah.L.Ironmonger@uk.gt.com)

### Stuart Basnett

Senior Manager

T 0151 224 7232

E [Stuart.H.Basnett@uk.gt.com](mailto:Stuart.H.Basnett@uk.gt.com)

### Raymon Danao

Assistant Manager

T 0161 953 6307

E [Raymon.Danao@uk.gt.com](mailto:Raymon.Danao@uk.gt.com)

| Section   | Page |  |
|---|------|--|
| Key matters   | 3    | 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. |
| Introduction and headlines  | 5    |  |
| Significant risks identified                                      | 7    |  |
| Group audit scope and risk assessment                             | 12   |  |
| Other matters   | 13   |  |
| Our approach to materiality                                       | 14   |  |
| IT Audit Strategy   | 17   |  |
| Value for Money Arrangements                                      | 18   |  |
| Risks of significant VFM weaknesses                               | 19   |  |
| Audit logistics and team  | 20   |  |
| Audit fees  | 21   |  |
| Independence and non-audit services                               | 25   |  |
| Communication of audit matters with those charged with governance | 27   |  |

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

# Key matters



## National context

For the general population, rising inflation rates, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. At a national government level, recent political changes have seen an emphasis on controls on spending, which in turn is placing pressure on public services to manage within limited budgets.

Local Government funding continues to be stretched with increasing cost pressures due to the cost of living crisis, including higher energy costs, increasing pay demands, higher agency costs and increases in supplies and services. Local authority front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into destitution and helping to build households long-term financial resilience. At a local level, councils are also essential in driving strong and inclusive local economies, through their economic development functions and measures like increasing the supply of affordable housing, integrating skills and employment provision, and prioritising vulnerable households to benefit from energy saving initiatives. Access to these services remains a key priority across the country, but there are also pressures on the quality of services. These could include further unplanned reductions to services and the cancellation or delays to major construction projects such as new roads, amenities and infrastructure upgrades to schools, as well as pothole filling.

Our recent value for money work has highlighted a number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances.

## Audit Reporting Delays

In a report published in January 2023 the NAO have highlighted that since 2017-18 there has been a significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. The NAO outline a number of reasons for this and proposed actions. In our view, it is critical to early sign off that draft local authority accounts are prepared to a high standard and supported by strong working papers.

# Key matters



## Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, is set out further in our Audit Plan – at page 22.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our value for money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will continue to provide you and your Audit, Risk & Governance Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit, Risk & Governance Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation, discuss issues with our experts and create networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regard to management override of controls – refer to page 7.
- We identified a significant audit risk relating to valuation of land and buildings, valuation of investment properties and valuation assumptions for net pension liability – refer to page 8.



# Introduction and headlines

## Purpose

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

## Respective responsibilities

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

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit, Risk & Governance Committee); and we consider whether there are sufficient arrangements in place at the Council and group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

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

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



# Introduction and headlines

## Significant risks

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

- Management override of controls
- Valuation of investment properties
- Valuation of land and buildings
- Valuation assumptions for net pension liability
- Incomplete or inaccurate financial information transferred to the new general ledger

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

## Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of Lancashire County Developments Limited.

## Materiality

We have determined planning materiality to be £38.028m (PY £34.081m) for the group and £37.647m (PY £34.063m) for the Council, which equates to 1.45% of your prior year gross operating costs for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. As part of our risk assessment, we have considered the impact of unadjusted prior period errors. Performance materiality has been set at £28.236m (75%).

Clearly trivial has been set at £1.882m (PY £1.703m).

## Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified the following risks of significant weakness:

- Financial Sustainability
- Governance arrangements over major projects

We will continue to update our risk assessment until we issue our Auditor's Annual Report.

## New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

## Audit logistics

Due to a request from the Council to delay our audit due to the implementation of the new ledger, our interim visit will take place in April and July and our final visit will take place between July and October. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit will be £155,194 for the Council, subject to the Council delivering a good set of financial statements and working papers. This does not include the additional fee to be charged for the implementation of Oracle Fusion.

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

# Significant risks identified

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

| Risk  | Risk relates to   | Reason for risk identification   | Key aspects of our proposed response to the risk |
|---|-------------------|--|--|
| ISA240 revenue improper recognition risk                            | Group and Council | <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Lancashire County Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>Therefore, we do not consider this to be a significant risk for Lancashire County Council. Since the value of income for LCDL is below the group materiality level this is also not considered a risk for the Group audit.</p> | We have rebutted this risk.                      |
| Risk of fraud related to expenditure recognition - Practice Note 10 | Group and Council | <p>In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period).</p> <p>We have considered this risk for both the Council and the Group and have determined it to be appropriate to rebut this risk based upon the limited incentive and opportunity to manipulate expenditure within the Council and due to the immaterial expenditure streams within Lancashire County Developments Limited.</p>  | We have rebutted this risk.                      |

‘Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.’ (ISA (UK) 315)

# Significant Risks Identified

| Risk                             | Risk relates to   | Reason for risk identification  | Key aspects of our proposed response to the risk  |
|----------------------------------|-------------------|---|---|
| Management over-ride of controls | Group and Council | <p>Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for the group and the Council, which was one of the most significant assessed risks of material misstatement.</p>   | <p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> <li>• Request assurance from the component auditor in relation to the risk of management override of control within Lancashire County Developments Limited.</li> </ul>   |
| Valuation of land and buildings  | Council           | <p>The Council revalues its land and buildings on a three-yearly basis to ensure the carrying value in the Council's financial statements is not materially different from current value at the financial statements date.</p> <p>This valuation represents a significant estimate by management in the financial statements.</p> <p>The valuation of land and buildings is a key accounting estimate which is derived, depending on the valuation methodology, from assumptions that reflect market observations and the condition of the asset at the time. However, the valuation methodology for Local Government land and buildings is specified in detail in the CIPFA Code and the sector is highly regulated by RICS, therefore we will focus our audit attention on assets that have large and unusual changes and / or approaches to the valuation of land and buildings, as a significant risk requiring special audit consideration. The risk will be pinpointed as part of our final accounts work, once we have understood the population of assets revalued. We will report an updated risk assessment for valuation of land and buildings in our Audit Findings Report.</p> | <p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• write out to them and discuss with the valuer the basis on which the valuation was carried out</li> <li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>• engage our own valuer to assess the instructions to the Council's valuer, the Council's valuation report and the assumptions that underpin the valuation</li> <li>• test revaluations made during the year to see if they had been input correctly into the Council's asset register</li> <li>• evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.</li> </ul> |

# Significant risks identified

| Risk                               | Risk relates to | Reason for risk identification   | Key aspects of our proposed response to the risk  |
|------------------------------------|-----------------|--|---|
| Valuation of Investment Properties | Group only      | <p>Investment properties are revalued annually and are held within the LCDL subsidiary. The valuations are conducted such that they are co-terminus with the group's year end reporting date.</p> <p>These valuations represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>We therefore identified valuation of investment property as a significant risk for the Group, which was one of the most significant assessed risks of material misstatement.</p> | <p>As detailed on page 5 we have communicated our group instructions to the auditor of Lancashire County Developments Limited to provide us with sufficient assurance over the valuation of investment properties. We have requested the component auditor to perform the following responses to this risk:</p> <ul style="list-style-type: none"> <li>• Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>• Evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• Write out to them and discuss with the valuer the basis on which the valuation was carried out, any changes from prior year and any significant aspects of the valuation approach</li> <li>• Challenge the information and assumptions used by the valuer to assess completeness and consistency with your understanding. Challenge and corroborate the key assumptions applied (such as yield rates etc) in the valuation calculations. Ensure the completeness and accuracy of the information relied upon by the valuer; such as rental income, floor spaces etc.</li> <li>• Assess the instructions to the valuer, the valuer report and the assumptions that underpin the valuation</li> <li>• Test revaluations made during the year to see if they had been input correctly into the asset register</li> <li>• Evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.</li> </ul> |

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto. Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

# Significant Risks Identified

| Risk  | Risk relates to | Reason for risk identification   | Key aspects of our proposed response to the risk  |
|---|-----------------|--|---|
| Valuation assumptions of the pension fund net liability | Council         | <p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We have pinpointed this risk specifically for where the valuation movements on individual assets are not in line with expectations.</p> <p>We therefore identified the assumptions used to determine the valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> | <p>We will:</p> <ul style="list-style-type: none"> <li>• update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;</li> <li>• assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;</li> <li>• gain an understanding of the information provided to the actuary for the triennial valuation and assess the completeness and accuracy of any information provided by the Council;</li> <li>• test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;</li> <li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and</li> <li>• obtain assurances from the auditor of Lancashire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul> |

'In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them.' (ISA (UK) 315)

# Significant Risks Identified

| Risk   | Risk relates to   | Reason for risk identification   | Key aspects of our proposed response to the risk   |
|--|-------------------|--|--|
| Incomplete or inaccurate financial information transferred to the new general ledger | Group and Council | <p>In January 2023, the Group implemented a new general ledger system for the 2022/23 financial year-end. The Group has moved from Oracle R12 to Oracle Fusion, a cloud-based system.</p> <p>When implementing a new significant accounting system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a risk over the completeness and accuracy of the data transfer from the previous ledger system. There are also potential challenges with control account reconciliations and the availability of detailed transaction reports required for audit testing.</p> <p>We therefore identified the completeness and accuracy of the transfer of financial information to the new general ledger system as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.</p> | <p>We will:</p> <ul style="list-style-type: none"> <li>complete an information technology (IT) environment review by our IT audit specialists to document and evaluate the design and implementation of controls within the new general ledger system; and</li> <li>map the closing balances from the previous general ledger to the opening balance position in the new ledger to ensure accuracy and completeness of the financial information.</li> </ul> |

‘In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity’s controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them.’ (ISA (UK) 315)

# Group audit scope and risk assessment

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

| Component                              | Individually Significant? | Level of response required under ISA (UK) 600 | Risks identified   | Planned audit approach  |
|--|---------------------------|---|--|---|
| Lancashire County Council              | Yes                       |   | <ul style="list-style-type: none"> <li>See pages 7-11</li> </ul>   | Full scope audit performed by Grant Thornton UK LLP   |
| Lancashire County Developments Limited | Yes                       |   | <ul style="list-style-type: none"> <li>See pages 7-11 – Group risks are management override of controls, implementation of new financial ledger and valuation of investment properties.</li> </ul> | <p>Assurance over specific group risks of management override of controls and valuation of investment properties to be performed by the component auditor, Beever and Struthers. The component auditor will also assess the impact of the new ledger on the component.</p> <p>The nature, time and extent of our involvement in the work of the component auditor will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the component auditor's audit documentation and meeting with appropriate members of management.</p> |

## Audit scope

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



# Other matters

## Other work

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

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

## Other material balances and transactions

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

# 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.

| Matter | Description  | Planned audit procedures   |
|--------|--|--|
| 1      | <p><b>Determination</b></p> <p>We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. Materiality at the planning stage of our audit is £39.028m for the Group, which equates to 1.45% of your gross expenditure for the previous period. Materiality for the Council is £37.647m.</p> | <p>We determine planning materiality in order to:</p> <ul style="list-style-type: none"> <li>– establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements</li> <li>– assist in establishing the scope of our audit engagement and audit tests</li> <li>– determine sample sizes and</li> <li>– assist in evaluating the effect of known and likely misstatements in the financial statements</li> </ul> |
| 2      | <p><b>Other factors</b></p> <p>An item does not necessarily have to be large to be considered to have a material effect on the financial statements.</p>   | <p>An item may be considered to be material by nature where it may affect instances when greater precision is required.</p> <ul style="list-style-type: none"> <li>– We will apply heightened auditor focus in the area of senior officer remuneration and will request amendments to be made if any errors would alter the bandings reported.</li> </ul>  |

# 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.

| Matter | Description   | Planned audit procedures  |
|--------|---|---|
| 3      | <p><b>Reassessment of materiality</b></p> <p>Our assessment of materiality is kept under review throughout the audit process.</p>   | <p>We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.</p>  |
| 4      | <p><b>Other communications relating to materiality we will report to the Audit, Risk &amp; Governance Committee</b></p> <p>Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit, Risk &amp; Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p> | <p>We report to the Audit, Risk &amp; Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.</p> <p>In the context of the Group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.882m (PY £1.703m). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.</p> |

# 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.

|  | Amount (£)           | Qualitative factors considered   |
|--|----------------------|--|
| Materiality for the Group / Council financial statements | £38.028m<br>£37.647m | <p>This equates to 1.45% of prior year gross operating costs for the Group. The Council materiality is set at 99% of the Group amount. In setting materiality we consider:</p> <ul style="list-style-type: none"> <li>• The ownership structure of the Council</li> <li>• The control environment of the Council</li> <li>• The Council's business environment</li> <li>• Whether the Council has any complex debt arrangements</li> <li>• Any other sensitivities that would require materiality to be reduced</li> </ul> |



# IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on slide 21.

We plan to rely on the operation of application controls whether automated / IT dependent and will therefore carry out an extended ITGC assessment on the IT systems that support the operation of those controls. This is to gain assurance that the relevant controls have been operating effectively throughout the period.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

| IT system               | Audit area          | Planned level IT audit assessment  |
|-------------------------|---------------------|--|
| Oracle E-Business Suite | Financial reporting | <ul style="list-style-type: none"> <li>Roll-forward procedures linked to prior year detailed ITGC assessment (design effectiveness)</li> </ul> |
| Oracle Fusion Cloud     | Financial reporting | <ul style="list-style-type: none"> <li>detailed ITGC assessment (design effectiveness)</li> </ul>  |

# Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2023

The National Audit Office –issued its latest Value for Money guidance –to auditors in January 2023 . The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body’s arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:



## Improving economy, efficiency and effectiveness

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



## Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.



## Governance

How the body ensures that it makes informed decisions and properly manages its risks.

# Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

## Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.



### Medium-Term Financial Sustainability

The Council update its Medium-Term Financial Strategy quarterly and throughout 2022-23 the MTFS was updated to reflect the significant changes during the year. Due to rising inflation, demand for services and funding uncertainty there was a significant increase in the size of the Council's funding gap to 2026/27.

The forecast funding gap for 2023/24 is £9.5m, with an updated funding gap of £23.286m by 2026/27. Already accounted for within this funding gap are sizeable levels of savings and so there is a risk over the Council's medium-term financial sustainability.

In addressing this risk, we will hold discussions with key officers over plans to address the MTFS gap, review the latest financial plans and financial monitoring reports, review of the assessment of achievability of savings plans, review of the Capital programme.

## Potential types of recommendations

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



### Statutory recommendation

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



### Key recommendation

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



### Improvement recommendation

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

# Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

## Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.



### Governance arrangements over major projects

We have identified a risk in relation to the Council's arrangements for ensuring that "business-as-usual" governance processes and controls are not interrupted whilst a significant project is being implemented.

We will focus our review on the arrangements relating to the implementation of the new Oracle Fusion system during the 2022/23 financial year. We will discuss with management and review the underlying arrangements that were in place to manage the implementation of the new ledger alongside usual governance arrangements.



# Audit logistics and team



## Sarah Ironmonger, Key Audit Partner

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

## Stuart Basnett, Audit Manager

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

## Raymon Danao, Audit In-charge

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

## Audited Entity responsibilities

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

## Our requirements

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

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

# Audit fees and updated Auditing Standards including ISA 315 Revised

In 2017, PSAA awarded a contract of audit for Lancashire County Council, to begin with effect from 2018/19. The fee agreed in the contract was £87,006. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Council's IT Infrastructure, IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Council's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for an authority of your size, we estimate an initial increase of £5,000. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf [and has been agreed with the Director of Finance].

# Audit fees

|   | Actual Fee 2020/21 | Actual (or estimated) Fee 2021/22 | Proposed fee 2022/23 |
|---|--------------------|-----------------------------------|----------------------|
| Lancashire County Council Audit         | £144,356           | £160,994                          | £155,194*            |
| <b>Total audit fees (excluding VAT)</b> | <b>£144,356</b>    | <b>£160,994</b>                   | <b>£155,194*</b>     |

## Assumptions

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

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.
- \*Does not include additional fee to be charged for the implementation of the new Oracle Fusion System

## Relevant professional standards

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

# Audit fees – detailed analysis

|  |                 |
|--|-----------------|
| Scale fee published by PSAA (2020-21 scale fee used for consistency)   | £87,006         |
| <i>Increases to scale fee for additional work not considered when the scale fee was originally set by PSAA</i>   |                 |
| Raising the bar – increased FRC Challenge  | £6,250          |
| Additional work in respect of the Group Audit  | £5,300          |
| Reduced Materiality  | £3,125          |
| Enhanced audit procedures for Property, Plant and Equipment  | £5,438          |
| Property Plant and Equipment – External Auditor Expert   | £2,500          |
| Enhanced audit procedures for Pensions   | £4,375          |
| Additional work on Value for Money (VfM) under new NAO Code  | £19,000         |
| Increased audit requirements of revised ISAs 540   | £6,000          |
| Additional work on journals/grants   | £3,000          |
| FRC Response – Additional review, EOQR Review, Hot review  | £1,500          |
| Additional work in respect of national issue on accounting for Infrastructure assets   | £2,500          |
| <b>Proposed Audit Fee 2021-22</b>  | <b>£145,994</b> |
| Additional work in relation to the valuation of Land & Buildings (non-recurring for 22/23)   | £10,000         |
| Engagement, and review, of the GT internal valuations team work in valuing derivative investments and liabilities held (potentially recurring for 22/23) | £5,000          |
| <b>Final Audit Fee 2021-22</b>   | <b>£160,994</b> |

All variations to the scale fee will need to be approved by PSAA

# Audit fees – detailed analysis

| <i>New issues for 2022/23</i>  |                 |
|--|-----------------|
| Enhanced audit procedures for Payroll – Change of circumstances  | £500            |
| Increased audit requirements of revised ISAs 315/ 240  | £5,000          |
| Implementation of new ledger and additional work required for business processes/understanding of controls*  | £TBC            |
| Engagement, and review, of the GT internal valuations team work in valuing derivative investments and liabilities held (TBC if required for 22/23) | £TBC            |
| <b>Total proposed audit fees 2022/23 (excluding VAT)</b>   | <b>£155,194</b> |

\*TBC at this time as there is significant work required to be undertaken to ascertain the full extent of the work required – we anticipate the audit fee could be circa £25k - £50k.

All variations to the scale fee will need to be approved by PSAA

# Independence and non-audit services

## Auditor independence

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

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

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

## Other services

The following other services provided by Grant Thornton were identified.

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

None of the services provided are subject to contingent fees.

| Service   | Fees £           | Threats   | Safeguards  |
|---|------------------|---|---|
| <b>Audit related</b>                              |                  |   |   |
| Agreed upon procedures – Teachers' Pension return | TBC (PY: £7,500) | 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 £7,500 in comparison to the total fee for the audit 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.  |
| <b>Non-audit related</b>                          |                  |   |   |
| CFO Insights Subscription                         | £10,000          | Self-Interest (because this is a recurring fee) | 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.<br><br>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.<br><br>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 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.<br><br>These factors all mitigate the perceived self-interest threat to an acceptable level. |

# Independence and non-audit services

## Other services – Local Pensions Partnership

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

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

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

# Communication of audit matters with those charged with governance

| Our communication plan  | Audit Plan | Audit Findings |  |
|---|------------|----------------|--|
| Respective responsibilities of auditor and management/those charged with governance   | •          |                | ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.<br><br>This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.<br><br>We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum. |
| Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters  | •          |                |  |
| Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons  | •          | •              |  |
| A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence | •          | •              |  |
| Significant matters in relation to going concern  | •          | •              |  |
| Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud   | •          | •              |  |
| Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures   |            | n/a            |  |
| Significant findings from the audit   |            | •              |  |
| Significant matters and issue arising during the audit and written representations that have been sought  |            | •              |  |
| Significant difficulties encountered during the audit   |            | •              |  |
| Significant deficiencies in internal control identified during the audit  |            | •              |  |
| Significant matters arising in connection with related parties  |            | •              |  |
| Identification or suspicion of fraud( deliberate manipulation) involving management and/or which results in material misstatement of the financial statements ( not typically council tax fraud)  |            | •              |  |
| Non-compliance with laws and regulations  |            | •              |  |
| Unadjusted misstatements and material disclosure omissions  |            | •              |  |
| Expected modifications to the auditor's report, or emphasis of matter   |            | •              |  |

## Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.





© 2023 Grant Thornton UK LLP.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their audited entities and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to . GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.



**Audit, Risk and Governance Committee**  
Meeting to be held on Monday, 24 July 2023

**Part I**

Electoral Division affected:  
None

**External Audit – Lancashire County Pension Fund Audit Plan 2022/23**  
(Appendix 'A' refers)

Contact for further information:  
Sarah Ironmonger, Partner at Grant Thornton UK LLP, Tel: 0161 953 6499,  
Sarah.L.Ironmonger@uk.gt.com

**Brief Summary**

Appendix 'A' to this report sets out the Lancashire County Pension Fund Audit Plan provided by the Fund's external auditors, Grant Thornton, for the year ending 31 March 2023.

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

**Recommendation**

The Audit, Risk and Governance Committee is asked to consider the Lancashire County Pension Fund Audit Plan for 2022/23, as presented and raise any issues, clarifications, and questions with the external auditor.

**Detail**

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

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

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

### **Consultations**

The reports have been discussed with finance officers of the Fund.

### **Implications:**

This item has the following implications, as indicated:

### **Risk management**

External audit is a statutory function required by the Local Audit and Accountability Act 2014. The audited accounts are required by to be published by 30 September 2023.

### **List of Background Papers**

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

None

Reason for inclusion in Part II, if appropriate

N/A



# Lancashire County Pension Fund External Audit Plan

Year ending 31 March 2023

3 July 2023



# Contents



## Your key Grant Thornton team members are:

### Sarah Ironmonger

Key Audit Partner

T 0161 953 6499

E [Sarah.L.Ironmonger@uk.gt.com](mailto:Sarah.L.Ironmonger@uk.gt.com)

### Stuart Basnett

Senior Manager

T 0151 224 7232

E [Stuart.H.Basnett@uk.gt.com](mailto:Stuart.H.Basnett@uk.gt.com)

### Raymon Danao

Assistant Manager

T 0161 953 6307

E [Raymon.Danao@uk.gt.com](mailto:Raymon.Danao@uk.gt.com)

| Section   | Page |
|---|------|
| Key matters   | 3    |
| Introduction and headlines  | 4    |
| Significant risks identified                                      | 6    |
| Other matters   | 9    |
| Progress against prior year recommendations                       | 10   |
| Our approach to materiality                                       | 11   |
| IT Audit Strategy   | 14   |
| Audit logistics and team  | 16   |
| Audit fees  | 17   |
| Independence and non-audit services                               | 20   |
| Communication of audit matters with those charged with governance | 23   |

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.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

# Key matters



## National context

For the general population, rising inflation, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment.

The pressures on household income have raised concerns that members will look at their pension contributions as a way of cutting back on their monthly costs. The cost-of-living crisis is having a detrimental impact on pension savings, with some even dipping in to their savings to supplement short-term needs and several members are also requesting early access to their pension after age 55 as a means to financially manage their commitments. The cost of living crisis makes it even more important that lowly paid workers have access to a good quality pension.

In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances.



## Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan, has been agreed with management.
- We will continue to provide you and your Audit, Risk & Governance Committee with sector updates providing our insight on issues from a range of sources and other sector commentators
- We hold annual financial reporting workshops for our clients to access the latest technical guidance and interpretation, discuss issues with our experts and create networking links with other clients to support consistent and accurate financial reporting across the sector.
- We identified new significant audit risk relating to the data migration to the new ledger and the data migration to the new pension administration system - refer to page 8. Our IT auditors will assist with reviewing the Fund's process for ensuring the data migration was complete and accurate.

# Introduction and headlines

## Purpose

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

## Respective responsibilities

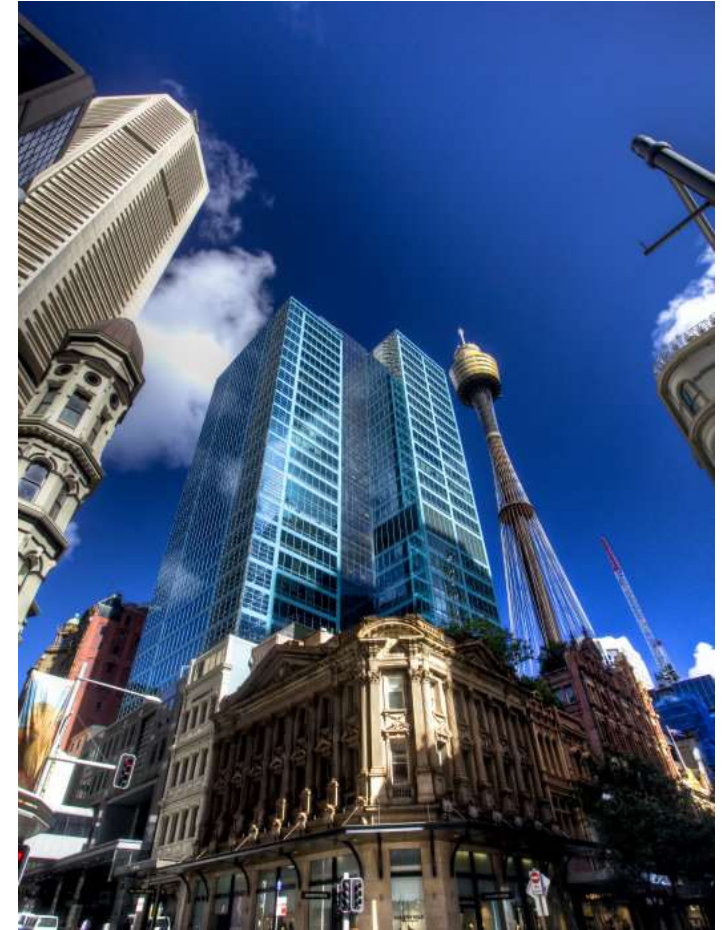
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed Terms of Appointment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

## Scope of our audit

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

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

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





# Introduction and headlines

## Significant risks

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

- Management over-ride of controls
- Valuation of Level 3 Investments
- Valuation of Directly held property
- Incomplete or inaccurate financial information transferred to the new general ledger
- Incomplete or inaccurate financial information transferred to the new pension administration system

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

## Materiality

We have determined planning materiality to be £106.520m (PY £105.317m) for the Pension Fund, which equates to 1% of your gross investment assets as at 31/12/2022. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £5.326m (PY £5.265m).

## Audit logistics

Our interim visit will take place in March 2023 and our final visit will take place during July – September 2023. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit will be £51,036 (PY: £37,423) for the Pension Fund, subject to the Pension Fund delivering a good set of financial statements and working papers.

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

## New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

# Significant risks identified

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

| Risk   | Reason for risk identification  | Key aspects of our proposed response to the risk   |
|--|---|--|
| ISA 240 Fraud in Revenue and Expenditure Recognition | <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>We have also rebutted the presumption of fraud in expenditure recognition.</p>   | <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Lancashire County Council mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore we do not consider this to be a significant risk for Lancashire County Pension Fund.</p>                        |
| Management over-ride of controls                     | <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Fund faces external scrutiny of its spending and stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> | <p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul> |

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' [ISA (UK) 315]

# Significant risks identified

| Risk                                | Reason for risk identification  | Key aspects of our proposed response to the risk   |
|-------------------------------------|---|--|
| Valuation of Level 3 Investments    | <p>The Fund revalues its investments on a quarterly basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.</p> <p>By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£4,955 million) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2023.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> | <p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes for valuing Level 3 investments</li> <li>• review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met</li> <li>• independently request year-end confirmations from investment managers</li> <li>• for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2022 with reference to known movements in the intervening period and</li> <li>• in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• test revaluations made during the year to see if they had been input correctly into the Pension Fund's financial records</li> <li>• where available review investment manager service auditor report on design effectiveness of internal controls.</li> </ul> |
| Valuation of Directly held property | <p>The Fund revalues its directly held property on a quarterly basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£172 million) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management have engaged the services of a valuer to estimate the current value as at 31 March 2023.</p> <p>We therefore identified valuation of directly held property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>  | <p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• write out to them and discuss with the valuer the basis on which the valuation was carried out</li> <li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>• test, on a sample basis, revaluations made to ensure they have been input correctly into the Fund's financial records</li> <li>• where available review investment manager service auditor report on design effectiveness of internal controls.</li> </ul>  |

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

# Significant risks identified

| Risk  | Reason for risk identification   | Key aspects of our proposed response to the risk   |
|---|--|--|
| Incomplete or inaccurate financial information transferred to the new general ledger                | <p>In January 2023, the Fund implemented a new general ledger system for the 2022/23 financial year-end. The Fund has moved from Oracle R12 to Oracle Fusion, a cloud-based system.</p> <p>When implementing a new significant accounting system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a risk over the completeness and accuracy of the data transfer from the previous ledger system.</p> <p>We therefore identified the completeness and accuracy of the transfer of financial information to the new general ledger system as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.</p>           | <p>We will:</p> <ul style="list-style-type: none"> <li>complete an information technology (IT) environment review by our IT audit specialists to document and evaluate the design and implementation of controls within the new general ledger system; and</li> <li>map the closing balances from the previous general ledger to the opening balance position in the new ledger to ensure accuracy and completeness of the financial information.</li> </ul> |
| Incomplete or inaccurate financial information transferred to the new pension administration system | <p>Local Pensions Partnership Administration (LPPA) provide the benefits administration services for the Fund. In December 2022, LPPA migrated the LCPF membership data from the previously used Altair system to a new Civica UPM system.</p> <p>It is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a risk over the completeness and accuracy of the data transfer from the previous administration system.</p> <p>We therefore identified the completeness and accuracy of the transfer of member data information to the new administration system as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.</p> | <p>We will:</p> <ul style="list-style-type: none"> <li>complete an information technology (IT) environment review by our IT audit specialists to document and evaluate the design and implementation of controls within the new pension administration system; and</li> <li>Perform substantive procedures to test the completeness and accuracy of the member data transferred to the new system.</li> </ul>  |

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

# Other matters

## Other work

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

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

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
  - Giving electors the opportunity to raise questions about your 2022/23 financial statements, consider and decide upon any objections received in relation to the 2022/23 financial statements;
  - Issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
  - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
  - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

## Other material balances and transactions

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

# Progress against prior year audit recommendations

We reported the following issues in the audit of the Pension Fund's 2020/21 financial statements, which resulted in one recommendation being reported in our 2020/21 Audit Findings report. The same issue was identified during our audit this year.

| Assessment | Issue and risk previously communicated   | Update on actions taken to address the issue   |
|------------|--|--|
| ✓          | <p><b>Issue and Risk</b></p> <p>Manual journals within the financial ledger system are input by approved personnel, but they are not subject to separate authorisation controls by a second staff member at the time of input.</p> <p>The risk is that the absence of authorisation controls at the time of input creates a higher risk of error or manipulation.</p> <p><b>Recommendation</b></p> <p>Review the authorisation procedures in place over journal input.</p> | <p><b>Management Response</b></p> <p>The same personnel-based controls remain in place at the Council, as does the lack of incentive for finance personnel to manipulate journals. Whilst we accept that 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 the ability to post journals) is carried out at least annually.</p> <p><b>Audit Response</b></p> <p>We will again increase our assessment of the journals control environment for the Fund for the Oracle R12 system in place for most of the year. We will also understand whether the design on the control environment for the new cloud-based Oracle Fusion system has rectified this control weakness and assess the impact on our audit approach.</p> |

# 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.

| Matter | Description  | Planned audit procedures  |
|--------|--|---|
| 1      | <p><b>Determination</b></p> <p>We have determined financial statement materiality based on a proportion of the gross investment assets as at 31/12/2022 for the Pension Fund. Materiality at the planning stage of our audit is £106.520m, which equates to 1% of your gross investment assets as at 31/12/2022.</p> | <p>We determine planning materiality in order to:</p> <ul style="list-style-type: none"> <li>– establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements</li> <li>– assist in establishing the scope of our audit engagement and audit tests</li> <li>– determine sample sizes and</li> <li>– assist in evaluating the effect of known and likely misstatements in the financial statements</li> </ul>  |
| 2      | <p><b>Other factors</b></p> <p>An item does not necessarily have to be large to be considered to have a material effect on the financial statements.</p>   | <p>An item may be considered to be material by nature where it may affect instances when greater precision is required.</p> <ul style="list-style-type: none"> <li>– We have identified the Fund Account as a statement where we will apply a lower materiality level, as these are disclosures which we deem users of the accounts to be interested in and paying pensions and collecting contributions is a core aspect of what a LGPS fund does.</li> <li>– We have set Fund account materiality at 10% of gross expenditure based on prior year expenditure. This equates to £48.910m.</li> </ul> |

# Our approach to materiality

| Matter | Description   | Planned audit procedures  |
|--------|---|---|
| 3      | <p><b>Reassessment of materiality</b></p> <p>Our assessment of materiality is kept under review throughout the audit process.</p>   | <p>We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.</p>  |
| 4      | <p><b>Other communications relating to materiality we will report to the Audit Committee</b></p> <p>Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p> | <p>We report to the Audit, Risk &amp; Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.</p> <p>In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £5.326m (PY £5.265m). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit, Risk &amp; Governance Committee to assist it in fulfilling its governance responsibilities.</p> |



# 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.

|   | Amount (£) | Qualitative factors considered  |
|---|------------|---|
| Materiality for the Financial Statements                                      | £106.520m  | <p>This equates to 1% of gross investment assets at 31/12/22. In setting materiality we consider:</p> <ul style="list-style-type: none"> <li>• The ownership structure of the Fund</li> <li>• The control environment of the Fund</li> <li>• The Fund's business environment</li> <li>• Whether the Fund has any complex investment arrangements</li> <li>• Any other sensitivities that would require materiality to be reduced</li> </ul> |
| Materiality for specific transactions, balances or disclosures (Fund Account) | £48.910m   | This equates to 10% of prior year gross operating costs.  |



# IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on slide 17.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

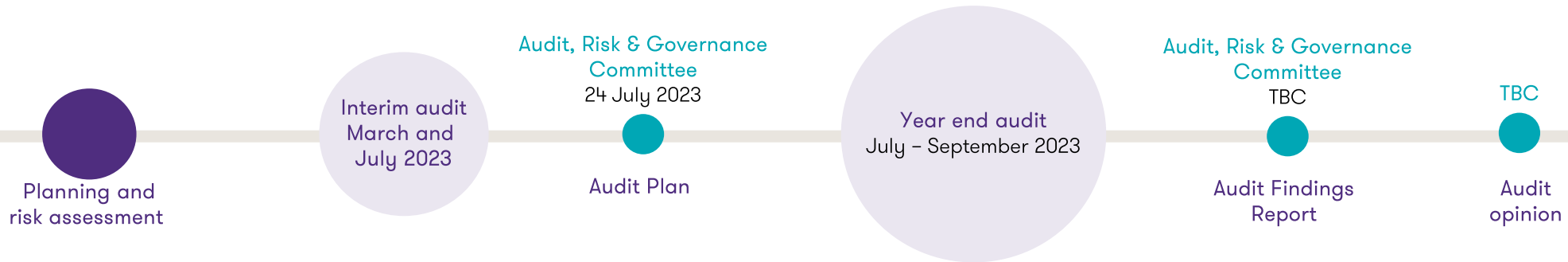
| IT system               | Audit area  | Planned level IT audit assessment  |
|-------------------------|---|--|
| Oracle E-Business Suite | Financial reporting                               | <ul style="list-style-type: none"> <li>Detailed ITGC assessment (design and implementation of controls)</li> </ul> |
| Altair                  | Member Data<br>Contributions and Benefits payable | <ul style="list-style-type: none"> <li>Detailed ITGC assessment (design and implementation of controls)</li> </ul> |

# IT audit strategy

In addition, due to the significant changes during the period, specifically the new system implementation, additional audit procedures will be completed to address the additional risks of material misstatement identified.

| IT system     | Event                     | Relevant risks   | Planned IT audit procedures   |
|---------------|---------------------------|--|---|
| Oracle Fusion | New system implementation | Post migration data completeness and accuracy; system functionality operating to design. | <ul style="list-style-type: none"> <li>• Obtain an understanding of the process used for new system implementation</li> <li>• Audit of data migration activity and results</li> <li>• Detailed ITGC assessment (design and implementation of controls)</li> </ul> |
| Civica UPM    | New system implementation | Post migration data completeness and accuracy; system functionality operating to design. | <ul style="list-style-type: none"> <li>• Obtain an understanding of the process used for new system implementation</li> <li>• Audit of data migration activity and results</li> <li>• Detailed ITGC assessment (design and implementation of controls)</li> </ul> |

# Audit logistics and team



## Sarah Ironmonger, Key Audit Partner and Engagement Lead

Sarah leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, ensuring the highest professional standards are maintained and a commitment to add value to the Pension Fund.

## Stuart Basnett, Engagement Manager

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

## Raymon Danao, Engagement Incharge

Raymon assists in planning, managing and delivering the audit fieldwork, ensuring that the audit is delivered effectively and efficiently. He supervises and co-ordinates the day to day running of the audit.

## Audited Entity responsibilities

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

## Our requirements

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

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

# Audit fees and updated Auditing Standards including ISA 315 Revised

In 2017, PSAA awarded a contract of audit for Merseyside Pension Fund to begin with effect from 2018/19. The scale fee agreed in the contract was £26,310. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Fund and Council's IT Infrastructure, IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Council's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf and has been agreed with Management.

# Audit fees

|   | Actual Fee 2020/21 | Actual Fee 2021/22 | Proposed fee 2022/23 |
|---|--------------------|--------------------|----------------------|
| Lancashire County Pension Fund Audit    | £39,300            | £37,423            | £51,036              |
| <b>Total audit fees (excluding VAT)</b> | <b>£39,300</b>     | <b>£37,423</b>     | <b>£51,036</b>       |

## Assumptions

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

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

## Relevant professional standards

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

# Audit fees – detailed analysis

|  |                |
|--|----------------|
| Scale fee published by PSAA (2020-21 scale fee used for consistency)   | £26,310        |
| <i>Increases to scale fee for additional work not considered when the scale fee was originally set by PSAA</i>         |                |
| Raising the bar – increased FRC Challenge  | £1,875         |
| Enhanced audit procedures for Directly held Property   | £2,188         |
| Enhanced audit procedures for Investments  | £1,563         |
| Increased audit requirements of revised ISA 540  | £3,600         |
| Additional work on journals posted by management   | £2,000         |
| <i>New issues for 2022/23</i>  |                |
| Engagement, and review, of the GT internal valuations team work in valuing derivative investments and liabilities held | £5,000         |
| Additional testing of member data analytical review – change in circumstances  | £500           |
| Additional work from ISA 315 revised   | £3,000         |
| Implementation of new systems and additional work required for business processes/understanding of controls*           |                |
| <b>Total proposed audit fees 2022/23 (excluding VAT)</b>   | <b>£51,036</b> |

\*Estimate at this time as there is significant work required to be undertaken.  
All variations to the scale fee will need to be approved by PSAA

# Independence and non-audit services

## Auditor independence

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

In this context, we disclose that:

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 we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

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



# Independence and non-audit services

## Other services

The following other services provided by Grant Thornton were identified.

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

None of the services provided are subject to contingent fees.

| Service  | Fees £  | Threats   | Safeguards   |
|--|---|---|--|
| <b>Audit related</b>                                       |   |   |  |
| IAS 19 Assurance Letters for Admitted Bodies (18 Expected) | £25,800 (£6,000 base fee + £1,100 per letter) | 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 expected to be £25,800 in comparison to the total fee for the audit 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. |
| <b>Non-audit related</b>                                   |   |   |  |
| None   |   |   |  |

# Independence and non-audit services

## Other fees charged by Grant Thornton UK LLP in relation to Local Pensions Partnership

For transparency, we are disclosing 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% share of the equity.

Details of the work performed are shown below for transparency purposes. The fees are paid for directly by LPP with no financial impact for Lancashire County Pension Fund or the Council. The below disclosure is purely to make members aware of all services being provided by Grant Thornton UK LLP to bodies related to Pension Fund. We are satisfied that this work has no impact on our independence for the audit of Lancashire County Pension Fund for the reasons stated below.

| Service   | Threats       | Safeguards  |
|---|---------------|---|
| Audit related   |               |   |
| Local Pensions Partnership  | 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 separate audit team from the Public Sector arm of the firm, as opposed to the audit team that delivers the LPP audits. There are different Engagement Leaders in place for the audits, and where we seek to place reliance on the LPP audit, this is treated as an auditor's expert for the purposes of our work. The LPP audit is undertaken in accordance with relevant auditing standards. |
| Authorised Contractual Scheme and Investment Funds Structured Audit | Self Interest |   |
| Non-audit related   |               |   |
| None  |               |   |

# Communication of audit matters with those charged with governance

| Our communication plan  | Audit Plan | Audit Findings |  |
|---|------------|----------------|--|
| Respective responsibilities of auditor and management/those charged with governance   | •          |                |  |
| Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters  | •          |                | ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.   |
| Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons  | •          | •              | This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved. |
| A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence | •          | •              | We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.   |
| Significant matters in relation to going concern  | •          | •              |  |
| Significant findings from the audit   |            | •              |  |
| Significant matters and issue arising during the audit and written representations that have been sought  |            | •              |  |
| Significant difficulties encountered during the audit   |            | •              |  |
| Significant deficiencies in internal control identified during the audit  |            | •              |  |
| Significant matters arising in connection with related parties  |            | •              |  |
| Identification or suspicion of fraud ( deliberate manipulation) involving management and/or which results in material misstatement of the financial statements  |            | •              |  |
| Non-compliance with laws and regulations  |            | •              |  |
| Unadjusted misstatements and material disclosure omissions  |            | •              |  |
| Expected modifications to the auditor's report, or emphasis of matter   |            | •              |  |

## Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.



© 2023 Grant Thornton UK LLP.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

**Audit, Risk and Governance Committee**  
Meeting to be held on Monday, 24 July 2023

**Part I**

Electoral Division affected:  
None

**External Audit – Audit Progress Report and Sector Update**  
(Appendix 'A' refers)

Contact for further information:  
Sarah Ironmonger, Partner at Grant Thornton UK LLP, Tel: 0161 953 6499,  
Sarah.L.Ironmonger@uk.gt.com

**Brief Summary**

The Audit Progress Report and Sector Update for July 2023 is set out at Appendix 'A' for the committee's consideration.

**Recommendation**

The Audit, Risk and Governance Committee is asked to consider the Audit Progress Report and Sector Update for July 2023, as set out at Appendix 'A'.

**Detail**

This report provides an update including Grant Thornton's proposed timescales for the audit of the 2022/23 statement of accounts and the Value for Money (VfM) conclusion. The outcome of the work will be reported to the Audit, Risk and Governance Committee.

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

**Consultations**

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

**Implications:**

This item has the following implications, as indicated:

## **Risk management**

No significant risks have been identified.

## **List of Background Papers**

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

None

Reason for inclusion in Part II, if appropriate

N/A



# Lancashire County Council Audit Progress Report and Sector Update

4 July 2023



# Contents

| Section                   | Page |
|---------------------------|------|
| Introduction              | 3    |
| Progress at July 2023     | 4    |
| Audit Deliverables        | 7    |
| 2021/22 Audit Adjustments | 8    |
| Sector Update             | 11   |

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.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.



# Introduction

## Your key Grant Thornton team members are:

### Sarah Ironmonger

Key Audit Partner

E [Sarah.L.Ironmonger@uk.gt.com](mailto:Sarah.L.Ironmonger@uk.gt.com)

### Stuart Basnett

Senior Manager

E [Stuart.H.Basnett@uk.gt.com](mailto:Stuart.H.Basnett@uk.gt.com)

### Raymon Danao

Assistant Manager

E [Raymon.Danao@uk.gt.com](mailto:Raymon.Danao@uk.gt.com)

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

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a Council.

Members of the Audit, Risk and Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications <https://www.grantthornton.co.uk/en/services/public-sector-services/>

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

# Progress at March 2023

## Financial Statements Audit 2021/22

At the January 2023 Audit, Risk & Governance Committee we reported to members that there were a few key areas we still needed to resolve in order to finalise our audit. These were:

- The accounting for the LEP transactions
- Revaluations of Land & Buildings
- Infrastructure Assets

Each of these areas has now been resolved and the audited accounts have been updated to reflect the final audited position on these balances. A revised schedule of audit adjustments has been included as an appendix to this report.

Also, subsequent to the last Audit, Risk & Governance Committee national guidance was released requiring us to assess the impact of the 31 March 2022 triennial valuation (signed off in March 2023) on the pension balances disclosed in the Statement of Accounts. Management have obtained a revised IAS 19 Report from their Actuary which reflects the updated member data and assumptions applied from the Triennial Valuation. This updated report is not materially different to the figures reported in the accounts. At the time of writing this report we are still completing our final procedures over the revised actuary report.

We anticipate that we will be able to issue of 2021/22 audit opinion by the end of July 2023. In order to complete this we will require:

- Final signed Statement of Accounts
- An updated Letter of Representation
- Confirmation of no further subsequent events

Our 2021/22 Audit fee reported in the January Audit Findings Report was £160,994. On completion of the above procedures the final fee is expected to be £175,994. Reflecting £10k to be charged for additional work in relation to the LEP and £5k in relation to the triennial valuation.

# Progress at March 2023 (cont.)

## Financial Statements Audit 2022/23

We undertook our initial planning for the 2022/23 audit in April 2023, and we have planned interim audit in July. Timescales have been delayed at the request of the Council due to the implementation of the new ledger.

Our interim fieldwork includes:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Understanding how the Council makes material estimates for the financial statements
- Early work on emerging accounting issues

The results of our work to date are included in this report.

In July we plan to issue a detailed audit plan, setting out our proposed approach to the audit of the Council's 2022/23 financial statements.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by 30 November 2023.

The deadline for publishing audited local authority accounts is 30 September for 2022/23 onwards.

## Value for Money

Under the 2020 Code of Audit Practice, for local government bodies auditors 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.

NOA have issued Auditor Guidance Note 3 (AGN 03) in relation to Auditors' Work on Value for Money (VFM) Arrangements for 22-23 audits.

The ongoing delays in local audit continue to significantly impact audited bodies and the financial reporting and auditing process, and may therefore affect the timing of when the work on VFM arrangements set out in AGN03 is performed and reported.

The guidance states that the auditor should perform the procedures required as part of their work on VFM arrangements under AGN3 and issue their Auditor's Annual Report when their work is complete.

The Auditor's Annual Report should be issued no more than three months after the date of the opinion on the financial statements for all local government bodies.

We anticipate issuing our Auditor's Annual Report within 3 months of signing the Audit Opinion.

# Progress at March 2023 (cont.)

## Other areas

### Meetings

We met with Finance Officers in May as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

We also met with your Chief Executive in April to discuss the Council's strategic priorities and plans.

### Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers attended our Accounts Workshop in January and February 2023, where we highlighted financial reporting requirements for local authority accounts and gave insight into elements of the audit approach.

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

### Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2022/23 is the fifth year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in the period 2018/19 to 2021/22 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited and have communicated fully with the Audit, Risk and Governance Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

# Audit Deliverables

## 2022/23 Deliverables

|  | Planned Date                 | Status      |
|--|------------------------------|-------------|
| <p><b>Audit Plan</b></p> <p>We are required to issue a detailed audit plan to the Audit, Risk and Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2022/23 financial statements and to issue a commentary on the Council's value for money arrangements in the Auditor's Annual Report</p>  | July 2023                    | Completed   |
| <p><b>Interim Audit Findings</b></p> <p>We will report to you the findings from our interim audit within our Progress Report.</p>  | October 2023                 | Completed   |
| <p><b>Audit Findings Report</b></p> <p>The Audit Findings Report will be reported to the October/January Audit, Risk and Governance Committee. We plan to complete our work between July – October however significant work is required on the new ledger implementation. Progress in this area will impact on the timings of our reports.</p> | October<br>2023/January 2024 | Not yet due |
| <p><b>Auditors Report</b></p> <p>This includes the opinion on your financial statements.</p>   | January 2024                 | Not yet due |
| <p><b>Auditor's Annual Report</b></p> <p>This report communicates the key outputs of the audit, including our commentary on the Council's value for money arrangements.</p>  | January 2024                 | Not yet due |

# 2021/22 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

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

| Detail   | Comprehensive Income and Expenditure Statement £m | Statement of Financial Position £m | Impact on total net expenditure £m |
|--|---|------------------------------------|------------------------------------|
| <b>Valuation of Land &amp; Buildings</b>   | Cost of Services - £4.5m                          | £76.8m                             | £76.8m                             |
| As detailed on page 10, additional valuations of land and buildings were undertaken to ensure the carrying value of these assets was not materially different to their current value as at 31 March 2022. As a result of the additional work, there have been significant amendments to the disclosures within the accounts to reflect the updated workings, along with the net impact of the increased valuations increasing the overall Property Plant & Equipment balance on the Balance Sheet. | Other Comprehensive Income - £72.3m               |                                    |                                    |
| Overall impact   | £76.8m  | £76.8                              | £76.8                              |

| Detail   | Group Comprehensive Income and Expenditure Statement £m | Group Statement of Financial Position £m | Group Impact on total net expenditure £m |
|--|---|--|--|
| <b>Group Accounts Tax Expense*</b>   | -£5.4m  | -£5.4m                                   | -£5.4m                                   |
| The taxation expense in the LCDL accounts for 2022 is £5.4m. The draft group financial statements did not account for this expense as the figure wasn't known when the Council published the draft accounts. The deferred taxation figure in the Group SoFP has also increased by this amount to £11.8m. |   |  |  |
| There is no impact on the Council, single entity, accounts.  |   |  |  |
| Overall impact   | -£5.4m  | -£5.4m                                   | -£5.4m                                   |

\* This amendment only impacts the Group Financial Statements and not the Council "single entity" accounts.

# 2021/22 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.

| Disclosure omission   | Auditor recommendations  | Adjusted? |
|---|--|-----------|
| <p><b>Note 36 – Related Party Transactions</b></p> <p>From review of the draft accounts, it was noted that related party disclosures in the single entity accounts could be enhanced. The related party transactions with Lancashire County Developments Limited are required to be disclosed in the single entity accounts, even though they are consolidated in the Group Accounts.</p> <p>We also identified related party transactions with Lancashire Environmental Fund Limited (LEF) which appear material to LEF (though immaterial to the Council) and so should be disclosed per the Code para 3.1.9.3,</p>   | Management are amending the accounts for the matter identified   | TBC       |
| <p><b>Note 23 - Cash &amp; Cash Equivalents</b></p> <p>The Council provide accounting support for the Lancashire Local Enterprise Partnership (LEP) which includes processing their transactions and managing their cash balances. As such the Council removes the cash balances relating to the LEP from their Balance Sheet on the basis that they are acting as an agent.</p> <p>In the draft accounts this adjustment was creating a negative balance on the Cash Held by the Council line in Note 23 (and a negative balance in the prior year comparator for Bank Current Accounts).</p> <p>The Council have reassessed the disclosures, with reference to the accounting requirements for agency relationships as per the Code. As per the code para 2.6.2.4 – the exception to the usual agency approach covers both cash collected and expenditure incurred on behalf of the principal, in which case there is a debtor or creditor position, and the net cash position is included in financing activities in the Cash Flow Statement.</p> <p>As such the Council has amended the Cash balance for 2021/22 to increase cash by £19.5m and to account for an offsetting creditor of £19.5m. The same amended has been processed for 2020/21 of £82.6m and since prior periods are being restated a third balance sheet is required as at 1 April 2020 to show the opening balance of the 2020-21 period. An adjustment to Cash and Creditors has been amended for of £92m.</p> | Management has amended the accounts for the issues we identified. The balance sheet values for Cash and Creditors have been amended and an additional balance sheet has been added dated 1/4/2020 to present the opening balance of the Prior Year – as required for Prior Period Adjustments under IAS 8. | ✓         |
| <p><b>Note 18 - Infrastructure Assets</b></p> <p>Following the implementation of the statutory instrument and the amendment to the CIPFA code to resolve the national infrastructure assets issue, the Council has amended Note 18 to reflect the updated disclosure requirements per the revised code.</p>   | Management has amended the accounts for this matter  | ✓         |
| <p><b>Presentation &amp; disclosure amendments</b></p> <p>As a result of our manager/EL/Review partner and technical team hot review of the accounts, a number of amendments have been made to improve the disclosures within the accounts. All of these amendments relate to minor improvements of the disclosure notes to improve the accuracy and readability of the accounts.</p>   | Management has amended the accounts for the issues we identified.  | ✓         |

# 2021/22 Audit Adjustments

## Impact of unadjusted misstatements

To date, there have been no adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. At the time of this report, the impact of the revised IAS 19 Actuary Report has not been amended in the accounts. The difference between the net liability per the draft 2021/22 Statement of Accounts and the revised IAS 19 Actuary Report (post triennial valuation) is not material at circa £8m.

## 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 2020/21 financial statements

| Detail  | Comprehensive<br>Income and Expenditure<br>Statement £'000 | Statement of Financial<br>Position £' 000 | Impact on total net<br>expenditure £'000 | Reason for<br>not adjusting |
|---|--|---|--|-----------------------------|
| <b>Land &amp; Buildings Valuation Errors</b>  | £0   | £0.563m                                   | £0                                       | Error is not material       |
| <p>Our audit procedures identified two assets, both relating, to land where there had been a significant change in value (£3.8m increase). On further investigation this was due to human error when inputting the updated asset values into the asset register and as such the value of these two items was overstated by £3.8m. We requested management conduct further analysis to determine if there were any further assets impacted by this error.</p> <p>Management's analysis concluded that the error impacted upon 7 assets with two land assets being overstated by £3.8m and five buildings assets being understated by £4.4m. As a result the overall quantification actually reduced the total impact on the Statement of Financial Position due to the errors 'netting off' against each other to create a net error of £0.563m.</p> <p>Since the error is not material, and the net impact is in fact trivial, the accounts have not been updated to reflect these valuation errors.</p> <p>Management has stated that this error would usually have been identified through the "large valuation movement" exceptions review they perform on all assets with valuation movements in excess of £200k and/or 50%. However, the formula was overwritten for these items and they were not identified. Management has confirmed that this has been addressed for future periods with the formula column now being protected.</p> |  |   |  |                             |
| <b>Overall impact</b>   | £0   | £0.563m                                   | £0                                       |                             |



# Sector Update

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

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

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

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

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

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

Public Sector

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

Local  
government

# Delayed publication of audited local authority accounts

In December 2022 there were over 600 local audit opinions outstanding. This means that many stakeholders can't rely on audited accounts to inform decision making – a significant risk for governance and control.

Local authority accounts are becoming increasingly complex as accounting standards evolve and local authorities enter more and more innovative financing arrangements and income generation projects. A significant challenge in managing local audits is the differing needs of various stakeholders. The local government sector, central government and regulators need to agree on the purpose of local audit and find a consensus on improving efficiency in publishing accounts. Grant Thornton has produced a report that explore the reasons for delayed publication of audited local authority accounts.

Table 1 below illustrates the declining performance against the target date for publication of audited accounts in recent years.

**Table 1 Audited accounts published by target date over the last six years**

| Financial year | Deadline for publication of unaudited accounts | Target date for publication of audited accounts | % audited accounts published by target date (all firms average) | % audited accounts published by target date (Grant Thornton audits) |
|----------------|--|---|---|---|
| 2016/17        | 30 June 2017                                   | 30 September 2017                               | 95  | 97  |
| 2017/18        | 31 May 2018                                    | 31 July 2018                                    | 87  | 91  |
| 2018/19        | 31 May 2019                                    | 31 July 2019                                    | 58  | 65  |
| 2019/20        | 1 September 2020                               | 30 November 2020                                | 45  | 54  |
| 2020/21        | 1 August 2021                                  | 30 September 2021                               | 9   | 12  |
| 2021/22        | 1 August 2022                                  | 30 November 2022                                | 12  | 20  |

## About time?

Exploring the reasons for delayed publication of audited local authority accounts

March 2023



# Delayed publication of audited local authority accounts

## What more can be done?

All key stakeholders in the local audit system will need to continue their efforts to secure improvement and a return to high levels of compliance with timely publication of audited accounts. The report explores several of the causes of delay and steps which might be taken to reduce the incidence of delays.

These steps relate to systems leadership, holding both authorities and auditors to account for their performance, a continued focus on the quality of accounts preparation and audit, and the effective engagement between auditors and audited bodies.

The report makes 20 recommendations for improving timeliness in publishing audited accounts.

The report also sets out a checklist which management and the audit committee should consider. The report recommends DLUHC, CIPFA or the FRC set out expectations for the system as a whole.

[Click here for full report](#)

## About time?

Exploring the reasons for delayed publication of audited local authority accounts

March 2023



# Local government procurement and contract management

## Background

Local authorities in England spend around £82.4 billion a year on goods and services. More than a third of all UK government spending on goods and services is spent in the local government sector<sup>1</sup>. Allowing for capital spending as well, the UK public sector procures around £300 billion a year overall.

We reviewed a large number of reports, inspections and interventions issued by a number of firms, including 53 Annual Auditor Reports issued by Grant Thornton UK LLP. To help build on existing good practice, in this report we highlight some common themes for members and officers to consider:

This report considers a selection of issues we identified under each theme and makes recommendations both to local authorities and, in one case, to central government. The report presents a good practice checklist for local authority members and officers to reflect on.

The analysis sets out five key themes for ensuring good practice:

- Strategic planning
- Internal control
- Time, technical expertise, and people
- Commercial awareness
- Contract management

[full report here](#)

More than a third of all UK government spending on goods and services is spent by local government, so it's important councils have effective arrangements for procurement and contract management

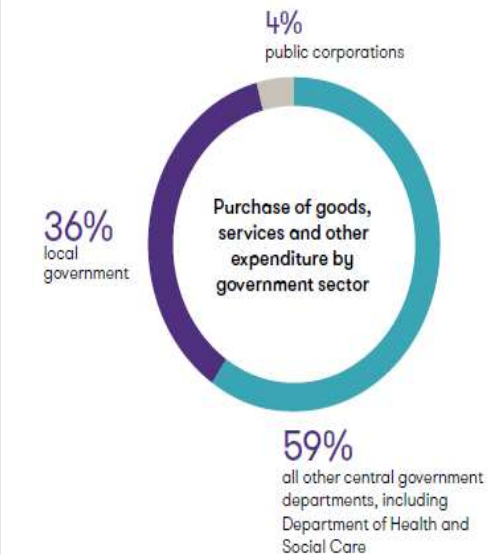
## UK public spending

Public spending on goods and services, £ billions - analysis by segment and department<sup>2</sup>



PCs Other Public Corporations AC Academies  
 DfT Department for Transport MoJ Ministry of Justice  
 WG Welsh Government BBC British Broadcasting Corporation  
 HO Home Office  
 DfE Department of Education BEIS Department of Business, Industry Strategy  
 SG Scottish Government

Goods, services and other expenditure by segment<sup>4</sup>



<sup>1</sup> HM Treasury, Whole of Government Accounts: year ended 31 March 2020, June 2022  
<sup>2</sup> Cabinet Office, Transforming Public Procurement: Government response to consultation, December 2021  
<sup>3</sup> HM Treasury, Whole of Government Accounts: year ended 31 March 2020, June 2022  
<sup>4</sup> HM Treasury, Whole of Government Accounts: year ended 31 March 2020, June 2022



© 2023 Grant Thornton UK LLP.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.



**Audit, Risk and Governance Committee**  
 Meeting to be held on Monday, 24 July 2023

Electoral Division affected:  
 (All Divisions);

**Internal Audit Progress Report**  
 (Appendices 'A' to 'D' refer)

Contact for further information:  
 Andrew Dalecki, Head of Internal Audit, Tel: 01772 533469,  
 andrew.dalecki@lancashire.gov.uk

**Brief Summary**

In the context of the committee's responsibility to consider updates on the Internal Audit Service's work including key findings, issues of concern and action being taken as a result of internal audit work, the committee is asked to consider the internal audit progress report and outcomes of the work for the period up to 27 June 2023.

**Recommendation**

The Audit, Risk and Governance Committee is asked to consider the Internal Audit Progress Report.

**Detail**

This report sets out for the committee the internal audit work performed under the audit plan for 2022/23 (approved in April 2022) and the audit plan for 2023/24 (approved in April 2023).

**Appendices**

Appendices A to D are attached to this report. For clarification they are summarised below and referenced at relevant points within this report.

| Appendix   | Title  |
|------------|--|
| Appendix A | Highlights key issues that the committee should be aware of at this point in fulfilling its role of providing independent oversight of the adequacy of the council's governance, risk management and internal control framework. |
| Appendix B | Provides an executive summary by each individual internal audit assignment completed since last reported to this committee on 24 April 2023.   |

|            |   |
|------------|---|
| Appendix C | Provides an executive summary by each individual Grant Audit and Consultancy review completed since last reported to this committee on 24 April 2023. |
| Appendix D | Provides an executive summary for each follow up audit completed since last reported to this committee on 24 April 2023.                              |

### Consultations

The Executive Director of Resources (S151) and the Director of Finance, and each of the directors and/or 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 |
|-------|------|-------------|
|-------|------|-------------|

N/A

Reason for inclusion in Part II, if appropriate

N/A



## Matters arising from internal audit work completed during the period to 27 June 2023

### 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 by the Internal Audit Service up to 27 June 2023.

### 2 Progress against the internal audit plan

- 2.1 The Audits detailed in the tables at section 3.1 have been completed since the last Audit Risk and Governance Committee meeting in April 2023.
- 2.2 Since the last update to the committee in April the service has been focused on completing the outstanding audits from the 2022/23 plan. As at the 27 March 2023, only 8 audits from this plan had not been completed or commenced this equates to only 7% of the plan. Work has commenced on the 2023/24 plan with two audits completed and eight progressing. The progress of audits from the 2022/23 and 2023/24 audit plans are reported below.

| Stage of audit process             | 22/23 plan Number | %           | 23/24 plan Number | %           |
|------------------------------------|-------------------|-------------|-------------------|-------------|
| Complete and reported to committee | 84                | 75%         | 2                 | 2%          |
| Draft report stage                 | 0                 | 0%          | 0                 | 0%          |
| Progressing                        | 20                | 18%         | 8                 | 8%          |
| Not yet started                    | 8                 | 7%          | 90                | 90%         |
| <b>Total number of audits</b>      | <b>112</b>        | <b>100%</b> | <b>100</b>        | <b>100%</b> |

- 2.3 Currently there is one audit (ICT External Assurances) that is at the draft reporting stage and is currently being discussed and agreed with managers.
- 2.4 The Internal Audit Service also provides an out-sourced internal audit function to the Office of the Police and Crime Commissioner and Lancashire Constabulary, Lancashire Fire and Rescue Service and Rossendale Borough Council.

### 3 The assurance available from completed audit work

- 3.1 A brief summary of the assurance provided can be found in the tables below. The matters arising from each of the completed audits are set out in the executive summaries provided at appendix B.

| Control area  | Assurance     |
|---|---------------|
| 0-19 Healthy Child Programme                                | ● Substantial |
| On-Street Parking Enforcement and Appeals                   | ● Substantial |
| Building Schools for the Future (BSF) - Contract Monitoring | ● Substantial |
| Refugee resettlement from other countries                   | ● Substantial |
| Legal Services - Outsourced Provision                       | ● Substantial |

| Control area                                    | Assurance     |
|---|---------------|
| Pension Fund Treasury Management                | ● Substantial |
| Domestic abuse strategy                         | ● Substantial |
| Absence Management                              | ● Moderate    |
| Workforce Wellbeing                             | ● Moderate    |
| Office 365 Review                               | ● Limited     |
| Premises compliance                             | ● Limited     |
| Older People Care Services Financial Management | ● Limited     |

## 4 Grant certification and Consultancy reviews

- 4.1 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. The table below provides details of this completed review, with an executive summary for each of the reviews being provided at appendix C.

| Control area  |
|---|
| Liverpool Combined Authority Local Energy Hub – Q4 2022/23                  |
| Community Renewal Fund  |
| Biodiversity Net Gain Grant   |
| Woodhill House Care Home  |
| Early Years Funding - Kirkland & Catterall St Helen's C of E Primary School |
| Programme Management Office   |

## 5 Follow up audit

- 5.1 The Internal Audit Service 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 to be reviewed with the responsible officers. The tables below detail the status of the agreed management actions, including the financial years that the Management Actions were agreed along with any actions that are incomplete.

5.2

| Action status       | As at 20 June 23 |             |             |           |            |            |
|---------------------|------------------|-------------|-------------|-----------|------------|------------|
|                     | Total            |             | Risk rating |           |            |            |
|                     |                  |             | Critical    | High      | Medium     | Low        |
| Complete            | 146              | 40%         | 0           | 3         | 71         | 72         |
| Incomplete          | 19               | 5%          | 0           | 2         | 11         | 6          |
| Follow up Scheduled | 133              | 37%         | 0           | 29        | 73         | 31         |
| Superseded          | 65               | 18%         | 0           | 11        | 37         | 17         |
| <b>Total</b>        | <b>363</b>       | <b>100%</b> | <b>0</b>    | <b>45</b> | <b>192</b> | <b>126</b> |

| Arising in:        |            |             |          |           |            |            |
|--------------------|------------|-------------|----------|-----------|------------|------------|
| 2019/20            | 161        | 44%         | 0        | 12        | 87         | 62         |
| 2020/21            | 12         | 3%          | 0        | 2         | 9          | 1          |
| 2021/22            | 111        | 31%         | 0        | 4         | 54         | 53         |
| 2022/23            | 79         | 22%         | 0        | 27        | 42         | 10         |
| <b>Total</b>       | <b>363</b> | <b>100%</b> | <b>0</b> | <b>45</b> | <b>192</b> | <b>126</b> |
| Incomplete by year |            |             |          |           |            |            |
| 2019/20            | 5          | 26%         | 0        | 0         | 2          | 3          |
| 2020/21            | 0          | 0%          | 0        | 0         | 0          | 0          |
| 2021/22            | 10         | 53%         | 0        | 1         | 7          | 2          |
| 2022/23            | 4          | 21%         | 0        | 1         | 2          | 1          |

- 5.3 Four follow up audits have been completed. As part of these follow up audits 19 management actions were reviewed. The table below provides a summary of the status of these actions and an executive summary of each review can be found at appendix D.

|                   | Extreme | High | Medium | Low | Total |
|-------------------|---------|------|--------|-----|-------|
| Number of actions | 0       | 5    | 8      | 6   | 19    |
| Implemented       | 0       | 0    | 4      | 3   | 7     |
| Superseded        | 0       | 0    | 0      | 1   | 1     |
| Progressing       | 0       | 2    | 3      | 2   | 7     |
| Not implemented   | 0       | 3    | 1      | 0   | 4     |

## 6 Amendments to the audit plan for 2023/24

- 6.1 It is important that the audit plan is a flexible plan. The table below details Six grant audits which no longer need audit assurance providing and one audit that has been moved to 2024/25 in order to enable a review of Occupational Health to be included in this year's plan.

| Service       | Audit Title   | Audit Scope                      |
|---------------|---|----------------------------------|
| Public Health | Supplementary Substance Misuse Treatment and Recovery Funding 2022-2025 | Compliance with grant conditions |
| Public Health | Housing Support Grant   | Compliance with grant conditions |
| Public Health | Rough Sleeping Drug and Alcohol Treatment Grant Scheme 2022-2024        | Compliance with grant conditions |
| Public Health | In Patient Detox Grant  | Compliance with grant conditions |
| Public Health | Individual Placement Funding  | Compliance with grant conditions |
| Public Health | Probation Grant   | Compliance with grant conditions |

|               |              |   |
|---------------|--------------|---|
| Public Health | Lone Working | A review to ensure that the lone worker policy and supporting procedures are adequately and effectively applied across the council. This will include a review of the case management system to support lone workers. |
|---------------|--------------|---|

6.2 Since we last reported to this committee in April 2023, four audits have been requested and added to the plan. The table below details the additional audit work we have been requested to complete that was not originally included in the audit plan.

| <b>Control area</b>   |
|---|
| Highways - creditor payments controls                                       |
| Governance and Resilience Framework   |
| Early Years Funding - Kirkland & Catterall St Helen's C of E Primary School |
| Identification of potential duplicate payments - Creditor payments          |


# Internal Audit

# Committee Summaries



Appendix B

## 0-19 Healthy Child Programme

| 0-19 Healthy Child Programme  |                                 |             |               |            |
|---|---------------------------------|-------------|---------------|------------|
| Overall assurance rating  | Audit findings requiring action |             |               |            |
| <br><b>Substantial</b>   | <b>Extreme</b>                  | <b>High</b> | <b>Medium</b> | <b>Low</b> |
|   | 0                               | 0           | 0             | 3          |
| <p>There are robust financial monitoring arrangements in place and there is scrutiny of Key Performance Indicator (KPI) submissions. The Public Health Practitioners identify any anomalies or errors in the performance information, along with any trends; declines and improvements in performance, they also provide feedback to the provider and will ask for data to be presented differently where it does not meet their needs.</p> <p>The outcome reporting has identified a number of areas not meeting the required targets and the council and the provider have been working together on these areas, in an effort to improve performance.</p> <p>The underperformance has been internally escalated to the Public Health Contracts and Procurement board, with decisions being taken at the highest level on the appropriateness of implementing a formal remedial action plan, which the council and the provider have now agreed to be delivered during quarter 4 of 2022/23.</p> <p>The Public Health team have already recognised areas where the service specification could be improved and on where there have been lessons learnt from the existing contract which can be taken forward into the re-commissioning of the service.</p> <p>Whilst we have not identified any significant gaps or weaknesses in the overall contract monitoring framework, we have agreed two actions which will strengthen the current control environment and one to improve efficiency.</p> |                                 |             |               |            |

### Context

The Health and Social Care Act 2012 sets out a local authority's statutory responsibility for commissioning public health services for children and young people aged 0 to 19 years. The 0 to 5 elements of the Healthy Child Programme are led by health visiting services and the 5 to 19 element is led by school nursing services.

The Healthy Child Programme aims to bring together health, education, and other key partners to deliver an effective programme for prevention and support. Lancashire commissioned these services from Virgin Care Services Ltd in 2019 under a three-year contract, with an option to extend for a further two years.

In December 2021 Virgin Care rebranded as HCRG Care Group and was acquired by Twenty20 Capital. The Director with responsibility for the Lancashire contract is unchanged. The contract budget for 2022/23 at the time of our review was £22,293,769.33


## 0-19 Healthy Child Programme

### Scope of Audit

In this audit we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following areas:

- Contractual arrangements
- Performance Reporting
- Contract Monitoring
- Payments and charges
- Internal Governance

## On-Street Parking Enforcement and Appeals

| On-Street Parking Enforcement and Appeals   |                                 |             |               |            |
|---|---------------------------------|-------------|---------------|------------|
| Overall assurance rating  | Audit findings requiring action |             |               |            |
| <br><b>Substantial</b>   | <b>Extreme</b>                  | <b>High</b> | <b>Medium</b> | <b>Low</b> |
|   | 0                               | 0           | 0             | 1          |
| <p>The council's website provides relevant and up to date advice and guidance regarding parking enforcement. This mirrors government and Department for Transport information, and includes rights and responsibilities, parking restrictions enforced, facility to pay penalties online and the challenge and appeals process. The website states the service aims to respond to the public within 20 days, however this measure was not monitored, recorded or reported.</p> <p>The Parking Enforcement Team (the Team) process casework effectively and in compliance with regulation to administer Penalty Charge Notices (PCNs), payment of fines and enforcement and appeals. Appropriate in-house induction and ongoing training ensures staff understand their roles and gain the required competencies to effectively carry out their duties and, although not compulsory, several staff successfully completed the City and Guilds parking qualification. Monthly spot checks and reviews were conducted to provide assurance over the accuracy and completeness of casework, compliance with guidance and service quality and delivery.</p> <p>The Taranto enforcement system enables the team to appropriately manage the caseload through the three-stage appeals process, accurately applying discounts for fines, retaining photographic evidence of violations, through to concluding casework when fines are paid. The Team worked closely with Corporate Finance to ensure income received from fines were reconciled and correctly stated in Taranto and Oracle. The team regularly communicated and worked collaboratively with Lancashire districts and the police providing updates, notifying new restrictions in localities and organising joint patrols to raise awareness and publicise parking issues and hotspots. Joint enforcement patrols involving local councillors, district partners and the police successfully resulted in vehicles being moved and PCNs and police fines being issued.</p> <p>There are no corporate performance indicators specific to parking enforcement and appeals provision, however the Team complete monthly service dashboard reports which are distributed to senior managers to advise of school enforcement visits, PCNs issued and occurrences of abuse directed at Civil Enforcement Officers (CEO). Generic service risks were managed through the corporate and directorate risk register, although risks specific to parking enforcement and appeals were not directly captured.</p> |                                 |             |               |            |

### Context

The council enforce on-street parking restrictions across Lancashire and off-street car parks on behalf of Lancaster City Council. Parking enforcement contributes to the council's transport objectives, aiming to improve road safety for all road users, to improve the flow of traffic, and ensure emergency vehicles and public transport are able to travel without obstruction or delay. The council impose fines as a deterrent to reduce parking violations and



## On-Street Parking Enforcement and Appeals

adopt the Secretary of State's main principle of exercising discretion as the main challenge consideration against penalty charges and representations, based on evidence provided by the motorist. All monies received from PCNs are re-invested into Lancashire parking services and highways related schemes.


The Parking Enforcement Team administer PCNs, consider parking enforcement claims, challenges, representations and appeals, monitor the payment of fines, and pursue unpaid charges through County Court and commissioning of enforcement agencies.

### Scope of Audit

In this audit we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following areas:

- Policy, procedure and guidance
- Service delivery
- Service quality
- Performance and risk

## Building Schools for the Future (BSF) - Contract Monitoring

| Building Schools for the Future (BSF) - Contract Monitoring   |                                 |             |               |            |
|---|---------------------------------|-------------|---------------|------------|
| Overall assurance rating  | Audit findings requiring action |             |               |            |
| <br><b>Substantial</b>   | <b>Extreme</b>                  | <b>High</b> | <b>Medium</b> | <b>Low</b> |
|   | 0                               | 0           | 0             | 0          |
| <p>The initial contract for BSF was signed in 2006, between Lancashire County Council and Catalyst Education, this is the only known contract, after which there has been several contract variations. Due to the contract being of a complex and a large nature, the service has split the contract into sub sections and refer to them as and when they need to.</p> <p>There is ongoing communication in relation to the strategy around key topics, and issues that are relevant to all the BSF schools with all the partners, parties and stakeholders through the BSF Board, BSF Phase and Project Liaison meetings that regularly takes place.</p> <p>There is a timetable which details BSF contractual key dates which the Contract Monitoring Officer uses to monitor that all datasets are received on a periodic basis.</p> <p>Evidence of works carried out by the contractors is provided to the council via SharePoint and discussed in Service Performance Meetings (SPM). Email approval is requested by the council with the schools prior to the invoices being processed for payment.</p> <p>There is comprehensive budget monitoring for the contract. The Project Officer maintains spreadsheets whereby invoices are recorded and confirms that the invoices have been processed for payment, and payments which are withheld. The Management Accountant monitors the financial affairs of the contract.</p> <p>The year-end reconciliation at school sites for 2021-22, which identifies instances where the overall heating consumption has exceeded the contractual agreed amount did not take place. However, we are informed that the reconciliation process for 2021-22 has now started.</p> |                                 |             |               |            |

### Context

Under this BSF initiative, the government is seeking to support a transformation of education establishments and ensure that all children and young people have access to facilities of 21st century standard. Following a competitive procurement exercise undertaken in 2005/06 in accordance with the EU procurement rules in force at the time, the council selected Catalyst Education (a consortium) to deliver its BSF Programme in East Lancashire. The programme was to be delivered across several phases with the total value forecast the time to be in the region of £850m. However, the programme was curtailed in 2010 due to government spending cuts, in consequence of which only the first four phases of the programme in Lancashire were delivered.

A Special Purpose Vehicle (SPV) (also known as Albany) was established by Catalyst Education with the specific aim of delivering each phase of the programme, with the Council entering into a project agreement with the SPV for each phase, under which the SPV was responsible for the design,

## Building Schools for the Future (BSF) - Contract Monitoring


construction, operation and maintenance of the schools in that phase over a 25-year term. Construction of the schools was subcontracted to Bovis Lendlease Limited and facilities management obligations were subcontracted to Vita Lend Lease Limited/ Equans (previously known as Engie).

### Scope of Audit

The overall objective of our audit was to review and assess the adequacy of the processes and procedures that are in place to ensure that the BSF contract and its financial performance is effectively monitored and managed. In doing so our review includes;

- Ensuring a BSF board is in place which includes all stakeholders, and that the decisions made are clear and transparent and actions raised have assigned owners and implementation timescales, additionally there is appropriate escalation to and from the board.
- Consideration of whether the contractual service specification is clear and transparent to support the contract monitoring function, and any changes are subject to review and oversight by the legal team and contract variations are signed off by all parties.
- Considering whether sufficient, appropriate performance data is submitted by the provider to the contract monitoring officer in accordance with contractual requirements and timescales, and the dataset provided is reviewed and verified and enables the council to assess whether the contractual aims are being achieved and delivered by the provider.
- Assessing whether the arrangements for service credits are clear and transparent and whether they are taken account of before invoices are authorised for payment, and that the invoices are correctly coded to support overall budget monitoring.

## Refugee resettlement from other countries

| Refugee resettlement from other countries   |                                 |             |               |            |
|---|---------------------------------|-------------|---------------|------------|
| Overall assurance rating  | Audit findings requiring action |             |               |            |
| <br><b>Substantial</b> | <b>Extreme</b>                  | <b>High</b> | <b>Medium</b> | <b>Low</b> |
|   | 0                               | 0           | 1             | 1          |

The Lancashire Refugee and Asylum Partnership brings together local authority and other stakeholder organisations to provide governance, direction and strategic oversight through working collaboratively across the county.

The Lancashire Refugee Integration Team (LRIT) work effectively facilitating casework and commissioning services, ensuring compliance with regulation, funding arrangements and refugee eligibility and accessibility for the provision of community services across Lancashire districts and assigning grant funding. We found on occasions Memorandum of Understanding (MoU) agreements and contracts with district councils and providers to commission refugee provision and services were not always completed or signed off prior to services starting.

The council's procurement framework appropriately informed and facilitated commissioned services ensuring providers undertake due diligence and financial security checks, however the service had not compiled a preferred list of suppliers, to facilitate cost effective and timely procurement.

Working with Corporate Finance the team ensure the finance framework correctly and accurately identifies and manages transactions and district allocations to budgets. Refugee accessibility and eligibility is appropriately verified to government databases for accuracy, completeness and provides assurances that resettlers qualify for additional assistance and services. All requisitions were assigned a valid purchase order and reconciled on Oracle. A panel of officers award and monitor community grants to third sector and charitable organisations to promote and support community integration.

### Context

UK resettlement schemes facilitate and support efforts to relieve humanitarian crisis of vulnerable refugees in need of protection from a range of worldwide regional conflicts and instability through the provision of resettlement opportunities into UK communities. Resettlement numbers are based on Local Authority capacity and matching eligible resettlers and host volunteers for purposes of achieving scheme objectives of community integration and wellbeing. The Lancashire Refugee and Asylum Strategic Partnership (LRASP) consists of Lancashire districts, health, fire and police services, and private third party and charitable organisations who work collaboratively and cohesively across Lancashire. The Refugee and Asylum Seeker Multi-Agency Forum (RASMAFs) consisting of appropriate district council representatives, provided the LRASP with operational feedback to inform service delivery.

The Lancashire Refugee Integration Team sits within the council's Policy, Information, Commissioning and Children's Health Service and is funded from central government grants. The team work collaboratively with district and unitary councils, multi-agency and voluntary organisations to support the integration of refugees into Lancashire. The team coordinate the delivery of the Lancashire Refugee Resettlement Programme supporting thousands

## Refugee resettlement from other countries

of people who have arrived in Lancashire from over ten different refugee and asylum resettlement routes, including key schemes such as Homes for Ukraine, United Kingdom Resettlement Schemes, Afghan Citizen Resettlement Scheme and Afghan Relocation and Assistance Policy. The team has grown from one staff member in 2016 to 29 in 2022, with over 50% having lived experience of being a refugee or asylum seeker from various countries including Sudan, Syria, Palestine and Ukraine.


The refugee resettlement net budget for the 2022/23 financial year was £1.95m, compared to the net budget in 2021/22 of £1.71m.

### Scope of Audit

In this audit we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following areas:

- Policies, procedures and governance
- Service delivery
- Financial management
- Service quality
- Performance and risk

## Legal Services - Outsourced Provision

| Legal Services - Outsourced Provision   |                                 |             |               |            |
|---|---------------------------------|-------------|---------------|------------|
| Overall assurance rating  | Audit findings requiring action |             |               |            |
| <br><b>Substantial</b> | <b>Extreme</b>                  | <b>High</b> | <b>Medium</b> | <b>Low</b> |
|   | 0                               | 0           | 1             | 1          |

The council's arrangements for the provision of outsourced Legal Services reflect the needs of each of the Service's four sections and have sufficiently considered the different options available including in-house capacity and agency staff to ensure effective and efficient delivery of services. Some work, for example major corporate projects, needs specialist legal support complemented by strategic support from agency staff to interpret and implement advice and guidance. This support is not currently available within the council. Other sections require ad-hoc counsel advice and support to attend court hearings whilst agreements with specialist legal firms support a flexible response to increased demand for child protection cases during peak periods.

Additional legal services provision is identified by managers and appointments are authorised under the Scheme of Delegation. The council's Procurement Policy exempts Legal Services from applying the procurement rules though established long term relationships with legal firms provide some assurance over quality. The council also benefits from competitive rates for although costs have not been tested against competing firms for some time and a formal benchmarking exercise would provide an insight on the value for money obtained. The Service has actively sought to fill vacant positions however this has become increasingly difficult as the Service consider they are unable to offer sufficiently attractive terms and salaries. Some specialist posts have been upgraded to improve the chances of filling positions and training has been given to existing staff to support internal progression.

Budgets are monitored quarterly with Finance support, which identify key financial and budgetary pressures, and a quarterly financial monitoring report is presented to members and senior management.

### Context

External agencies and locums support Legal Services to meet capacity and shortages in skills and expertise in specialist areas. Outsourced provision ranges from advice and support from Counsel through to demand led support from external lawyers' firms and locums provided through the council's approved agency, Matrix Recruitment (Matrix). There are four distinct sections with their own operational model and different needs for external legal resource:

- Commercial, Procurement and Property (CPP)
- Adult Social Care, Employment and Education (AEE)
- Planning, Highways and Environment (PHE)
- Child Protection (CP)

## Legal Services - Outsourced Provision


n the budget, outsourced legal provision is split into legal fees and agency fees. There is a £7.7m budget for legal fees which is made up primarily of £7.01m for public law cases in respect of child protection and £482K to support legal representation on Adult Social Care cases. There is no formal budget for agency staff, and these are currently funded through the existing vacancies.

## Scope of Audit

In this audit we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following areas:

- Decision-making
- Selection and value-for-money
- Capacity-building and
- Budget monitoring.

## Pension Fund Treasury Management

| Pension Fund Treasury Management  |                                 |      |        |     |
|---|---------------------------------|------|--------|-----|
| Overall assurance rating  | Audit findings requiring action |      |        |     |
| <br><b>Substantial</b> | Extreme                         | High | Medium | Low |
|   | 0                               | 0    | 0      | 2   |

The pension fund strategy was approved by the Pension Fund Committee at the March 2023 meeting. The strategy provides clear background information and context for the fund activity and establishes the overall aim to maintain a liquid cash position. The strategy includes limits on minimum cash levels, establishes the type and credit ratings acceptable for an investment with an inclination towards short term investments.

Cashflow processes are completed accurately, checked by another officer and approved by the Treasury Manager. The minimum liquidity is considered and supporting evidence is retained. We take assurance from testing conducted as part of the council Treasury Management audit 2022-23, where practices are the same and the fund is part of the overall process. There was no borrowing activity within the pension fund treasury management during the period, with strict restrictions outlined in the strategy to only enter into borrowing if short term. All investments were compliant with the strategy and supported by retained trade deal confirmations. The interest due was calculated correctly and received promptly.

The head of pension fund and treasury manager meet periodically and discuss activity and cashflow forecasting. Reports are submitted to the Pension Fund Committee quarterly, with the majority provided by LPPI as the primary partner for investment. The council provides year in summary reports, which show basic statistics for the fund cashflow and short-term investments. In December 2022, a more detailed report was provided by the council, named the Cash Summary, which added narrative and context to explain the cash flow and investment statistics and highlight areas of concern, such as briefs periods where the minimum fund levels might be breached.

### Context

Treasury management activities involve monitoring and administering a fund, cashflow and banking, whilst maximising any surplus cash via investment activity. The fund strategy should define the risk appetite and minimum cash levels to ensure investment activity is controlled.

There is limited investment activity by the council treasury management team, with a total of 23 investments undertaken in the period April 2022 to March 2023. The majority of investments were short term, between 1 to 115 days in duration and all were with either the council or other local authorities. The total investment in the period was £183.1m, returning approximately £352k in interest.

### Scope of Audit

In this audit we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following areas:


- Strategy, procedures and independent advice;



## **Pension Fund Treasury Management**

- Cash Flow management;
- Management of Investments and Borrowings;
- Financial Reporting.

## Domestic abuse strategy

| Domestic abuse strategy  |                                 |             |               |            |
|--|---------------------------------|-------------|---------------|------------|
| Overall assurance rating   | Audit findings requiring action |             |               |            |
| <br><b>Substantial</b>  | <b>Extreme</b>                  | <b>High</b> | <b>Medium</b> | <b>Low</b> |
|  | 0                               | 0           | 0             | 0          |
| <p>Good progress has been made by the council to meet its new statutory duties under Part 4 'Local Authority Support' of the Domestic Abuse Act 2021. This includes providing support to victims of domestic abuse and their children within relevant safe accommodation such as refuge and safehouses as well as a wider remit of support for victims to remain in their own homes. The Lancashire Domestic Abuse Partnership Board was established in 2021 along with a terms of reference in accordance with the Act to support Lancashire in meeting its statutory duties to develop a Safe Accommodation Strategy. It sets out what Lancashire is doing to provide safe accommodation and support over the next three years and of this what has been completed.</p> <p>The board is now looking to widen its remit to consider all aspects of the Domestic Abuse Act 2021 and a plan is being developed to identify the areas the board will be able to support and influence to improve support to victims of domestic abuse and their children. Contract monitoring of the providers is undertaken and whilst the performance data provided is comprehensive this is being revised to provide an overall analytical snapshot to identify any significant changes or gaps in service delivery to allow the council to respond appropriately and timely.</p> |                                 |             |               |            |

## Context

The Domestic Abuse Act 2021 (the Act) placed statutory duties on Tier 1 Local Authorities relating to the provision of support to victims of domestic abuse and their children residing within safe accommodation. The Lancashire Domestic Abuse Safe Accommodation Strategy 2021- 24 (the Strategy) is part of the response to this duty. Additionally, under Part 4 of the Act 'local authority support' requires the council to appoint a multi-agency Local Partnership Board, the overall responsibility of delivering against the Strategy sits with the Board. There is also the requirement to report annually to Central Government. To fulfil these new statutory duties the Department for Levelling Up, Housing and Communities (formally the Ministry for Housing, Communities and Local Government) provided grant funding of £2,493,526 for the financial year 2021/22.

Funding is known to be continuing up until 2025 with funding of £2,550,447 being received for the financial year 2022/23. Additional services have been commissioned since the start of the council's new duties including male refuge provision and outreach services to provide support to victims of domestic abuse where they have not accessed refuge or other safe accommodation support. The number of units within safe accommodation has increased from 2021/22 to 2022/23 by ten to 183 units available across the county.

In Lancashire during 2021/22 the number of high-risk cases discussed at a multi-agency risk assessment conference was 2,166. There were 18,571 recorded domestic abuse crimes, and according to the Crime Survey for England and Wales year ending March 2020, not updated due to the pandemic 49,007 adults experienced domestic abuse in the last year.


## Domestic abuse strategy

### Scope of Audit

In this audit we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following areas:

- Compliance with statutory guidance
- Multi-agency Domestic Abuse Local Partnership Board
- Monitoring of the Safe Accommodation Strategy
- Reporting to central government

## Absence Management

| Absence Management   |                                 |             |               |            |
|--|---------------------------------|-------------|---------------|------------|
| Overall assurance rating   | Audit findings requiring action |             |               |            |
| <br><b>Moderate</b> | <b>Extreme</b>                  | <b>High</b> | <b>Medium</b> | <b>Low</b> |
|  | 0                               | 0           | 2             | 0          |

The council's policy is followed by employees and managers in respect of sickness and other non-annual leave absences. The Council has detailed policy and guidance on absences available to employees and managers via the Human Resources pages on the Intranet facility.

Sickness absence performance data was made available to managers and HR on a monthly basis until November 2022. This facility was not available between November 22 and May 23 due to the move to Oracle Fusion and the development work undertaken to ensure the reports provide the required information.

Data relating to other types of non-annual and unpaid leave absences is not currently collated and reported to managers and HR in the same manner. Absences that result in significant numbers of lost work days may not be identified for consideration in terms of staffing resource requirements/ replacements and associated budgetary costs.

There may be an impact on the ability of services to achieve their (and corporate) objectives. There was some inconsistency in the use of Oracle R12 to record sickness absence activity and contact. Where this information was not evident in the system, managers maintained manual records, including the use of template documentation provided as part of the Council's sickness absence policy. An enhancement provided by the Oracle Fusion system allows managers to attach documentation to a sickness record but Council policy does not currently define what information in addition to the initial absence record should be entered in to Oracle.

## Context

The Council's Intranet facility provides appropriate Human Resources policy and guidance on staff absences that employees and managers are expected to follow. These include sickness, extraneous and official duties, trade union duties, paid and unpaid special leave and leave without pay. The Corporate HR team provide oversight and support to managers and staff involved in absence management.

Excessive absences can result in a financial cost to the Council and/ or a failure to deliver service objectives. Inconsistent compliance with policy can result in inequitable treatment and potential abuse of the system. Regarding sickness, Council policy aims to provide adequate support to staff who are ill to help them return to work.

Up to November 2022, all leave should have been input to the Oracle R12 system and approved by line managers. Thereafter, via the Oracle Fusion system. In addition to inputting and approving absences, Fusion allows managers to attach documents such as GP sick notes and return to work interviews. The Council employs over 12,000 non schools staff.


## Absence Management

### Scope of Audit

In this audit we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following control areas:

- Absence policy and guidance;
- Data and performance analysis;
- Management of sickness absences; and
- Managing other types of absences.

## Workforce Wellbeing

| Workforce Wellbeing  |                                 |             |               |            |
|--|---------------------------------|-------------|---------------|------------|
| Overall assurance rating   | Audit findings requiring action |             |               |            |
| <br><b>Moderate</b> | <b>Extreme</b>                  | <b>High</b> | <b>Medium</b> | <b>Low</b> |
|  | 0                               | 1           | 2             | 0          |

There is a significant range of information, guidance, and documentation available to support staff with their wellbeing, including corporate training and the employee support and assistance programmes. However, we found the council's overall approach to the management and promotion of wellbeing and the capture, analysis, and reporting of workforce wellbeing data to be unstructured. Whilst there are corporate cross-cutting workstreams being delivered by various teams and services, there is no consistent governance and oversight in place overall to ensure that corporate wellbeing objectives are being achieved through successful operation and take up of the various initiatives and support mechanisms on offer.

Whilst we can provide an opinion of moderate assurance over the control framework to support achievement of the council's wellbeing objectives, we have agreed actions to enhance aspects of the framework to ensure it is both adequately designed and operated effectively throughout.

These include the introduction of a formal corporate Health and Wellbeing Policy to formalise the Councils overall wellbeing approach; designating responsibility for oversight and delivery of the corporate offer; consolidation of wellbeing information into one primary access site to ensure ease of accessibility; improved collaborative working practices between teams and services involved in delivering wellbeing support; improvements to wellbeing training opportunities specifically for line managers and the review and update of methods to measure the effectiveness of employee support mechanisms.

## Context

This review was included as part of the 2022/23 internal audit plan by the Public Health Specialist (Wider Determinants) and Employee Support Team Leader, for the Public Health Service, to consider current methods and to help inform development of the corporate wellbeing approach and delivery of the wellbeing offer across the organisation including data capture, analysis, and reporting: measurement of success for support mechanisms; and the managers role in promoting wellbeing. Also, to consider how the wellbeing approach and offer could be further enhanced and improved to contribute to the overall corporate workplace wellbeing agenda and staff experience, in line with key wellbeing areas such as mental, physical, financial, and social, enabling staff to stay well in work.

Across the council, there are currently a number of teams and services delivering various aspects of the wellbeing approach, and these include training through the Skills, Learning and Development Service; risk assessments by the Health, Safety and Resilience Service; Employee Support Services from Public Health and Human Resources; data monitoring and reporting by Business Intelligence; and other associated corporate and directorate workstreams such as the People Strategy and the Adult Social Care Workforce Development Strategy being progressed via corporate improvement and change programmes.

Workforce Wellbeing relates to all aspects of working life, from the quality and safety of the physical environment, to how workers feel about their work, their working environment, the culture at work and the organisation. Providing employees with the necessary wellbeing support, knowledge, tools, and


## Workforce Wellbeing

resources, is one of the most effective ways to improve productivity, reduce absence and staff turnover, as well as developing more long term positive and preventative approaches to help people thrive at work

### Scope of Audit

In this audit we have reviewed the adequacy of the controls and processes established by management to mitigate the key risks relating to the following areas:

- Wellbeing strategy
- Awareness of wellbeing approach
- Understanding issues and targeting support
- Measuring performance

| Office 365 Review   |                                 |             |               |            |
|---|---------------------------------|-------------|---------------|------------|
| Overall assurance rating  | Audit findings requiring action |             |               |            |
| <br><b>Limited</b> | <b>Extreme</b>                  | <b>High</b> | <b>Medium</b> | <b>Low</b> |
|   | 0                               | 2           | 2             | 0          |

The review identified weaknesses in the Microsoft 365 system as deployed at the council. The audit reviewed the settings recommended by the Center for Internet Security (CIS) Office 365 Benchmark V1.2.0. Of the 88 recommended settings 37 were not configured in accordance with the recommended standards. The variation to the standards was not supported by a documented risk assessment to underpin the delta and therefore it was difficult to establish if the variations were to meet the business need of the council or due to missed opportunities to strengthen the security settings.

It was identified that good controls were in place for the end user which included guides and training, the appointment of Microsoft 365 champions and the admin granting process within the tenant. However, there were no overarching processes to manage and protect data within the tenant or guest user management processes.

A Data Privacy Impact Assessment (DPIA) was undertaken in June 2022 however, the document was not finalised, and the processes identified for the management of data included in the DPIA, had not been implemented.

There were opportunities identified to increase the regular security tasks in relation to the council’s Microsoft 365 tenant including a proactive guest user review and a review of any spoofed domains to highlight the risk of inappropriate access and cyber-attacks at the earliest opportunity.

### Context

The council has implemented Microsoft Office 365 (now formally known as Microsoft 365) suite of applications across its IT infrastructure. Microsoft 365 provides many benefits to the council such as automatic updates of the applications, access of files anywhere and advanced collaboration features such as video conferencing and simultaneous editing of documents through Microsoft Teams. The Office 365 Tenant is the virtual container within Office 365 which holds a customer’s information such as users, domains, and configurations.

Whilst Microsoft 365 brings a wide range of benefits to the council in respect of collaboration, there are some risks inherent to the suite of applications that need to be appropriately addressed to keep the council’s data secure.

The security settings found in Microsoft 365 are usually benchmarked against the best practices Center for Internet Security (CIS) Office 365 Foundations Benchmark V1.2.0.

The CIS benchmark includes standards across the following 7 domains.



## Office 365 Review

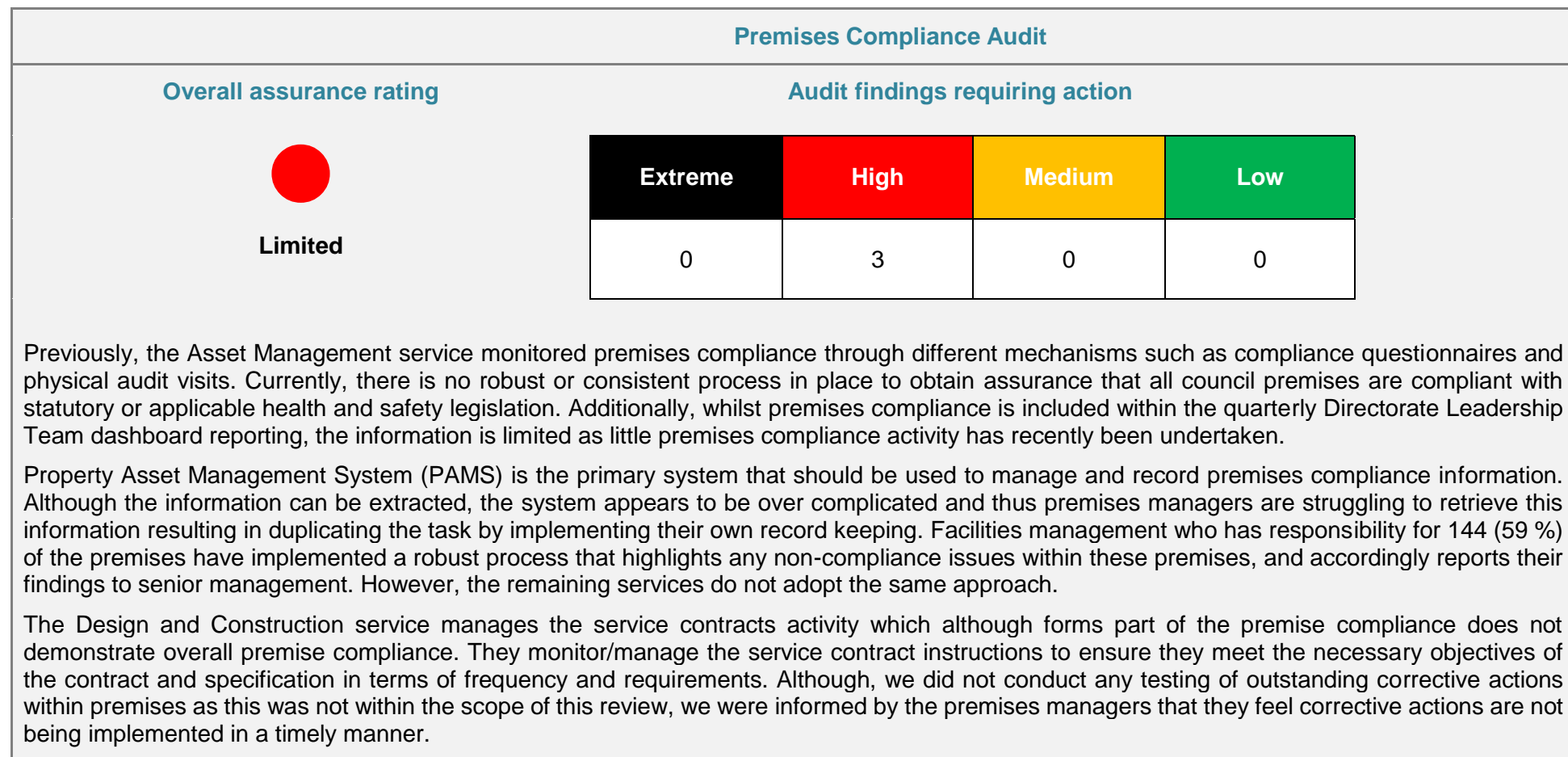
1. Account/Authentication
2. Application Permissions
3. Data Management
4. Email Security/Exchange Online
5. Auditing
6. Storage
7. Mobile Device Management

## Scope of Audit

In this audit we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following areas:

- Security Configuration
- End User Controls
- Management of Data
- Due Diligence and Risk Assessments
- Monitoring

## Premises Compliance Audit



### Context

The council have a duty to ensure that buildings under their control comply with appropriate statutory, regulatory, and corporate Health and Safety standards, there are a range of legislations which governs the use, occupation and maintenance of buildings and failure to comply with statutory and health & safety legislation may result in action, either under health and safety legislation or otherwise.

Within Lancashire there are 243 premises and of these premises 144 are managed by Facilities Management and the remaining 99 are managed by the individual premises manager.

All council occupied buildings must designate a person (premises manager) to be responsible for ensuring that premises management duties are carried out and records are kept, this includes service contract aspects e.g., legionella / water hygiene management regimes, asbestos, etc. Whereby a periodic inspection is conducted by an appointed contractor and non-service contract aspects such as checking of the fire alarm, automatic doors, lifts is the responsibility of the premises manager.

## Premises Compliance Audit


PAMS effectively serves three purposes, which are that the contractors use the system to upload the certificates of compliance and invoices, Premises managers' report corrective actions and obtain compliance assurance. Whilst the Design and Construction service use the system to monitor the contractor's performance in comparison to the contract specifications and to ensure the contractors are delivering the service.

## Scope of Audit

In this audit we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following areas:

- Roles and responsibilities relating to statutory and non-statutory requirements.
- Completion of compliance checks, including frequency, evidencing results assessing and reporting results
- Timely addressing any maintenance requirements identified during compliance checks
- Collaborative working arrangements between. Asset Management/ Facilities Management and Design & Construction
- The effectiveness of the health and safety reporting arrangements as applicable to premises compliance.
- The efficiency and effectiveness of the overall premise compliance arrangements, and in particular assessing the impact that deficiencies in the PAMS system creates.

## Older People Care Services - Financial Management

| Older People Care Services - Financial Management  |                                 |             |               |            |
|--|---------------------------------|-------------|---------------|------------|
| Overall assurance rating   | Audit findings requiring action |             |               |            |
| <br><b>Limited</b>  | <b>Extreme</b>                  | <b>High</b> | <b>Medium</b> | <b>Low</b> |
|  | 0                               | 1           | 4             | 0          |
| <p>There are some significant weaknesses in the operation of the framework of control that put the achievement of its objectives at risk, and action is required to enhance aspects of it and ensure that it is effectively operated throughout.</p> <p>Whilst most establishments were aware of the Older People Care Services (OPCS) financial procedures and how to access them, pre-admission assessments of services users and financial agreements with services users are consistently not completed in full and retained. There is also evidence of ongoing financial monitoring meetings between Finance and the establishments, however, deposit monies of approximately £400k that should have been refunded to service users (SUs) or their representatives following discharge, is still held by the council, and in some cases for more than three years. It is concerning that this issue was highlighted in our previous review of OPCS financial practice, reported in December 2019 and no progress has been made in resolving it. The implications of the council failing to return monies in the proper way could lead the council open to accusation of financial misappropriation.</p> |                                 |             |               |            |

### Context

The Older People Care Service provides residential and daytime support services across Lancashire. This includes sixteen residential care settings and thirteen day centres. Persons who pay the full costs of their care and support are referred to as a 'self-funder'. This may be because following a financial assessment, they have enough funds to pay the full cost of any care and support they need.

Prior to February 2020, self-funding residential service users were required to pay an initial deposit equivalent to eight weeks fees, prior to admission, however the action of taking deposits has been suspended.

Residential fees are payable a month in arrears from the date of admission, via the council's preferred method of direct debit. Debts relating to non-payment of fees are referred to the council's debt management team. Self-funders accessing daytime support services are invoiced a month in arrears.

### Scope of Audit

In this audit we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks at the following establishments:

- Beacon View Care Home
- Broadfield House Care Home
- Cravenside Care Home

## Older People Care Services - Financial Management

- DeVitre day centre
- Fosterfield day centre
- Woodhill House Care Home

Relating to the following areas:

- Admissions, discharges and changes in care
- Invoicing and income collection
- Reconciliation and query resolution



# Internal Audit

## Grant Audit and Consultancy Committee Summaries

2022/23



Appendix C

Liverpool Combined Authority Local Energy Hub – Q4 2022/23

**Grant certification and verification**

We have examined payments made in Quarter 4 of the 2022-23 financial year, submitted by Lancashire County Council to the Liverpool City Region Combined Authority in relation to the Local Energy Hub grant programme. The objective of this review was to perform checks to provide assurance that the grant conditions have been met.

We confirmed that all expenditure incurred complied with grant conditions. In line with grant conditions (see page 3, clause 2.1; and page 18, clauses 4 and 5), Lancashire County Council employs a Senior Project Officer (Low Carbon and Renewable Energy). Employment costs for the period reviewed include applicable travel expenses to support the role. A Grade 12 member of staff associated with payroll costs as part of this grant funding left the organisation in November 2022. A decision on recruitment to fill the vacancy is to be taken in the near future.

**Context**

This audit has been conducted to provide assurance to the Liverpool City Region Combined Authority that the Internal Audit Service consider that information and evidence provided by the External Funding and Investment team in support of the grant claims submitted for quarter 4, is complete, accurate and that grant terms and conditions have been complied with.

The audit covers the period January 2023 to March 2023 and has been conducted in conformance with the Public Sector Internal Audit Standards.

Grant funding was allocated to Lancashire County Council to support the establishment of the North West Local Energy Hub and further development of local energy strategy. Liverpool Combined Authority, as the accountable body, secured funding from the Secretary of State for Business Energy and Industrial Strategy (BEIS) for the period of July 2021 to March 2024.

Schedule 3 of the grant conditions state payment will be made to Lancashire County Council within 20 working days of receipt of each quarter's claim forecast, subject to satisfactory audit assurances that payments comply with grant conditions and reconciliation of any previous quarter's payment. A quarterly certificate confirming this must be signed by the S151 Officer and the Head of Internal Audit and submitted for each claim.

Grant funding for the sum of £260,000 plus £10,000 in respect of expenses was allocated to Lancashire County Council to support the establishment of the North-West Local Energy Hub and further development of local energy strategy. Liverpool Combined Authority, as the accountable body, has secured funding from the Secretary of State for Business Energy and Industrial Strategy (BEIS) for the period of July 2021 to March 2024.

**Scope of Audit**

The scope of our work was to verify the accuracy of the grant submissions and to verify that the expenditure incurred was in accordance with the terms and conditions attached to the grant.



## Community Renewal Fund

### Community Renewal Fund

#### Grant certification and verification

We can provide substantial assurance on controls around the administration of the Community Renewal Fund grant. The correct amount of money was claimed from the Department for Levelling Up, Housing and Communities (DLUHC). This money was forwarded correctly to organisations who were selected to deliver the projects that were approved by the DLUHC. The total money awarded to the council by DLUHC was £3,411,352. Controls were in place to ensure the money was spent on eligible expenditure. The framework of controls was adequately designed and effectively operated. These controls included verification of expenditure claimed by the project deliverers and audits of the organisations involved.

#### Context

The Community Renewal Fund is part of a government programme to support people and communities most in need across the UK to pilot programmes and new approaches. It invests in skills, local businesses, community and places, and supports people into employment. Following a two-stage application process Lancashire was awarded a total of £3,411,352 for nine projects. The Business Growth Department within the council manages the administration of these grants.

#### Scope of Audit

A funding agreement is signed with DLUHC and agreements are signed with each project deliverer outlining the conditions and requirements attached to the grant.

- Payments are made to organisations in accordance with the amounts approved by DLUHC and checks are made to ensure the money is spent on eligible expenditure.
- Claim forms are correctly completed and sent to the DLUHC within deadlines.
- Project outcomes and outputs are monitored and reported to the DLUHC.

## Biodiversity Net Gain Grant

### Statement of Grant Usage assurance

To the best of our knowledge and belief, and having carried out appropriate investigations and checks, in our opinion, in all significant respects, the conditions attached to the biodiversity net gain grant No 31/6499 have been complied with.

The expenditure incurred predominantly relates to the cost of the time of a Principal Ecologist involved in preparatory work relating to biodiversity net gain grant related activities.

The grant money has not been received yet, but the Department of Environment, Food and Rural Affairs (DEFRA) require assurance that the related expenditure has been incurred before reimbursing this cost.

### Context

Biodiversity net gain is an approach to development that leaves biodiversity in a measurably better state than before. This means protecting existing habitats and ensuring that any lost or degraded habitats are compensated for by enhancing or creating habitats that are of greater value to wildlife and people.

The Environment Act 2021 includes provisions that make the achievement of 10% biodiversity gain mandatory for most developments under the Town and Country Planning Act 1990. The requirement is due to come into force in November 2023 after a transition period.

The purpose of the biodiversity net gain grant is to provide funding to local authorities in England towards expenditure lawfully incurred or to be incurred by them in the transition period. The grant is intended to further support local authorities in their preparations for the introduction of mandatory biodiversity net gain.

The total funding available for all local authorities for 2022/23 is a maximum of £10.55 million. Lancashire County Council was awarded £26,807 for 2022/23 in a Grant Determination Letter from DEFRA on 1 March 2023.

### Scope of Audit

The Grant Determination Letter requires The Chief Executive and the Chief Internal Auditor of the recipient authorities to sign and return a declaration to confirm that the conditions attached to the biodiversity net gain grant have been complied with before DEFRA release the funds. Our work involved undertaking checks in order to provide this confirmation.

Woodhill House Care Home- Consultancy

Audit findings requiring action

| Extreme | High | Medium | Low |
|---------|------|--------|-----|
| 0       | 5    | 0      | 3   |

We have not provided an assurance opinion on the adequacy and effectiveness of the controls in place for the financial arrangements at Woodhill House Care Home as we have only reviewed specific controls identified as areas of concern. Key council financial procedures have not been implemented or have been bypassed. It is concerning that cash is missing and cannot be accounted for, supporting evidence and audit trails are incomplete, and there was a lack of management oversight, control, and challenge. Due to these poor records, we were unable to determine if the cash missing is due to misappropriation or just poor record keeping.

The Residential Manager was unclear and unable to explain how the amenities and resident's savings worked and financial information was retained at their house and not secured on site in the safe. There was no senior management oversight or checks.

The petty cash imprest system was in deficit, bank statements were missing, the last bank reconciliation was dated in September 2022 and there were no regular management checks.

There was no amenities fund ledger, only a receipt book. The receipt book and bank paying in book were incomplete and insufficiently completed and the account could not be reconciled. There were no receipts evidencing how income was raised from individual residents.

Residents financial arrangements were not documented in their support plan folders. Individual user records and funds were incomplete, with insufficient detail, and they were not correctly reconciled. Income and expenditure transactions were not appropriately evidenced. Resident bankcards retained in the safe were not accurately signed in or out of the office or witnessed by staff.

**Context**

The review commenced in November 2022 following an email alert from the Senior Operations Manager (North) and the Registered Care Manager at Woodhill House Care Home in Morecambe who raised concerns regarding irregularities with the banking information and residents temporary savings accounts. In December 2022 and January 2023, the internal audit service conducted an announced and an unannounced visit respectively to the care home to establish the circumstances surrounding the financial discrepancies.

Woodhill House is one of 16 care homes managed by the council. The home can provide care services for up to 46 residents, including those who live with dementia as well as residential and short-term respite stays.

## Woodhill House Care Home- Consultancy

The Care Quality Commission who are responsible for the registration and inspection of social care services in England rated the home as good overall.


The Adult Services – Older People Care Services Financial Procedures, dated September 2021, notify designated officers of their responsibilities for the effective and appropriate implementation of the care home's financial administration.

### Scope of Audit

In this audit we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following areas:

- Training and understanding financial procedures
- Petty cash
- Amenities fund
- Residence temporary savings
- Safe contents check

## Early Years Funding - Kirkland & Catterall St Helen's C of E Primary School

| Early Years Funding - Kirkland & Catterall St Helen's C of E Primary School  |                                 |             |               |            |
|--|---------------------------------|-------------|---------------|------------|
| Overall assurance rating   | Audit findings requiring action |             |               |            |
| <br><b>Limited</b>  | <b>Extreme</b>                  | <b>High</b> | <b>Medium</b> | <b>Low</b> |
|  | 0                               | 2           | 0             | 0          |
| <p>Kirkland &amp; Catterall St Helen's C of E Primary School have submitted incorrect termly claims in error for Early Education Funding (EEF) to the Council since autumn 2021 when they took over the running of the Jelly Beans nursery. Based on Internal Audit findings, Schools Finance and Early Years Funding and Sufficiency teams have calculated that the overpayment due back to the Council totals over £16k. The overclaim resulted from the school submitting claims for 15 or 30 hours per week per child when some have attended for less as specified in the parental agreement forms held on site.</p> <p>Whilst a parental agreement was available for all children that had attended the nursery since autumn 2021, the information included on the form and completion of them was inconsistent. They had not been signed by all parties, and versions developed and used by the school lacked the necessary information. A nursery provider is expected to formally enter into a parental agreement with all parents whose children are taking up the EEF entitlements using the version provided by the Council to ensure the necessary information and consents are in place to allow the nursery to claim funding.</p> <p>There was limited evidence on site that the date of birth of new nursery attendees had been validated by checking to documentary evidence. Providers are expected to record such a check on the parental agreement and retain a copy in order to support its EEF claims and to ensure satisfactory audit trails.</p> |                                 |             |               |            |

### Context

This review has been undertaken following a request from the Early Years Funding and Sufficiency team to review the early years nursery free childcare hours funding claims made by Kirkland & Catterall St Helen's C of E Primary School (ref 02037). Concerns were raised by a Governor of the school regarding the amount of funding received by the nursery compared to the hours that children were in attendance. The school took over the running of the 'Jelly Beans' nursery for the autumn 2021 term onwards.

The government provide funding for up to 15 hours per week free childcare hours for eligible two year olds, 15 hours per week for all three and four year olds, and an additional 15 hours per week for eligible three and four year olds. This funding covers 38 weeks in the year. The Council receive this funding from government (based on an annual census) and distribute to private settings and school nurseries following their submission via a portal of a termly claim detailing the children attending the nursery and the hours that they attended. Parents wishing to claim the extended free childcare hours apply directly through the government website and receive an eligibility code that is validated by the Early Years Funding and Sufficiency team through the portal. All private setting and school nurseries are provided with the Local Authority Agreement for Early Education Funding (EEF) and a Memorandum of Understanding for the Provision of EEF that include detail on the responsibilities, requirements and processes to be followed by the provider for claiming funding. Providers also receive a reminder of the process as part of a headcount week that is undertaken at the beginning of each term. Nursery providers are expected to check and retain a copy of the birth certificate of any new child and maintain a register of attendance. A parental

## Early Years Funding - Kirkland & Catterall St Helen's C of E Primary School

agreement for each child should also be completed that includes detail of the days, sessions, or hours that they will attend, and the eligibility code that may apply. The parental agreement should be signed by a parent and the provider, and a new one completed if there is any permanent change in attendance.

Kirkland & Catterall St Helen's C of E Primary School have received EEF payments from the Council totalling £102,218 for the terms between august 2021 and spring 2023. 35 children attended the nursery at different times in this period

### Scope of Audit

In this audit we have reviewed and tested the adequacy and effectiveness of the process established by the school for submitting early years funding claims to mitigate the key risks relating to the following control areas:

- Claims submitted via the portal;
- Parental agreement completion; and
- Date of birth checks.

Our audit testing focused on the claims made by the school from the autumn 2021 to the spring 2023 term. The hours stated in the parental agreements were reconciled to the hours claimed for via the portal. Any difference in hours was reported to the Schools Finance and Early Years Funding and Sufficiency teams to calculate the over payment requiring recovery.

## Programme Management Office

### Programme Management Office – Consultancy

#### Summary

As part of the council's improvement journey, the Programme Management Office is in the process of implementing a change programme which includes project management. Under the new system projects across the council would be assessed centrally with consideration given to the expected benefits from the projects and how well they contribute to the council's objectives.

All current projects are being evaluated using documented methodology to decide which projects to continue, suspend or terminate. A Change Management Framework has been produced to decide on the processes to implement for each stage of the change programme.

Our review involved documenting the actual controls being implemented and the expected controls on the later phases of implementation which have not yet started. In our opinion, collectively, these controls would provide an adequate framework of controls for project management activity. It was too early for us to test the operation of these controls.

#### Context

Currently, teams of project officers from the PMO, together with a programme manager, are allocated to each directorate to manage and deliver a selection of projects. The Director of Organisational Development and Change, the Head of Change and Improvement and the Programme and Portfolio Lead within the PMO are involved in implementing a change programme including project management as part of the council's Improvement Journey.

#### Scope of Audit

The PMO is in the process of reviewing current projects and producing an Improvement Plan to implement changes as part of the council's Improvement Journey. Therefore, our work only involved documenting controls currently being implemented, evaluating the adequacy of these, and identifying expected controls for the later phases of the implementation. This could be used later to evaluate the effectiveness of controls in delivering the change and improvement desired by the council.

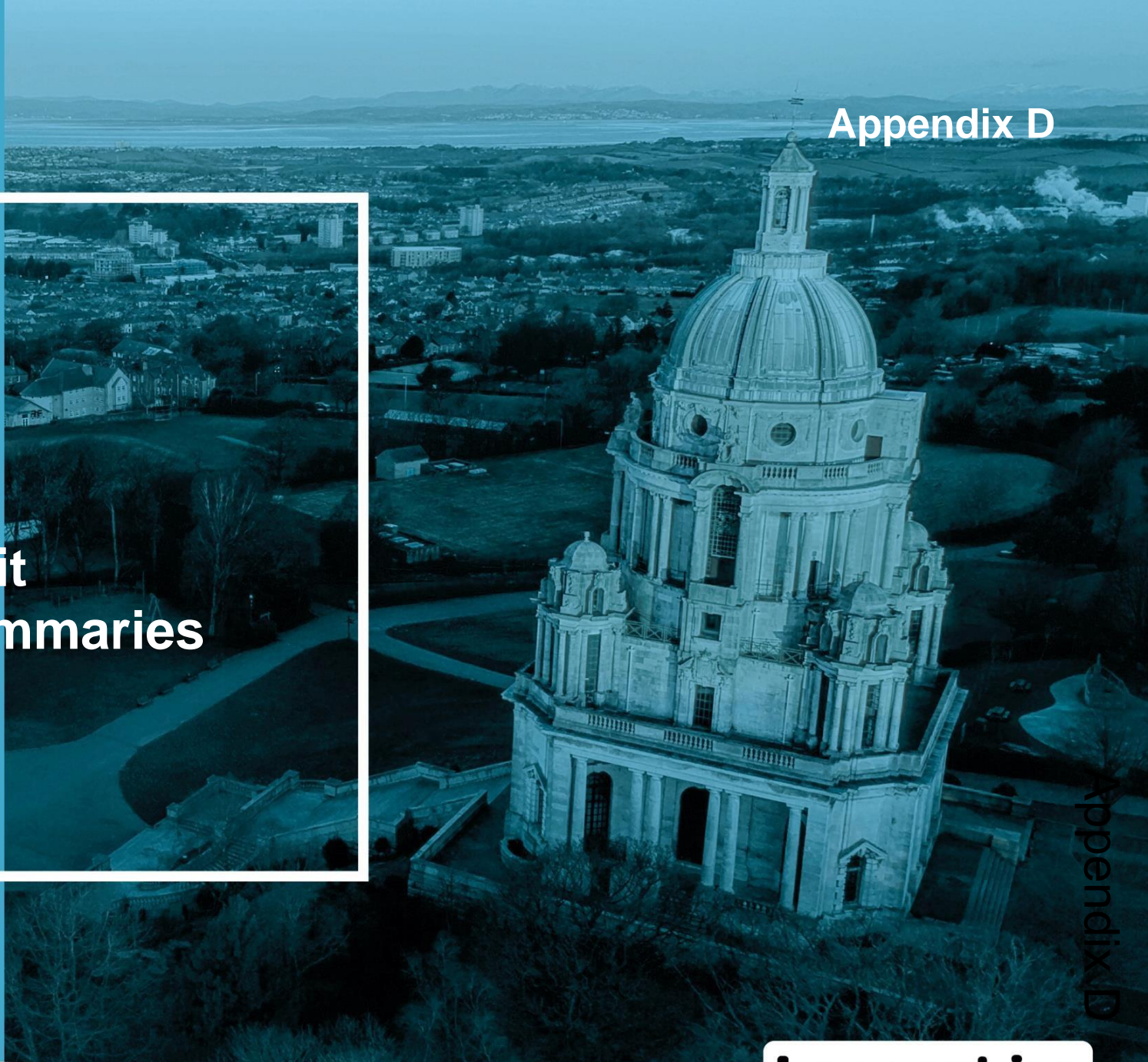




# Internal Audit

## Follow up Audit Committee Summaries

2022/23



Appendix D

## Follow up report Contract monitoring – Homecare Framework Providers

### Follow up report Contract monitoring – Homecare Framework Providers

Original audit assurance rating



Moderate

|                   | Extreme | High | Medium | Low |
|-------------------|---------|------|--------|-----|
| Number of actions |         |      | 3      | 2   |
| Implemented       |         |      | 3      | 1   |
| Superseded        |         |      |        | 1   |
| Progressing       |         |      |        |     |
| Not implemented   |         |      |        |     |

A follow-up audit has been conducted to determine the progress made by Lancashire County Council to implement the actions agreed in the Internal Audit report; Contract Monitoring – Homecare Framework Providers, issued in June 2022. Our original review provided moderate assurance over the adequacy and effectiveness of the contract monitoring arrangements in ensuring commissioned services comply with statutory requirements.

Three medium and two low risk actions were agreed to be implemented by 30 September 2022 and based on the information and evidence provided to us, we are satisfied that adequate progress has been made in implementing the agreed actions. Staff have been reminded to complete the KPI tracker spreadsheet and notes are clearly made to evidence that late submissions are chased. Additionally, staff were reminded of the requirement for providers to complete and send in complaint forms. This is also being raised at the individual provider contract review meetings and it was also referenced during the webinar on Effective Complaints Handling in July 2022. The guidance for dealing with finance queries has been amended and is available to providers on the Care Portal and contains contact details if there is a query. Additionally, staff within Adult Social Care have been reminded to provide timely accurate information to Care Navigation to ensure payments to providers are set up timely and correctly negating errors arising.

## Follow up report: Contract monitoring – Residential Care

### Follow up report: Contract monitoring – Residential Care

Original audit assurance rating



**Moderate**

|                   | Extreme | High | Medium | Low |
|-------------------|---------|------|--------|-----|
| Number of actions |         |      | 1      | 3   |
| Implemented       |         |      | 1      | 2   |
| Superseded        |         |      |        |     |
| Progressing       |         |      |        | 1   |
| Not implemented   |         |      |        |     |

A follow-up audit has been conducted to determine the progress made by Lancashire County Council to implement the actions agreed in the internal audit report, Contract Monitoring - Residential Care Providers, issued in June 2022. Over original review provided moderate assurance over the adequacy and effectiveness of the contract monitoring arrangements in ensuring commissioned services comply with statutory requirements.

One medium and two low risk actions were agreed to be implemented by 30 December 2022 and based on the information and evidence provided to us, we are satisfied that adequate progress has been made in implementing the agreed actions. A peer review will be considered where providers are not engaging in the RADAR process and in cases where they have been on RADAR for twelve months, the findings of the audit review were shared with the contract management team in a separate meeting and the contract monitoring reporting template is being reviewed to fit with the revised framework.

## Follow up report: Older People Care Services - Safeguarding Alerts

### Follow up report: Older People Care Services - Safeguarding Alerts

Original audit assurance rating



Moderate

|                   | Extreme | High | Medium | Low |
|-------------------|---------|------|--------|-----|
| Number of actions |         |      | 3      | 1   |
| Implemented       |         |      |        |     |
| Superseded        |         |      |        |     |
| Progressing       |         |      | 3      | 1   |
| Not implemented   |         |      |        |     |

A follow-up audit has been conducted to determine the progress made by the Older People Care Services with implementing actions agreed in the internal audit report for Safeguarding Alerts, issued in May 2022. Our original review provided moderate assurance over the adequacy and effectiveness of the control framework to support achievement of the Councils objectives in relation to Safeguarding Alerts in Older People Care Services. Three medium priority actions and one low were agreed to be implemented within six months of issuing our final report in May 2022.

Based on the information and evidence provided to us, we are satisfied that the main activity underpinning implementation of all the actions, associated with processes in place for raising, recording and monitoring safeguarding alerts is progressing well. Training and policy documentation has been reviewed, with the training plan completed and issued, and the policy pending final approval prior to issue. Processes for raising, recording and monitoring safeguarding alerts are subject to regular review, with operational and development managers continuing to enhance and develop methods and practices aiming to ensure continuous improvement and best practice is achieved. These include development of data monitoring tools; standardising documents and folder structures; enhanced quality assessments at establishments; and scheduled briefing sessions to managers.

Payment Card Industry Data Security Standard - (PCI DSS)

Original audit assurance rating



Limited

|                   | Extreme | High | Medium | Low |
|-------------------|---------|------|--------|-----|
| Number of actions |         | 5    | 1      |     |
| Implemented       |         |      |        |     |
| Superseded        |         |      |        |     |
| Progressing       |         | 2    |        |     |
| Not implemented   |         | 3    | 1      |     |

Whilst some actions have been taken overall progress towards Payment Card Industry Data Security Standard (PCI DSS) compliance has been limited due to a combination of the draft Policy not being finalised (the initial draft policy was presented to the Information Governance Group in July 2022) due to disagreements with respect to the level of detail contained therein, and delays in the appointment of an external assessor (we were advised due to lack of resources within the IT team to support the activities of an external assessor). This has been exacerbated by the apparent lack of involvement of the oversight process in helping to resolve issues such as those preventing finalisation

We were informed that an assessor might be in place by July 2023 to conduct the formal assessment, which could help to drive the implementation of some of the recommendations. However, a new more challenging standard (PCI v4.0) will come into effect on 31 March 2024. Considering the non-compliance with the standard and given the limited time to achieve compliance with the more demanding technical requirements for PCI v4.0, it is unclear whether achieving compliance within prescribed timescales will be possible

Specifically, PCI DSS v4.0 involves actions such as enhanced authentication, including use of Multi-Factor Authentication and minimum password lengths of 12 characters, and extending the scope of the standard to cover mobile, the Internet of Things and cloud computing. In total, v4.0 introduces 63 new requirements, 13 of which must be implemented by 31 March 2024. It is estimated that the remaining 50 new requirements might each involve one to six months of effort, and all are enforceable with effect from March 2025.

Overall, out of the original agreed, five high risk and one medium risk, only two high risk agreed actions are progressing demonstrating a lack of significant progress in dealing with the issues raised. As a result, the council may be in a position of non-compliance if a more proactive approach to meeting the new requirements is not taken at the earliest opportunity.

## Payment Card Industry Data Security Standard - (PCI DSS)

Since the completion of this follow up audit by MIAA's technology auditors the council's Digital Services have provided a further update to the Head of Internal Audit. Digital Services are currently out to tender to award the following scope of work by July 2023

### **Scope of Work**

To reduce the risk of non-compliance and the associated fines and penalties the council seek to achieve compliance against version 4 (March 2022) of the Payment Card Industry Data Security Standard (PCI DSS v4) and are seeking to work with as suitably qualified partner to achieve this as a baseline from which to move forward.

The council anticipates that this work will be undertaken over 4 phases with the supplier directly leading in Phases 1 and 3.

#### 1. Phase 1 – Scope definition/Gap Analysis

In this phase the supplier will follow their standard process for discovery and review against Lancashire County Council's existing architecture and business processes to assist in defining the 'Cardholder Data Environment', the scope boundaries for Payment Card Industry Data Security Standard compliance and identification of any areas in which Lancashire County Council would require corrective measures to address gaps against compliance. This may include opportunities to reduce the scope of the Cardholder Data Environment. This phase will result in a Gap Analysis report.

#### 2. Phase 2 – 'Gap Closure'

In this phase Lancashire County Council will review the findings from Phase 1, develop an agreed Remediation Action Plan and enact the agreed changes to reduce the scope of the Cardholder Data Environment and correct any gaps in compliance identified by the supplier. This phase will conclude when Lancashire County Council believes all identified gaps have been closed. The supplier's assistance may be requested for clarifications and guidance at this stage and these will be subject to variation of contract at the appropriate time.

#### 3. Phase 3 – Successful Compliance Audit and initial submission of ' Attestation of Compliance'.

In this phase the supplier will revisit the changed architecture and business processes to ensure that Lancashire County Council has successfully achieved compliance against Payment Card Industry Data Security Standard version 4.0. The supplier will also work with relevant teams to guide and support the initial 'Attestation of Compliance ' to the Authority's acquiring bank. This phase will result in a final ' Attestation of Compliance ' and completion and submission of relevant Self-Assessment Questionnaire(s) being accepted by the acquiring bank.

#### 4. Phase 4 – Implementation of processes to maintain compliance.

In this phase Lancashire County Council will put in place long term operational procedures to fulfil all regular ongoing compliance tasks required to maintain the Authority's compliance against Payment Card Industry Data Security Standard version 4.0. This phase and the project will close when Lancashire County Council are able to self-sustain compliance.

As the council has not previously undertaken an 'Attestation of Compliance' at Level 3 the Authority is keen to obtain skilled and knowledgeable guidance to identify: -

### Payment Card Industry Data Security Standard - (PCI DSS)

1. Define the current 'Cardholder Data Environment'
2. Gaps in current Business Processes that may adversely impact the council's compliance
3. Gaps in Technical Processes and deployed architectures which may adversely affect the council's compliance
4. Opportunities to reduce the Cardholder Data Environment
5. Guidance on the most appropriate Self-Assessment Questionnaire(s) for the council to complete
6. Any requirements for remaining compliant on an ongoing basis

Whilst it is acknowledged that the council are currently unaware of all the compliance gaps that exist at this time; it is hoped that compliance with PCI DSS v4 could be achieved within 12 months of the Gap Analysis report being generated.





**Audit, Risk and Governance Committee**  
Meeting to be held on Monday, 24 July 2023

Electoral Division affected:  
(All Divisions);

**Internal Audit Annual Report 2022/23**  
(Appendices 'A' to 'D' refer)

Contact for further information:  
Andrew Dalecki, Head of Internal Audit, Tel: 01772 533469,  
andrew.dalecki@lancashire.gov.uk

**Brief Summary**

The Audit, Risk and Governance Committee has considered periodic progress reports throughout the year that support this overall report and the conclusion that limited assurance can be provided over the county council's systems of internal control and governance. This report summarises the work that the Internal Audit Service has undertaken during 2022/23 and the key themes arising in relation to internal control, governance and risk management across the county council.

**Recommendation**

The Audit, Risk and Governance Committee is asked to consider and comment on this report and the information it provides to support the county council's Annual Governance Statement for 2022/23.

**Detail**

The Internal Audit Service is an assurance function that provides an independent and objective opinion on the adequacy and effectiveness of the county council's control environment. The Public Sector Internal Audit Standards (PSIAS) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA) require the Head of Internal Audit to provide an opinion on the county council's control environment and a written report to those charged with governance, timed to support the Annual Governance Statement.

**Appendices**

Appendices A to D, are attached to this report. For clarification they are summarised below and referenced at relevant points within this report.

| <b>Appendix</b> | <b>Title</b>   |
|-----------------|--|
| Appendix A      | The Internal Audit Annual Report for Lancashire County Council   |
| Appendix B      | Sets out the scope and responsibilities of Internal Audit in support of the Head of Internal Audit's annual opinion. |
| Appendix C      | Sets out a description of the assurance provided for each individual internal audit assignment.                      |
| Appendix D      | Internal Audit Service's Data Analytics Strategy   |

### **Consultations**

N/A

### **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 frameworks of governance, risk management and internal control.

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

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

N/A

Reason for inclusion in Part II, if appropriate

N/A

## Lancashire County Council Internal Audit Annual Report for the year ended 31 March 2023

### 1 Introduction

#### Purpose of this report

- 1.1 This report summarises the work that the county council's Internal Audit Service has undertaken during 2022/23 and the key themes arising in relation to internal control, governance and risk management across the council.

#### The role of internal audit

- 1.2 The Internal Audit Service is an assurance function that provides an independent and objective opinion on the adequacy and effectiveness of the council's control environment. The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit to provide an opinion on the council's control environment and a written report to those charged with governance, timed to support the annual governance statement. This report presents my opinion based upon the work the Internal Audit Service has performed during 2022/23.
- 1.3 The scope of our work, management and audit's responsibilities, the basis of my assessment, and access to this report are set out in Appendix B to this report.

#### Interim progress reports

- 1.4 Summaries of the individual pieces of audit work completed throughout the course of the year have been provided in progress reports to each meeting of the Audit, Risk and Governance Committee. Any audit reports will be provided to any members if they wish.

### 2 Summary assessment of internal control

#### Overall opinion

- 2.1 I can provide limited assurance overall regarding the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk management and control.
- 2.2 In forming my opinion, I have considered the work undertaken by the Internal Audit Service throughout the year. The vast majority of audits conducted provided a positive assurance opinion and ascertained that for the areas under review the vast majority were operating as would be expected. The work of external assurance providers and information available from less formal sources than planned audit engagements were also taken into consideration. Audit work covered the full range of the council's services.
- 2.3 In the main the council adapts well to the changing risk environment and for most of the 2022/23 financial year the council was operating as would be expected. However, issues associated with the implementation of Oracle Fusion resulted in a data breach that was reported to the Information Commissioner's Office. The overall impact of this one project not being implemented as intended significantly impacted on the council's ability to conduct business as usual particularly within the council's Key Financial and HR processes. The council's initial response in resolving these issues has been quick and effective to date. A project programme with a new project board is in place. The aim of this programme is to mitigate the

risks, resolve the known issues, identify any yet unknown issues and apply lessons learnt from this process. The success of this programme will be critical in restoring business as usual and to enable the council to realise benefits from the system change.

- 2.4 The work that has been completed to address these challenges has resulted in much improved functionality of the system, that has enabled many services to return to more of a business as usual status within the first quarter of 2023/24. There is a significant amount of work to be completed before all the system's functionality is fully working as intended. However, should progress in resolving these issues continue at the current pace it is expected that the system could be operating as intended within the financial year 2023/24. This will then enable the council to start to receive tangible benefits from the system.
- 2.5 Although it is expected that this situation will be rectified by the actions of the project board this work is still ongoing. At the time of writing this opinion the consequences of this event were impacting the whole council. Had the impact of fusion not occurred the assurance level that the Head of Internal Audit has provided would not have been reduced from moderate assurance to limited assurance.
- 2.6 Descriptions of the audit work we have done are set out below, and an explanation of the assurance provided by internal audit assignments in 2022/23 are set out in Appendix C.
- 2.7 It should be noted that this opinion does not imply that Internal Audit has reviewed all risks and assurances relating to the council and is not an absolute assurance of the effectiveness of internal control arrangements and the management of risk. Neither this report nor the work of Internal Audit should be taken as a substitute for management's responsibilities for the application of sound internal control practices. The purpose of this opinion is to contribute to the assurances available to the council which underpin the assessment of the effectiveness of its governance framework, including the system of internal control, which are encapsulated in the Annual Governance Statement.

## The council's control framework

- 2.8 Our work has been organised in accordance with the Internal Audit Service's planning principles and an understanding of the council's controls at the start of the year, which was set out as follows:

| A framework for governance, risk management and control |                                       |                                  |                                 |                                   |                                    |                                    |
|---|---------------------------------------|----------------------------------|---------------------------------|-----------------------------------|------------------------------------|------------------------------------|
| <b>Governance and democratic oversight</b>              |                                       |                                  |                                 |                                   |                                    |                                    |
| Corporate governance framework                          |                                       | Decision-making                  |                                 | Oversight and scrutiny            |                                    | Policy setting                     |
| <b>Business effectiveness</b>                           |                                       |                                  |                                 |                                   |                                    |                                    |
| Risk management   | Performance monitoring and management |                                  | Organisational design           | Financial governance and planning |                                    | Working in partnership with others |
| <b>Service delivery</b>                                 |                                       |                                  |                                 |                                   |                                    |                                    |
| Growth, environment, transport & community services     |                                       |                                  | Children's services & education |                                   | Adult services, health & wellbeing |                                    |
| Economic development & planning                         | Programmes & project management       | Community services               | Children's services             | School improvement & services     | Adult Services                     | Public health                      |
| <b>Service support</b>                                  |                                       |                                  |                                 |                                   |                                    |                                    |
| Legal services  | Skills, learning & development        | Core business systems            | Property management             | Programme management              | Business intelligence              | Customer access                    |
| <b>Business processes</b>                               |                                       |                                  |                                 |                                   |                                    |                                    |
| Financial systems & processes                           |                                       | Procurement                      | Facilities management           |                                   | Human resources                    |                                    |
| Budget monitoring                                       |                                       | Contract monitoring & management |                                 | Information management            |                                    | Payroll processing                 |
| Investment  |                                       |                                  |                                 | Business continuity               |                                    | ICT systems                        |

## Summary of assurance provided by the Internal Audit Service

- 2.9 The audit work completed during the year was therefore different to that originally planned. However, under the circumstances, it was appropriate for Internal Audit's coverage to reflect the council's changing risk environment. This is important in terms of adding value to the organisation and in ensuring that a robust annual audit opinion can be provided. The work commenced and completed is therefore considered sufficient and wide-ranging enough to support the annual audit opinion.
- 2.10 A summary of all the assurance provided during the year to the end of April 2023 is set out in the table below. This includes each internal audit assignment directed to providing controls assurance, but it excludes work for example on the certification of grant funding claims and participation in working groups.

| 2022/23 assignments relating to: | Total      | Assurance provided |            |           |           |            |
|----------------------------------|------------|--------------------|------------|-----------|-----------|------------|
|                                  |            | Substantial        | Moderate   | Limited   | None      | N/A        |
| Governance                       | 1          | 3                  | -          | -         | -         | -          |
| Business effectiveness           | 7          | 2                  | 1          | -         | -         | -          |
| Service delivery                 | 19         | 20                 | 19         | 4         | -         | -          |
| Service support                  | -          | 1                  | 3          | 4         | -         | -          |
| Business processes               | 1          | 6                  | 1          | -         | -         | -          |
| Grants/Other                     | -          | -                  | -          | -         | -         | 24         |
| <b>2022/23 assignments:</b>      | <b>88</b>  | <b>32</b>          | <b>24</b>  | <b>8</b>  | <b>0</b>  | <b>24</b>  |
| <b>total to date</b>             | <b>99%</b> | <b>36%</b>         | <b>27%</b> | <b>9%</b> | <b>0%</b> | <b>27%</b> |
| 2021/22                          | 45         | 10                 | 16         | 2         | 0         | 17         |
| 2020/21                          | 9          | 3                  | 4          | 2         | 0         | 13         |
| 2019/20                          | 55         | 20                 | 21         | 14        | 0         | 8          |
| 2018/19                          | 46         | 18                 | 10         | 9         | 0         | 8          |

- 2.11 A summary of the audits completed in the year is set out below showing the assurance level for each audit assignment. The audits are grouped according to the Committee meeting at which they were presented.

### 18 July 2022

| Control area  | Assurance     |
|---|---------------|
| Admission of Employers to the Pension Fund              | ● Substantial |
| Council's Appointee and Deputy Role                     | ● Substantial |
| Covid Funding Streams                                   | ● Substantial |
| General Ledger  | ● Substantial |
| Community Test and Trace                                | ● Substantial |
| Facilities Management Cleaning Service                  | ● Substantial |
| Accounts Receivable                                     | ● Substantial |
| Procurement During Covid                                | ● Moderate    |
| Recruitment   | ● Moderate    |
| Disclosure and Barring Service (DBS) Policy and Process | ● Moderate    |
| Contract Monitoring – Residential Care Providers        | ● Moderate    |
| Children Looked After - Sufficiency Strategy            | ● Moderate    |

| Control area   | Assurance  |
|--|------------|
| Children's Safeguarding Assurance Partnership                      | ● Moderate |
| Older People Care Services - Safeguarding Alerts                   | ● Moderate |
| Older People Service - Sickness Absence Management                 | ● Moderate |
| Contract Monitoring Homecare Framework Providers                   | ● Moderate |
| Debt Management  | ● Moderate |
| Payment Card Industry Data Security Standards                      | ● Limited  |
| <b>Grant certification and special Investigations</b>              |            |
| Culture Recovery Fund - Grants Programme                           |            |
| Peer Network Funding to Local Enterprise Partnerships (LEPS) Grant |            |
| Core Growth Hub Grant Funding to Local Enterprise Partnerships     |            |
| Liverpool Combined Authority Local Energy Hub – Q3 2021/22         |            |
| Skills Bootcamp  |            |
| Supporting Families Grant Claims– Q1 2022/23                       |            |
| Bank Mandate Special Investigation                                 |            |

### 31 October 2022

| Control area                             | Assurance     |
|--|---------------|
| Management of Capital Projects           | ● Substantial |
| Corporate Parenting Strategy             | ● Substantial |
| Payroll and Overpayments                 | ● Substantial |
| Better Care Fund                         | ● Moderate    |
| Transport Provision for Children         | ● Moderate    |
| <b>Grant certification</b>               |               |
| Covid Bus Services Support Grant (CBSSG) |               |
| Bus Recovery Funding (BRF)               |               |
| Bus Service Operators Grant              |               |
| Adult Weight Management Grant            |               |
| Inpatient Detoxification Treatment       |               |
| Universal Drug Grant                     |               |
| Contain Outbreak Management Fund         |               |
| Social Care Digital Pathfinders Project  |               |

### 25 January 2023

| Control area  | Assurance     |
|---|---------------|
| Major Strategic Development Projects                      | ● Substantial |
| School Catering   | ● Substantial |
| Lancashire County Development Ltd. - Financial Management | ● Substantial |
| Children's Social Care Case Recording                     | ● Substantial |

| <b>Control area</b>   | <b>Assurance</b> |
|---|------------------|
| Infection Prevention & Control Team – Management arrangements                               | ● Substantial    |
| Multi Agency Safeguarding Hub   | ● Substantial    |
| Children's Support Services Hub   | ● Substantial    |
| Treasury Management   | ● Substantial    |
| School Property Maintenance Traded Service  | ● Substantial    |
| General Data Protection Regulations (GDPR)  | ● Substantial    |
| Schools' SFVS self-assessment   | ● Substantial    |
| Safeguarding Adult Reviews  | ● Moderate       |
| SEND Plan - Project Management  | ● Moderate       |
| Mobile Working & Devices  | ● Moderate       |
| Managing Failing Care Homes   | ● Moderate       |
| Commercialisation   | ● Moderate       |
| Operation of the Lancashire Volunteer Partnership   | ● Limited        |
| Corporate Mandatory Training  | ● Limited        |
| Special Guardianship Order - Financial Support  | ● Limited        |
| CCTV  | ● Limited        |
| <b>School Asset Management Audits</b>   | <b>Assurance</b> |
| Brookfield School   | ● Substantial    |
| Leyland Methodist Junior School   | ● Substantial    |
| Our Lady's Catholic High School   | ● Substantial    |
| St. Gregory's Catholic Primary School   | ● Moderate       |
| Spring Hill Community Primary School  | ● Limited        |
| <b>Grant certification</b>  |                  |
| Local Transport Capital Block Funding (Integrated Transport and Highway Maintenance Blocks) |                  |
| Local Transport Capital Block Funding (Pothole Fund)  |                  |
| Liverpool Combined Authority Local Energy Hub – Q1 2022/23                                  |                  |
| Supporting Families Grant Qtr1  |                  |
| Supporting Families Grant Qtr2  |                  |
| Business Mileage Claims – analysis of normal commute deductions (consultancy)               |                  |

## 24 April 2023

| <b>Control area</b>                          | <b>Assurance</b> |
|--|------------------|
| Value Added Tax                              | ● Substantial    |
| Blue Badges                                  | ● Substantial    |
| Recording of Youth Referrals                 | ● Substantial    |
| Transition from children's to adult services | ● Moderate       |
| Schools Thematic Audit Asset Management      | ● Moderate       |
| Highways Equipment Hire                      | ● Limited        |

| Control area  | Assurance        |
|---|------------------|
| <b>School Asset Management Audits</b>                               | <b>Assurance</b> |
| Penwortham Girls High School  | ● Substantial    |
| Breck Primary School  | ● Substantial    |
| Whitworth Community High School                                     | ● Substantial    |
| St Joseph's Catholic Primary School                                 | ● Substantial    |
| Wellfield Methodist and Anglican Church School                      | ● Substantial    |
| Hyndburn Park Primary School  | ● Moderate       |
| Christ Church Primary   | ● Moderate       |
| Walverden Primary School  | ● Moderate       |
| SS John Fisher and Thomas More RC High School                       | ● Moderate       |
| Water Primary School  | ● Limited        |
| <b>Grant certification</b>  |                  |
| Department for Education (DfE): Skills Bootcamp Grant Scheme Wave 3 |                  |
| Liverpool Combined Authority Local Energy Hub – Q2 2022/23          |                  |
| Liverpool Combined Authority Local Energy Hub – Q3 2022/23          |                  |

### Wider sources of assurance available to the county council

- 2.12 The council's external Auditors Grant Thornton have not yet published their annual report. However, throughout the financial year 2022/23 they have provided regular updates to the Audit Risk and Governance Committee. During which they have not highlighted any risk of significant weakness within the council's arrangements.
- 2.13 The reports provided by Office for Standards in Education, Children's Services and Skills (Ofsted) during the year form important sources of external assurance and may be found on Ofsted's web-site here: [Office for Standards in Education, Children's Services and Skills](#)
- 2.14 The reports provided by Care Quality Commission (CQC) during the year also form important sources of external assurance regarding the council's Older Peoples Care services and may be found on CQC's web-site here: [Care Quality Commission](#)
- 2.15 Some assurance has been taken from the work undertaken by KPMG over the controls system in place at the Local Pension Partnership Investment Ltd (LPPi). As well as the reviews completed by the Internal Auditor of the Local Pension Partnership Administration.

| Audit work   | Status/Assurance                 |
|--|----------------------------------|
| <b>Assurance relating to LPPA's administration of benefits</b> |                                  |
| Operational Quality  | Immediate Action Needed          |
| Contractual Service Level Agreement                            | Enhancement Required             |
| Procurement & Vendor Management                                | Significant Improvement Required |
| Operational Capacity Planning                                  | Significant Improvement Required |



| Assurance relating to Local Pensions Partnership Investments (LPPI) |                   |
|---|-------------------|
| Type II Independent Service Auditor's Assurance Report - KPMG       | Qualified Opinion |

## Management's responses to our findings

- 2.16 Each of the issues raised during the year has been discussed with the relevant service managers as well as with members of the council's Corporate Management Team. Action plans have been agreed and audit work during 2022/23 indicates that the plans agreed in previous years are largely being addressed, although some improvement work is still ongoing.
- 2.17 The Internal Audit Service 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. Over the previous few years. The council has seen some significant changes to the way systems are operated and how services are delivered. This led to some uncertainty at the start of 2022/23 as to the number of management actions that may have been superseded due to these changes. A wider review of these management actions was completed which establish the number of management actions that were still valid and require implementation.
- 2.18 This combined with the follow up audit assignments demonstrates that in general good progress is made across the council in implementing agreed management actions. The table below shows the number of Management Actions agreed and their current status, along with a summary of when the actions were agreed.

| Action status             | As at 20 June 23 |             |             |           |            |            |
|---------------------------|------------------|-------------|-------------|-----------|------------|------------|
|                           | Total            |             | Risk rating |           |            |            |
|                           |                  |             | Critical    | High      | Medium     | Low        |
| Complete                  | 146              | 40%         | 0           | 3         | 71         | 72         |
| Incomplete                | 19               | 5%          | 0           | 2         | 11         | 6          |
| Follow up Scheduled       | 133              | 37%         | 0           | 29        | 73         | 31         |
| Superseded                | 65               | 18%         | 0           | 11        | 37         | 17         |
| <b>Total</b>              | <b>363</b>       | <b>100%</b> | <b>0</b>    | <b>45</b> | <b>192</b> | <b>126</b> |
| <b>Arising in:</b>        |                  |             |             |           |            |            |
| 2019/20                   | 161              | 44%         | 0           | 12        | 87         | 62         |
| 2020/21                   | 12               | 3%          | 0           | 2         | 9          | 1          |
| 2021/22                   | 111              | 31%         | 0           | 4         | 54         | 53         |
| 2022/23                   | 79               | 22%         | 0           | 27        | 42         | 10         |
| <b>Total</b>              | <b>363</b>       | <b>100%</b> | <b>0</b>    | <b>45</b> | <b>192</b> | <b>126</b> |
| <b>Incomplete by year</b> |                  |             |             |           |            |            |
| 2019/20                   | 5                | 26%         | 0           | 0         | 2          | 3          |
| 2020/21                   | 0                | 0%          | 0           | 0         | 0          | 0          |
| 2021/22                   | 10               | 53%         | 0           | 1         | 7          | 2          |
| 2022/23                   | 4                | 21%         | 0           | 1         | 2          | 1          |

## 3 Key issues and themes

- 3.1 The council has faced significant challenges regarding the implementation of the Oracle Fusion project. However, significant progress has been made to address these issues. The response from the council to address the difficulties identified after the fusion go live and to support the services impacted was quick and

decisive. The council has worked collaboratively across a wide range of support services to bring together a variety of skills and experience to resolve these issues. The response and progress made is notable and if continued in this way it should see all the issues resolved. However, there still much work to be completed before the system will be operating as intended.

- 3.2 The county council's overall approach to managing financial risks continues to be to identify and acknowledge risks early and build the impact into financial plans while continuing to develop strategies which will minimise their impact. This approach operates in parallel with the identification and setting aside of sufficient resources to manage the financial impact of the change risks facing the organisation.
- 3.3 The council has identified significant financial savings, additional income and efficiencies to address forecast financial shortfalls. Delivery of these savings is challenging and is likely to be challenging beyond the 2023/24 financial year. However, the council has a strong track record of delivering previous savings plans, with some being overachieved.
- 3.4 The Internal Audit Service has been welcomed and supported in undertaking our work. We have deferred work in some areas where necessary to minimise the impact on services at the frontline. When this is required, the changes have been reported to the Audit Risk and Governance committee. Overall, we have had access to services in every directorate.

## **4 Organisational independence**

- 4.1 The Internal Audit Service has access to and support from the council's Corporate Management Team and is able to operate independently within the organisation so is properly able to fulfil its responsibilities. In accordance with its charter the service remains independent of the council's other functions, as such the Internal Audit Service does not have any executive or operational responsibilities.
- 4.2 The Internal Audit Service's work programme and priorities are determined in consultation with the Corporate Management Team, the council's senior managers and the Audit, Risk and Governance Committee, but any decisions on audit activities remains with the Head of Internal Audit. The Head of Internal Audit has direct access to and freedom to report in their own name and without fear or favour to all officers and members.
- 4.3 The Internal Audit Service has a stable and experienced Audit team, which has seen very little staff turnover in recent years. The most notable change in 2022/23 was a change of Audit Manager for one of the Audit Teams. The previous audit Manager Judith Taylor who has been a valued member of the Audit team for many years changed roles in the team to a part time Senior Auditor post. The service would like to extend our gratitude to Judith for her time as the Audit manager. We are grateful that she has stayed within the team as a Senior Auditor. We are pleased to report that Laura Rix is the new Audit Manager for the team. Laura has been a valued member of the audit team for many years as a Senior Auditor.
- 4.4 During the year, there have been no matters arising which have impacted on the independence of the Internal Audit service and there have been no inappropriate scope or resource limitations on internal audit work.

## **5 Internal audit performance**

- 5.1 The Internal Audit Service is currently fully staffed. The council has provided additional investment into the Audit Team's Investigatory resources. This will create a new investigation team that will be responsible for the council's response to financial crime, including fraud, corruption and other criminality.

- 5.2 At the Start of the 2022/23 financial year the Internal Audit Service set itself five key performance indicators (KPIs) to help the service measure its performance throughout the year. These KPIs and results can be found in the table below.
- 5.3 The team has exceeded the target for three of the KPIs. Although the targets were not fully achieved for the remaining two. As a service we have used the data to inform our reflections on how the serviced can improve going forward.

| KPI   | Performance overview   | Performance target | 2022/23 Performance |
|---|--|--------------------|---------------------|
| 1 Completion of the audit plan.                   | Percentage of planned audits completed to draft report stage by end of financial year. (Including grant reviews and new audits added to the plan). | 80%                | 75%                 |
| 2 Timely productions of draft report.             | Percentage of draft reports issued on or before the draft target deadline.   | 80%                | 63%                 |
| 3 Timely agreement and issue of the final report. | Percentage of final reports issued within 5 weeks of draft report.   | 80%                | 83%                 |
| 4 Positive customer satisfaction.                 | Percentage of audit feedback questionnaire provide positive feedback.  | 80%                | 96%                 |
| 5 Management actions agreed.                      | Percentage of required Management actions are agreed to be implemented.  | 90%                | 100%                |

**Client satisfaction**

- 5.4 Internal Audit invites feedback on the quality of service provided by issuing a 'satisfaction questionnaire' at the end of each audit. This is an important process in terms of identifying how the audit was received by the service area. It is also an important means of identifying aspects of the audit process that can be improved
- 5.5 Our auditees have told us in every case that, overall, they were satisfied with the way we conducted our work with them. We also seek more detailed feedback in relation to our audit planning, the audit process and reporting, our behaviour, and our management and service to our auditees. Our auditees have provided positive feedback across all these areas. There were no common themes in the responses received that highlighted any particular areas for concern.
- 5.6 A sample of comments received in response to the questionnaire is included below:
  - *The Fusion project workload was always taken into consideration and the auditor was available on hand if we needed to ask anything. The auditor went above and beyond to facilitate different meeting times and delays caused by working on the project (for myself). The auditor was very approachable and understood different factors that would affect outcomes. I specifically appreciated the understanding the auditor had of the workload we were facing at the time of the audit.*
  - *The auditor was very accessible and explained the process of the audit too me. He was quick with his responses and provided useful feedback throughout the process.*

- *The auditor was professional throughout the whole Audit. He was accommodating and always approached me when needed and avoided any major disruption to the service. It was a pleasure to work alongside him.*
- *The Auditor had clear and concise communication and understood the resource model for Procurement including Business lead accountability.*
- *Our service area is rather unique in the organisation and the Auditor was able to quickly understand and ask salient questions on how we work and drill down to explore the right questions. Overall, it was a positive experience and helped us understand the many facets of what we do and why we do it which gave further thought on how we can improve.*

## 6 Quality assurance and improvement programme

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

| Type of review                         | Internal review |          | External review   |
|--|-----------------|----------|-------------------|
| Frequency                              | Ongoing         | Periodic | At least 5-yearly |
| Audit assignment quality               | ✓               |          | ✓                 |
| Professional and operational framework |                 | ✓        | ✓                 |

6.2 Following this framework, the Internal Audit Service's quality assurance and improvement programme consists of internal ongoing monitoring of audit assignment quality, periodic internal assessment of the professional and operational framework, and external review.

### External review

6.3 The findings of the last external quality assessment (EQA) undertaken by the Chartered Institute of Internal Auditors were reported to the committee in April 2023. This confirmed that the Internal Audit Service 'generally conforms' to the full range of standards set out in the International Professional Practice Framework. Another external review is due to be completed in 2028/29, with a self-assessment planned for 2024/25 the findings of both will be reported to this committee.

### Internal review

6.4 The Internal Audit Service has designed procedures and an audit methodology that conform to PSIAS and are regularly reviewed. Every auditor in the team is required to comply with these or document the reasons why not, and to demonstrate this compliance on every audit assignment. The audit managers assess the quality of each audit concurrently as it progresses. These reviews indicate that there is good evidence of compliance with our audit methodology and input from the audit managers to support the work of the auditors. As was confirmed by the results of the EQA.

### Areas for development

6.5 A significant area for development that the Internal Audit team is focusing on is improving the use of data analytics within our reviews. Data analytics has a range of alternate definitions, however it can be summarised as the process of examining

data sets in order to find trends and draw conclusions about the information they contain.

- 6.6 An Internal Audit data analytics strategy has been developed and is attached at appendix D. The strategy outlines Internal Audit's aim to work towards a position where data analytics is fully embedded within our activities, and we are regularly and successfully using data analytics to provide insight and foresight to our partners and clients.
- 6.7 This strategy also supports conformance with the Public Sector Internal Audit Standards (1220.A2): 'in exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques'.
- 6.8 The Investigatory resources within Internal Audit have been greatly increased from a resource of one FTE Senior Investigator. To a team of five, comprising of an Investigations Manager, two Senior Investigators and two Investigators. The Investigations Manager has been appointed and the recruitment for the other team members is underway.
- 6.9 The vision for this team is to build an effective, efficient counter fraud service that will meet the council's current needs and be able to be built upon in the future. To achieve this the service will develop robust governance arrangements to counter financial crime such as fraud and corruption. They will raise awareness of fraud risks and promote good practice and preventative measures, while also encouraging the reporting of suspicious activities across the council. The service will react quickly and effectively to allegations of fraud and corruption, prioritising fraud recovery and use of criminal and civil sanctions.



## **Scope, responsibilities and assurance**

### **Approach**

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

### **Responsibilities of management and internal auditors**

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

### **Basis of our assessment**

- C.6 My opinion on the adequacy of control arrangements is based upon the result of internal audit work undertaken and completed during the period in accordance with the plan approved by the Audit, Risk and Governance Committee. Sufficient, reliable and relevant evidence has been obtained to support the recommendations made.

### **Limitations to the scope of our work**

- C.7 Other than as set out in the audit plan for the year there have been no limitations to the scope of the audit work.

### **Limitations on the assurance that internal audit can provide**

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

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

### **Access to this report and responsibility to third parties**

C.10 This report has been prepared solely for Lancashire County Council. It forms part of a continuing dialogue between the Internal Audit Service, the chief executive, Audit, Risk and Governance Committee and management of the council. It is not therefore intended to include every matter that came to our attention during each internal audit assignment.

C.11 This report may be made available to other parties, such as the external auditors. However, no responsibility is accepted to any third party who may receive this report for any reliance that may be placed on it and, in particular, the external auditors must determine the reliance placed on the work of the Internal Audit Service.



## Audit assurance and residual risks

Note that our assurance may address the adequacy of the control framework's design, the effectiveness of the controls in operation, or both. The wording below addresses all of these options and we will refer in our reports to the assurance applicable to the scope of the work we have undertaken.

- **Substantial assurance:** the framework of control is adequately designed and/or effectively operated.
- **Moderate assurance:** the framework of control is adequately designed and/or effectively operated overall, but some action is required to enhance aspects of it and/or ensure that it is effectively operated throughout.
- **Limited assurance:** there are some significant weaknesses in the design and/or operation of the framework of control that put the achievement of its objectives at risk.
- **No assurance:** there are some fundamental weaknesses in the design and/or operation of the framework of control that could result in failure to achieve its objectives.

## Classification of residual risks requiring management action

All actions agreed with management are stated in terms of the residual risk they are designed to mitigate.

- **Extreme residual risk:** critical and urgent in that failure to address the risk could lead to one or more of the following: catastrophic loss of the county council's services, loss of life, significant environmental damage or significant financial loss, with related national press coverage and substantial damage to the council's reputation. *Remedial action must be taken immediately*
- **High residual risk:** critical in that failure to address the issue or progress the work would lead to one or more of the following: failure to achieve organisational objectives, significant disruption to the council's business or to users of its services, significant financial loss, inefficient use of resources, failure to comply with law or regulations, or damage to the council's reputation. *Remedial action must be taken urgently.*
- **Medium residual risk:** failure to address the issue or progress the work could impact on operational objectives and should be of concern to senior management. *Prompt specific action should be taken.*
- **Low residual risk:** matters that individually have no major impact on achieving the service's objectives, but where combined with others could give cause for concern. *Specific remedial action is desirable.*



# Internal Audit Service - Data Analytics Strategy

2023–2026





# Contents

**Introduction and Vision**

**The Challenge**

**Data Analytics Maturity Model**

**Internal Audit's Objectives**



## Introduction and Vision

The council has a large amount of information and data that it holds. Everything from social care for vulnerable children or adults, education, procurement and finance to planning applications produces huge quantities of data. There can be difficulties in analysing the data, in particular where it is not structured or easily accessible, or where it includes personal and / or sensitive information. It is, however, all potentially hugely beneficial in helping the council's decision-making processes and in making services more targeted and effective. As such the council is becoming a more data driven organisation using data to inform decisions such as where council resources should be allocated to have the biggest impact, to save officer time in front and back-office processes. Data can provide insight into the causes of problems and aid in finding solutions to these problems.

The increased use and reliance of data across the council is both a threat and an opportunity for Internal Audit. The traditional approaches to sampling and manual testing within a growing and complex population of data provides challenges to Internal Audit. We need to adapt and align our approach and skills sets to best meet the challenges posed through modern and evolving ways of working. As Internal Audit we need to re-think our approach to data, how we analyse and utilise this data in a timely manner. Data analytics has become a critical tool to add to the auditors' toolkit providing an opportunity to assist in the credibility of assurance work, and the maximisation of audit findings and value.

Data analytics has a range of alternate definitions, however it can be summarised as the process of examining data sets in order to find trends and draw conclusions about the information they contain. For example: running through a number of data sets to look for meaningful relationships between them.

This strategy outlines Internal Audit's aim to work towards a position where data analytics is fully embedded within our activities, and we are regularly and successfully using data analytics to provide insight and foresight to our partners and clients.

This strategy also supports conformance with the Public Sector Internal Audit Standards (1220.A2): 'in exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques'.

### Internal Audit – 'The Challenge'

The challenge to any Internal Audit service within any organisations is to improve their strategic relevance, to be insightful and innovative in understanding what is over the horizon.

To meet this challenge a modern Internal Audit team needs to develop the tools to enable more advanced risk analysis, challenge the focus of internal audit activity, challenge existing resources and techniques and find ways to access information to optimise intelligence to help drive change in meeting the organisations objectives.

There is a challenge for the audit team to ensure we bring the client along with us during the development. Client engagement is key to the success of these new techniques. This is to



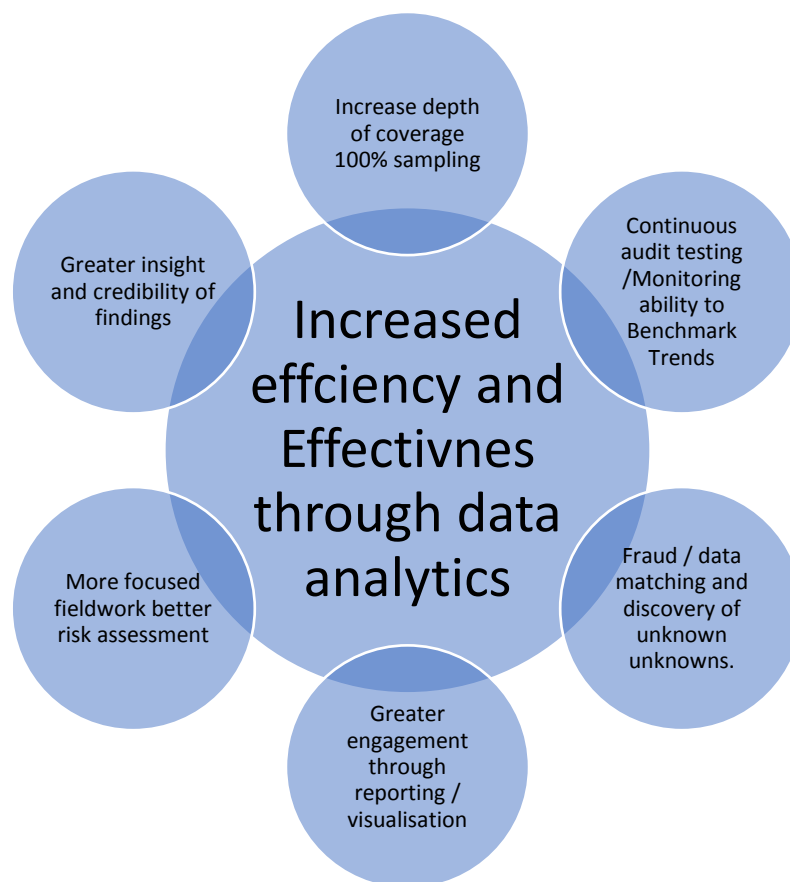
ensure that clients have trust in the results, provide prompt and full access to data and they gain value from continuous auditing.

The Internal Audit service has a unique opportunity to achieve this through the effective use of data analytics to assist in the identification of risks and provision of insight into the organisation.

While it is management’s responsibility to ensure that risks are appropriately mitigated, Internal Audit can focus its use of data analytics to home in on areas or transactions where controls do not exist or are not operating effectively.

The effective use of data analytics can provide significant benefits to internal audit and the wider organisation through increased efficiency and effectiveness across a range of key areas (see Figure 1. Bellow)

**Figure 1**



### Data Analytics Maturity Model

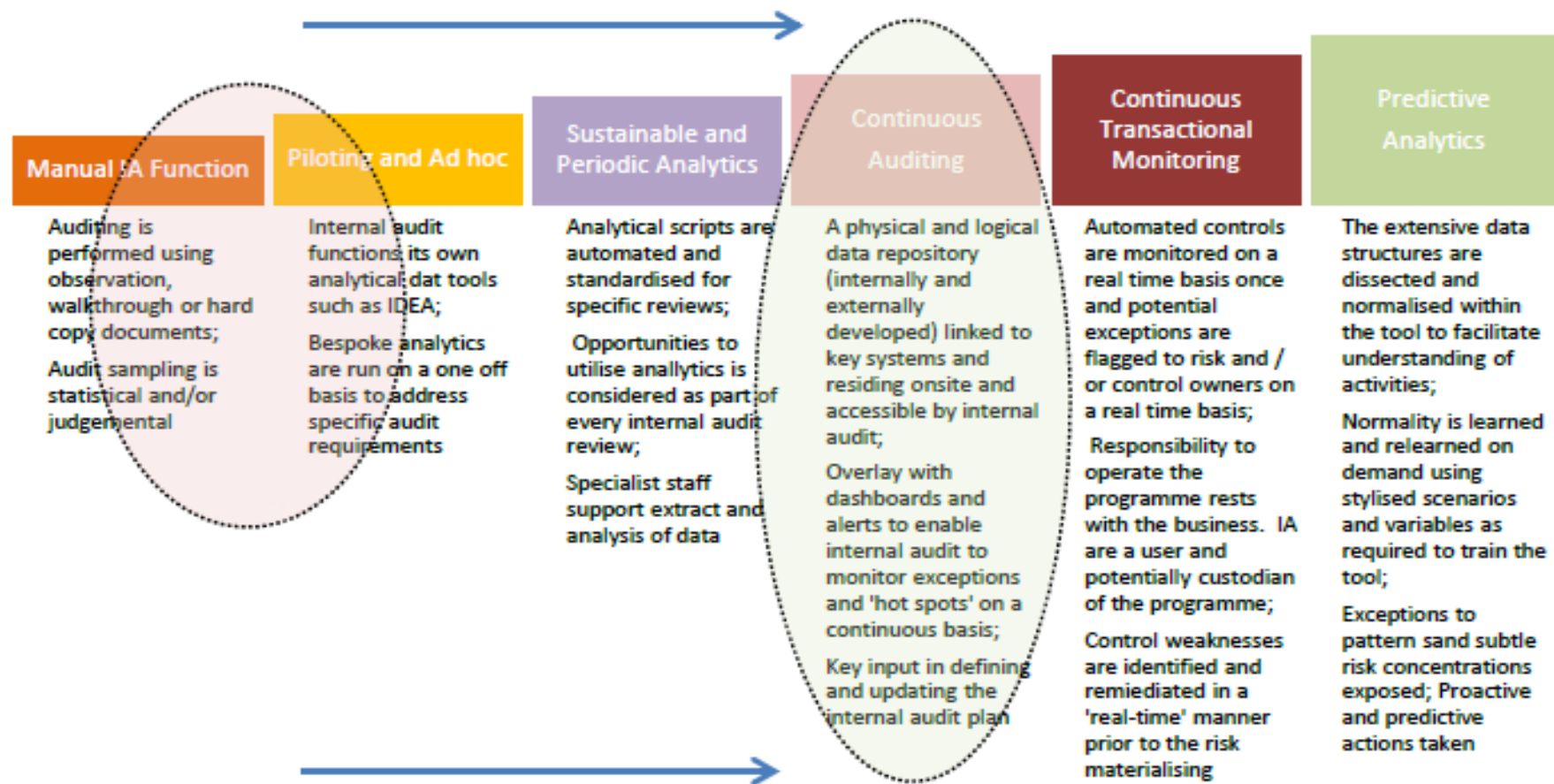
The Internal Audit service is starting its data maturity journey from a low base. An audit team's data maturity can be measured on a sliding scale from a 'manual audit Function' at one end of the scale to embedded 'Predictive Analytics' as the optimum position. Over the last few years there has been very little investment in data analytics in terms of the technology and skills the auditors require. However, within the team there are a number of Auditors who have some data analytics knowledge and skills that provides a good base for the team to build from.



The service has recently purchased up to date software (Idea) and is currently reviewing how this can be best deployed within the key financial systems. Therefore, as detailed in Figure 2 the Head of Internal Audit has judged the service's maturity as moving from Manual Audit functions to Piloting and Ad hoc. A key aim of this strategy is to help move the service forward in its maturity level to a continuous Audits stage within the three-year life span of this strategy.



Figure 2



Page 180





## Internal Audit's Objectives

The strategic objectives of this strategy is for the Internal Audit team to:

- Use the vast amount of data the council maintains in an effective way to deliver effective and efficient audits, which will provide clients with greater insight and analysis of the systems and control frameworks.
- Improve the quality and efficiency of audit work, increasing coverage in specific audits and audit plans and reducing the impact on clients' resources through better understanding of client data and automated testing.
- Support audit feedback and reports to clients with convincing and substantial data from client's own systems.

The actions detailed below have been designed to help the audit service achieve the strategic objectives detailed above.

| Actions  | Outcome   | Date          | Responsible Officer                       |
|--|---|---------------|---|
| Gain a detailed knowledge and understanding of the data held across the organisation   | To understand what data will be available for each audit on the audit plan.   | December 2023 | Head of Internal Audit.<br>Audit Managers |
| To build expertise in the discipline of data analytics to provide added value across the organisation.   | Expertise in the effective use and management of data analytics to be used flexibly across the organisation.            | March 2024    | Head of Internal Audit.<br>Audit Managers |
| To optimise the use of data analytics to increase the credibility of audit observations through extended / 100% sampling. (Key Financial systems)                    | To provide credible / robust observations to management to contribute toward the delivery of organisational objectives. | March 2024    | Head of Internal Audit.<br>Audit Managers |
| To utilise data analytics to enhance strategic intelligence / risk assessment to inform the internal audit plan and ensure the most effective use of audit resource. | Ensure the most efficient, effective use of internal audit resource through strategic assessment and analysis           | December 2025 | Head of Internal Audit.<br>Audit Managers |



|   |   |            |   |
|---|---|------------|---|
| To embed data analytics as part of the standard audit process.                  | To embed a sustained approach to data analytics through the standard internal audit toolkit   | March 2026 | Head of Internal Audit.<br>Audit Managers |
| To enable continuous auditing against risk 'hot spots' across the organisation. | To enable 'real time' auditing highlighting error, anomalies and control failure at the earliest opportunity. (Continual testing / monitoring of key controls and the ability to inform system owners promptly to implement corrections). | March 2026 | Head of Internal Audit.<br>Audit Managers |



**Audit, Risk and Governance Committee**  
Meeting to be held on Monday, 24 July 2023

Electoral Division affected:  
(All Divisions);

**Internal Audit Charter**  
(Appendix 'A' refers)

Contact for further information:  
Andrew Dalecki, Head of Internal Audit, Tel: 01772 533469,  
andrew.dalecki@lancashire.gov.uk

**Brief Summary**

The Internal Audit 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.

The Charter is subject to periodic review by the Head of Internal Audit.

**Recommendation**

The Audit, Risk and Governance Committee is asked to consider and approve the Internal Audit Charter as set out at Appendix 'A'.

**Detail**

The Internal Audit Charter was last approved by this committee in July 2022. Following an annual review of the Charter it remains relatively unchanged since it was last presented to this committee.

The main change can be found at section 11, non-audit work: investigations and counter-fraud services. This change is to reflect the Internal Audit Service's approach in combating and responding to financial crime.

**Appendices**

| Appendix   | Title                  |
|------------|------------------------|
| Appendix A | Internal Audit Charter |

## Consultations

N/A

## Implications:

This item has the following implications, as indicated:

### Risk management

The Internal Audit Charter establishes the framework within which Lancashire County Council's Internal Audit Service operates. This in turn 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 |
|-------|------|-------------|
|-------|------|-------------|

N/A

Reason for inclusion in Part II, if appropriate

N/A



## Internal Audit 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 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 executive 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 law and Governance.
- 3.6 PSIAS also refers to the 'chief audit executive' who, at Lancashire County Council, is deemed to be the head of internal audit.

### **4** *Responsibilities*

- 4.1 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.
- 4.2 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.

- 4.3 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.
- 4.4 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.
- 4.5 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.
- 4.6 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.
- 4.7 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.

## **5** *Independence, objectivity and integrity*

- 5.1 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.
- 5.2 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 their own name and without fear or favour to all officers and members, and specifically the Audit, Risk and Governance Committee. They have the formal opportunity prior to each committee meeting to meet with the chair and deputy chair of the Audit, Risk and Governance Committee.
- 5.3 The independence of the head of internal audit is further safeguarded by ensuring that

their remuneration and performance assessment are not inappropriately influenced by those subjects to audit.

- 5.4 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.
- 5.5 All auditors also make an annual declaration that they have read and are 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.

## **6** *Reporting lines and relationships*

- 6.1 The head of internal audit reports functionally to the Audit, Risk and Governance Committee and organisationally to the director of finance. They have direct access to the chief executive and executive director of resources, who is also council's finance officer under s.151 of the Local Government Act, 1972.
- 6.2 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.
- 6.3 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.
- 6.4 The Internal Audit Service works with the Council's external auditor, and other review bodies as necessary, to provide an efficient and effective approach to audit and inspection, which is intended to deliver effective performance and avoid any duplication of work.

## **7** *Access to information*

- 7.1 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.
- 7.2 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.



## **8** *Internal audit resources*

- 8.1 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.
- 8.2 The chief executive and executive 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.
- 8.3 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.

## **9** *Competency*

- 9.1 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.
- 9.2 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.

## **10** *Quality assurance and improvement*

- 10.1 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.
- 10.2 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.

**11** *Non-audit work: investigations and counter-fraud services*

- 11.1 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 and or investigating suspected fraud or corruption. Such services apply the professional skills of internal audit and contribute to the overall assurance opinion.
- 11.2 Within the Internal Audit service there is an Investigations team. This team is responsible for investigating (where appropriate) instances of suspected or actual financial crime. Financial crime ranges from basic theft to fraud, money laundering, corruption, bribery or other financial impropriety. Financial crime may be committed by anyone from ill-intentioned individuals to large-scale organized criminal gangs.
- 11.3 The Investigations team will develop the Council's strategic approach to combating and responding to financial crime. This will include but is not limited to receiving, recording and reporting to the Audit, Risk and Governance Committee the whistle-blowing allegations received, coordinate the council's participation in data matching exercises including the National Fraud Initiative, which matches data from the council's information systems with information held by other bodies to identify potentially fraudulent activity.
- 11.4 The Internal Audit Service and the Investigations team 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.
- 11.5 The head of internal audit should be informed of all suspected or detected financial crime including fraud, corruption or impropriety and will consider the implications for their 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, 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;
- 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, 24 July 2023

Electoral Division affected:  
(All Divisions);

**Review of Arrangements for the Oversight of Council Controlled Companies**  
(Appendix 'A' refers)

Contact for further information:

Andy Milroy, Democratic Services Manager (Companies), Tel: 01772 530354,  
andy.milroy@lancashire.gov.uk

**Brief Summary**

This report provides the outcome of the work undertaken to strengthen the county council's strategic management of companies that it either wholly or partly owns following the recommendations of the Audit, Risk and Governance Committee.

**Recommendation**

The Audit, Risk and Governance Committee is asked to consider the information provided, in particular that the newly established Company Member Cabinet Committee shall provide strategic management of county council owned companies and agree that any risks identified by the Company Member Cabinet Committee in relation to the companies shall be reported to the Audit, Risk and Governance Committee as appropriate.

**Detail**

At its meeting held on 26 May 2022 Full Council resolved to request that an audit exercise be conducted into how the county council is performing as a company member/shareholder in relation to the companies over which it exercises control and report those findings to the Audit, Risk and Governance Committee.

This work was commissioned through an independent auditor, Veritau with a report on their findings presented to the Audit, Risk and Governance Committee at its meeting held on 30 January 2023.

Whilst no significant problems were uncovered in relation to any of the county council companies, the independent auditors identified a gap in the county council's governance arrangements. In summary, some companies operated with limited county council oversight (at a shareholder / member level) and there was no structural process which enabled the county council to link its aims and objectives to the activities and performance of the companies themselves. This activity did happen

but on a local level: those officers and members associated with a service provided by, or with the assistance of, a council company provided oversight and were involved in relevant company activities. However, this was not always cascaded to a wider audience, which left a gap in how the county council approached company activity, benefit, and cost on a strategic basis; this is not the most effective method of ensuring accountability and best value.

Following this the Audit, Risk and Governance Committee noted the report and requested that a further report on officers' recommendations be presented to a future meeting of the committee.

A report was then presented to Cabinet on 4 May 2023 containing Terms of Reference (attached at Appendix 'A') to establish a new Company Member Cabinet Committee to provide the necessary strategic oversight of county council owned companies identified by the Veritau report. Cabinet duly approved the establishment of this new Cabinet Committee which has since held its first meeting on 22 June 2023, at which it agreed to adopt Best Practice Guidance in relation to its management of county council owned companies and a work programme for each company ensuring robust oversight.

Should the Company Member Cabinet Committee, in its strategic management role of county council owned companies, identify any risks associated with any of the county council's companies they will be reported to the Audit, Risk and Governance Committee as appropriate.

## Appendices

| Appendix     | Title   |
|--------------|---|
| Appendix 'A' | Company Member Cabinet Committee – Terms of Reference |

## Consultations

N/A

## Implications:

This item has the following implications, as indicated:

## Risk management

The newly established Company Member Cabinet Committee shall strategically monitor all county council owned companies and will manage any risks associated with them, reporting any significant risks to the Audit, Risk and Governance Committee as appropriate.

**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







## **Company Member Cabinet Committee**

### **Membership**

Membership comprises of five elected members - two Cabinet Members, two Co-opted members determined by the county council's administration and one Co-opted member determined by the largest opposition group. No members of the Company Member Committee can serve as Directors on any part or wholly owned company of which the county council is a member or shareholder.

### **Quorum**

The quorum for meetings of the Company Member Cabinet Committee is as set out in Section C – Cabinet and Cabinet Committee – Procedural Standing Orders which shall be two voting County Councillors at the time of the meeting. For the avoidance of doubt, only the two Cabinet Members appointed have the right to vote.

### **Statement of purpose**

1. To undertake the functions of the Cabinet in relation to the council's role as member or shareholder in Lancashire County Council's wholly or partly owned companies, including:
  - a. To ensure that the duties of the responsibilities of the County Council are appropriately discharged
  - b. To manage the overall relationship with those companies

### **Responsibilities**

The Cabinet Committee will:

1. Act as the Executive decision making in relation to all member or shareholder matters relating to companies which the county council has an interest in.
2. Receive Annual Reports and Annual Accounts from companies.
3. Provide an articulation of what success looks like in terms of achieving social outcomes and/or a return on investment in each of the companies.
4. To engage as appropriate with the strategic business planning process of the companies
5. Evaluate the effectiveness of the company boards and the delivery of the company performance against strategic objectives and the business plan.
6. Provide financial oversight of companies.
7. Approve any borrowing or loans undertaken by companies in line with the Executive decision making criteria.

8. Provide the necessary oversight from a company member / shareholder's perspective that the governance arrangements, policies and boundaries that the council has established are being adhered to
9. Provide a holistic review of risk to the council offered by the county council companies.
10. Approve the establishment or disestablishment of any companies or their subsidiaries.
11. Periodically review whether each entity provides the most effective vehicle to deliver the outcomes it requires and whether there are viable alternative models which might offer a more effective means of delivering its priorities.
12. Review and monitor (as appropriate) company member / shareholder / management agreements.
13. Require as appropriate the attendance of the Chair, Chief Executive, Managing Director or other relevant representative of any of the county council's partly or wholly owned companies at any meeting where the affairs of that company are considered.

**Audit, Risk and Governance Committee**  
Meeting to be held on Monday, 24 July 2023

Electoral Division affected:  
(All Divisions);

**Corporate Risk and Opportunity Register – Quarter 1 Update**  
(Appendices 'A' and 'B' refer)

Contact for further information:

Paul Bond, Head of Legal, Governance and Registration, Tel: 01772 534676,  
paul.bond@lancashire.gov.uk

**Brief Summary**

This report provides an updated (Quarter 1 2023/24) Corporate Risk and Opportunity Register for the committee to consider and comment on. The register has been refreshed to reflect the council's current operating environment and is presented to this committee to provide a progress update and assurance that the current risk management arrangements are both robust and effective.

The updated Corporate Risk and Opportunity Register is attached at Appendix 'A'. The risk entries for Cyber Security, the Oracle Fusion Data Breach and Oracle Fusion Post Implementation Issues contain private and confidential information, so are provided at Appendix 'B' and included in Part II of the agenda.

**Recommendation**

The Audit, Risk and Governance Committee is asked to consider and comment on the updated Corporate Risk and Opportunity Register.

**Background**

This report provides an updated (Quarter 1 2023/24) Corporate Risk and Opportunity Register for the committee to consider and comment on. The register was refreshed at Quarter 2 (2022/23) to reflect the council's current operating environment and is now presented to committee to provide an update and assurance that the current risk management arrangements are both robust and effective.

In line with the council's Risk Management Framework, the Executive Management Team review the Corporate Risk and Opportunity Register on a quarterly basis, taking account of the current and predicted future internal and external environment in which the county council and its strategic partners operate. The Corporate

Register sets out the 'across the board' risks that could threaten the authority's core business and the way it operates.

Below this are Directorate Registers that are managed by the council's Executive Directors and identify risks that could threaten day to day activities. Where a new directorate risk has a score of 12 or above, it is automatically referred to the Executive Management Team for consideration for inclusion on the Corporate Register. However, the Executive Management Team may decide not to escalate such a risk onto the Corporate Register and ask that it is managed at an operational level. This maybe because the Executive Management Team think that the risk does not threaten the core business of the organisation or that the score has been over inflated (scores are subjective).

This process was discussed at a previous meeting of the Audit, Risk and Governance Committee. Consequently, the committee has asked to be informed of future instances when a risk has been considered by the Executive Management Team but not included on the Corporate Register.

### **Quarter 1 Update - Summary of Key Points**

The risks and opportunities have been updated using information provided through directorate risk registers. The updated register is attached at Appendix 'A'.

#### CORP1 Financial Sustainability

Overall, the council has an appropriate level of reserves available to manage the financial risks it is facing from 2023/24 to 2026/27. However, a significant risk factor is in relation to savings delivery, as the 2023/24 budget will be based on the delivery of circa £80m of new and previously agreed savings.

#### CORP 2 Recruitment and Retention

In terms of Recruitment and Retention the risk scores and RAG rating remain the same. However, once the People Strategy has been agreed and adopted and the new operating model is implemented, improvements should start to filter through in both recruitment and retention. Specific mitigating actions have been put in place in Adult Social Care services with the establishment of a workforce data framework and a Performance Management Board. A Workforce Strategy has been agreed and an in-house provider workforce sub-group established, focused on recruitment and retention

#### CORP 3 Demand on Services

Demand pressure on services continues. Increased Government funding for SEND provides some mitigation but substantial pressure remains. SEND Inspection readiness work continues to strengthen oversight. In terms of children's social care, avoidance of the high-cost homes workstream has been established through the Where Our Children Live project and a strong oversight obtained. Some services are being redesigned and will be reprocured next year with the aim of supporting Adult Social Care to respond effectively to increased demand pressures.

#### CORP 4 Our Improvement Journey

Business planning for 2023/24 was completed by 31 March 2023; following this, development of an integrated performance management approach which brings

together business, financial and performance is being taken forward. This should bring about improved organisational performance, employee retention, improved productivity, and cost advantages through efficiencies. A paper setting out a proposed approach to commercialisation has been approved by the Executive Management Team and will form part of the Strategic Change Delivery Plan on production of an approved business case.

### CORP 5 School Places

To improve school places, officers attend open evenings for the most oversubscribed schools and Year 6 parent information sessions are held in the areas with the most pressure for places. There has been an expansion of popular schools where the number of places available for Year 7 pupils has been increased, as has the availability of places in higher year groups to accommodate in-year admissions. Consultations are taking place in respect of new primary schools and a secondary school in Preston. However, this risk remains a challenge and to inform members of the issues, a recent school place planning (mainstream and SEND) and school transport inquiry day took place in June 2023.

### Opportunities

No new opportunities have been added to the register.

### **New Risks Considered by the Executive Management Team**

The committee has asked to be informed of instances when a risk has been considered by the Executive Management Team but not escalated onto the Corporate Register. For Quarter 1 no such risks were considered. The one additional risk considered relating to Oracle Fusion post-implementation issues has been included on the register and is set out at Appendix 'B'.

### **Appendices**

| <b>Appendix</b>      | <b>Title</b>   |
|----------------------|--|
| Appendix A           | Corporate Risk and Opportunity Register  |
| Appendix B (Part II) | Risk entries for Cyber Security, Oracle Fusion Data Breach, and Oracle Fusion Post Implementation Issues |

### **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**


N/A

Reason for inclusion in Part II, if appropriate

Appendix 'B' to this report is included in Part II of the agenda because it contains exempt information as defined in Paragraphs 3 and 7 of Part 1 of Schedule 12A to the Local Government Act, 1972:

- Information relating to the financial or business affairs of any particular person (including the authority holding that information)
- Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime.

**Corporate Risk & Opportunity Register – Quarter 1 2023/24**

| Risk ID CORP1  |  | Title: Financial Sustainability  | Current risk score: 20 Target Risk Score: 16                                 |   |   |   |
|--|--|--|--|---|---|---|
| <b>Risk Description</b><br><br><b>Failure to deliver a sustainable financial strategy that supports the delivery of the corporate strategy and four priorities</b><br>Causes: <ul style="list-style-type: none"> <li>Reserves not sufficient to meet the forecast MTFS funding gaps.</li> <li>Inability to set a balanced budget or deliver services within available resources because of various issues that include economic uncertainty; rising inflation that exceeds budget provision; high demand on care services; lack of certainty over future funding; specific impact of proposals for funding care costs (cap on the lifetime cost of personal care)</li> <li>Significant uncertainty regarding funding levels for 2025/26 and beyond along with the impact of the much delayed new funding formula and business rate retention changes.</li> </ul> |  | <b>Risk Consequences</b> <ul style="list-style-type: none"> <li>Increased overspends in particular services</li> <li>Services become unsustainable and we cannot fulfil our statutory duties because of funding pressures not being met</li> <li>Adverse impact on clients/residents</li> <li>Insufficient reserves</li> <li>Unable to meet savings targets</li> <li>External intervention if the council is unable to deliver a balanced budget in future years</li> <li>Reputational damage</li> </ul> |  | <b>Risk Owner</b><br><br>Executive Director of Resources/S151 Officer<br><br><br><b>Target date</b><br>March 23/Ongoing | <b>Current Likelihood</b><br><br>4<br><br><b>Target Likelihood</b><br><br>4<br><br><b>Target Risk Confidence</b><br> | <b>Current Impact</b><br><br>5<br><br><b>Target Impact</b><br><br>4 |
| <b>Current Controls</b> <ul style="list-style-type: none"> <li>Updates provided to Cabinet through the money matters reports covering in-year financial position and medium-term financial strategy on a quarterly basis</li> <li>Directorate Leadership Teams (DLT's) meet regularly and have a monthly focus on financial position and savings delivery chaired by the relevant Executive Director</li> </ul>  |  |  | <b>Control Owner</b><br>S151 Officer/Director of Finance/Executive Directors |   |   |   |

|   |  |
|---|--|
| <ul style="list-style-type: none"> <li>• Programme Office is supporting the overall programme of savings activity</li> <li>• 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</li> <li>• Continue to monitor the impacts of price changes via our regular monitoring activity updating our forecast outturn and the MTFS</li> <li>• Continue to work with staff to develop new options savings options and revisit options</li> <li>• Continue to seek out, learn from and adapt services to follow best practice</li> </ul>  |  |
| <p><b>Mitigating Actions</b></p> <ul style="list-style-type: none"> <li>• DLT's review progress and are each chaired by the relevant Executive Director</li> <li>• Revenue position includes a planned contribution from reserves to support savings delivery and the funding gap</li> <li>• Savings plans have been subject to review as part of the budget monitoring process</li> <li>• Transformation options considered towards meeting future years funding gaps</li> </ul>   | <p><b>Mitigation Owner</b></p> <p>S151 Officer/Director of Finance/Executive Directors</p> |
| <p><b>Progress:</b></p> <ul style="list-style-type: none"> <li>• Overall, the Council has an appropriate level of reserves available to manage the financial risks it is facing from 2023/24 to 2026/27. However, on current forecasts it will be necessary that additional savings will be required to bring the council to a financially sustainable position.</li> <li>• 2023/24 revenue budget was approved at Full Council in February with a contribution from reserves of £8.9m. The updated MTFS is forecasting a gap of £19.1m by 2026/27 which is less than 2% of the net revenue budget. A significant risk factor is in relation to savings delivery, as the 2023/24 budget will be based on the delivery of c£80m of new / previously agreed savings.</li> </ul> |  |



| Risk ID CORP2 Title: Workforce recruitment and retention Current risk score: 16 Target Risk Score: 12   |  |  |   |   |
|---|--|--|---|---|
| Risk Description  | Risk Consequences  | Risk Owner   | Current Likelihood  | Current Impact                                |
| <p>Unable to attract and recruit candidates, and retain staff leading to an inability to deliver services</p> <p>Causes:</p> <ul style="list-style-type: none"> <li>• Lack of suitably qualified candidates in the labour market (particularly in hard to recruit roles)</li> <li>• Non-competitive pay rates compared to other employer (eg BAE)</li> <li>• Unattractive terms and conditions Could we please reword to say lack of an attractive reward and benefits offer</li> <li>• Lack of effective retention tools</li> <li>• Poor workforce planning (including lack of workforce data) with an ageing workforce</li> <li>• Commissioned services and education settings unable to recruit and retain staff</li> <li>• Immature approach to a system wide health and social care workforce</li> </ul> | <ul style="list-style-type: none"> <li>• Reduced capacity and skills to deliver key roles and council priorities leading to increased waiting times and delays for people in need of support</li> <li>• Potential skills gap and deterioration in service delivery through loss of experienced staff and age profile of workforce</li> <li>• Unable to deliver statutory services and services in key areas</li> <li>• Adverse impact on clients/residents/businesses</li> <li>• High vacancy rates in critical front line areas</li> <li>• High use of agency staffing</li> <li>• Pressure to increase market rates</li> <li>• Weaknesses in approach to workforce planning</li> <li>• Reputational damage</li> <li>• Increased demands and pressures on remaining staff leading to morale issues</li> <li>• Commissioned services and education settings fail</li> </ul> | <p>Executive Directors/<br/>Interim Director of People</p> <p><b>Target date</b></p> <p>March 23</p> | <p>4</p> <p><b>Target Likelihood</b></p> <p>3</p> <p><b>Target Risk Confidence</b></p> <div style="background-color: red; width: 50px; height: 20px; margin: 5px 0;"></div> | <p>4</p> <p><b>Target Impact</b></p> <p>4</p> |

|  |  |
|--|--|
| <p><b>Current Controls</b></p> <ul style="list-style-type: none"> <li>• Performance management dashboards established to collate and analyse workforce data</li> <li>• Governance structure identified to manage and lead the workforce performance &amp; strategy (ASC)</li> <li>• Education and Children's Services Workforce Strategy agreed April 2022</li> <li>• Corporate workforce group to facilitate joint solutions with directorate SMTs</li> <li>• Developing talent acquisition team and recruitment support</li> <li>• Commission recruitment consultants for some roles</li> <li>• Skills and development opportunities</li> <li>• Performance engagement</li> <li>• Social work academy</li> <li>• Additional OT capacity being sought from COMF funding to start July 2022</li> <li>• Backlog agency in place from April 2022 (Attenti)</li> </ul>  | <p><b>Control Owner</b><br/>Executive Directors</p>    |
| <p><b>Mitigating Actions</b></p> <ul style="list-style-type: none"> <li>• Regular discussions at directorate management teams to understand areas where recruitment and retention is a challenge</li> <li>• Corporate exercise to identify recruitment and retention issues related to hard to fill posts</li> <li>• Reviewing structures as appropriate</li> <li>• In Adult Social Care, regular monitoring and action plans are in place and include:</li> <li>• ASC Workforce Strategy refresh in progress that includes: <ul style="list-style-type: none"> <li>• Provider Services Recruitment Action Plan</li> <li>• Key transformation priorities (LbLiL, Demand Management) will address workforce issues in the immediate &amp; longer term</li> <li>• Discissions with HR re international recruitment (pending data analysis)</li> <li>• Ensuring the right capacity within our workforce to respond to the demand.</li> <li>• Additional capacity being sourced to help clear some of the Occupational Therapy Backlogs</li> <li>• Workforce data framework established</li> </ul> </li> </ul> | <p><b>Mitigation Owner</b><br/>Executive Directors</p> |

|   |  |
|---|--|
| <ul style="list-style-type: none"> <li>• Performance Management Board established</li> <li>• In-house Provider Workforce sub-group established focused on recruitment and retention</li> <li>• People Strategy and People Services Offering under development to review our approach to talent acquisition and development</li> <li>• Education and Children's Workforce Strategy established that includes:             <ul style="list-style-type: none"> <li>• Strengthening recruitment activity through, for example, clear approach to engagement through social media, virtual open days, engagement with local education partners, promoting LCC as an employer of choice, targeted recruitment activity including overseas recruitment</li> <li>• Strengthening retention activity through, for example, creating an inclusive and diverse workplace, listening to and responding to employee voice, clear development frameworks and learning opportunities, talent management, manageable caseloads and effective tools for the job</li> </ul> </li> </ul> |  |
| <p><b>Progress:</b></p> <ul style="list-style-type: none"> <li>• Draft corporate people strategy developed and is subject to approval which will give a coherent and cohesive direction of travel for the business in terms of attraction, recruitment, retention, and development with associated metrics</li> <li>• New operating model for people services agreed to support the business with key strategic people risks and activities – moving to this new model in 2023</li> <li>• Full review of contingent workforce underway to identify required staffing levels and skills via an agency/consultancy model</li> <li>• Recruitment process to be redesigned and benchmarked against emerging and best practice</li> <li>• Talent attraction team to be in place as part of People Services operating model</li> <li>• Leadership capability framework drafted, pending approval and adoption, to further develop leadership capability in people management and development</li> <li>• Succession planning work commenced with EMT</li> </ul>              |  |

| Risk ID Corp 3  |  | Title: Demand for Services   |  | Current risk score: 16  |  | Target Risk Score: 8   |  |   |  |
|---|--|--|--|---|--|--|--|---|--|
| <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>Causes:</p> <ul style="list-style-type: none"> <li>• Provider failure</li> <li>• Insufficient funding</li> <li>• As we move into winter, seasonal illnesses such as flu and further Covid 19 peaks could exacerbate this risk</li> <li>• Adverse impact of the rising cost of living, high inflation, and increased cost of energy</li> <li>• Lack of qualified staff</li> </ul> <p>See Corp 1 &amp; 2</p> |  | <p>Risk Consequences</p> <ul style="list-style-type: none"> <li>• Significant financial pressure on the county council</li> <li>• Poor outcomes for those people in receipt of our services</li> <li>• Potential adverse impact on quality-of-service provision as backlogs and waiting times could increase further</li> <li>• Pressure on specific services such as Mental Health which are already under strain</li> <li>• Could result in additional safeguarding alerts</li> <li>• Additional pressures on family and other carers</li> <li>• Pressures on already pressured and fatigued workforce (internal and external)</li> <li>• Could result in strained relationships with key partners such as NHS, VCFS and external market</li> <li>• Potential drift and delay – impact on timeliness of assessments, plans and interventions with children and families</li> <li>• Special Educational Needs &amp; Disability - Insufficient local places to meet needs</li> </ul> |  | <p>Risk Owner</p> <p>All Directors and Heads of Service within Adult Social Care and Education &amp; Children's Services</p> <p>Target date</p> <p>March 2023</p> |  | <p>Current Likelihood</p> <p>Likely (4)</p> <p>Target Likelihood</p> <p>Possible (3)</p> <p>Target Risk Confidence</p> |  | <p>Current Impact</p> <p>Major (4)</p> <p>Target Impact</p> <p>Moderate (3)</p> |  |
| <p>Current Controls</p> <p><b>Adult Social Care</b></p> <ul style="list-style-type: none"> <li>• Working with the NHS locally to model capacity, agree plans and procedures (particular focus on Continuing Health Care (CHC), system resilience and hospital discharge), financial flows and workforce requirements</li> <li>• Designated leads in LCC to ensure oversight, performance, and assurance</li> <li>• Incomplete CHC Referrals Board in place – meets weekly to review progress/address issues</li> </ul>  |  |  |  | <p>Control Owner</p> <p>All Directors and Heads of Service within Adult Social Care and Education &amp; Children's Services</p>                                   |  |  |  |   |  |

|  |                         |
|--|-------------------------|
| <ul style="list-style-type: none"> <li>• ICS CHC recovery group in operation, with reporting lines upwards</li> <li>• Quality Improvement Strategy in development</li> <li>• Additional Agency staff maintained from April 2022 from temporary Covid grant (COMF)</li> <li>• Additional Occupational Therapy (OT) capacity in place with COMF funding</li> <li>• Processes and procedures are in place to help manage current demand for Adult Mental Health services</li> <li>• Review of ‘front door’ underway to improve how we work with people when they approach us for services</li> <li>• Assessment backlog Performance Management in place with fortnightly boards and weekly reports</li> <li>• New ASC internal structure and appointment of LCC Exec Director in joint leadership role as Director of Health and Care for Lancashire should result in an improved approach to cross system working to address demand pressures</li> </ul> <p><b>Children's Social Care</b></p> <ul style="list-style-type: none"> <li>• Clear governance and accountability arrangements in place via the Keeping Children Safe Board</li> <li>• MASH / Demand Management group and Permanence and Children in Our Care group providing oversight of service improvements</li> <li>• Family Safeguarding Board providing leadership and oversight of Family Safeguarding Programme</li> <li>• Range of further activity to manage demand including Family Group Conferencing evaluation funded through pan-Lancs bid, VCFS led model of support pilot in Preston to be extended</li> <li>• Where Our Children Live Strategy together with Sufficiency Strategy to ensure most effective use of provision and to help identify and address gaps in service</li> </ul> <p><b>SEND</b></p> <ul style="list-style-type: none"> <li>• SEND Sufficiency Strategy agreed by Cabinet January 2020</li> <li>• Alternative Provision Strategy agreed by Cabinet October 2021</li> <li>• Delivery plans established</li> </ul> |                         |
| <p>Mitigating Actions</p>  | <p>Mitigation Owner</p> |

|   |   |
|---|---|
| <ul style="list-style-type: none"> <li>• CHC: Ongoing discussions and working group in progress at ICS level</li> <li>• New practice focussed project Living Better Lives in Lancashire will fundamentally change the approach and ways of working particularly around current front-line assessment and determination of services</li> <li>• Undertaking an evaluation in terms of demand and capacity to ensure we have the right capacity within our workforce to respond to the demand.</li> <li>• Additional capacity sourced to help clear some of the Occupational Therapy Backlogs</li> <li>• Working closely with providers to review capacity in the domiciliary care sector and how to improve this which will include the prioritisation of care delivery to the most vulnerable people and key/essential tasks.</li> <li>• Winter resilience planning in progress in collaboration with the NHS</li> <li>• Review of front door will assess how people currently access services and support increase of signposting and use of community assets</li> </ul> <p><b>Children's Social Care</b></p> <ul style="list-style-type: none"> <li>• Delivery of Early Help Strategy</li> <li>• Delivery of Family Safeguarding</li> <li>• Evaluation of targeted interventions including Family Group Conferencing at pre proceedings, and VCFS model</li> <li>• Where Our Children Live Strategy and Sufficiency Strategy agreed by Cabinet in January 2021</li> <li>• Deep dive on Placement Costs</li> <li>• Ongoing consideration of Covid impact</li> <li>• 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</li> </ul> <p><b>SEND</b></p> <ul style="list-style-type: none"> <li>• Delivery of priorities within the SEND sufficiency strategy</li> <li>• Consulted on Strategy</li> <li>• Ongoing consideration of Covid impact</li> </ul> | <p>As above plus Area and County Managers across directorates</p> |
| <p>Progress:</p>  |   |

- Negotiated an agreed position with NHS in respect of responsibility for funding CHC. NHS have confirmed commitment to pay one off monies in current year in respect of previous/ongoing cases and will reimburse appropriately going forward.
- Homecare, reablement and crisis services are being redesigned and will be reprocured next year with the aim of supporting adult social care to respond effectively to increased demand pressures
- Review of in-house older people's care services is underway
- Review of day services will take place next year
- Discussions in progress with Shared Lives Plus to potentially expand the offer
- Adult Mental Health bed delays continue to increase and remain closely monitored
- Backlog – Performance Board is now to cease with reporting to be incorporated into the ASC Performance workstream monthly, closure report being produced.
- Living Better Lives in Lancashire new operating model is in development
- ASC Performance Board picks up actions and monitor progress
- East Lancs Front Door – pilot now being evaluated to inform new model and ways of working.
- Most supported living providers have Annual Service Development Plans.
- Strong LA early help offer.
- Family Safeguarding implemented.
- Outreach services expanded.
- Family Group Conferencing evaluation as part of national programme. VCFS provision in place supporting referrals from Childrens Social Care Teams.
- "Where Our Children Live" project reported to Cabinet January 2021 and delivery underway.
- 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 tracked
- Where our Children Live Capital Bid to DfE successful and plans to implement developed. Successful further bid to DfE for children's home capital funding and proposals to develop additional in-house home supported by specialist NHS team

- |   |  |
|---|--|
| <ul style="list-style-type: none"><li>• Avoidance of high-cost homes workstream established through Where Our Children Live project</li><li>• Strong oversight of high-cost homes</li><li>• Increased Government funding provides some mitigation, but substantial pressure remains</li><li>• Additional investment to reduce SENDO caseloads</li><li>• 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.</li><li>• SEND Partnership Plan agreed</li><li>• Additional SEN Units continue to be established</li><li>• Agreement to establish new SEN provision in North</li><li>• Staffing options developed</li><li>• SEND Inspection readiness work continues to strengthen oversight</li></ul> |  |
|---|--|




| Risk ID CORP4   |  | Our Improvement Journey   |   | Current risk score: 16  | Target Risk Score: 9 |
|---|--|---|---|---|----------------------|
| <p><b>Risk Description</b></p> <ul style="list-style-type: none"> <li>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 4 years of the current MTFS period 2022/23-2025/26</li> </ul> <p>Causes:</p> <ul style="list-style-type: none"> <li>Competing / unclear priorities</li> <li>Inability to secure sufficient resource / capacity across the organisation to deliver on the strategic budget options whilst also delivering existing projects and programmes across directorates</li> <li>Lack of a clear corporate wide strategic change plan / programme with EMT oversight and appropriately allocated resources.</li> <li>Multiple routes initiate change leading to:</li> </ul> | <p><b>Risk Consequences</b></p> <p><b>Insufficient Capacity</b></p> <ul style="list-style-type: none"> <li>Inability to deliver full programme of transformation across the Council</li> <li>Inability to identify improvement opportunities that could contribute to service efficiencies / improved outcomes</li> </ul> <p><b>Change programme</b></p> <ul style="list-style-type: none"> <li>Priority change activities are not happening as quickly as they could/should, and consequently, the benefits for citizens/staff are not being realised as soon as they could be.</li> <li>Resources are not focused on the priority change activities; the competing demands on resource results in focus being across too many initiatives and therefore the delivery is not as effective or efficient as needed.</li> <li>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 fail to deliver key programmes and benefits.</li> </ul> <p><b>New ways of working</b></p> <ul style="list-style-type: none"> <li>Our future workplace model does not optimise the performance of our people, places, processes and</li> </ul> | <p><b>Risk Owner</b></p> <p>Executive Management Team (EMT)/Director of OD &amp; Change</p> <p><b>Target date</b></p> <p>March 2023/Ongoing</p> | <p><b>Current Likelihood</b></p> <p>Major (4)</p> <p><b>Target Likelihood</b></p> <p>Possible</p> <p><b>Target Risk Confidence</b></p> <div style="background-color: #FFD700; width: 50px; height: 20px; margin: 5px 0;"></div> | <p><b>Current Impact</b></p> <p>Major (4)</p> <p><b>Target Impact</b></p> <p>Moderate</p> |                      |

|  |   |   |  |  |
|--|---|---|--|--|
| <ul style="list-style-type: none"> <li>• A lack of strategic prioritisation, sequencing and link to corporate objectives</li> <li>• Too many competing asks</li> <li>• Work being done in silos leading to duplication and effort and inefficient use of scarce resources</li> <li>• Inconsistent approach to prioritisation and delivery of change projects</li> </ul> <p>See Corp 1, 2 &amp; 3</p>   | <p>technology. We are unable to leverage the best of what is possible today and continuously improve &amp; adapt in response to future challenges.</p> <ul style="list-style-type: none"> <li>• Inability to deliver a full programme of staff and customer experience improvement</li> <li>• Inability to identify improvement opportunities that could contribute to service efficiencies / improved outcomes</li> </ul> <p><b>Commercialisation</b></p> <ul style="list-style-type: none"> <li>• We will not achieve our commercialisation vision</li> </ul> |   |  |  |
| <p><b>Current Controls</b></p> <p><b>Capacity</b></p> <ul style="list-style-type: none"> <li>• Stop / Pause / Continue exercise initiated across all in-flight projects and programmes, to identify resource requirements and agree implementation priorities with directorates</li> <li>• "Front Door to Change" designed and implemented to support prioritisation &amp; allocation of resource for change across organisation; including a requirement for business cases for all new project and programme initiatives</li> </ul> <p><b>Change Programme</b></p> <ul style="list-style-type: none"> <li>• Director of OD &amp; Change supports SIB to shape and agree change programme.</li> <li>• Change &amp; Improvement service provides skills and capacity to identify and co-ordinate change initiatives</li> <li>• Programme Office works with directorates to plan and support delivery of directorate priorities</li> </ul> <p><b>New ways of working</b></p> <ul style="list-style-type: none"> <li>• Improvement Journey priorities aligned with corporate priorities, subject to regular review by Strategic Improvement Board (SIB)</li> </ul> |   | <p><b>Control Owner</b><br/>Director of OD &amp; Change</p> |  |  |


|  |  |
|--|--|
| <ul style="list-style-type: none"> <li>• People Directorate established to provide capacity for development and implementation of People Strategy, including Staff Experience principles and people / cultural / skills elements of new ways of working</li> <li>• Initial development offer in place and evolving to meet needs of new ways of working</li> </ul> <p><b>Commercialisation</b></p> <ul style="list-style-type: none"> <li>• Commercialisation blueprint approved by cabinet</li> </ul>   | <p>Director of Strategy &amp; Performance</p>                  |
| <p><b>Mitigating Actions</b></p> <p><b>Capacity</b></p> <ul style="list-style-type: none"> <li>• Complete Stop / pause /continue exercise with SIB; clarify existing resource available for change, and identify gaps required to deliver the agreed priorities.</li> <li>• Agree strategic change delivery plan (SCDP) with SIB, including resource requirements</li> <li>• Regular engagement with EMT to review delivery of the SCDP, and understand any new capacity challenges and prioritisation requirements</li> <li>• Develop resource profile for agreed SCPD activity, and identify any potential shortfalls with associated options / costings / business case for filling resource gaps</li> <li>• Procure additional interim capacity to deliver strategic change programmes (including Oracle Fusion, People Strategy, Contracts Review, Property review and Process Improvement)</li> <li>• Identify opportunities for realignment of roles / activities in complementary areas to support delivery of agreed SCDP priorities</li> <li>• Develop Change &amp; Improvement service plan in light of SCDP to align with identified priorities; identify skills and resource requirements to deliver against agreed plan</li> </ul> <p><b>Change Programme</b></p> <ul style="list-style-type: none"> <li>• Development of a Target Operating Model which will support the Council to identify radical and innovative options for future delivery</li> <li>• Develop a joined up, cohesive view of all change activity across LCC, via the completion of the stop / pause / continue exercise, the implementation of the Change Front Door process, and the new Business and Service planning process.</li> </ul> | <p><b>Mitigation Owner</b><br/>Director of OD &amp; Change</p> |

|  |   |  |
|--|---|--|
| <ul style="list-style-type: none"> <li>• Support EMT / SIB to have greater visibility and discussion on the entire change programme enabling informed strategic decision making from CMT and appropriate resource allocation.</li> <li>• Agree governance which will allow effective prioritisation and sequencing of change activity at a corporate level.</li> <li>• Development of an integrated change programme which encompasses the Strategic Savings options related to People, Process and Digital, ensuring that activity across all 3 areas is complementary and supports effective delivery of the benefits.</li> </ul> <p><b>New Ways of Working</b></p> <ul style="list-style-type: none"> <li>• Develop phase 2 programme plan for new ways of working which brings together people strategy, property, process and digital strands to deliver new models of work</li> <li>• Ensure linkage between Ways of Working programme and Corporate Asset Management, use learning from Ways of Working to shape asset strategy to identify and deliver options for asset optimisation priorities</li> <li>• Link values &amp; behaviours to performance &amp; development discussions as part of the Integrated Performance Management Framework</li> <li>• Develop additional data and insight to inform options and business cases related to asset optimisation</li> </ul> <p><b>Commercialisation</b></p> <ul style="list-style-type: none"> <li>• Commercial champions/network in place</li> <li>• Commercial learning programme and business planning framework</li> </ul> | <p>Director of Strategy &amp; Performance</p> |  |
| <p><b>Progress:</b></p> <ul style="list-style-type: none"> <li>• Business planning for 23/24 was completed by 31/3/23; following this, development of an integrated performance management approach which brings together business, financial and performance</li> <li>• The strategic change delivery plan (SCDP) is being developed for SIB, using input from the Stop / Pause / Continue exercise and the service planning process which commenced in Dec 2022.</li> <li>• An interim portfolio and programme manager has been recruited to develop the programme office and support the production and delivery of the agreed SCDP priorities</li> </ul>   |   |  |

|  |  |  |
|--|--|--|
| <ul style="list-style-type: none"><li>• SIB have committed to the Change Front Door process and to ensuring that all new change requirements are assessed and prioritised on the basis of appropriate business cases which include sufficient information on costs, benefits and resource implications.</li><li>• A programme of training for Lancashire County Council's staff to develop Agile, Lean and continuous improvement skills has been piloted</li><li>• New data sets will support the next phases of the property review, providing a more accurate and up to date picture of building usage and efficiency</li><li>• A paper setting out a proposed approach to commercialisation has been approved by EMT and will form part of the SCDP on production of an approved business case</li></ul> |  |  |
|--|--|--|


| Risk ID CORP5   |  | Title: School Places  |  | Current risk score: 12   |  | Target Risk Score: 8  |  |
|---|--|---|--|--|--|---|--|
| <b>Risk Description</b><br>Insufficient school Places meaning children and young people are missing out on education  |  | <b>Risk Consequences</b> <ul style="list-style-type: none"> <li>• Children are put at risk of harm</li> <li>• Children missing out on education</li> <li>• Adverse publicity</li> </ul> |  | <b>Risk Owner</b><br>Director of Education and Children's Services<br><br><b>Target date</b><br>March 2024 |  | <b>Current Likelihood</b><br>Possible (3)<br><br><b>Target Likelihood</b><br>Unlikely (2)<br><br><b>Target Risk Confidence</b><br> |  |
| <b>Current Controls</b> <ul style="list-style-type: none"> <li>• School Place Sufficiency Strategy in place</li> <li>• Monitoring of admission preferences key performance indicators</li> <li>• Monitoring of children missing education to identify localities where there are pressures, and proactive work with schools and settings to secure places and provide additional support to secure places for in-year admissions</li> </ul> |  |   |  | <b>Control Owner</b><br>Director of Education and Children's Services                                      |  |   |  |
| <b>Mitigating Actions</b> <ul style="list-style-type: none"> <li>• Working with the Assets Team to ensure that the Directorate is informing and supporting the Implementation of the plans set out in the School Place Sufficiency Strategy 2022-2025</li> </ul>  |  |   |  | <b>Mitigation Owner</b><br>Director of Education and Skills  |  |   |  |
| <b>Progress:</b>  |  |   |  |  |  |   |  |

- |  |  |
|--|--|
| <ul style="list-style-type: none"><li>• Ongoing discussions to identify further opportunities and mitigations</li><li>• Assets Team secured consultancy support</li><li>• Developing approaches to better support new arrivals to county/country including support to address language barriers</li><li>• Publicity, including social media has reduced the number of late applications.</li><li>• Our website now shows levels of subscription for individual schools and maps of geographical priority areas.</li><li>• Officers attend open evening for the most oversubscribed schools, and year 6 parent information sessions are held in the areas with the most pressure for places.</li><li>• The expansion of popular schools including Unity College, Primet Academy and Saints John Fisher &amp; Thomas More RC High School. The number of places available for Year 7 pupils has been increased, as has the availability of places in higher year groups to accommodate in-year admissions.</li><li>• Consultations taking place in respect of new primary schools and a secondary school in Preston.</li><li>• Scrutiny session to take place in June focusing on school place planning and transport</li></ul> |  |
|--|--|

| Opportunity ID: CO1  |   | Title: New Ways of Working (ACS&PH)  |  | Current Opp score: 15   | Target Opp Score: 20 |
|--|---|--|--|---|----------------------|
| <p><b>Opportunity Description</b></p> <p>The 'lessons learned' from remote working have provided a platform for future ways of working.</p> <p>Improved Partnership working to build better alliances with our partners to deliver improved outcomes for the people of Lancashire.</p>   | <p><b>Opportunity Consequences</b></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. We will take advantage of technology to improve the way we work and also improve and enhance our service offer. We will use people's skills in a more flexible way and spend less time planning and more time in doing. These new ways of working and innovative approaches to service delivery should enable financial savings to be achieved.</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. 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><b>Opp Owner</b></p> <p>ASC leadership</p> <p><b>Target date</b></p> <p>Summer 2023</p> | <p><b>Current Likelihood</b></p> <p>Certain</p> <p><b>Target Likelihood</b></p> <p>Certain</p> <p><b>Target Opp Confidence</b></p>  | <p><b>Current Impact</b></p> <p>Moderate</p> <p><b>Target Impact</b></p> <p>Major</p> |                      |
| <p><b>Current Controls</b></p> <ul style="list-style-type: none"> <li>• ASC leadership team continue to seek best practice examples and share learning</li> <li>• Ongoing reviews of services will capture potential financial savings</li> <li>• Discussions with partners continue to focus on more joined up approaches and opportunities to improve outcomes and save money</li> </ul> |   | <p><b>Control Owner</b></p> <p>ASC Directors and HoS</p>                                   |  |   |                      |



|   |   |
|---|---|
| <ul style="list-style-type: none"> <li>Front Door Project will focus on introducing training and upskilling to CAS on technology solutions, working with 3<sup>rd</sup> sector partners and improving knowledge of community assets, working with Digital Gaps.</li> </ul>  |   |
| <p><b>Progress:</b></p> <ul style="list-style-type: none"> <li>ASC themed discussion on lessons learned/new ways of working. Seeking to build on the positives achieved through the pandemic.</li> <li>Ongoing discussions with partners</li> </ul>   | <p><b>Mitigation Owner</b><br/>As above</p> |
| <p><b>Actions to realise:</b></p> <ul style="list-style-type: none"> <li>Living Better Lives in Lancashire project will build on new ways of working</li> <li>Adult Social Care and Health Partnership Board continues to build on benefits of joint working</li> <li>Front Door project is supporting maximisation of community resources</li> </ul> |   |

| Opportunity ID: CO2   |   | Title: Environmental Improvements   | Current Opportunity score: 6   | Target Opportunity Score: 16   |  |
|---|---|---|--|--|--|
| <p><b>Opportunity Description</b><br/>Environmental Improvements (Air Quality, Noise and Safety)<br/><b>Green Fleet</b></p> <ul style="list-style-type: none"> <li>Electric Vehicles (EV)</li> <li>Ultra Low Emission Vehicles (ULEV)</li> <li>Alternative Fuels (CNG and Hydrogen)</li> <li>Lower Emission combustion engines</li> </ul>                     | <p><b>Opportunity Consequences</b></p> <ul style="list-style-type: none"> <li>Reduce Authorities Carbon Footprint</li> <li>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.</li> </ul> | <p><b>Risk Owner</b><br/>HoS P&amp;IT</p> <p><b>Target date</b><br/>Ongoing</p> | <p><b>Current Likelihood</b><br/>3</p> <p><b>Target Likelihood</b><br/>4</p> <p><b>Target Confidence</b><br/></p> | <p><b>Current Impact</b><br/>2</p> <p><b>Target Impact</b><br/>4</p> |  |
| <p><b>Progress to date</b></p> <ul style="list-style-type: none"> <li>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).</li> </ul> |   | <p><b>Control Owner</b><br/>HoS P&amp;IT Fleet Manager and Property Service</p> |  |  |  |

|  |  |
|--|--|
| <ul style="list-style-type: none"> <li>Looking at Electric Vehicles (EV's) but ranges and charging remain an issue</li> <li>Working group formed with Fleet, Property and D&amp;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.</li> <li>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.</li> <li>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.</li> <li>Premises review underway</li> </ul> |  |
| <p><b>Actions to realise</b></p> <ul style="list-style-type: none"> <li>Corporate Charging infrastructure for Electric Vehicles</li> <li>We are also undertaking a premises review which will help reduce carbon emissions and identify properties for improvement. We continue to investigate opportunities for carbon reduction in our premises and seek sources of external funding.</li> </ul>   | <p><b>Opportunity Owner</b><br/>Director of Highways &amp; Transport</p> <p>Director of Strategy &amp; Performance</p> |

| Opportunity ID CO3 – Sub Regional Place Leadership and Governance  |  | Current Opportunity score: 12  | Target Opportunity Score: 16   |  |
|--|--|--|--|--|
| <p><b>Opportunity Description</b></p> <p>There is an opportunity for Lancashire to secure appropriate sub-regional governance, powers and resource to maximise shared outcomes and priorities (e.g. Combined Authority, Elected Mayor, County/Devolution Deal or other appropriate arrangement) through Central Government legislation, negotiation, Local Government Reorganisation or other mechanism.</p> | <p><b>Opportunity Consequences</b></p> <p>At a strategic level, in the absence of a Combined Authority, County/Devolution Deal or other arrangement for Lancashire, failure to secure devolved funding and powers impacts on the ability to achieve Lancashire's target outcomes and priorities to the detriment of residents and businesses. Furthermore, an amplified, stronger and unified voice for other sub-regions around the county, particularly those regions surrounding Lancashire, is likely to compromise Lancashire's ability to present its case and advocate for its residents and businesses with the same level of authority/influence.</p> | <p><b>Opp Owner</b><br/>Phil Green</p> <p><b>Target date</b><br/>Lancashire (collectively all 15 authorities) to adopt the 'Lancashire 2050' Strategy and further to</p> | <p><b>Current Likelihood</b><br/>Likely (4)</p> <p><b>Target Likelihood</b><br/>Possible (3)</p> <p><b>Target Opp Confidence</b></p> | <p><b>Current Impact</b><br/>Major (4)</p> <p><b>Target Impact</b><br/>Major (4)</p> |

|   |  |   |  |  |
|---|--|---|--|--|
|   |  | <p>Levelling Up White Paper agree a new governance model and commence negotiations with Gov't on County Deal by April 2023.</p> |  |  |
| <p><b>Current Controls</b></p> <ul style="list-style-type: none"> <li>• (Previously) engaged specialised consultants advising on approach and submitted outline business case for change to Government. Leaders agreed principles of establishing a Lancashire strategic plan.</li> <li>• (2021/22) Aligned to introduction of County Deals, Lancashire councils agreed the principle of establishing a strategic plan, a governance model and the scope of a potential county deal to inform negotiations with Government.</li> <li>• (Feb/March 2022) Following publication of Levelling Up White Paper and devolution framework, Leaders have agreed to seek a dialogue with Government on county deal/governance and to commence work on Lancashire 2050.</li> </ul>  |  | <p><b>Control Owner</b></p> <p>Director of Growth, Environment &amp; Planning</p>   |  |  |
| <p><b>Mitigating Actions</b></p> <ul style="list-style-type: none"> <li>• Reviewing new Government policy and statements on levelling up, devolution/county deals and local government reorganisation and continued lobbying</li> <li>• Aligning to and responding to Levelling Up White Paper (including the twelve 'missions' and devolution framework)</li> <li>• Continue with preparation and development of the scope of a potential County Deal including through the application of the recently concluded evidence base and emerging evidence.</li> <li>• Support Lancashire Leaders to strengthen governance and engage with Government with a unified voice.</li> <li>• Building strategic capacity and resource to develop and deliver new strategic and policy framework including operational governance and theme groups.</li> </ul> |  | <p><b>Mitigation Owner</b></p> <p>Director of Growth, Environment &amp; Planning</p>  |  |  |
| <p><b>Progress:</b></p>   |  |   |  |  |

The Government has re-emphasised its commitment to devolution through the Levelling Up White Paper, and a number of devolution deals with other regions were announced over Summer 2022. Work on Lancashire 2050, governance and scope continues through regular meetings of Lancashire Leaders. Leaders await a response from Government about further engagement on a county deal, and clarity on how the new government will continue to develop this policy agenda. Resource allocation and recruitment proposals are being considered.

**Scoring Matrix**

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

**Audit, Risk and Governance Committee**  
Meeting to be held on Monday, 24 July 2023

Electoral Division affected:  
(All Divisions);

**Chairman's Annual Report**  
(Appendix 'A' refers)

Contact for further information:  
Paul Bond, Head of Legal, Governance and Registration, Tel: (01772) 534676,  
paul.bond@lancashire.gov.uk

**Executive Summary**

Previously the committee agreed several actions to enhance its effectiveness as an element of the council's governance framework. One of the actions agreed was that the Chairman should prepare an annual report of the committee's activity to facilitate assessments of its effectiveness.

The Annual Report 2022-23 is set out at Appendix 'A'.

**Recommendation**

The Audit, Risk and Governance Committee is asked to consider the Chairman's Annual Report for 2022-23.

**Consultations**

N/A

**Implications:**

This item has the following implications, as indicated:

**Risk management**

Good governance enables an authority to pursue its priorities effectively as well as underpinning those priorities 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 governance arrangements. The Chairman's Annual Report provides a means by which the Audit, Risk and Governance Committee can review its own effectiveness and inform the council of the work done on its behalf by the committee.



# Annual Report 2022/23

## **Audit, Risk and Governance Committee**

Lancashire County Council

## **Chairman's Introduction**

As the Chairman of the Audit, Risk and Governance Committee I am very pleased to present this annual report which sets out the role of the Audit, Risk and Governance Committee, and summarises the work we have undertaken during the financial year 2022/23.

The Committee operates in accordance with the good practice guidance produced by the Chartered Institute of Public Finance Accountancy (CIPFA) and continues to be well supported by officers, providing a high standard of reports and presentations. I should like to thank the Finance, Internal Audit and the External Audit teams.

I should like to take this opportunity to give my personal thanks to all the officers, my Deputy Chairman John Singleton and without exception, all fellow Committee members who have contributed and supported the work of the Committee in such a meaningful and positive way throughout the past year.

### **County Councillor Alan Schofield**

Chairman, Audit, Risk and Governance Committee





## **Role of the Audit, Risk and Governance Committee**

The Audit, Risk and Governance Committee operates in accordance with the “Audit Committees, Practical Guidance for Local Authorities and Police” produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2018. The Guidance defines the purpose of an Audit Committee as follows:

1. Audit Committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.
2. The purpose of an Audit Committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

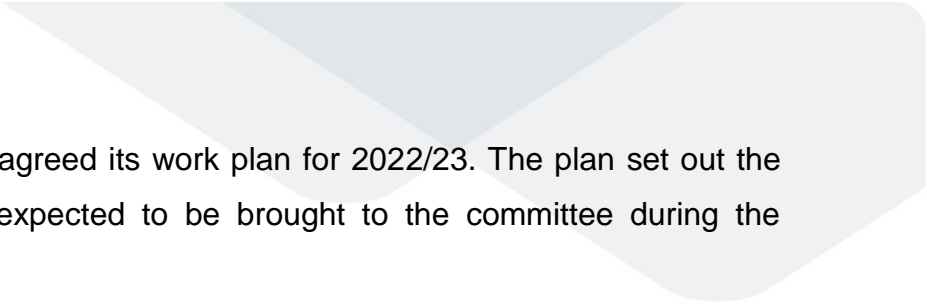
The key functions of the Audit, Risk and Governance Committee are defined within the Council's Constitution via the committee's Terms of Reference and are agreed each year at the first committee meeting following Full Council's Annual General Meeting. Any proposed changes recommended by the Committee would need to be ratified by Full Council.

In summary headings, the Committee's various Terms of Reference cover:

- Governance
- Risk Management and Control
- Internal Audit
- External Audit
- Financial reporting
- Accountability arrangements
- Treasury Management

### ***Work Plan 2022/23***





In July 2022, the Committee agreed its work plan for 2022/23. The plan set out the standard reports which are expected to be brought to the committee during the municipal year.

It was expected that during the year, the committee would also identify other areas and issues to consider as appropriate.



## **Key Activities**

In this section the activities of the Committee during 2022/23 are summarised under the headings of the key functions.

### ***Internal Control***

The Audit, Risk and Governance Committee approved the Annual Governance Statement (AGS) for 2022/23 in April 2023 for inclusion in the draft Statement of Accounts. This included actions for 2023/24, within the following areas, to improve existing governance arrangements:

- Financial Sustainability
- Recruitment and Retention
- Demand for Services
- Our Improvement Journey
- School Places
- ICT Related Issues

The AGS also included a section setting out the governance arrangements for the Lancashire County Pension Fund (LCPF).

The Committee also received and considered updates in the following areas:

- Regulation of Investigatory Powers Act 2000 (*RIPA*)
- Update on the Overpayment of Salaries
- Review of Arrangements for the Oversight of Council Controlled Companies
- Local Member Grants Annual Report
- Data and Analytics Risks
- Oracle Fusion Data Breach



### *Regulation of Investigatory Powers Act 2000 (RIPA)*

In October 2022, a private and confidential annual report was presented on the Regulation of Investigatory Powers Act 2000 (RIPA), including an update on the council's use of RIPA and the council's RIPA policies for the Committee's approval.

### *Update on the Overpayment of Salaries*

In January 2022 the Director of Finance, presented an item of Urgent Business to update the committee on improvements to the county council's payroll leavers controls, as requested by the committee at its meeting on 18 October 2021. A further report was provided at the next meeting of the committee that included information about the 2021/22 financial year and the amounts which had not been recovered to date. A further update was presented to committee at its meeting in October 2022.

### *Review of Arrangements for the Oversight of Council Controlled Companies*

In January 2023, a private and confidential report on the recent independent audit into the governance arrangements of council-controlled companies was considered by the committee.

### *Local Member Grants Annual Report*

In January 2023, the committee received and noted the Local Member Grants Scheme Annual Report for the period January 2021 to September 2022. It was requested that an updated report be provided to the committee in 6 months' time.

### *Data and Analytics Risks*

In January 2023, a private and confidential report on the risks associated with the council's use of data and analytics was presented to committee. It was requested that an update on progress to address the risks outlined in the report be provided to the committee in 12 months' time. This would include some more specific target dates.

### *Oracle Fusion Data Breach*

A private and confidential report on the Oracle Fusion data breaches reported to the Information Commissioner's Office and the steps taken by the county council in



response was reported to the committee in January 2023. It was noted that future matters of concern would be reported to committee.

### ***Risk Management***

During 2022/23 the committee received quarterly updates regarding the Corporate Risk and Opportunity Register. A training video setting out our approach to risk management had been produced for members. The Committee requested that it be informed of any risks that were considered for inclusion on the corporate register because they received a rating of 12 or above, but which were not agreed by Executive Management Team.

### ***Internal Audit***

In April 2023 the Committee agreed the Internal Audit Plan 2023/24, which provided members with the opportunity to challenge and influence the plan where they had identified areas of concern.

The regular update reports of the Head of Internal Audit to the Audit, Risk and Governance Committee have enabled emerging issues arising from Internal Audit activity to be considered on a timely basis, including where appropriate working with the senior officers to seek assurance that matters are being dealt with promptly and effectively.

As a result of the Oracle Fusion post implementation issues and data breaches, the Head of Internal Audit reported to the April 2023 meeting that his overall opinion was likely to be of limited assurance regarding the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk management and control for 2022/23. This would be confirmed in the Annual Report.

As the Chairman of the Committee, I meet or communicate with the Head of Internal Audit without other officer's present as and when necessary and I am satisfied Internal Audit are free to carry out their duties without restrictions.



## ***External Audit***

The council's external auditors, Grant Thornton LLP, attended all the Committee meetings during 2022/23, providing regular updates on their work plan and any matters arising. In addition, they have provided the Committee with sector updates for consideration that highlight key themes, issues, and priorities for local government. These have been well received and are very helpful to the Committee.

The Committee received and reviewed the Interim Auditor's Annual Report on Lancashire County Council for 2021/22 in April 2023 as the External Auditor had not finalised their audit opinion. The Interim Annual Report highlighted several improvement recommendations regarding governance and financial sustainability, but no statutory or key recommendations. Officers at the county council provided a response to these recommendations before the Interim Annual Report was considered.

Ahead of the Committee meeting in January 2023, I met privately with the external auditors to discuss matters relating to their work. I have also attended the Public Sector Audit Appointments (PSAA) Local Audit Quality Forum webinar on sector-wide work to resolve the current audit backlogs, which took place on 3 July 2023.

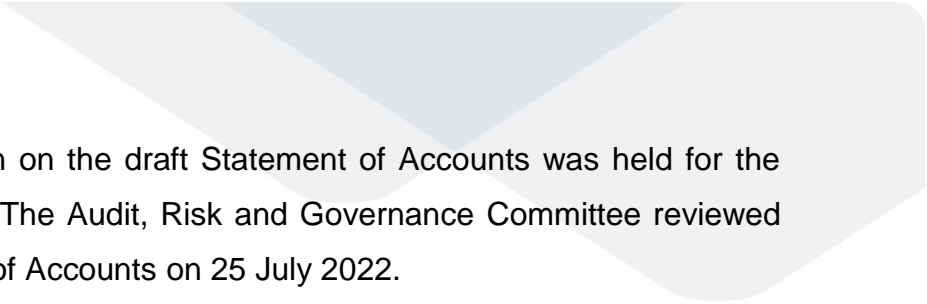
## ***Fraud and Corruption***

The Committee receive regular updates from the Head of Internal Audit on any reported matters of suspected fraud, including investigations. Outcomes of investigations are reported to and monitored by the Committee.

## ***Annual Statement of Accounts***

The Accounts and Audit (Amendment) Regulations 2021 required that the draft accounts for 2021/22 were published by 31 July 2022 and the audited accounts and opinion were published by 30 November 2022. The draft Statement of Accounts were certified by the Chief Finance Officer and published on the council's website on 23 May 2022, ahead of the statutory deadline.





A dedicated, informal session on the draft Statement of Accounts was held for the Committee on 12 July 2022. The Audit, Risk and Governance Committee reviewed and approved the Statement of Accounts on 25 July 2022.

### ***Treasury Management***

The Committee approved reports on Treasury Management throughout the year, exercising its stewardship role. The Committee reviewed:

- Treasury Management Activity 2021/22
- Treasury Management Activity 2022/23
- Treasury Management Strategy 2023/24 for recommending to Full Council

A training session for the Committee on Treasury Management was held on 23 June 2022, with another scheduled for 18 July 2023.

### ***Governance***

In January 2023, the committee received a report which summarised all complaints received against county councillors under the Code of Conduct in 2022. It was highlighted that the low number of complaints reflected the high standard of county councillors' conduct.

The Committee has not granted any dispensations from requirements relating to interests as set out in the Code of Conduct.

As referred to under Key Activities above, the Committee agreed the draft Annual Governance Statement (AGS) 2022/23 in April 2023. The AGS explains how the county council had complied with the Local Code of Corporate Governance. The Committee reviewed the Local Code of Corporate Governance 2023/24 at the same meeting and recommended it to Full Council for approval.



## **Membership, Meetings and Attendance**

### ***Audit, Risk and Governance Committee***

The Audit, Risk and Governance Committee comprises eight elected members representing the two main political parties.

### ***Officers***

The Audit, Risk and Governance Committee continues to be well supported by officers, providing reports either in accordance with the Committee's work programme, or at the request of the Committee.

In 2022/23 the Chief Executive / Section 151 Officer, Executive Director of Resources / Section 151 Officer (this post established in-year), Director of Finance, Director of Corporate Services / Monitoring Officer, Director of Law and Governance / Monitoring Officer (there was a change of post in-year), Head of Legal, Governance and Registration / Deputy Monitoring Officer, Head of Internal Audit and Head of Corporate Finance routinely attended Committee meetings.

### ***External Audit***

The External Auditors, Grant Thornton LLP, have attended all the Audit, Risk and Governance Committee meetings.

### ***Meetings***

The Audit, Risk and Governance Committee met four times in 2022/23. The following table provides information about committee members' attendance at meetings and training sessions.





| <b>Meeting Date</b> | <b>Committee Members</b> | <b>Substitute Members</b> | <b>Absent Members *</b> |
|---------------------|--------------------------|---------------------------|-------------------------|
| 25 July 2022        | 6                        | 1                         | 1                       |
| 17 October 2022     | 7                        | 0                         | 1                       |
| 30 January 2023     | 7                        | 0                         | 1                       |
| 24 April 2023       | 6                        | 0                         | 2                       |

\* Including apologies with no substitute

| <b>Training Session</b>               | <b>Committee Members</b> | <b>Non-Committee Members</b> |
|---------------------------------------|--------------------------|------------------------------|
| Treasury Management<br>23 June 2022   | 3                        | 2                            |
| Statement of Accounts<br>12 July 2022 | 4                        | 2                            |

At the time of this report, a training session on Treasury Management has been scheduled for 18 July 2023. An information session on the Statement of Accounts will also be arranged for a date to be confirmed.

A work programme has been agreed by the Committee. The programme will be reviewed when setting the agenda for each meeting and added to when appropriate to ensure ad-hoc requests by the Committee are reported.





**Audit, Risk and Governance Committee**  
Meeting to be held on Monday, 24 July 2023

Electoral Division affected:  
N/A;

**Draft Work Plan 2023/24**  
(Appendix 'A' refers)

Contact for further information:  
Hannah Race, Senior Democratic Services Officer, Tel: (01772) 530655,  
Hannah.Race@lancashire.gov.uk

**Brief Summary**

This report sets out the draft work plan for the Audit, Risk and Governance Committee for 2023/24.

**Recommendation**

The Audit, Risk and Governance Committee is asked to consider and comment on the draft work plan for 2023/24, as set out at Appendix 'A'.

**Detail**

Appendix 'A' provides the draft work plan for the Audit, Risk and Governance Committee for the 2023/24 municipal year. The work plan sets out the standard reports which are expected to be brought to the committee, mainly from the following service areas:

- Internal Audit
- Legal and Governance
- Corporate Finance
- External Audit – Grant Thornton LLP

It is expected that, during the year, the committee will also identify other areas and issues for consideration as appropriate. Therefore, this work plan is subject to change.

**Appendices**

| Appendix     | Title  |
|--------------|--|
| Appendix 'A' | Audit, Risk and Governance Committee Work Plan 2023/24 |

## Consultations

N/A

## Implications:

This item has the following implications, as indicated:

## Risk management

No significant risks have been identified.

## Local Government (Access to Information) Act 1985

### List of Background Papers

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

N/A

Reason for inclusion in Part II, if appropriate

N/A



## Audit, Risk and Governance Committee - Work Plan 2023-24

| Meeting         | Internal Audit   | Legal and Governance  | Corporate Finance   | Grant Thornton LLP  |
|-----------------|--|---|---|---|
| 24 July 2023    | <ul style="list-style-type: none"> <li>- Internal Audit Progress Report</li> <li>- Internal Audit Annual Report</li> <li>- Internal Audit Charter</li> <li>- Counter Fraud, Special Investigations and Whistleblowing Annual Report</li> </ul> | <ul style="list-style-type: none"> <li>- Committee Constitution, Terms of Reference and Membership 2023/24</li> <li>- Chairman's Annual Report</li> <li>- Draft Work Plan 2023/24</li> <li>- Corporate Risk and Opportunity Register</li> <li>- Review of Arrangements for the Oversight of Council Controlled Companies</li> </ul> | <ul style="list-style-type: none"> <li>- Update on the council's Statement of Accounts 2022/23</li> <li>- Treasury Management Activity 2022/23</li> </ul>   | <ul style="list-style-type: none"> <li>- External Audit: Audit Progress Report and Sector Update</li> </ul> <p><i>Deferred from April 2023:</i></p> <ul style="list-style-type: none"> <li>- External Audit: Lancashire County Council Audit Plan 2022/23</li> <li>- External Audit: Lancashire County Pension Fund Audit Plan 2022/23</li> </ul> |
| 16 October 2023 | <ul style="list-style-type: none"> <li>- Internal Audit Progress Report</li> <li>- Risk and Resilience Framework Review</li> </ul>   | <ul style="list-style-type: none"> <li>- Corporate Risk and Opportunity Register</li> <li>- Local Member Grants Scheme Annual Report – Update</li> <li>- Update on the Oracle Fusion Data Breach</li> </ul> <p><i>From Trading Standards:</i></p> <ul style="list-style-type: none"> <li>- RIPA Annual Report</li> </ul>            | <ul style="list-style-type: none"> <li>- Response to the Information Request from the External Auditor</li> <li>- Approval of the council's Statement of Accounts 2022/23</li> <li>- Report on the Overpayment of Salaries</li> </ul> | <ul style="list-style-type: none"> <li>- External Audit: Progress Report and Sector Update</li> </ul>   |

## Audit, Risk and Governance Committee - Work Plan 2023-24

| Meeting         | Internal Audit   | Legal and Governance  | Corporate Finance  | Grant Thornton LLP  |
|-----------------|--|---|--|---|
| 29 January 2024 | <ul style="list-style-type: none"> <li>- Internal Audit Progress Report</li> <li>- Counter Fraud, Special Investigations and Whistleblowing Update Report</li> </ul> | <ul style="list-style-type: none"> <li>- Code of Conduct – Annual Report of Complaints</li> <li>- Corporate Risk and Opportunity Register</li> </ul>  | <ul style="list-style-type: none"> <li>- Accounting Policies used in the Preparation of the Statement of Accounts 2023/24</li> <li>- Treasury Management Activity 2023/24</li> <li>- Treasury Management Strategy and Investment Strategy 2024/25</li> </ul> | <ul style="list-style-type: none"> <li>- External Audit: Lancashire County Council Audit Findings Report 2022/23</li> <li>- External Audit: Lancashire County Pension Fund Audit Findings Report 2022/23</li> </ul>   |
| 22 April 2024   | <ul style="list-style-type: none"> <li>- Internal Audit Annual Plan</li> </ul>   | <ul style="list-style-type: none"> <li>- Corporate Risk and Opportunity Register</li> <li>- Annual Governance Statement 2023/24 and Code of Corporate Governance 2024/25</li> <li>- Local Member Grants Scheme Annual Report</li> </ul> <p><i>From Cultural Services:</i></p> <ul style="list-style-type: none"> <li>- Lancashire Culture and Sport Fund Annual Report</li> </ul> <p><i>From Digital Services:</i></p> <ul style="list-style-type: none"> <li>- Data and Analytics Risks</li> </ul> | <ul style="list-style-type: none"> <li>- Report on the Overpayment of Salaries</li> </ul>  | <ul style="list-style-type: none"> <li>- External Audit: Auditor's Annual Report</li> <li>- External Audit: Lancashire County Council Audit Plan 2023/24</li> <li>- External Audit: Lancashire County Pension Fund Audit Plan 2023/24</li> <li>- External Audit: Progress Report and Sector Update</li> </ul> |

# Agenda Item 20

(NOT FOR PUBLICATION: By virtue of paragraph(s) 3, 7 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered that all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information)

Document is Restricted





# Appendix A

(NOT FOR PUBLICATION: By virtue of paragraph(s) 3, 7 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered that all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information)

Document is Restricted



# Agenda Item 21

(NOT FOR PUBLICATION: By virtue of paragraph(s) 2,3 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) 2,3 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

