

Lancashire County Council

Audit and Governance Committee

Monday, 30th June, 2014 at 2.00 pm in

Agenda

Part 1 (Open to Press and Public)

No.	Item	
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1.	Apologies	
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2.	Audit and Governance Committee Constitution: Membership; Chair and Deputy Chair; Terms of Reference	(Pages 1 - 4)
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3.	Disclosure of Pecuniary and Non-Pecuniary Interests	
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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 31 March 2014 To be confirmed, and signed by the chair.	(Pages 5 - 10)
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5.	Update on Treasury Management Activity	(Pages 11 - 30)
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6.	External Audit Lancashire County Council Audit Plan 2013/14	(Pages 31 - 46)
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7.	External Audit - Update report June 2014	(Pages 47 - 58)
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8.	Response of the Audit and Governance Committee Chair to Grant Thornton's request for information to support its compliance with International Standards on Auditing	(Pages 59 - 68)
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9.	Provisional Internal Audit Plan for 2014/15	(Pages 69 - 82)
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10.	Urgent Business	
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An item of urgent business may only be considered under this heading where, by reason of special circumstances to be recorded in the Minutes, the Chair of the meeting is of the opinion that the item should be considered at the meeting as a matter of urgency. Wherever possible, the Chief Executive should be given advance warning of any Member's intention to raise a matter under this heading.

11. Date of Next Meeting

The next meeting of the Committee will be held on Monday 29 September 2014 at 2.00 pm at County Hall, Preston. Future meetings had been scheduled for:

26 January 2015 at 2.00pm
30 March 2015 at 10.00am

12. Exclusion of Press and Public

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

Part II (Not open to Press and Public)

13. Counter fraud and special investigations annual report 2013/14 (Pages 83 - 108)

(Not for Publication – Exempt information as defined in Paragraphs 1, 2 & 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).

I M Fisher
County Secretary and Solicitor

County Hall
Preston

Agenda Item 2

Audit and Governance Committee

Meeting to be held on 30 June 2014

Electoral Division affected: All

Audit and Governance Committee

Constitution: Membership; Chair and Deputy Chair; Terms of Reference
(Appendix 'A' refers)

Contact for further information:

Cath Rawcliffe, 01772 533380, Office of the Chief Executive

cath.rawcliffe@lancashire.gov.uk

Executive Summary and Recommendation

The Committee is asked to note:

- i. the new Membership of the Committee following the County Council's Annual Meeting;
- ii. the appointment of Chair and Deputy Chair of the Committee; and
- iii. the Terms of Reference of the Committee.

Background

The County Council at its annual meeting on 15 May 2014 approved the constitution of the committee on the basis of 4 members of the Labour Group, 4 members of the Conservative Group and 1 Liberal Democrat Group member. The following members were appointed by their respective groups:

County Councillor:

K Brown	G Driver
T Brown	C Pritchard
D Clifford	A Schofield
C Dereli	V Taylor
B Winlow	

Councillors C Pritchard and T Brown have been appointed as Chair and Deputy Chair of the Committee.

A copy of the Committee's Terms of Reference is attached at Appendix 'A'.

Consultations

N/A

Risk Management

N/A

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

Paper	Date	Contact/Directorate/Ext
Full Council agenda	15 May 2014	Cath Rawcliffe 533380

Reason for inclusion in Part II, if appropriate – N/A

Audit and Governance Committee

Terms of Reference

Governance

1. To monitor the operation of the council's corporate governance, risk management and internal control arrangements.
2. To monitor the effectiveness of the council's strategies to counter fraud and corruption.
3. To monitor compliance with the council's local corporate governance code.
4. To promote and maintain high standards of conduct by councillors and co-opted members, to ensure that the highest ethical standards are maintained across all areas of the council's services.
5. To review and approve the council's annual governance statement.
6. To conduct an annual review of the effectiveness of the system of internal audit.

Audit

7. To approve, but not direct, the annual internal audit plan.
8. To consider periodic reports of internal audit activity and outcomes.
9. To consider the head of internal audit's annual report and opinion.
10. To consider the external auditor's annual plan.
11. To consider periodic reports on external auditor's work.
12. To consider the external auditor's annual audit letter.

Financial statements

13. To consider and approve the audited financial statements of the county council and its group subsidiaries and associates.
14. To consider and approve the audited financial statements of Lancashire County Pension Fund.

Treasury management

15. To review the council's treasury management strategy and policies.

16. To consider periodic reports of treasury management activity.

Meetings

17. The Audit and Governance Committee will meet at least four times a year.

Agenda Item 4

Lancashire County Council

Audit and Governance Committee

Minutes of the Meeting held on Monday, 31st March, 2014 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Present:

County Councillor Clare Pritchard (Chair)

County Councillors

K Brown	A Schofield
T Brown	V Taylor
D Clifford	D Westley
C Dereli	B Winlow

Officers in attendance

Gill Kilpatrick – county treasurer
Ruth Lowry – chief internal auditor
Louise Taylor – interim executive director for children and young people
Steve Gross – executive director for adult services, health and wellbeing
Karen Murray – director, Grant Thornton
Len Cross - manager, Grant Thornton
Ian Young – deputy county secretary
Roy Jones - assistant county secretary
Andy Wilkinson – external relations team leader
Cath Rawcliffe – committee support officer

1. Apologies

None received.

2. Disclosure of Pecuniary and Non Pecuniary Interests

None declared.

3. Minutes of the Meeting held on 27 January 2014

Resolved: That the Minutes of the meeting held on the 27 January 2014 be confirmed and signed by the Chair.

4. Internal Audit Service Progress Report

Ruth Lowry, chief internal auditor, presented the internal audit progress report for the eleven months to 28 February 2014.

The report summarised the main issues emerging from the internal audit work completed to date. The report also set out the work performed against the annual audit plan for the year and the assurance assessment provided where work had been completed, including work to assess progress against management's agreed action plans.

The report highlighted the key issues impacting on the audit plan including a number of service areas that were experiencing delays in implementing the actions agreed as necessary to improve internal controls. It was noted that progress reports on three of the service areas highlighted in the report, were provided elsewhere on the agenda.

Resolved: That the internal audit progress report for the eleven months to 28 February 2014 as now presented be noted.

5. Information Governance Arrangements - update

The committee considered a report on the progress made in developing robust arrangements to manage the County Council's responsibilities to properly maintain the confidentiality and security of information.

It was reported that good progress had been made in the provision of meaningful resources to the information governance function and in relation to staff awareness and training.

The committee was pleased to note that the Council had achieved a 'satisfactory' score of 82% against the NHS Toolkit attainment levels. Although the Council had not been able to attain the required Level 3 accreditation for all categories by the deadline of 31st March, it had been able to demonstrate excellent progress, that work was progressing well and that it had a project plan in place to achieve the required level in all categories in the near future.

It was also reported that a new version of the Toolkit would be released for 2014/15 which it was expected would be more aligned to local government ways of working and that a report on such would be presented to the committee when available.

The committee noted that 21 information security breaches had been reported in the last three months, a number of which had been reported to the Information Commissioner's Office.

Resolved: That the report be noted.

6. Directorate for Children and Young People Update Report

Louise Taylor, interim executive director for children and young people presented an update on the actions taken in response to the internal audit report on Children and Young People (CYP) services.

Previously the committee had been informed of a number of areas within the CYP directorate where the audit team had given limited assurance. These included:

- Adoption allowances (namely Special Guardianship Orders and Residence Orders payments)
- Independent Reviewing Officer (IRO) service (starred recommendations)
- Working Together With Families (WTWF)
- Case file audits

The committee was informed that the measures being undertaken in respect of adoption allowances included a written agreement with adopters requiring them to notify the council of any change in circumstances. In addition, the directorate was proposing to write out to adopters once a year reminding them of this obligation.

A series of measures had been put in place to monitor and track the 'starred recommendations' of the Independent Reviewing Officers. The measures included assigning a quality and review manager to take lead responsibility for overseeing and auditing 'starred recommendations' on a monthly basis and the production of a quarterly report.

In respect of WTWF, it was noted that an action plan had been developed and implemented and that a revised assurance level was expected to be secured shortly. It was also noted that the directorate was now confident an agreement could be reached with the Department for Communities and Local Government on the criteria for the funding and the number of families they expected the council to be engaged with.

The directorate acknowledged that it did not always achieve the target number of case file audits. However, it considered that the targets had been set too high. It was therefore proposed to reduce the number of audits to avoid causing too much disruption to front line staff.

The audit statements together with a comprehensive list of the actions taken in response to the findings of the Internal Audit Service were set out at Appendices A and B to the report respectively.

Resolved: That the report be noted.

7. Adult Services, Health and Wellbeing Directorate - Update report

Steve Gross, executive director for adult services, health and wellbeing presented an update on the actions taken in response to the internal audit report on Adult Health and Wellbeing.

Previously the committee had been informed of two service areas where the audit team had given limited assurance. These included direct payments to vulnerable adults and assessment tools for adult social care.

The committee noted the measures being taken to address the concerns raised in respect of direct payments. These included a training programme for staff and a review of service users with learning disability and dementia in receipt of direct payments.

In respect of assessment tools for adult social care, it was noted that the majority of cases were now being recorded on FACE (Functional Assessment of the Care Environment). It was also noted that measures were in place to identify any learning and development required and that e learning and direct support was available to staff.

Resolved: That the report be noted.

8. External Audit Lancashire County Pension Fund Audit Plan 2013/14

Karen Murray, director, Grant Thornton presented the External Audit Plan for the audit of the pension fund for 2013/14.

The Audit Plan set out the main risk areas which the audit would focus on and how the audit team plans to obtain the necessary assurances. These risks related to the three key elements of the fund accounts being;

- investments,
- contributions and
- benefits payable.

The committee noted that the fee for the audit of the pension fund had been set at £35,906.

The committee also noted that the Plan had been reported to Council's Pension Fund Committee on 28 March 2014 and that they had raised no comments.

Resolved: - That the External Audit Plans for the audit of the County Pension Fund for 2013/14, and the fees therein, be noted.

9. Urgent Business

There were no items of urgent business.

10. Date of Next Meeting

Resolved: That the next meeting of the Committee be held on Monday 30 June 2014 at 2pm at County Hall, Preston.

11. 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 paragraph of Part 1 of schedule 12A to the Local Government Act, 1972, indicated against the heading to the item. It was considered that in all the circumstances the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

12. Review of the Authorisation and Governance of Remuneration Payments

(Exempt information as defined in Paragraphs 1, 3 and 5 of Part 1 of Schedule 12A to the Local Government Act, 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interest in disclosing the information)

A report was presented on an update in relation to the authorisation and governance of remuneration payments.

- Resolved:**
- i) That the report be noted
 - ii) That a further report be presented to the committee in due course.

I M Fisher
County Secretary and Solicitor

County Hall
Preston

Audit and Governance Committee

Meeting to be held on 30 June 2014

Electoral Division affected: None

Update on Treasury Management Activity

Appendix A refers

Contact for further information:

Mike Jensen, County Treasurer's Directorate, (01772) 534742

mike.jensen@lancashire.gov.uk

Executive Summary

Treasury Management is a fundamental element of the Council's approach to financial management, and is critical in terms of managing the financial risks within the economic environment. The report set out at Appendix A is a review of the County Council's treasury management activities in 2013/14. Management activities are regulated by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice and it is best practice to review treasury management activities on a regular basis.

This review includes:

- A review of the economic conditions during 2013/14
- An assessment of the appropriateness of treasury strategy within the current and predicted economic environment
- Borrowing activity
- Investment activity
- Actual results measured against 2013/14 prudential indicators and Treasury Management Indicators.

Recommendation

The Committee is recommended to note the review of treasury management activities for 2013/14 to date.

Background and Advice

As part of the County Council's governance arrangements for its treasury management activities, the Audit and Governance Committee is charged with oversight of the County Council's treasury management activities. To enable the Committee to fulfil this role, the Committee receives regular reports on treasury

management issues and activities. Reports on treasury activity are discussed on a monthly basis with the County Treasurer and the content of these reports is used as a basis for this report to the Committee.

This report outlines a review of the borrowing and lending activity during 2013/14 and sets this activity against the current economic background including risk management strategies to protect the capital value of the County Council's reserves and balances.

Consultations

Arlingclose provides advice on treasury management.

This item has the following implications, as indicated:

Risk management

The County Council's treasury strategy and review set out a policy in respect of borrowing and lending activity and how risks associated with these activities are managed and monitored.

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

Paper	Date	Contact/Directorate/Tel
Treasury Management Policy and Strategy 2013/14	Feb 2014	Andy Ormerod Ext 34740
CIPFA TM Code of Practice	2011	Andy Ormerod Ext 34740

Review of Treasury Management 2013/14

Introduction

The County Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year.

1. Economic Summary 2013/14

At the beginning of the 2013-14 financial year markets were concerned about lacklustre growth in the Eurozone, the UK and Japan. Lack of growth in the UK economy, the threat of a 'triple-dip' alongside falling real wages (i.e. after inflation) and the paucity of business investment were a concern for the Bank of England's Monetary Policy Committee. Only two major economies – the US and Germany – had growth above pre financial crisis levels, albeit these were still below trend. The Eurozone had navigated through a turbulent period for its disparate sovereigns and the likelihood of a near-term disorderly collapse had significantly diminished. The US government had just managed to avoid the fiscal cliff and a technical default in early 2013, only for the problem to re-emerge later in the year.

With new Governor Mark Carney at the helm, the Bank of England unveiled forward guidance in August pledging to not consider raising interest rates until the International Labour Organisation (ILO) unemployment rate fell below the 7% threshold. In the Bank's initial forecast, this level was only expected to be reached in 2016. Although the Bank stressed that this level was a threshold for consideration of rate increase rather an automatic trigger, markets began pricing in a much earlier rise than was warranted and, as a result, gilt yields rose aggressively.

The recovery in the UK surprised with strong economic activity and growth. Quarter 4 2014 Gross Domestic Product (GDP) showed year-on-year growth of 2.7%. Much of the improvement was down to the dominant service sector, and an increase in household consumption buoyed by the pick-up in housing transactions which were driven by higher consumer confidence, greater availability of credit and strengthening house prices which were partly boosted by government initiatives such as Help-to-Buy. However, business investment had yet to recover convincingly and the recovery was not accompanied by meaningful productivity growth. Worries of a housing bubble were tempered by evidence that net mortgage lending was up by only around 1% annually.

The Consumer Price Index (CPI) fell from 2.8% in March 2013 to 1.7% in February 2014, the lowest rate since October 2009, helped largely by the easing commodity prices and discounting by retailers, reducing the pressure on the Bank to raise rates. Although the fall in unemployment (down from 7.8% in March 2013 to 7.2% in January 2014) was faster than the Bank of England or indeed many analysts had forecast, it hid a stubbornly high level of underemployment. Importantly, average earnings growth remained muted and real wage growth (i.e. after inflation) was negative. In February the Bank stepped back from forward guidance relying on a single indicator – the unemployment rate – to more complex measures which included spare capacity within the economy. The Bank also implied that when official interest rates were raised, the increases would be gradual – this helped underpin the ‘low for longer’ interest rate outlook despite the momentum in the economy.

The Office of Budget Responsibility’s 2.7% forecast for economic growth in 2014 forecast a quicker fall in public borrowing over the next few years. However, the Chancellor resisted the temptation to spend some of the proceeds of higher economic growth. In his 2013 Autumn Statement and the 2014 Budget, apart from the rise in the personal tax allowance and pension changes, there were no significant giveaways and the coalition’s austerity measures remained on track.

The Federal Reserve’s then Chairman Ben Bernanke’s announcement in May that the Fed’s quantitative easing (QE) programme may be ‘tapered’ caught markets by surprise. Investors began to factor in not just an end to QE but also rapid rises in interest rates. ‘Tapering’ (a slowing in the rate of QE) began in December 2013. By March 2014, asset purchases had been cut from \$75bn to \$55bn per month with expectation that QE would end by October 2014. This had particular implications for global markets which had hitherto benefited from, and got very accustomed to, the high levels of global liquidity afforded by QE. The impact went further than a rise in the dollar and higher US Treasury bond yields. Gilt yields also rose as a consequence and emerging markets, which had previously benefited as investors searched for yield through riskier asset, suffered large capital outflows in December and January.

With the Eurozone struggling to show sustainable growth, the European Central Bank (ECB) cut main policy interest rates by 0.25% to 0.25% and the deposit rate to zero. Markets were disappointed by the lack of action by the ECB despite CPI inflation below 1% and a looming threat of deflation. Data pointed to an economic slowdown in China which, alongside a weakening property market and a highly leveraged shadow banking sector, could prove challenging for its authorities.

Russia’s annexation of the Ukraine in March heightened geopolitical tensions and risk. The response from the West which began with sanctions against Russia which is the second largest gas producer in the world and which supplies nearly 30% of European natural gas needs and is also a significant supplier of crude oil – any major disruption to their supply would have serious ramifications for energy prices.

Gilt Yields and Money Market Rates: Gilt yields ended the year higher than the start in April. The peak in yields was during autumn 2013. The biggest increase was in 5-year gilt yields which increased by nearly 1.3% from 0.70% to 1.97%. 10-year gilt yields rose by nearly 1% ending the year at 2.73%. The increase was less pronounced for longer dated gilts; 20-year yields rose from 2.74% to 3.37% and 50-year yields rose from 3.23% to 3.44%.

3-month, 6-month and 12-month London interbank bid rates (LIBID) remained at levels below 1% through the year.

2. Change to Legislation: Bank Regulation and Bail-in

Bondholders are being required in the future to forfeit part of their investment to bail in a bank before tax payers are called upon to bail it out. So far bond holders have been untouched as equity holders have an obligation to pay their creditors.

A bail-in takes place before a bankruptcy and under current proposals; regulators would have the power to impose losses on bondholders while leaving untouched other creditors of similar stature, such as derivatives counterparties.

There is an EU Bank Recovery and Resolution Directive (Proposal 2013 – due for implementation January 2016) which proposes that national regulators will be required to bail-in creditors in order of seniority until their losses reach at least 8% of the bank's liabilities before any government money can be injected.

Many liabilities are exempt from bail-in such as:-

- insured retail and small business deposits, interbank lending with a maturity of less than one week, secured debt such as covered bonds or Asset backed securities

This would leave local authority and other large deposits as one of the few categories able to take losses. For example, if unsecured bonds and wholesale deposits make up just 20% of the balance sheet, they will need to:

- take a cut of 40% to write down 8% of total liabilities
- Governments can then contribute up to 5% of the failing bank's liabilities

If further funds are required, these must come from deeper cuts on unsecured creditors. It will be illegal for any more government money to be injected until bondholders and wholesale depositors were completely wiped out.

In December 2013 it became law that investor bail-ins will now replace government bail-outs in the UK as per the Financial Services (Banking Reform) Act 2013.

In summary, from a Local Government treasury management perspective, the maximum risk investment policy is to exclusively invest reserves and balances in the form of bank deposits directly or through money market funds where the funds

investment strategy is predominately bank deposit or certificate of deposit (CD) based, in this case a Council's full investment portfolio will be "at risk" in the event of a credit event.

LCC has had a deliberate "low credit risk" investment policy in place for a number of years, replacing bank deposits with bonds issued by governments, government agencies, government guaranteed bodies, supranational bodies and collateralized bonds in the main. LCC's position is therefore substantially insulated from the effects of this legislation in the event of an individual or systemic banking "credit event".

Evidence of this low credit risk can be seen in the results of the Arlingclose benchmarking shown in the Appendices.

3. Treasury Management Strategy 2013/14

The Full Council approved the 2013/14 treasury management strategy at its meeting on 11th February 2013. The Council's stated investment priorities were:

- (a) Security of capital and
- (b) Liquidity of its investments.

The Council also aimed to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of the Council is low in order to give priority to security of its investments.

The Council's stated borrowing strategy was to take advantage of historically low short term interest rates by borrowing short term in the money markets rather than financing capital expenditure through long term Public Works Loan Board (PWLB) loans.

The County Treasurer can report that all treasury management activity undertaken during the financial year complied with the *CIPFA Code of Practice* and the relevant legislative provisions.

4. Treasury Management Activities in 2013/14

Borrowing Activity 2013/14

The revised 2013/14 borrowing requirement was estimated at £227.339m after taking into account the updated capital programme and the refinancing of existing borrowing, including short term borrowing taken to meet the Capital Financing Requirement. The table below shows the 2013/14 revised borrowing requirement as agreed within the 2014/15 treasury management strategy report, along with the actual position as at 31st March 2014.

	2013/14 Revised £m	2013/14 Actual £m	2014/15 Estimate £m
Capital Programme Expenditure	163.657	154.476	204.733
<i>Financed by:</i>			
Capital Receipts	0.983	0	0
Grants and Contributions	147.437	138.086	146.850
Revenue Contributions	13.337	16.390	14.001
Borrowing	1.900	0	43.882
<i>Add Maturing Debt to be replaced:</i>			
Long Term PWLB	0	0	0
Short Term Market Borrowing	264.700	264.700	264.700
Less Transferred Debt	2.033	2.033	1.967
Less Statutory Charge to Revenue	37.228	27.285	35.655
Total Borrowing Requirement	227.339	235.382	270.960

The revised capital programme estimated that £1.9m of new borrowing would be required to finance the capital programme. However lower than anticipated capital expenditure meant this borrowing was not required.

Analysis of Debt Outstanding

The following table sets out the structure of the County Council's debt at 31st March 2014.

	Debt at 31-Mar-13		Borrowing £m	Repayments £m	Debt at 31-Mar-14	
	£m	%			£m	£m
Fixed Rate Funding						
Public Works Loan Board	213.10	26.04	-	-	213.10	26.22
*LOBO (RBS)	50.00	6.31	-	-	50.00	6.15
Local Bonds	0.02	-	-	-	0.02	-
Market Borrowing	287.25	37.22	732.70	689.00	330.95	40.73
	550.37		732.70	689.00	594.07	
Variable Rate Funding						
Public Works Loan Board	125.75	22.70	-	-	125.75	15.48
Shared Investment Scheme	61.49	7.73	527.09	495.81	92.77	11.42
	187.24		527.09	495.81	218.52	
Loan Debt Administered by the County Council	737.62	100.00	1,259.786	1,184.809	812.59	100.00

*Lender option borrower option

The total loan debt administered by the County Council at 31 March 2014 of £812.59m represents mainly borrowings over the years to finance the acquisition of the County Council's fixed assets, which are currently valued at £2.671 billion.

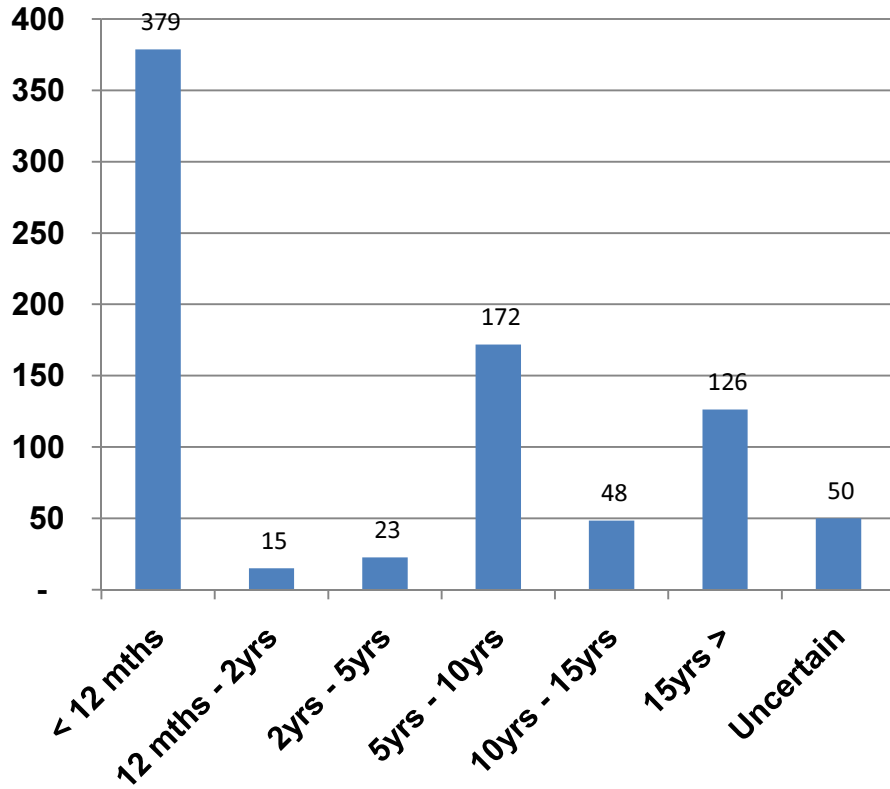
With short-term interest rates having remained much lower than long-term rates, it was more cost effective in the short-term to borrow short-term loans from the market, mainly from other local authorities. By doing so, the Council was able to keep borrowing costs low and reduce overall treasury risk. Whilst such a strategy is most likely to be beneficial over the next 2-3 years as official interest rates remain low, it is unlikely to be sustained in the medium-term.

The County Treasurer will, in conjunction with Arlingclose, continue to closely monitor interest rate forecasts in order to establish when long term interest rates might be expected to rise.

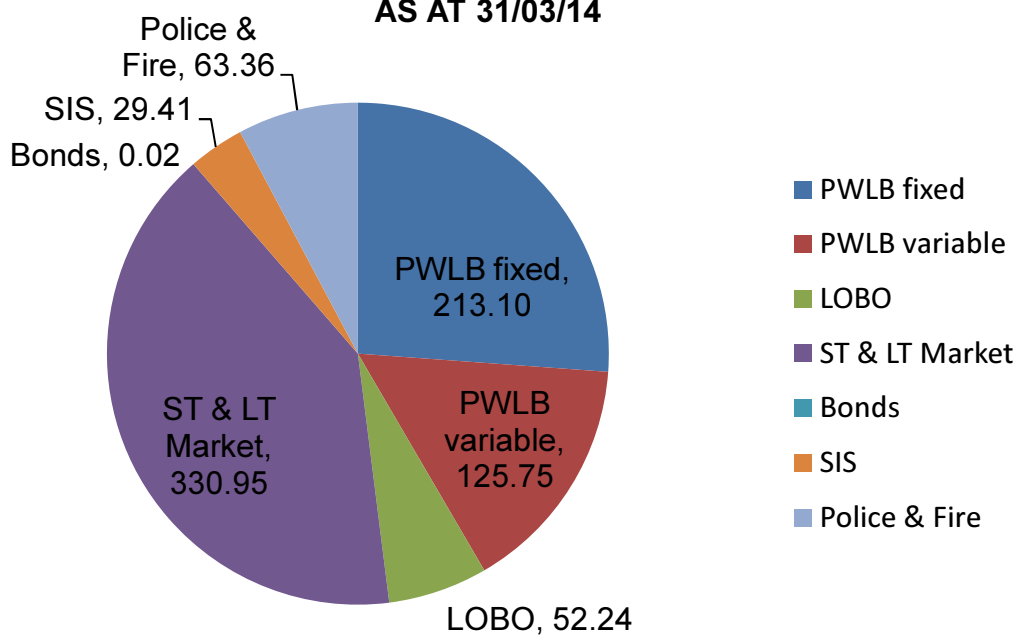
Overall the average rate of interest paid in 2013/14 on the debt administered by the County Council was 2.48% per annum compared with an average rate of 2.45% in 2012/13, 2.11% in 2011/12 and 2.69% in 2010/11.

The charts below show the maturity and portfolio profiles of the County Council's debt as at 31 March 2014.

DEBT BY MATURITY (£M) AS AT 31/03/14



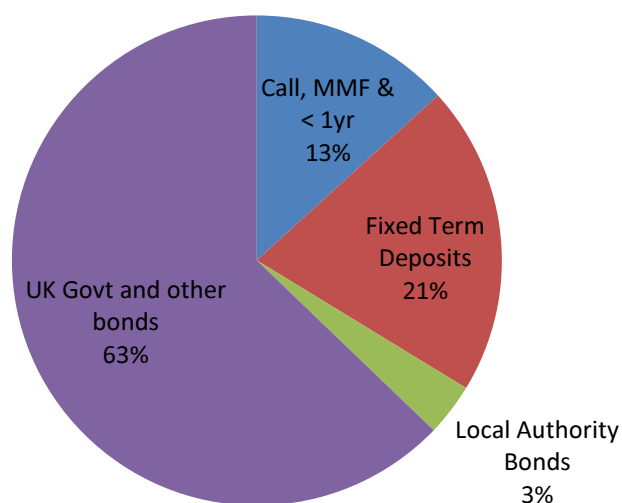
DEBT PORTFOLIO (£m) AS AT 31/03/14



Investment Activity

The total amount of investments (excluding fair value adjustment) held by Lancashire County Council at 31st March 2014 is £587.07m including £57.748m of cash and cash equivalents. The table below shows the asset classes and the proportion of investments held in each class.

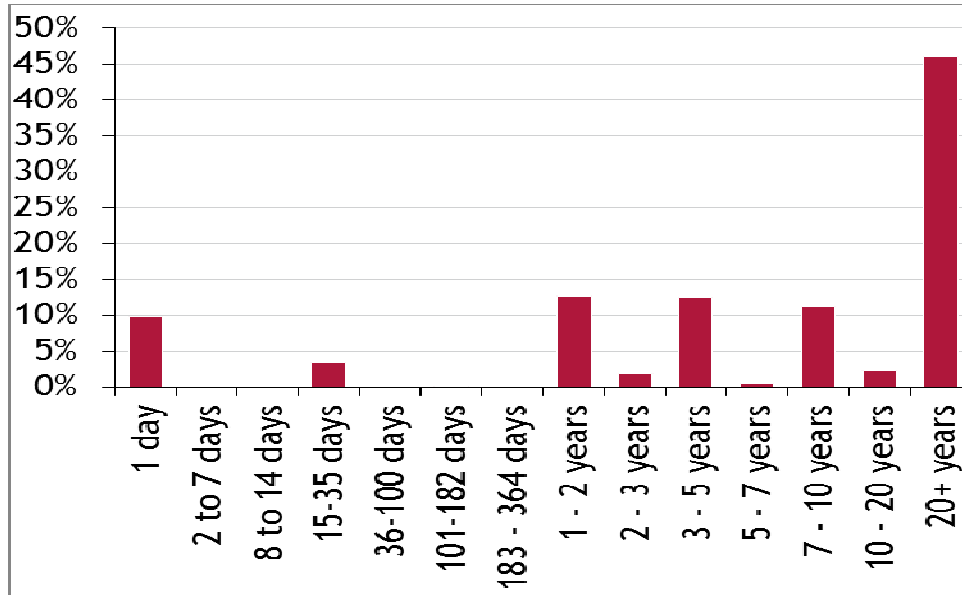
LCC Investments Asset Classes 31.03.2014



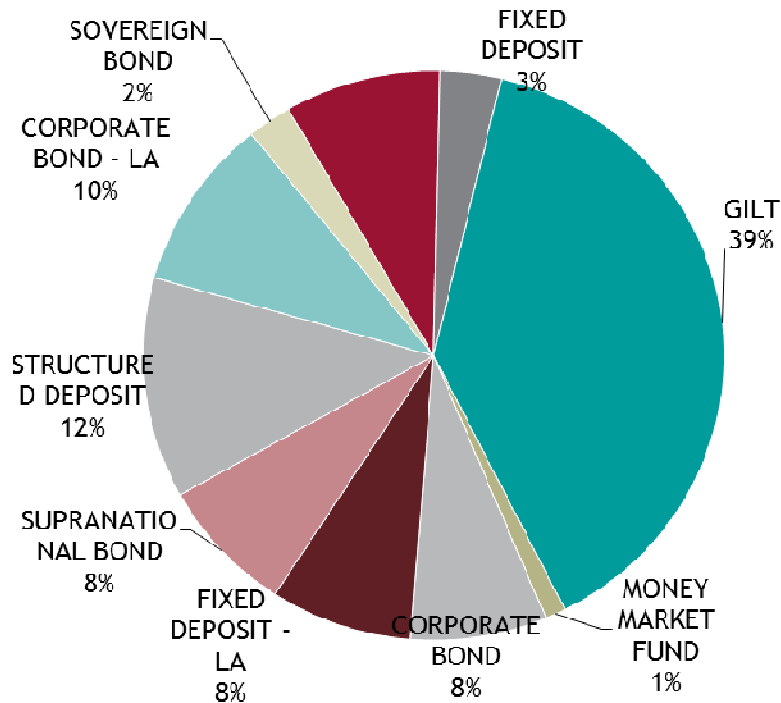
The table below shows a maturity analysis of the portfolio at 31st March 2014, alongside the average interest rate earned over the 2013/14 financial year.

Maturity Range	Amount £m	Average Rate %
Call, Money Market Funds & Under 1yr	77.75	1.23
Bank Deposit 1-2 Years	73.68	2.98
Bank and Local Authority Deposits 2-3 Years	10.00	1.00
Bank & Local Authority Deposits 3-5 Years	36.50	0.43
Bank Deposit 5 Years +	-	-
Local Authority Bonds	20.31	6.23
UK Government and Supranational Bonds	368.83	2.75
Total	587.07	2.56

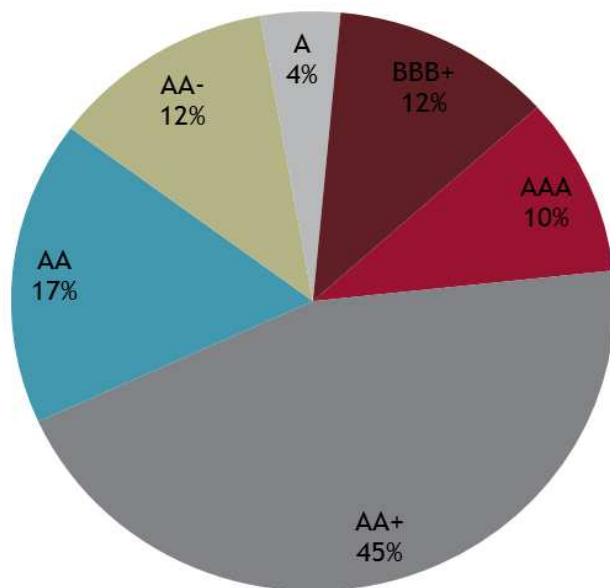
Investments by Maturity



Total investments analysed by asset type



Total Investments analysed by credit rating



Investments are very secure, with 55% rated AAA or AA+, although £69m with RBS Group is rated below BBB+. Average credit score of 2.82/AA is well within the limit of

5/A+

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 2013/14. This defined "high credit quality" organisations as those having a minimum long-term credit rating of A+ In practice the average credit rating in 2013/14 was higher at AA.

Investments with banks and building societies were primarily call accounts, money market funds and fixed-rate term deposits. The longest duration of bank deposit currently carried by the County Council is 15 months. Any longer term deposits have been restricted to other local authorities.

Credit developments and credit risk management

The Council assessed and monitored counterparty credit quality with reference to credit ratings; credit default swaps; GDP of the country in which the institution operates, the country's net debt as a percentage of GDP and share price.

The debt crisis in Cyprus was resolved by its government enforcing a 'haircut' on unsecured investments and bank deposits over €100,000. This resolution mechanism, in stark contrast to the bail-outs during the 2008/2009 financial crisis, sent shockwaves through Europe but allowed banking regulators to progress reform which would in future force losses on investors through a 'bail-in' before taxpayers were asked to support failing banks.

The Financial Services (Banking Reform) Act 2013 gained Royal Assent in December, legislating for the separation of retail and investment banks and for the introduction of mandatory bail-in in the UK to wind up or restructure failing financial institutions. EU finance ministers agreed further steps towards banking union, and the Single Resolution Mechanism (SRM) for resolving problems with troubled large banks which will shift the burden of future restructurings/rescues to the institution's shareholders, bondholders and unsecured investors.

Proposals were also announced for EU regulatory reforms to Money Market Funds which may result in these funds moving to a VNAV (variable net asset value) basis and losing their 'triple-A' credit rating wrapper in the future.

The material changes to UK banks' creditworthiness were (a) the strong progress made by the Lloyds Banking Group in strengthening its balance sheet, profitability and funding positions and the government reducing its shareholding in the Group to under 25%, (b) the announcement by Royal Bank of Scotland of the creation of an internal bad bank to house its riskiest assets (this amounted to a material extension of RBS' long-running restructuring, further delaying the bank's return to profitability) and (c) substantial losses at Co-op Bank which forced the bank to undertake a

liability management exercise to raise further capital and a debt restructure which entailed junior bondholders being bailed-in as part of the restructuring.

In July Moody's placed the A3 long-term ratings of Royal Bank of Scotland and NatWest Bank and the D+ standalone financial strength rating of RBS on review for downgrade amid concerns about the impact of any potential breakup of the bank on creditors. As a precautionary measure the Council reduced its duration to overnight for new investments with the bank(s). In March Moody's downgraded the long-term ratings of both banks to Baa1. As this rating is below the Council's minimum credit criterion the banks were withdrawn from the counterparty list for further investment. NatWest is the Authority's banker and will continue to be used for operational and liquidity purposes.

Credit risk Analysis

The Appendices show Arlingclose's quarterly credit risk benchmarking of their clients. The graphs show that LCC is in line with its' strategy of low credit risk and high investment return. They also show that LCC compare favourably to other organisations.

Liquidity Management

In keeping with the CLG's Guidance on Investments, the Council maintained a minimum level of primary liquidity of £20.0m through the use of Money Market Funds and Call Accounts. The Council also has £368m bond portfolio which is available for sale, at current market prices, if needed as "secondary" liquidity.

The Council uses purpose-built cash flow forecasting spreadsheets to determine the maximum period for which funds may prudently be committed.

Yield

The UK Bank Rate was maintained at 0.5% through the year. Short term money market rates also remained at very low levels which continued to have a significant impact on investment income. The average 3-month LIBID rate during 2013/14 was 0.45%, the 6-month LIBID rate averaged 0.53% and the 1-year LIBID rate averaged 0.78%. The low rates of return on the Authority's short-dated money market investments reflect prevailing market conditions and the Authority's objective of optimising returns commensurate with the principles of security and liquidity.

Income earned of £16.2m on longer-dated investments made in 2013/14, an average rate of 2.68%, providing some cushion against the low interest rate environment.

4. Impact of the Treasury Management Strategy on the County Council's revenue budget

The table below shows an underspend of £1.528m on the finance charges budget which is as a result of the Treasury Management strategy applied in the year. This has been achieved by keeping borrowing costs low and maximising investment returns whilst ensuring the proper levels of security and liquidity are maintained.

Financing Charges 2013/14– End of Year Position

	Budget	Year End Position	Variance
	£m	£m	£m
Statutory Charge to Revenue	29.998	30.565	0.567
Interest paid	18.674	19.278	0.604
Investment interest received	-16.323	-19.022	-2.699
Total Net Financing charges	32.349	30.906	-1.528

5. Treasury Management and Prudential Indicators 2013/14

The Local Government Act 2003 and supporting regulations require the County Council to have regard to the prudential code and to set prudential indicators to ensure the County Council's capital investment plans are affordable, prudent and sustainable.

A comparison of the actual position at 31 March 2013 compared to the indicators set in the treasury management strategy for 2012/13 is set out below.

	2013/14 Limit £m	2013/14 Actual £m
--	------------------------	-------------------------

Prudential Indicators

1. Adoption of CIPFA TM Code of Practice	ADOPTED	
2. Authorised limit for external debt - A prudent estimate of debt, which reflects the Authority's capital expenditure plans and allows sufficient headroom for unusual cash movements.		
Borrowing	891	815
Other long-term liabilities (PFI schemes)	500	395
TOTAL	1,391	1,210
3. Operational boundary for external debt - A prudent estimate of debt, but no provision for unusual cash movements. It represents the estimated maximum external debt arising as a consequence of the County Council's current plans.		
Borrowing	841	815
Other long-term liabilities (PFI schemes)	450	395
TOTAL	1,291	1,210
4. Indicators of Capital Expenditure and Financing		
Capital Programme Expenditure	166	154
Capital Financing Requirement	1,019	1,038
Ratio of Gross Debt to CFR*	124%	127%

*Gross borrowing appears higher than the capital financing requirement because the shared investment scheme is accounted for as borrowing, but it does not form part of the capital financing requirement calculation.

5. Council Tax indicators		
Ratio of financing costs to the net revenue stream	6.59%	3.97%
Estimated revenue impact of capital investment on Band D Council Tax	89.01	49.42

Treasury Management Indicators

6. Upper limit for fixed rate debt	37.6	- 0.3
7. Upper limit for variable rate debt	5.0	0.1
8. Upper limit for Bank Deposits over 364 days		

This limit does not apply to UK or AAA rated foreign Government or Supra National Bank securities.	75%	13%
--	-----	-----

9. Maturity structure of debt

	Lower Limit %	Upper Limit %	Actual %
Under 12 months	-	75	46.5
12 months and within 2 years	-	75	1.8
2 years and within 5 years	-	75	2.8
5 years and within 10 years	-	75	21.1
10 years and above	25	100	27.8

The Council confirms that it has complied with its **Prudential Indicators** for 2013/14, which were approved on 11th February 2013 as part of the Council's Treasury Management Strategy Statement.

The Council also confirms that during 2013/14 it complied with its **Treasury Management Policy Statement** and **Treasury Management Practices**.

5. Investment in Landsbanki is.

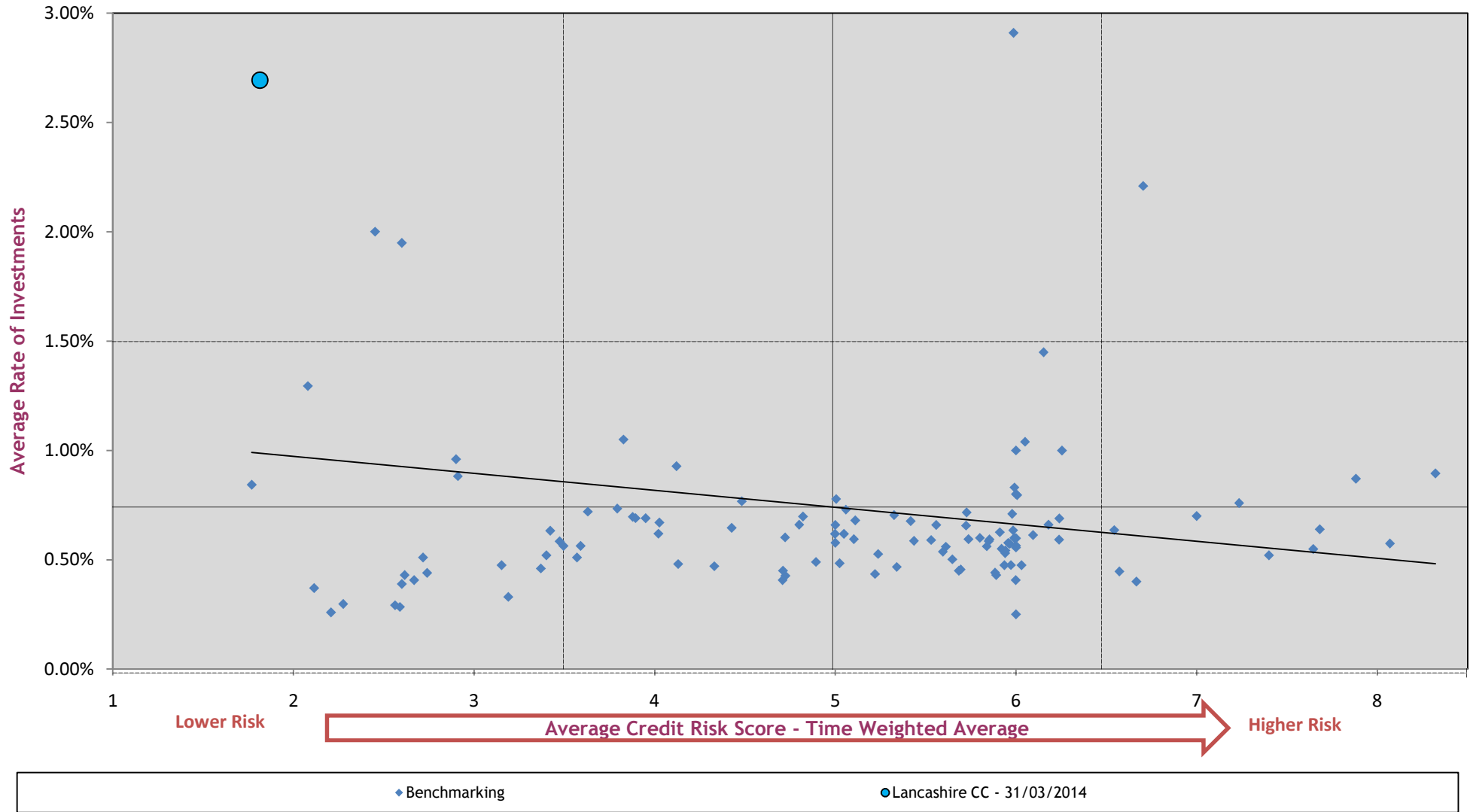
Lancashire County Council had £6.4m on deposit with the Icelandic Bank Landsbanki (LBI) when it collapsed in October 2008. The Winding up Board published details of LBI's financial position as at 31 December 2012; this showed that LBI's assets, including partial payments already made in respect of priority claims were greater than the sum of priority claims. It is therefore still considered likely that UK local authorities will recover 100% of their deposits, subject to potential future exchange rate fluctuations. Approximately 53% of the total claim has now been repaid and the outstanding amount at 31 March 2014 is £3.1m.

The exact timing and amounts of future distributions is not known at this stage.

The deposit is treated as an impaired asset on the balance sheet and the carrying value is written down as distributions are received.

Appendices

Arlingclose Client Benchmarking



Audit and Governance Committee

Meeting to be held on 30 June 2014

Electoral Division affected: All

External Audit

Lancashire County Council Audit Plan 2013/14

Contact for further information:

Karen Murray, 0161 234 6364, Director, Grant Thornton

karen.l.murray@uk.gt.com

Executive Summary

The Audit Plan sets out the nature and scope of work that the Authority's external auditor will carry out to discharge its statutory responsibilities, compliant with the Audit Commission Act 1998 (the Act) and the Code of Audit Practice for Local Government.

This audit plan is specific to the financial year 2013/14 and sets out in broad terms the programme of work required to:

- give a financial opinion on whether the financial statements:
 - give a true and fair view of the financial position of the County Council as at 31 March 2014 and of its expenditure and income for the year then ended; and
 - have been prepared in accordance with proper accounting practice.
- give a Value for Money conclusion.

The Audit Plan, setting out the process that underpins the audit is at Appendix A.

Recommendation

The Committee is asked to note the External Audit plan for the audit of the County Council for 2013/14.

Background and Advice

Attached at Appendix 'A' is the external auditor's Audit Plan for the audit of the Lancashire County Council. The plan sets out the main risk areas which the audit will focus on and how the audit team plans to obtain the necessary assurances. The risks relate to the three key elements of the accounts being:

- operating expenses;
- employee remuneration; and
- property, plant and equipment.

The two criteria forming the focus of the Value for Money conclusion are:

- financial resilience
- the arrangements for challenging how the Council secures economy, efficiency and effectiveness.

Karen Murray, Engagement Lead, will attend the meeting to present the report and answer any questions.

Consultations

The report has been agreed with the County Treasurer and Deputy County Treasurer.

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/Directorate/Tel
N/A		



The Audit Plan for Lancashire County Council

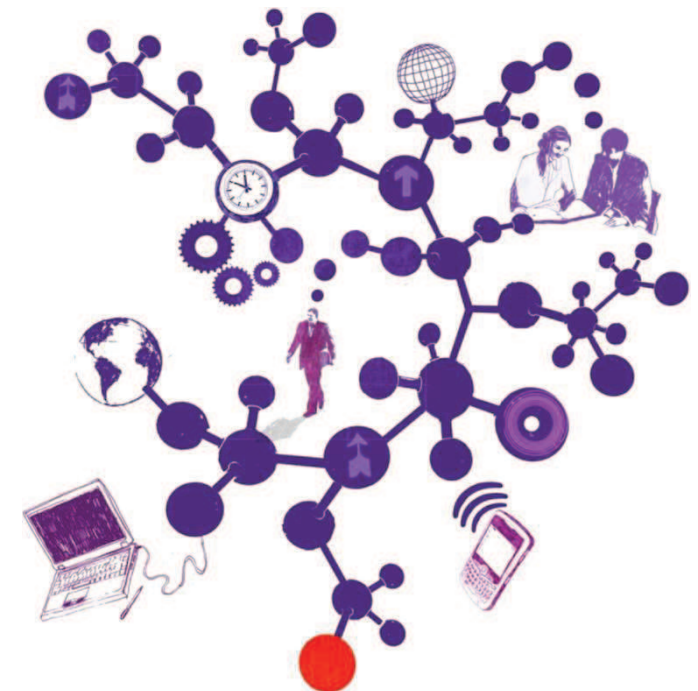
Year ended 31 March 2014

11 June 2014

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Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Financial challenges

- Having taken £220m of annualised costs out of the budget over the three years to March 2014 it needs to reduce its annual costs by a further £300m over the next 4 years.

2. One Connect Limited (OCL)

- The Council has renegotiated its strategic partnership with BT, bringing back in house a range of services previously provided by OCL.
- ICT, revenue and benefits and payroll services remain within the partnership and will be provided by the newly formed BT Lancashire Services, a wholly owned BT subsidiary.

3. Waste Management Private Finance Initiative (PFI)

- The Council has a 25 year, £2 billion Waste Management PFI contract. The Council continues to face significant performance and financial challenges around the contract

5. Changes in financial systems

The Council:

- implemented a new fixed assets accounting system in October 2013; and
- completed the migration of PPE information to the new fixed assets system to be used for 2013/14 capital accounting closedown and financial reporting purposes.

Infrastructure assets are unaffected and continue to be accounted for on a historic cost basis

Our response

We will monitor the progress the Council is making in identifying and delivering the savings plans and organisational changes needed to remain financially resilient

We will consider whether there are any issues arising from the new contractual arrangements that impact on our VfM conclusion.

Through our VfM conclusion work we will refresh our previous understanding of the arrangements for managing and mitigating financial performance risks around the contract and assess their effectiveness

As part of our audit coverage we will:

- document and walkthrough the fixed assets system controls framework, including reviewing arrangements for migrating PPE information to the new system
- assess the overall adequacy of the PPE controls framework for mitigating the risk of material misstatement
- conduct substantive sample testing to obtain assurances that capital accounting disclosures are free from material misstatement

Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

Developments and other requirements

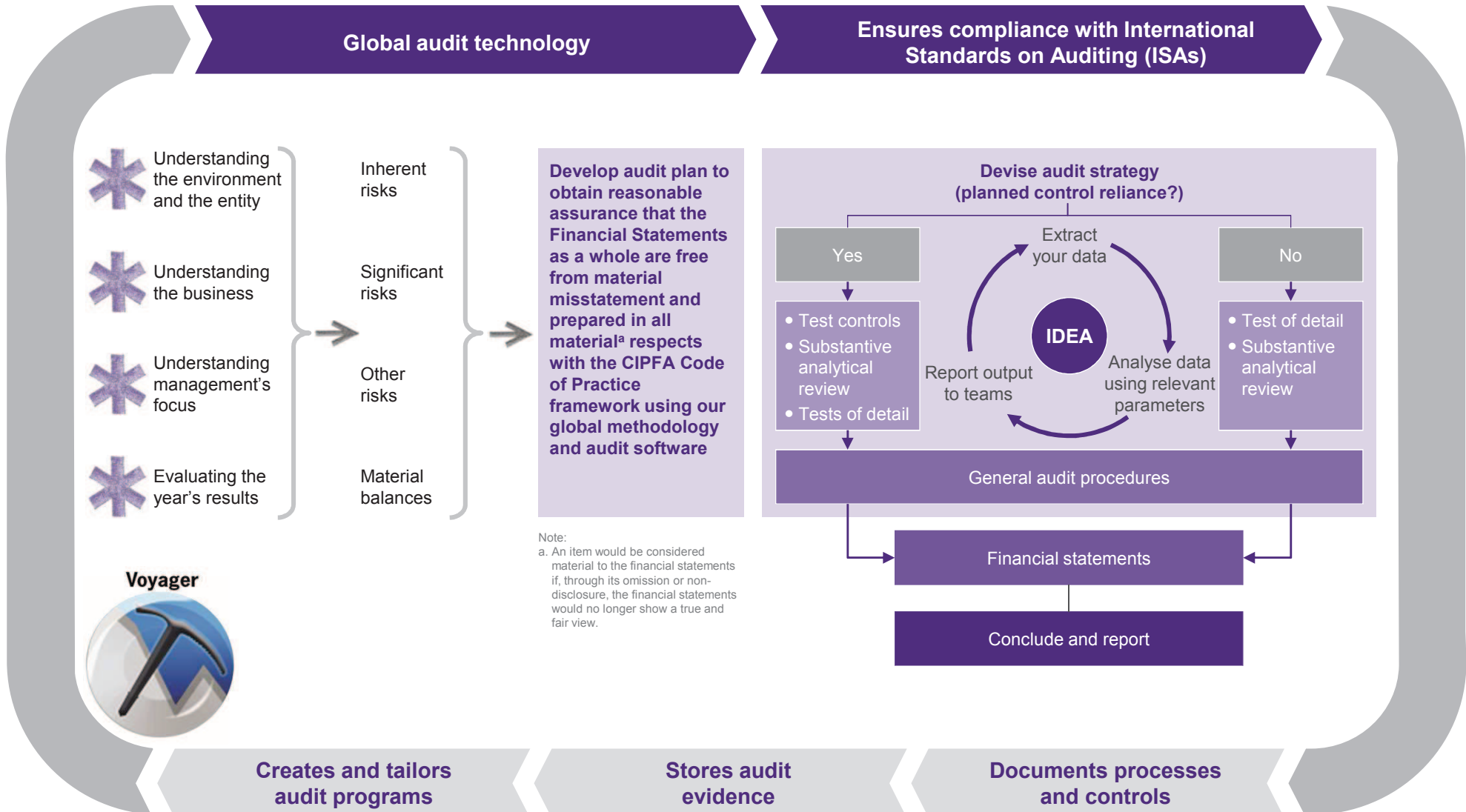
<p>1. Financial reporting</p> <ul style="list-style-type: none"> • Changes to the CIPFA Code of Practice • Clarification of Code requirements around PPE valuations • Changes to NDR accounting and provisions for business rate appeals • Transfer of assets to Academies 	<p>2. Legislation</p> <ul style="list-style-type: none"> • Local Government Finance settlement • Welfare reform Act 2012 	<p>3. Corporate governance</p> <ul style="list-style-type: none"> • Annual Governance Statement (AGS) • Explanatory foreword 	<p>4. Pensions</p> <ul style="list-style-type: none"> • The impact of 2013/14 changes to the Local Government pension Scheme (LGPS) 	<p>5. Financial Pressures</p> <ul style="list-style-type: none"> • Managing service provision with less resource • Progress against savings plans 	<p>6. Other requirements</p> <ul style="list-style-type: none"> • The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion • The Council completes grant claims and returns on which audit certification is required
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Our response

<p>We will carry out work to obtain assurances that:</p> <ul style="list-style-type: none"> • the Council's programme of revaluations are sufficiently up to date to ensure the carrying value of PPE does not differ materially from the fair value at 31 March 2014 • the Council's share of NDR income, top up/tariffs and safety net are accounted for correctly • schools are accounted for correctly and in line with the latest guidance 	<ul style="list-style-type: none"> • We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate 	<ul style="list-style-type: none"> • We will review the arrangements the Council has in place for the production of the AGS • We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge 	<ul style="list-style-type: none"> • We will review how the Council dealt with the impact of the 2013/14 changes through our meetings with senior management 	<ul style="list-style-type: none"> • We will review the Council's performance against the 2013/14 budget, including consideration of performance against the savings plan • We will undertake a review of Financial Resilience as part of our VFM conclusion 	<ul style="list-style-type: none"> • We will carry out work on the WGA pack in accordance with requirements • We will certify grant claims and returns in accordance with Audit Commission requirements
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Our audit approach

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Significant risks

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to 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 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<ul style="list-style-type: none">• Review and testing of revenue recognition policies• Testing of material revenue streams• Review of any unusual significant transactions
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<ul style="list-style-type: none">• Review of accounting estimates, judgements and decisions made by management• Testing of journal entries• Review of unusual significant transactions

Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description of risk	Work planned
Operating expenses	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> • Documentation of our understanding of processes and key controls over the transaction cycle • Walkthrough of the key controls to assess the whether those controls are designed effectively • Sample testing of operating expenses and year end creditors / accruals including agreement to source documents
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<ul style="list-style-type: none"> • Documentation of our understanding of processes and key controls over the transaction cycle • Walkthrough of the key controls to assess the whether those controls are designed effectively • Substantive testing to obtain assurances for audit opinion purposes that payroll transactions have been properly accounted for throughout the year of account • Sample testing of employee remuneration expenses, including employer contributions • Completion of comprehensive proof in total review procedures to assess whether employee remuneration for the Council is in line with expectations • Review of senior officer remuneration disclosures and substantive testing to supporting records
Property, Plant & Equipment	<ul style="list-style-type: none"> • Revaluation measurement not correct 	<ul style="list-style-type: none"> • Documentation of our understanding of processes and key controls over the transaction cycle • Walkthrough of the key controls to assess the whether those controls are designed effectively • Sample testing of revaluation adjustments, including agreement to valuation report

Value for money

Value for money

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The Council has proper arrangements in place for securing financial resilience	The Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion.

We will also consider the implications for our VfM conclusion of developments relating to:

- on-going internal and police investigations in respect of governance and procurement; and
- actions being taken by the Council to deal with the financial pressures in respect of the waste management PFI contract.

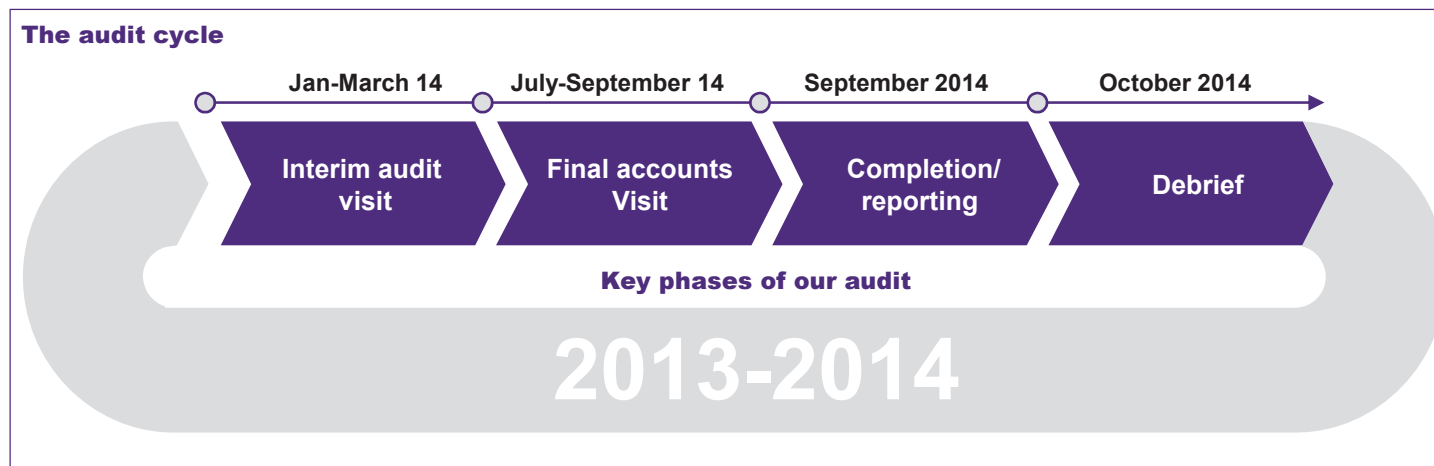
The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Walkthrough testing	<p>Walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements has been completed for employee remuneration.</p> <p>Work will be completed for operating expenses and property, plant and equipment (PPE) as part of our final account audit.</p>	Our work to date has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.
Review of information technology (IT) controls	<p>Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system. We have also performed a follow up of the issues that were raised last year.</p> <p>IT controls were observed to have been implemented in accordance with our documented understanding.</p>	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>To date we have undertaken detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review.</p>	<p>The outcome of our journals testing to date was satisfactory. No issues have been identified that we wish to highlight for your attention</p> <p>In order that our journals testing covers the whole financial year we will carry out further 'top up' testing as part of our posts statements opinion audit testing.</p>
Early substantive testing	We have carried out early substantive testing on accounts payables, accounts receivables and employee remuneration (payroll).	<p>The outcome of our transactions testing to date was satisfactory and there are no issues that we wish to highlight for your attention.</p> <p>We will carry out further randomly selected 'top up' test samples for each transaction category to ensure coverage across the whole year of account.</p>
Value for money	We have carried out our initial risk assessment against assessment criteria prescribed in Audit Commission guidance.	We have carried out an initial risk assessment and have no other matters to draw to member's attention at this stage.

Key dates



Date	Activity
December 13 – January 14	Planning
January – March 2014	Interim site visit
30 June 2014	Presentation of audit plan to Audit Committee
July – mid September 2014	Year end fieldwork
Mid September 2014	Audit findings clearance meeting with the County Treasurer
29 September 2014	Report audit findings to those charged with governance (Audit & Governance Committee)
29 September 2014	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	151,560
Grant certification	1,190
Total fees (excluding VAT)	152,750

Fees for other services

Service	Fees £
Waste management work	15,000 – 20,000 est.

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Our independence is not compromised by the agreed work on waste management since:

- it is restricted to reviewing the financial models used to prepare information and we will not be part of any decision making process
- the work is being conducted by a separate team within Grant Thornton which is overseen by a separate engagement lead

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

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 and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

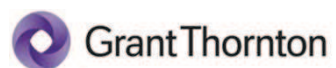
This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

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 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	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
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		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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Agenda Item 7

Audit and Governance Committee Meeting to be held on 30 June 2014

Electoral Division affected: All

External Audit – Update report June 2014

Contact for further information:
Karen Murray 0161 234 6364, Grant Thornton
Karen.l.murray@uk.gt.com

Executive Summary

This report summarises the progress to date on the 2013/14 audit, and also sets out:

- accounting and auditing issues relevant to the 2013/14 financial statements and their preparation;
- a summary of Grant Thornton's "Working in tandem - Local Government Review 2014" publication

followed in each case with issues for Audit & Governance Committee members' consideration.

Recommendation

The committee is asked to note the report.

Background and Advice

Karen Murray, Director at Grant Thornton, will attend the meeting to present the report and respond to questions.

Consultations

None

Implications:

N/A

Risk management

N/A

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

Paper	Date	Contact/Directorate/Tel
Lancashire County Council 2013/14 progress update	30 June 2014	Karen Murray Grant Thornton 0161 234 6364

Reason for inclusion in Part II, if appropriate
N/A



Audit & Governance Committee Update for Lancashire County Council

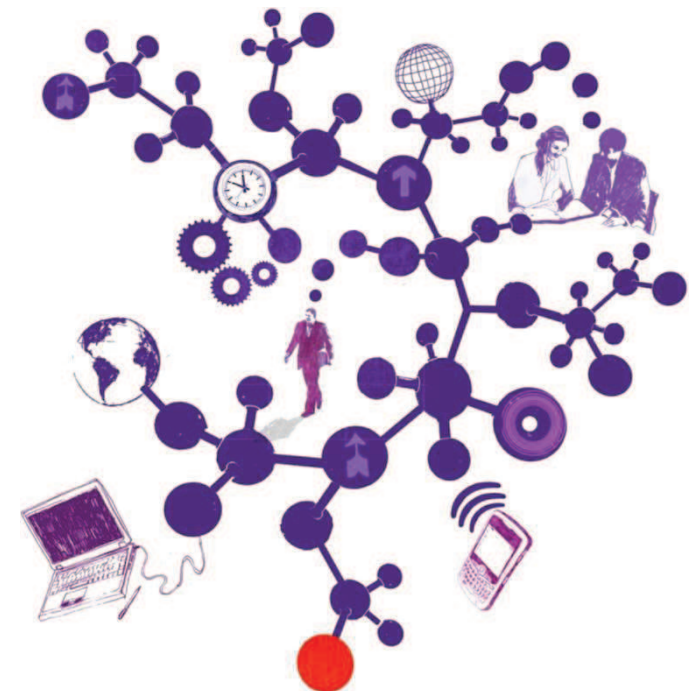
Year ended 31 March 2014

30 June 2014

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit 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 your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes more detail on some recent publications that may be helpful to you in discharging your responsibilities on the Audit and Governance Committee including our :

- Guide to Local Authority Accounts; and
- Working in tandem, local government governance review 2014, our third annual review, assessing local authority governance, highlighting areas for improvement and posing questions to help assess the strength of current arrangements

Members of the Audit and Governance Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- 2016 tipping point? Challenging the current, summary findings from our third year of financial health checks of English local authorities
- Local Government Pension Schemes Governance Review, a review of current practice, best case examples and useful questions to assess governance strengths

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 Audit Manager.

Karen Murray Engagement Lead
Len Cross Audit Manager

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Progress at 30 June 2014

Work	Planned date	Complete?	Comments
<p>2013-14 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit & Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2013-14 financial statements.</p>	June 2014	Yes	The Audit Plan is on the agenda.
<p>Interim accounts audit Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of Council's control environment • updating our understanding of financial systems • review of Internal Audit reports • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. 	January to April 2014	Yes	Our work to date has not identified any weaknesses which we need to bring to your attention.
<p>2013-14 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2013-14 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	July to September 2014	No	Our accounts audit will begin in July 2014. We will report the results of our work to your September meeting

Progress at 30 June 2014

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p> <p>Our VfM conclusion is based on the following criteria specified by the Audit Commission:</p> <ul style="list-style-type: none"> • The Council has proper arrangements in place for securing financial resilience; and • The Council has proper arrangements in place for securing financial resilience 	<p>January to September</p>	<p>In progress</p>	<p>Our work is underway.</p> <p>We will also consider the implications for our VfM conclusion of developments relating to:</p> <ul style="list-style-type: none"> • on-going internal and police investigations into procurement and governance issues at the Council; • The on-going discussions between the Council and the other parties involved in the Waste PFI scheme to identify a solution to the operational and financial challenges presented within the scheme.

Understanding your accounts – member guidance

Accounting and audit issues

Guide to local authority accounts

Local authority audit committee members are not expected to be financial experts, but they are responsible for approving and issuing the authority's financial statements. However, local authority financial statements are complex and can be difficult to understand. We have prepared a guide for members to use as part of their review of the financial statements. It explains the key features of the primary statements and notes that make up a set of financial statements. It also includes key challenge questions to help members assess whether the financial statements show a true and fair view of their authority's financial performance and financial position.

The guide considers the :

- explanatory foreword – which should include an explanation of key events and their effect on the financial statements
- annual governance statement – providing a clear sense of the risks facing the authority and the controls in place to manage them
- movement in reserves statement – showing the authority's net worth and spending power
- comprehensive income and expenditure statement – reporting on the year's financial performance and whether operations resulted in surplus or deficit
- balance sheet – a 'snapshot' of the authority's financial position at 31st March; and
- other statements and additional disclosures

Issue for consideration

Are members aware of this guide which may help them in reviewing the Council's accounts?

Working in tandem – Local Government Governance Review 2014

Grant Thornton

Local Government Governance Review

This report: <http://www.grant-thornton.co.uk/en/Publications/2014/Local-Government-Governance-Review-2014/> is our third annual review into local authority governance. It aims to assist managers and elected members of councils and fire and rescue authorities to assess the strength of their governance arrangements and to prepare for the challenges ahead.

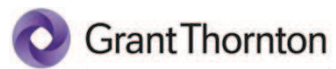
Drawing on a detailed review of the 2012/13 annual governance statements and explanatory forewords of 150 English councils and fire and rescue authorities, as well as responses from 80 senior council officers and members, the report focuses on three particular aspects of governance:

- risk leadership: setting a tone from the top which encourages innovation as well as managing potential pitfalls
- partnerships and alternative delivery models: implementing governance arrangements for new service delivery models that achieve accountability without stifling innovation
- public communication: engaging with stakeholders to inform and assure them about service performance, financial affairs and governance arrangements.

Alongside the research findings, the report also highlights examples of good practice and poses a number of questions for management and members, to help them assess the strength of their current governance arrangements.

Issues for consideration

- Our report includes a number of case studies summarising good practice in risk leadership, partnerships and alternative delivery models and public communication.
- Our report includes key questions for members to ask officers on risk management and alternative delivery models.



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Audit and Governance Committee

Meeting to be held on 30 June 2014

Electoral Division affected: All

Response of the Audit and Governance Committee Chair to Grant Thornton's request for information to support its compliance with International Standards on Auditing

(Appendices 'A' and 'B' refer)

Contact for further information: Gill Kilpatrick, County Treasurer (01772) 534715

Executive Summary

The external auditor, Grant Thornton, is obliged to comply with International Auditing Standards and, although it has a good understanding of how the Audit and Governance Committee gains assurance over management processes and arrangements, it is required formally to update this understanding annually.

The Chair of the Audit and Governance Committee has been asked to provide information in respect of Lancashire County Council relating to:

- fraud and internal control;
- laws and regulations; and
- litigation and claims.

A response has been prepared for consideration by the committee and is attached at Appendix A. The letter from Grant Thornton is attached at Appendix B.

Recommendation

It is recommended that:

- a) The response attached at Appendix A is considered and approved.
- b) The Chair of the Audit and Governance Committee be authorised to sign the response on behalf of the committee.

Background and advice

The letter from Len Cross, Manager, Grant Thornton is attached at Appendix B.

Implications

This letter will provide supporting evidence to Grant Thornton in determining its opinion on the financial statements of the County Council for 2013/14.

Risk management

Not applicable.

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

Paper	Date	Contact/ Directorate/ Ext
Letter from Len Cross, Manager, Grant Thornton	27 January 2014	

Reason for inclusion in Part II, if appropriate:

Not appropriate.

30 June 2014

Dear Mr Cross

Response of the Chair of the Audit and Governance Committee to Grant Thornton's request for information to support its compliance with International Standards on Auditing

The Audit and Governance Committee and I have considered your request for information to enable you to comply with International Standards on Auditing and the committee has approved the following response.

1. Your requirements

1.1 Grant Thornton is obliged to comply with International Standards on Auditing. In particular it is required to gain an understanding of how the Audit and Governance Committee exercises oversight of management's processes in respect of Lancashire County Council in relation to:

- fraud and internal control;
- laws and regulations; and
- litigation and claims.

2. The role of the Audit and Governance Committee

2.1 Under its terms of reference the Audit and Governance Committee advises the council on risk, control and governance, oversees the planned activity and results of both internal and external audit, and considers the adequacy of management's responses to issues identified by audit activity. It therefore oversees the work of the council's Internal Audit Service, which provides assurance to the council on the adequacy and effectiveness of its internal controls, including financial controls, and also supports the council in its management of the risk of fraud by providing a counter fraud and investigatory service.

2.2 Since fraud represents a lapse in financial control, the Audit and Governance Committee is also charged with responsibility for overseeing management's arrangements in response to the risk of fraud.

2.3 In an organisation of Lancashire County Council's size, a proportional approach must be taken to an assessment of risk and to the assurance required over the controls implemented to manage it. It is impractical to expect that either a committee of elected members or the Internal Audit Service, having adopted a risk-based approach, will be able to oversee and assess all management processes. Nor can absolute assurance be gained that compliance with all applicable laws and regulations is achieved.

3. The Audit and Governance Committee's oversight of internal audit work

3.1 The Audit and Governance Committee approves the annual internal audit plan, which is based on an assessment of the council's risks and the operational and

financial controls that mitigate these. It is built upon an assessment of risk that includes the risk of non-compliance with relevant laws and regulations. The annual audit plan also refers to the Internal Audit Service's work to support management in managing the risk of fraud and sets aside audit resources for the investigation of suspected or alleged instances of fraud.

- 3.2 The Audit and Governance Committee receives regular progress reports from the chief internal auditor, including reports on breaches of internal control and fraud risks. The Deputy County Treasurer briefs the Audit and Governance Committee on financial matters, and other officers attend to brief the Audit and Governance Committee on control issues as necessary to respond to audit reports and inform the committee of progress where remedial action has been agreed.
- 3.3 The council's Internal Audit Service operates a proactive programme to identify and pursue indications of fraudulent activity in particular within the council's key financial systems, regularly testing both the corporate controls and controls operated within individual services. Computer assisted techniques and additional testing of areas susceptible to fraud have been developed to enable the Internal Audit Service proactively to assess whether there are indications of malpractice in key areas.
- 3.4 As Grant Thornton will be aware, the council actively participates in the Audit Commission's National Fraud Initiative which serves as a regular extension of the work done by the Internal Audit Service throughout the year. Checks are carried out on the reports raised by this initiative and support is also given to the Lancashire districts.
- 3.5 The Internal Audit Service services the financial whistle-blowing helpline and regularly responds both to formal whistle-blowing calls and to less formal concerns raised with individual auditors by staff across the council. Investigations are undertaken promptly and pursued vigorously and, where appropriate, there is good liaison with the police.
- 3.6 The Audit and Governance Committee has been provided with the Internal Audit Service's annual plans and reports to Lancashire County Council, and these reports have also been shared with Grant Thornton.
- 3.7 Both management and the Audit and Governance Committee are aware of Grant Thornton's assessment of the level at which misstatements of Lancashire County Council's financial statements are deemed to be material, and are briefed on the external auditor's assessment of the risks of material misstatement of the financial statements, including the risk of fraud. Any risk of misstatement due to fraud with a potential impact of this magnitude would be highlighted immediately by the Internal Audit Service to both management and the Audit and Governance Committee.

4. The Audit and Governance Committee's oversight of management processes

- 4.1 The Audit and Governance Committee takes seriously its role in reviewing Lancashire County Council's internal control effectiveness, including financial control arrangements and compliance with the law. It values its independence of both the executive and scrutiny functions and its direct reporting line to the council. It is also charged with oversight of the overall arrangements by which the risk of fraud is managed.

- 4.2 The Audit and Governance Committee receives information about instances of financial impropriety and fraud as well as breaches of control within the Internal Audit Service's regular progress reports and annual report.
- 4.3 A counter fraud policy statement, strategy and work-plan, and a whistle-blowing policy are in place and are periodically communicated to the council's staff. The Audit and Governance Committee receives periodic reports from the Internal Audit Service of issues being investigated as potential impropriety or fraud, and management's responses to these.

5. Fraud and internal control

- 5.1 Other than the issues noted during the year in respect of procurement and governance surrounding the remuneration of senior managers within One Connect Limited, and additional issues raised in the Internal Audit Service's annual report, progress reports to each of its meetings, and the year-end report on counter fraud and special investigations, the Audit and Governance Committee is unaware of any further breaches of internal control within Lancashire County Council during 2013/14. The committee has considered the existence and operation of internal controls (including, implicitly, segregation of duties) and where it has concerns, these have been minuted during the year.
- 5.2 Similarly, other than the exceptions indicated above, the Audit and Governance Committee is unaware of any further actual, suspected or alleged frauds, or any related party relationships or transactions that could give rise to instances of fraud affecting the council.
- 5.3 The Audit and Governance Committee is not aware of any entries in the accounting records of the Council that it believes or suspects are false or intentionally misleading.

6. Laws and regulations

- 6.1 As stated above in paragraph 2.3, in an organisation of the size and complexity of Lancashire County Council, absolute assurance cannot be gained that compliance with all applicable laws and regulations is achieved. The Audit and Governance Committee is not aware of any significant areas of non-compliance during 2013/14.

7. Litigation and claims

- 7.1 The Audit and Governance Committee is unaware of any actual or potential litigation or claims against the council that would have a material impact on the financial statements.

Yours sincerely

Chair of the Audit and Governance Committee
Lancashire County Council

Councillor C Pritchard
Audit & Governance Committee Chair
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27 January 2014

Dear Councillor Pritchard

Lancashire County Council Financial Statements for the Year End 31 March 2014

Understanding how the Audit & Governance Committee gains assurance from management

To comply with International Auditing Standards, each year we need to refresh our understanding of how the Audit & Governance Committee gains assurance over management processes and arrangements.

WE would be grateful, therefore, if you could write to us in your role as Chair of the Audit & Governance Committee with your responses to the following questions.

- 1 How does the Audit & Governance Committee oversee management's processes in relation to:
 - carrying out an assessment of the risk the financial statements may be materially misstated due to fraud or error
 - identifying and responding to the risk of breaches of internal control
 - identifying and responding to risks of fraud in the organisation (including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist)
 - communicating to employees its views on appropriate business practice and ethical behavior (for example by updating, communicating and monitoring against the codes of conduct)?
- 2 Do you have knowledge of any actual, suspected or alleged frauds? If so, please provide details.
- 3 How does the Audit & Governance Committee gain assurance that all relevant laws and regulations have been complied with?
- 4 Are you aware of any actual or potential litigation or claims that would affect the financial statements?

Chartered Accountants

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We are also required to make enquiries of management and recently sent a letter and schedule of questions to the County Treasurer, Gill Kilpatrick. We suggested that it would be useful to co-ordinate both the Audit & Governance Committee and management responses in time for discussion at the Audit & Governance Committee meeting scheduled for 31 March. If you are in agreement with this we would be grateful for the Audit & Governance Committee's formal response by mid-April, say Monday 14th.

Yours sincerely

Len Cross
Manager
For Grant Thornton UK LLP

T 0161 234 6387
E leonard.e.cross@uk.gt.com

Fraud risk assessment

Auditor Question	Response
Has the Council assessed the risk of material misstatement in the financial statements due to fraud?	
What are the results of this process?	
What processes does the Council have in place to identify and respond to risks of fraud?	
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	
Are internal controls, including segregation of duties, in place and operating effectively?	
If not, where are the risk areas and what mitigating actions have been taken?	
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	
Are there any areas where there is a potential for misreporting override of controls or inappropriate influence over the financial reporting process?	
How does the Audit & Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud?	
What arrangements are in place to report fraud issues and risks to the Audit & Governance Committee?	
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2013?	

Law and regulation

Auditor Question	Response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	
How does management gain assurance that all relevant laws and regulations have been complied with?	
How is the Audit & Governance Committee provided with assurance that all relevant laws and regulations have been complied with?	
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2013, or earlier with an on-going impact on the 2013/14 financial statements?	
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	
Is there any actual or potential litigation or claims that would affect the financial statements?	
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance	

Audit and Governance Committee

Meeting to be held on 30 June 2014

Electoral Division affected: All

Provisional Internal Audit Plan for 2014/15

(Appendix A refers)

Contact for further information:

Ruth Lowry, (01772) 534898

Executive Summary

This paper explains the approach to establishing the plan of work to be undertaken by the county council's internal audit service for the coming financial year. The total planned resource for the service to the county council is approximately **2,450 audit days**.

Appendix 'A' sets out the audit planning process in more detail.

Recommendation

The committee is requested to consider the provisional audit plan for 2014/15, noting that it is still subject to further discussion with the Management Team.

Background and advice

The responsibility for implementing, maintaining and reviewing the system of internal control rests with the council, but the process by which the effectiveness of its system of internal control is reviewed and the governance statement is made includes obtaining assurances on the effectiveness of key controls. In practice, these assurances will be substantially drawn from the work of internal audit.

The audit plan is therefore focussed on providing these assurances to the Chief Executive and Leader of the council who are jointly required to sign the annual governance statement.

Consultations

As part of the audit planning process the internal audit team has:

- Considered the county council's corporate and individual directorate/ service plans and budget reports;
- Met the senior management teams of the county council's directorates to discuss their risks and related controls; and
- Made its own assessment of the risks facing the county council.

The provisional internal audit annual plan has not yet, however, been discussed by the Management Team.

Implications

Not applicable.

Risk management

This report supports the Audit 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
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Not applicable.

Reason for inclusion in Part II, if appropriate: Not applicable.

Audit Committee meeting 30 June 2014

Provisional internal audit plan for 1 April 2014 to 31 March 2015

1. Summary

- 1.1 The Audit and Governance Committee is invited to consider the outline annual internal audit plan for Lancashire County Council for 2014/15. The planned internal audit work will provide the assurance that the chief executive and leader of the council need that the risks to the council's objectives are being adequately and effectively controlled, and support an annual opinion on the effectiveness of the systems of governance, risk management and internal control across the council.
- 1.2 The Internal Audit Service plans to provide a total resource input to the county council of **2,450 audit days**, including an allocation of 400 days for investigations (2013/14: 2,670 days and 400 planned days for investigations). It is anticipated that 775 days (2013/14: 700 days) will also be provided to external organisations within Lancashire including the pension fund, the Police and Crime Commissioner and a number of the district councils. However it is possible that internal audit resources may be further reduced during the year as vacancies are held open in readiness to meet the council's revised spending targets. The resources deployed on investigations will largely depend on the investigations which arise during the year and, like last year, it may be necessary to undertake these at the expense of internal audit work.

2. The council's assurance requirements

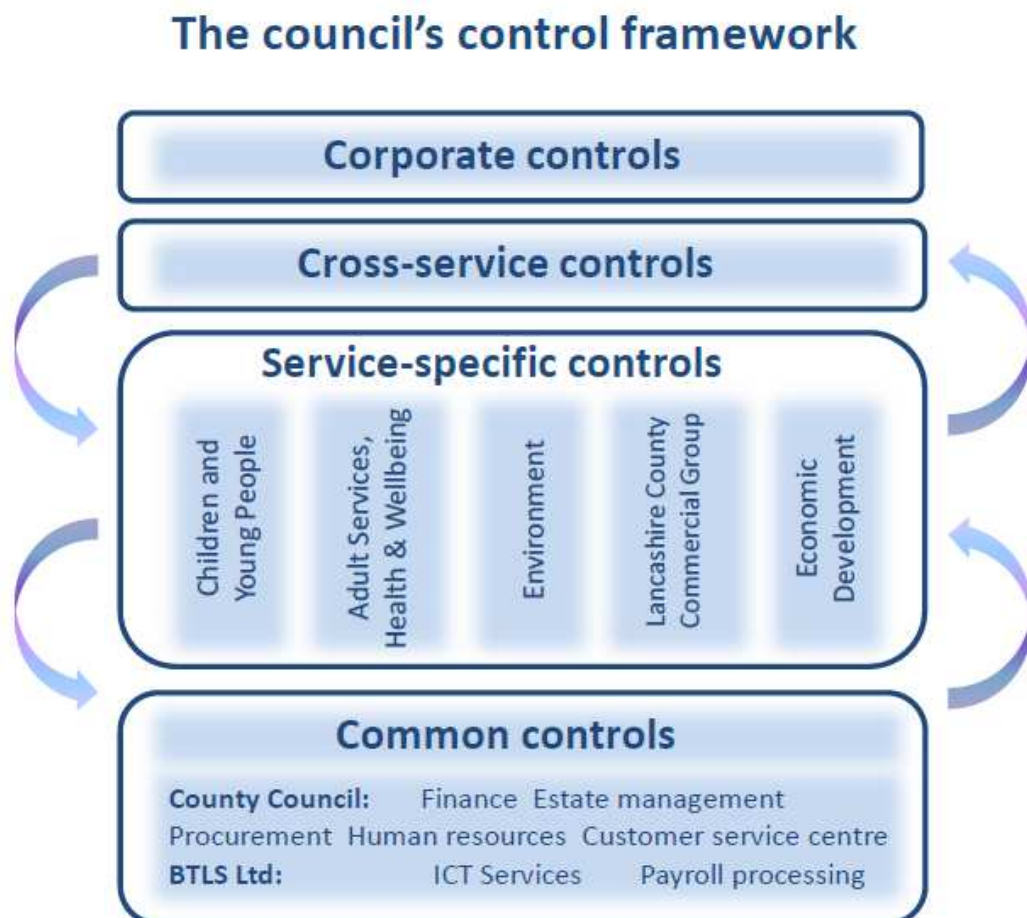
- 2.1 The council provides a wide range of services across the county and its senior management teams are aware both of the risks to achieving their service objectives and the risks inherent in their work. Each of these risks should be managed by controls designed to reduce the risk to a corporately acceptable level and which operates effectively and consistently in practice.
- 2.2 The Chief Executive, Audit and Governance Committee, and ultimately the Council, need assurance that these controls have been adequately designed and are operating effectively. In due course the chief executive and the leader of the council will jointly sign an annual governance statement incorporating a statement on internal control, which will refer to the effectiveness of the system of internal control.
- 2.3 The assurance needed to make this statement is available from a variety of sources including external regulators, but also from the council's Internal Audit Service. To avoid duplication with other assurance providers and ensure that we maximise resources, we need to understand this framework of assurance; where assurance is required but not otherwise available, the Internal Audit Service may provide it, and this will form our annual audit plan.

3. The council's control framework

- 3.1 The Internal Audit Service groups controls under the following categories, and aims to provide assurance over each:

- Corporate controls: These controls relate to the overall governance arrangements of the county council as a whole, and are therefore largely limited to corporate governance and risk management, information governance, and the council's arrangements with BT plc.
- Cross-service controls: These are the controls that support the council's work across some or all of its service areas, either where two or more teams provide a single service, or where risks are common to a number of (or all) service teams. Very few risks are managed by a single corporate solution but similar controls may be implemented across a number of teams to address the same or similar risks.
- Service-specific controls: The controls designed to manage the risks arising from the provision of particular services and from individual service areas.
- Common controls: These are the controls that under-pin the council's work whatever service is being provided and in whatever service or directorate. They manage the elements of the council's day to day operations that are operated in common across the whole organisation, such as financial and ICT services, and human resources.

3.2 These form the building blocks of our audit plan, and can be illustrated as shown below.



4. The planning process

- 4.1 The Internal Audit Service has discussed with directors and executive directors the risks they have identified both corporately and for their own service areas. With them, we have sought to identify the areas with the greatest inherent risk, and where there is the greatest need for effective mitigation by strong controls as these are the controls over which the council needs greatest assurance. However at this point the details of our audit plan and the work we propose to undertake during the year have not been discussed with the council's Management Team as a whole.
- 4.2 Where services are provided by BT Lancashire Services Ltd, with that organisation's agreement, we will seek to provide assurance over the controls the council relies upon in the same way as if the controls were operated by the county council itself.
- 4.3 Internal Audit Service resources are focussed effectively on the council's risks and directed to deliver high quality advice to the council. The level of resources arguably supports the delivery of a service consistent with professional practice, but it is vital that our resources are deployed as effectively as possible. The audit plan is therefore focussed on the key areas of risk, which may alter during the course of the year: it is flexible and individual assignments may be added to it, and will be removed from it over time.
- 4.4 Although the annual plan enables both managers and elected members to see the overall scope of internal audit work, work is on-going throughout the year. In particular at the end of 2013/14 a number of audit reviews were still in progress and some time has been spent on completing them, and further time will be spent on audits deferred from 2013/14 where that work is still appropriate. We continually reassess our resources against the council's priorities and we will amend the plan throughout the year as required.
- 4.5 The work currently planned requires more audit resources than are likely to be available as there is no contingency built in for staff sickness or turnover. However recent experience has been that the council's assurance requirements, and management teams' capacity to support the audit process, mean that elements of the plan will have to be re-prioritised or temporarily deferred. The audit plan will therefore be continually reviewed during the course of the year.

5. The county council context

- 5.1 The Internal Audit Service must be alive to changes affecting the whole of the county council as we undertake our work.
- 5.2 The last 12 months has seen even more change than was anticipated, with the departure of the former Chief Executive and renegotiation of the council's relationship with BT plc. At the same time substantial cost-saving measures have continued, and work to reconfigure the council's services will continue throughout 2014/15. The council continues to face the need for further cost savings, service re-organisation and re-structuring and system re-design. The

old social services system has recently been replaced in the Children and Young People's Directorate and will be shortly replaced in the Adult Services, Health and Wellbeing Directorate and whilst this will in due course support greatly improved controls in those areas, its introduction presents a substantial challenge for at least the first part of the year.

- 5.3 The reduction in the council's workforce continues, affecting many of the council's services and resulting in their reconfiguration. Many of the risks associated with these services have changed to some degree and their corresponding control frameworks are being or have been re-designed. At the same time as the number of managers is falling, it is likely that there will be a greater reliance on monitoring controls operated by managers and on detective controls, but fewer directly preventative controls.

6. The Internal Audit Service response

- 6.1 In a time of such fundamental change the Internal Audit Service must be prepared to be flexible in our planning and our approach to the council's assurance needs. We must be prepared to provide whatever other support, as well as assurance, is required.
- 6.2 All our work will continue to consider value for money and the value of the council's controls and we will, where appropriate, identify superfluous controls or controls of limited value.
- 6.3 We aim to provide integrated assurance across the whole council, recognising the relationships between different services and support functions to provide assurance to individual executive directors and to the council as a whole. This audit plan will build on that experience, and on our use of computer assisted audit techniques and compliance testing, to provide the assurance the council needs across its key controls and its service areas.
- 6.4 The planned overall deployment of audit resources on the council's controls is shown in summary on following page. A more detailed list of each audit review planned with the council's managers at this stage, and the proportion of audit resources to be spent on each area of control is shown in the annex to this document.

CONTROLS ASSURANCE		Estimated audit days
Corporate controls		
Risk management	20	122 (5%)
Corporate governance	72	
Information governance	30	
Cross-service controls		
Accessible transport	60	105 (4%)
Schools' capital programme	25	
Reablement	20	
Common controls		
Financial controls	335	560 (23%)
Human resource controls	35	
ICT controls	150	
Procurement controls	40	
Service-specific controls		
Adult Services, Health and Wellbeing	270	1,223 (50%)
Benefits Service	90	
Public Health	50	
Children and Young People	265	
Schools	250	
Environment	178	
Lancashire County Commercial Group	65	
Economic Development	55	
Management of the Internal Audit Service		40 (2%)
Total internal audit plan		
Counter fraud and investigatory service		400 (17%)
Total internal audit resource for Lancashire County Council		2,450

Types of audit work

- 6.5 The Internal Audit Service continues to follow our risk-based audit methodology, using a risk and control evaluation-based approach ('RACE-based') combined with compliance testing of key controls, computer assisted audit techniques ('CAATs') and follow-up work.
- Where assurance is required over a control system as a priority for the year, but may not have been provided previously, for example because the system is new or has been recently changed, we will undertake a 'RACE-based review'.
 - Where we have previously provided limited or no assurance over a control system, we will generally re-review this area as a 'RACE-based re-review'.
 - Where we have previously provided substantial assurance and management has agreed an action plan, we will 'follow up the agreed action plan'.
 - Where we plan to provide assurance over control systems that remain largely unchanged but are fundamental to the council's overall control we will undertake compliance testing.
 - Although we may use CAATs to support any of these areas of work, we will also plan to interrogate databases or use CAATs specifically to provide assurance over certain areas.
 - We also plan to support management where new control systems are being implemented and may provide 'critical friend audit/ advice'.
 - The council receives funding from external bodies (generally central government departments) on condition that internal audit provides a report that funding has been appropriately used, or certain conditions have been met. In these cases we undertake a 'grant certification audit'.
- 6.6 A brief note of the type of work that will be undertaken is provided against each assignment in Appendix B.

Controls to manage the risk of fraud

- 6.7 In addition to our audit work, the Audit Service provides support to the council's management team in managing the risk of fraud. It has for many years provided an investigatory service to support management in responding to instances of suspected fraud or impropriety. In recent years we have undertaken more proactive work to identify and pursue indications of potentially fraudulent activity, both through corporate systems testing and through additional testing of other areas particularly susceptible to fraud.
- 6.8 The last year has seen the considerable use of audit resources (particularly those of the Chief Internal Auditor) on investigatory work, and it is anticipated that to some degree this will continue into 2014/15.

- 6.9 Our audit plan will integrate our assurance work (specifically our compliance testing) with our proactive counter fraud testing, particularly in areas susceptible to fraud and misappropriation of assets.

Risk management

- 6.10 The Internal Audit Service is also responsible for supporting management in managing the council's risks. In particular the Internal Audit Service intends during 2014/15 to revise the associated risk management guidance for managers.
- 6.11 The council's approach to risk management makes clear that managers – rather than the Internal Audit Service – are responsible for ensuring that risk is considered as part of any new service developments or improvements, and in on-going performance monitoring. However the synergy between internal audit and risk management is clear and the Internal Audit Service is well placed to ensure that the assurance we provide to the council is focussed on controls over its greatest risks.

Audit areas	Type of audit work	Planned days	% of plan
Corporate controls			
Risk management			
Risk management	Information gathering and assessment	20	
Corporate governance			
Members' expenses and allowances	RACE-based re-review	12	
Responses to complaints - compliance with time limits and adequacy of responses	RACE-based review	20	
Payments to BTLS	RACE-based review	15	
Performance monitoring of BTLS	RACE-based review	20	
Declarations of officers interests, gifts and hospitality	RACE-based re-review	5	
Information governance			
Information governance	Support to management	10	
Information governance	Mid-year health check	20	
Risk management and corporate governance total		122	5%
Cross service controls			
Schools capital programme; commissioning and monitoring by CYP and delivery by Environment.	RACE-based review	25	
Reablement	RACE-based review	20	
Accessible transport	RACE-based review	60	
Cross service controls total		105	4%
Common controls			
Financial controls			
VAT	Compliance testing	15	
Expenses	Compliance testing	30	
Accounts payable including i-supplier	Compliance testing	30	
Payroll	Compliance testing	40	
Payroll – additional payments	Compliance testing	20	
Capital accounting	RACE-based review	20	
Budgetary control	RACE-based review	30	
Accounts receivable	Compliance testing	30	
Cash and banking	Compliance testing	30	
General ledger including journals and reconciliations	Compliance testing	30	
Treasury management	Compliance testing	30	
Grant award and monitoring	RACE-based review	30	
Financial controls total		335	14%
Human resource controls			
Absence management	RACE-based review	20	
Hierarchies on the Oracle/ HRP system	Follow-up of agreed action plan and compliance testing	15	
Human resource controls total		35	1%
Procurement controls			
Contracts and sourcing modules	RACE-based review	10	
Procurement arrangements	Compliance testing	30	
Procurement controls total		40	2%

Audit areas	Type of audit work	Planned days	% of plan
ICT controls			
Data protection legislation	RACE based review	10	
IT assets	Compliance testing	15	
Change management	Compliance testing	15	
Network user management	Compliance testing	20	
Identify management	Compliance testing	30	
Incident management	Compliance testing	15	
Password security and standards	RACE-based re-review	10	
Backup arrangements	RACE-based re-review	15	
ICT Disaster Recovery	RACE-based re-review	20	
	ICT controls total	150	6%
	Common controls total		23%
		560	
Service-specific controls			
Adult and Community Services Directorate			
Support planning	RACE-based review	20	
The Care Bill	RACE-based review	10	
Better Care Fund	RACE-based review	20	
Transitions from children's to adults services	RACE-based review	40	
Capital programme management	RACE-based review	10	
Social care supervision	RACE-based re-review	10	
Liquid Logic implementation	Critical friend/ advice	20	
Liquid Logic – hospital discharge	RACE-based review	15	
Liquid Logic – retention and destruction	RACE-based review	10	
Liquid Logic – ContrOcc	RACE-based review	15	
Liquid Logic – DOLS	RACE-based review	10	
Liquid Logic – equipment and adaptations	RACE-based review	10	
Liquid Logic – scheme of delegation	RACE-based review	15	
Liquid Logic – roles and permissions	RACE-based review	15	
Liquid Logic – assessment and support	RACE-based review	15	
Liquid Logic – Documentum interface	RACE-based review	10	
Liquid Logic – safeguarding	RACE-based review	15	
	Liaison, planning and reporting	10	
	Adult and Community Services Directorate total	270	11%
Benefits service			
Direct payments financial assessment	RACE-based review	30	
Assessment of service users' income, and collection of their contributions to their social care costs	RACE-based review	30	
Care and Urgent Needs Support Scheme administration of community care grants and crisis loans	RACE-based review	30	
	Benefits service total	90	4%
Public health			
Scheme of delegation	RACE-based review	15	
Contract monitoring – services and outcomes	RACE-based review	30	
	Liaison, planning and reporting	5	
	Public health total	50	2%

Audit areas	Type of audit work	Planned days	% of plan
Children and Young People's Directorate			
Working Together with Troubled Families scheme	RACE-based re-review and grant audit	25	
Children's centres – due diligence re NHS transfer	Compliance testing	18	
eCAF Early Help system implementation	Project assurance	20	
Commissioning arrangements	RACE-based review	25	
Case file audit process	RACE-based re-review	20	
Partnership working with the NHS to support children with mental health needs	RACE-based re-review	20	
Children's residential homes	Follow-up of agreed action plan	5	
Education Funding Agency grant certification	Grant certification audit	12	
Liquid Logic – CIN/CP process	RACE-based review	30	
Liquid Logic – Supervision	RACE-based review	12	
Liquid Logic – data reporting	RACE-based review	8	
Liquid Logic – ContrOcc	RACE-based review	10	
Liquid Logic – roles and permissions	RACE-based review	10	
Liquid Logic – Documentum interface	RACE-based review	5	
Liquid Logic – retention and disposal	RACE-based review	5	
Follow-up work not covered above		20	
Liaison, planning and reporting		20	
Children and Young People's Directorate total		265	11%
Schools			
Financial controls in schools	Individual school audits	125	
Follow-up of limited or nil assurance audits.	Follow-up	40	
Pupil referral units	Thematic review	85	
Schools total		250	10%
Environment Directorate			
Capital programme management follow-up	RACE-based re-review	10	
Scholars passes	RACE-based review	10	
Highways and property asset management project	RACE-based review	30	
Waste PFI and performance monitoring	RACE-based re-review	20	
Capital Cost Codes	Compliance testing	10	
Schools' premises management framework	RACE-based re-review	10	
Corporate premises management framework - overall arrangements	RACE-based re-review	10	
Development control - section 106	RACE-based review	10	
Grant audit: Citizens Rail	Grant certification audit	4	
Grant audit: CIVINET	Grant certification audit	8	
Grant audit: ENVIREO	Grant certification audit	4	
Grant audit: Growth Point	Grant certification audit	6	
Grant audit: Interreg IVB SusStations (NWE)	Grant certification audit	8	
Grant audit: Local Sustainable Transport Fund	Grant certification audit	6	
Grant audit: SAMERU	Grant certification audit	4	
Grant audit: Local Transport Capital grant	Grant certification audit	8	
Liaison, planning and reporting		20	
Environment Directorate total		177	7%

Audit areas	Type of audit work	Planned days	% of plan
Lancashire County Commercial Group			
Fleet Services	RACE-based review	25	
Care homes – financial controls	RACE-based review	15	
Follow-up work	Follow-up of agreed action plans	15	
Liaison, planning and reporting		10	
	Lancashire County Commercial Group total	65	3%
Economic development			
Superfast broadband implementation and grant funding	RACE-based review	20	
LEP loans made	RACE-based review	15	
City Deal	RACE-based review	15	
Grant certification – intensive business start ups	Grant certification audit	5	
	Economic development total	55	2%
	Service-specific controls total	1,222	50%
Investigations and counter fraud work			
	Special investigations	300	
	Counter fraud work	100	
	Investigations total	400	16%
Audit control			
Planning, management, control, reporting, external audit liaison	Planning and management	40	
	Audit control total	40	2%
Total audit plan for the year		2,449	100%

Agenda Item 13

(NOT FOR PUBLICATION: By virtue of paragraph(s) 1, 2, 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

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Document is Restricted

Protecting the Public Purse

Fraud Briefing 2013

Lancashire County Council

Appendix B



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Agenda

- Introduction and purpose of your Fraud Briefing
- *Protecting the Public Purse (PPP) 2013* report – national picture
- Interpreting fraud detection results
- The local picture
- Questions?

And do not forget

- *Checklist for those charged with governance (Appendix 2 of PPP 2013)*
- *Questions councillors may want to ask/consider (Appendix 3 of PPP 2013)*

Introduction

- Fraud costs local government in England over £2 billion per year (*source: National Fraud Authority*)
- Fraud is never a victimless crime
- Councillors have an important role in the fight against fraud

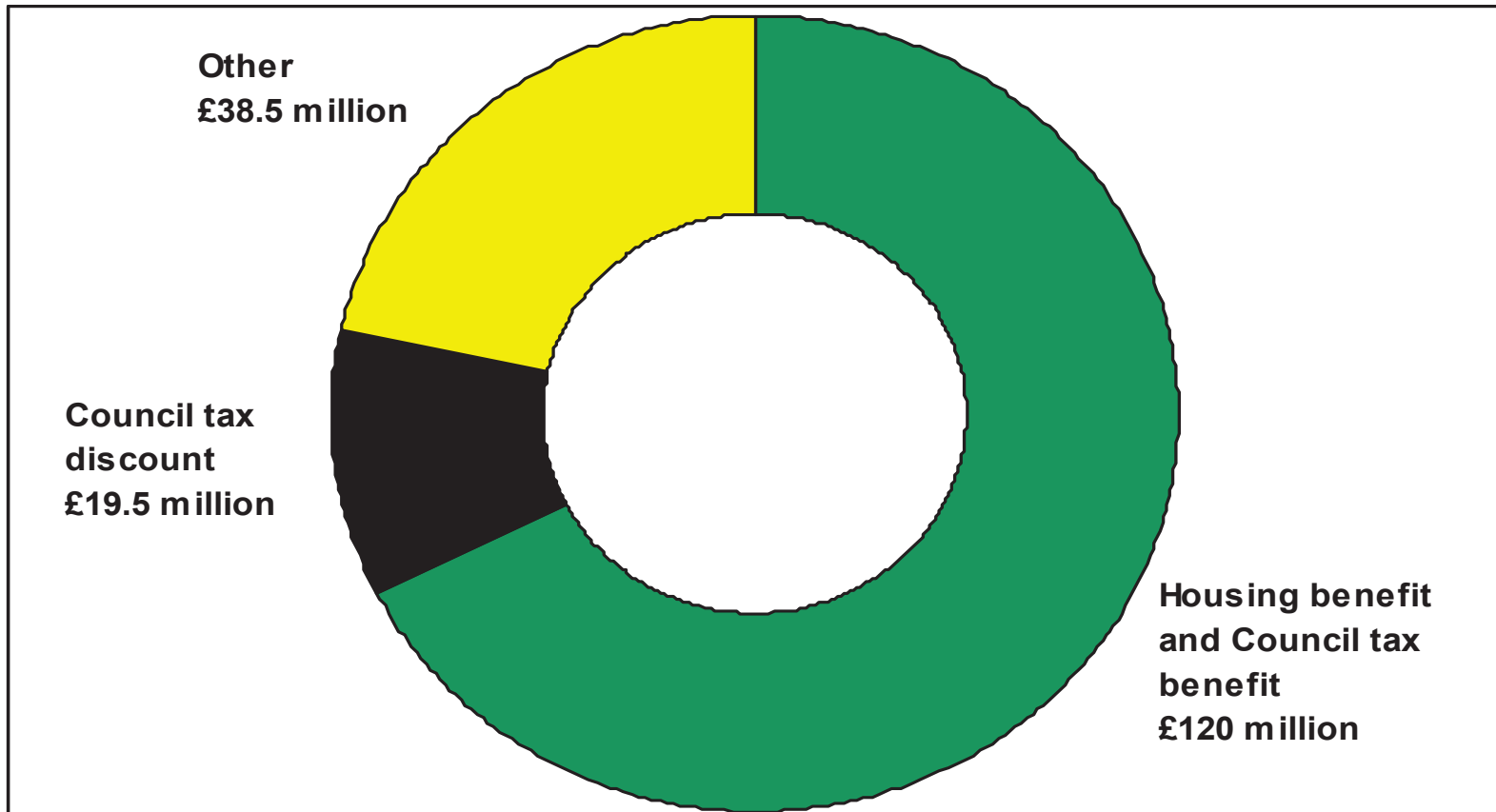


Purpose of Fraud Briefing at your council

- Opportunity for councillors to consider fraud detection performance, compared to similar local authorities;
- Reviews current counter fraud strategy and priorities;
- Discuss local and national fraud risks;
- Reflect local priorities in a proportionate response to those risks

National Picture 2012/13

Total cases detected 107,000, with a value of £178 million (excluding social housing fraud)



Nationally, the number of detected frauds has fallen by 14% since 2011/12 and the value by less than 1%

Interpreting fraud detection results

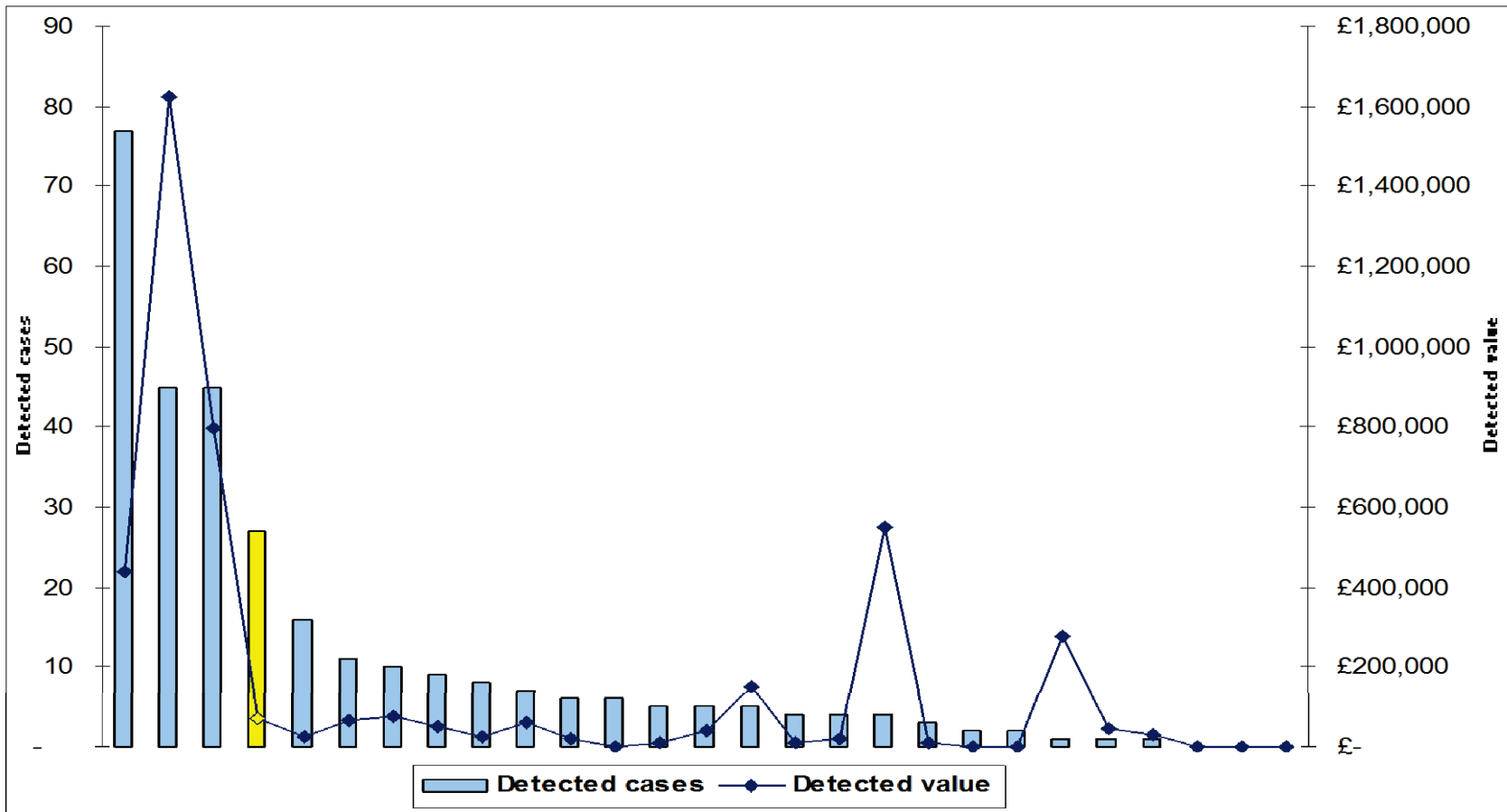
- Contextual and comparative information needed to interpret results
- Detected fraud is indicative, not definitive, of counter fraud performance (Prevention and deterrence should not be overlooked)
- No fraud detected does not mean no fraud committed (Fraud will always be attempted and even with the best prevention measures some will succeed)
- Councils who look for fraud, and look in the right way, will find fraud (There is no such thing as a small fraud, just a fraud that has been detected early)

Your council is highlighted in yellow in the graphs that follow

The local picture

How your council compares to other County Councils

Total detected cases and value 2012/13



Lancashire detected: 27 cases, valued at £70,004

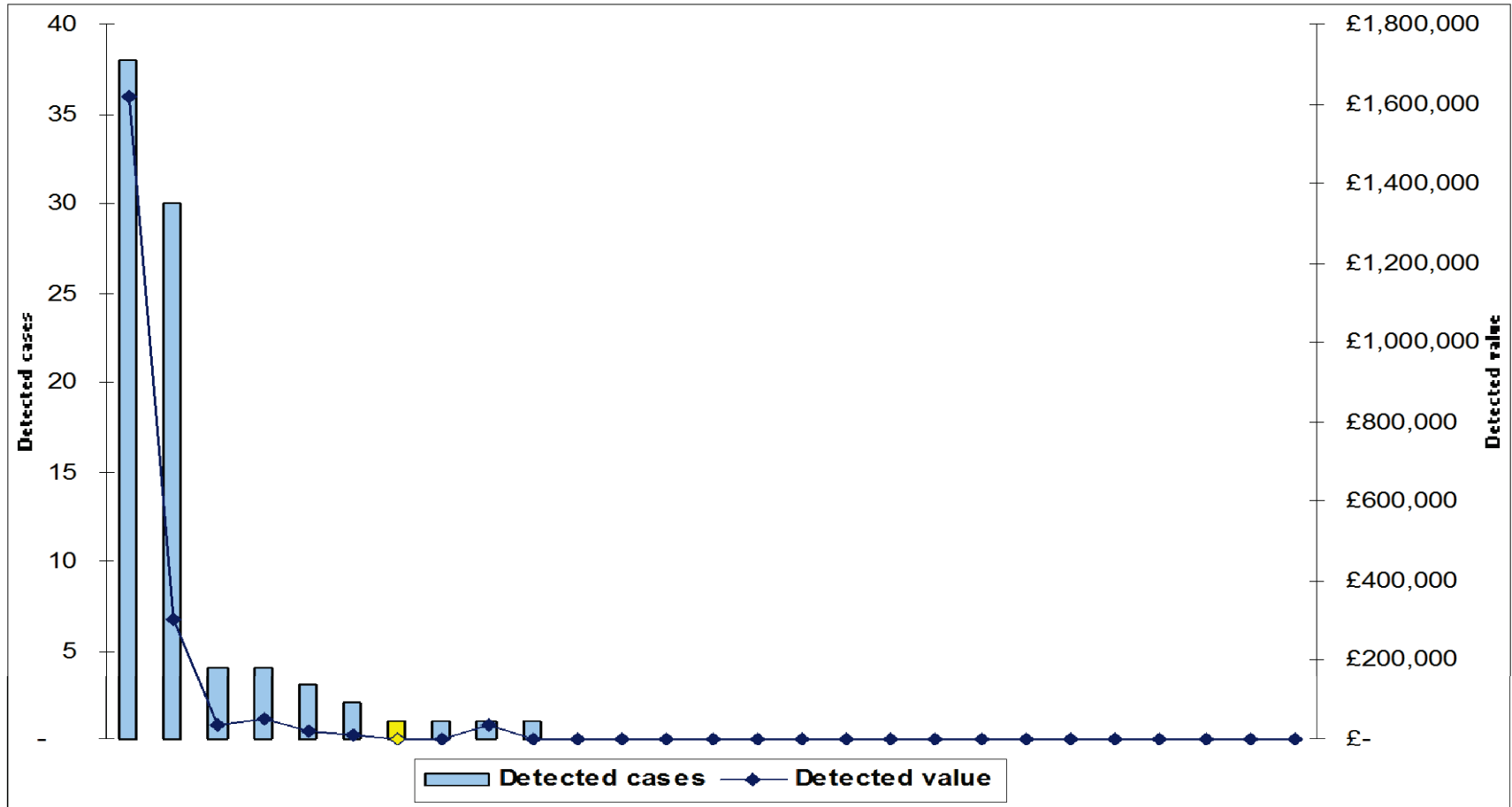
County Council average: 11 cases, valued at £162,763



County Councils 2012/13

Social care fraud

Detected cases and detected value

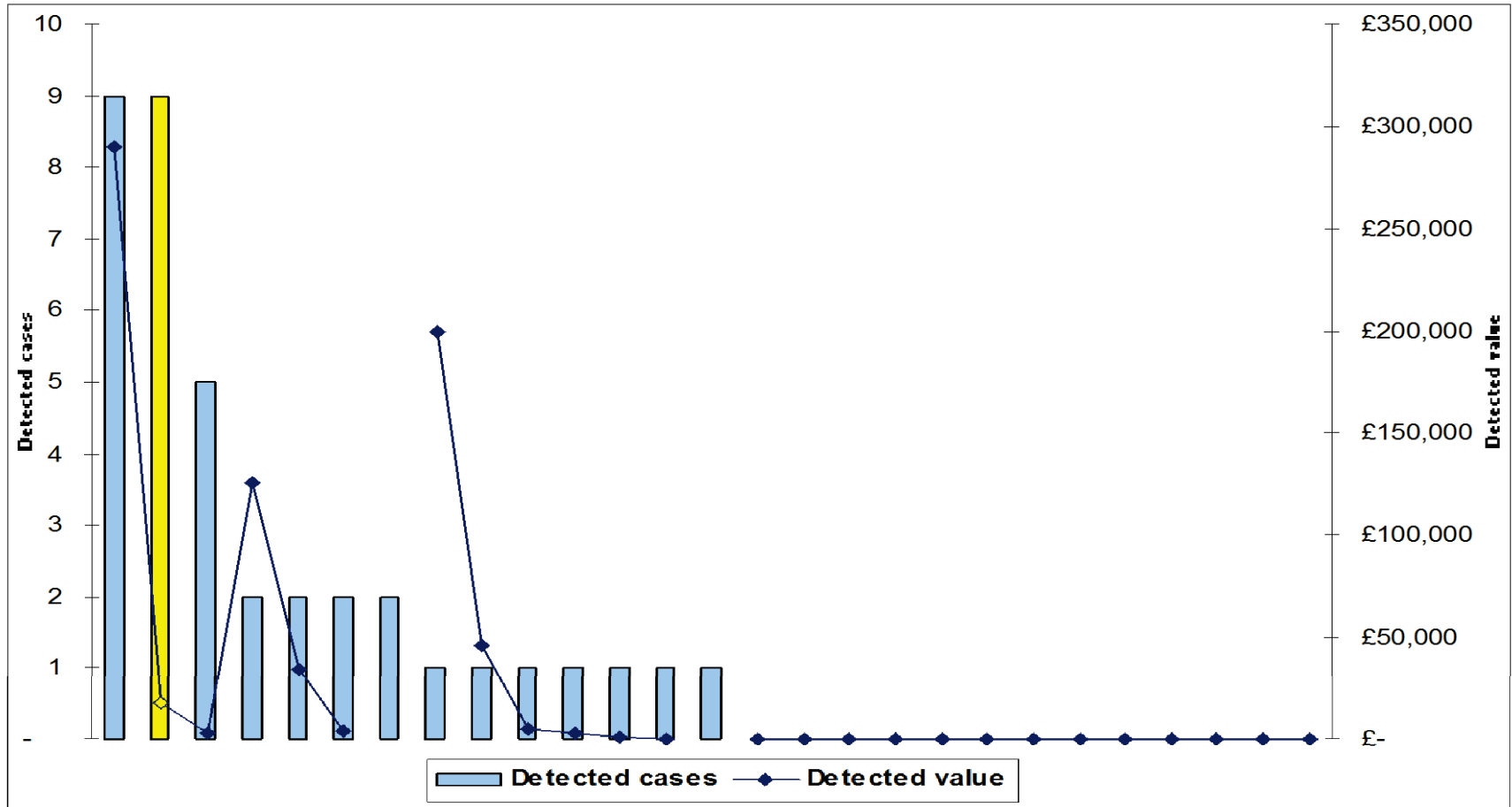


Lancashire detected: 1 cases, valued at £200
County Council average: 3 cases, valued at £77,003

County Councils 2012/13

Schools fraud

Detected cases and detected value



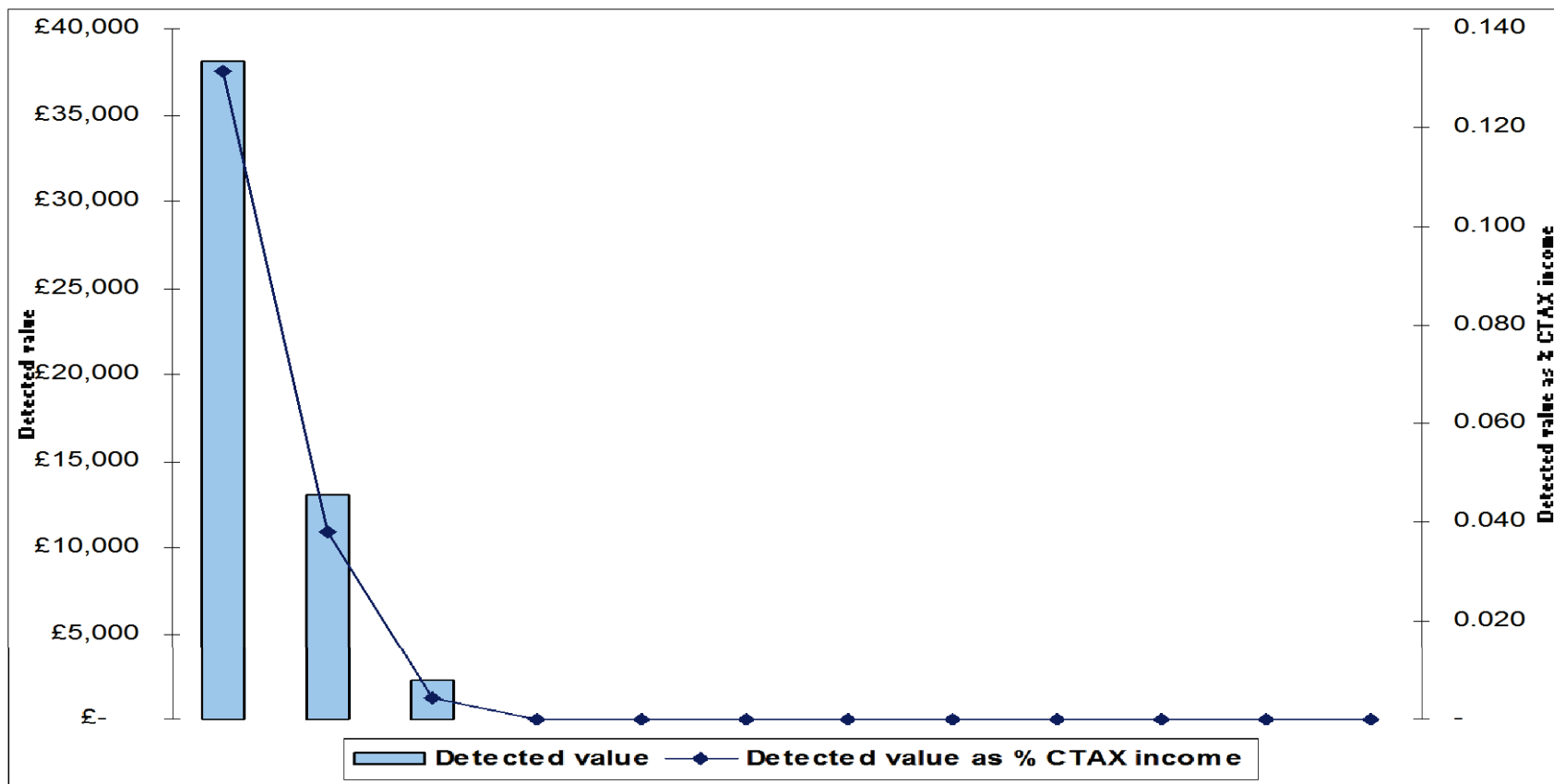
Lancashire detected: 9 cases, valued at £17,400
County Council average: 1 case, valued at £27,032



District Councils in your County Council area 2012/13

Council tax (CTAX) discount fraud

Detected value and detected value as a percentage of council tax income



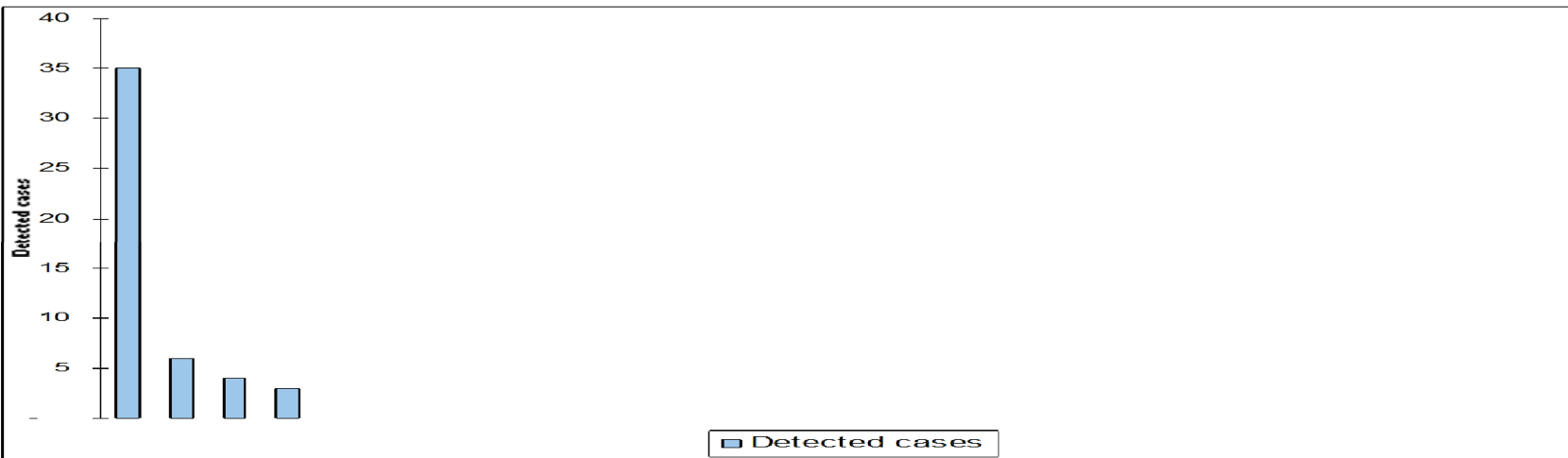
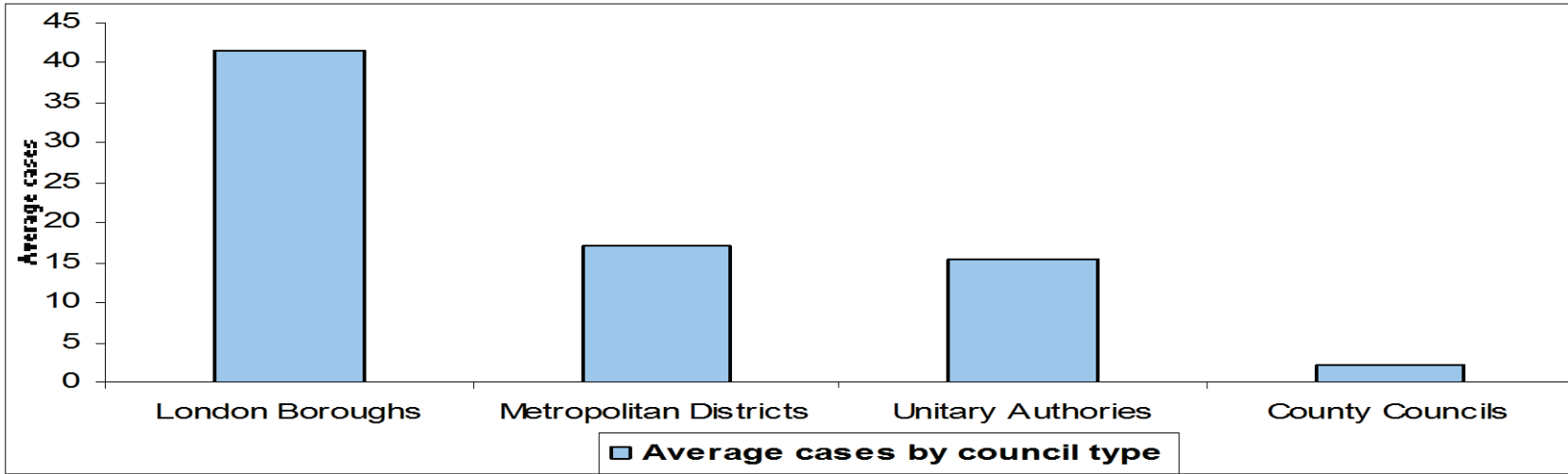
Total detected in your county area : 116 cases, valued at £53,268

Average in your county area : 10 cases, valued at £4,439



Disabled parking (Blue Badge) fraud 2012/13

Detected cases by council type and County Councils



Lancashire detected: no cases

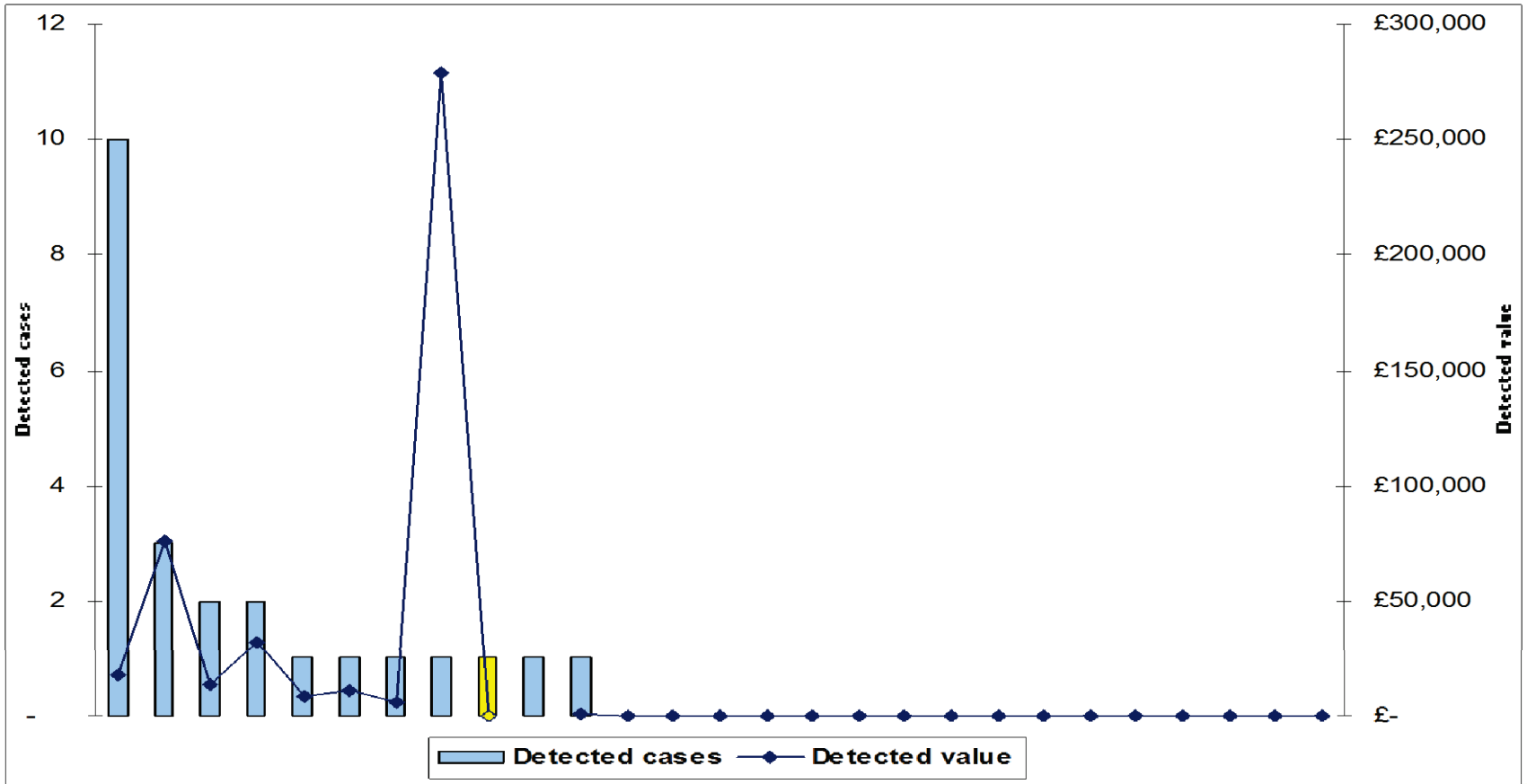
County Council average: 2 cases

County Councils 2102/13

Procurement fraud

Detected cases and detected value

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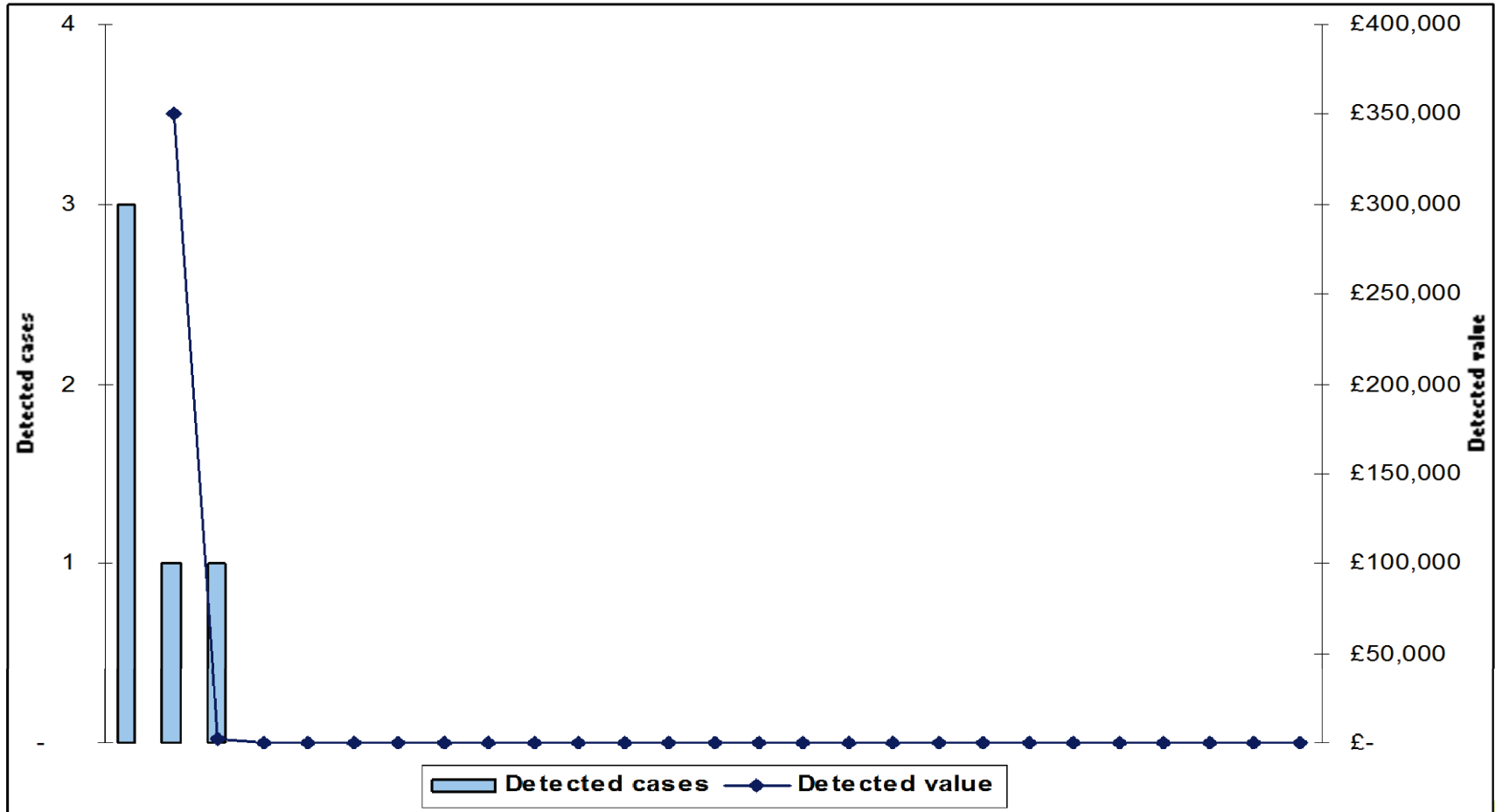


Lancashire detected: 1 cases, valued at £4
County Council average: 1 case, valued at £16,499

County Councils 2012/13

Insurance fraud

Detected cases and detected value



Lancashire detected: no cases

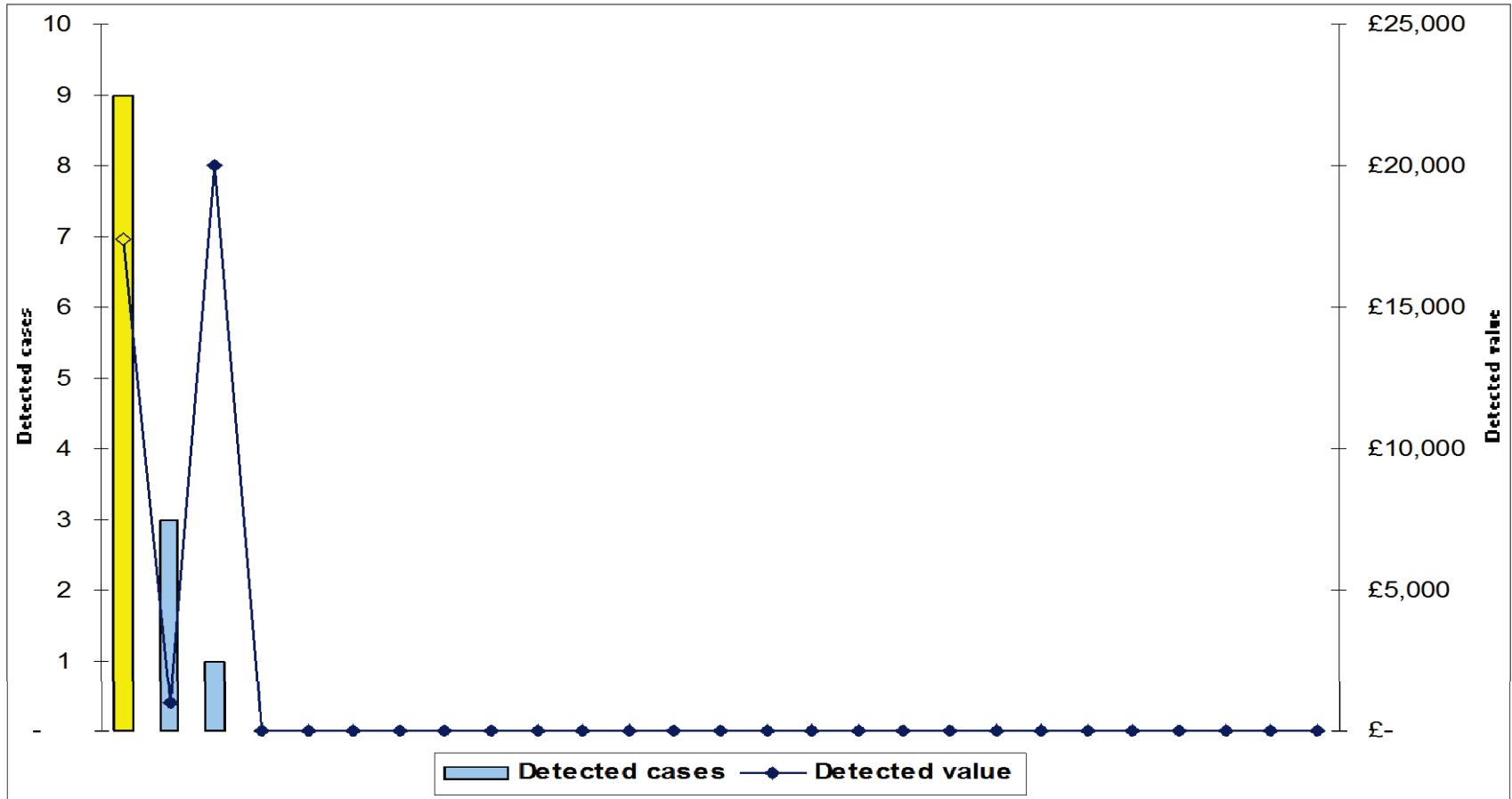
County Council Total: 5 cases, valued at £351,800



County Councils 2012/13

Economic and third sector support fraud

Detected cases and detected value



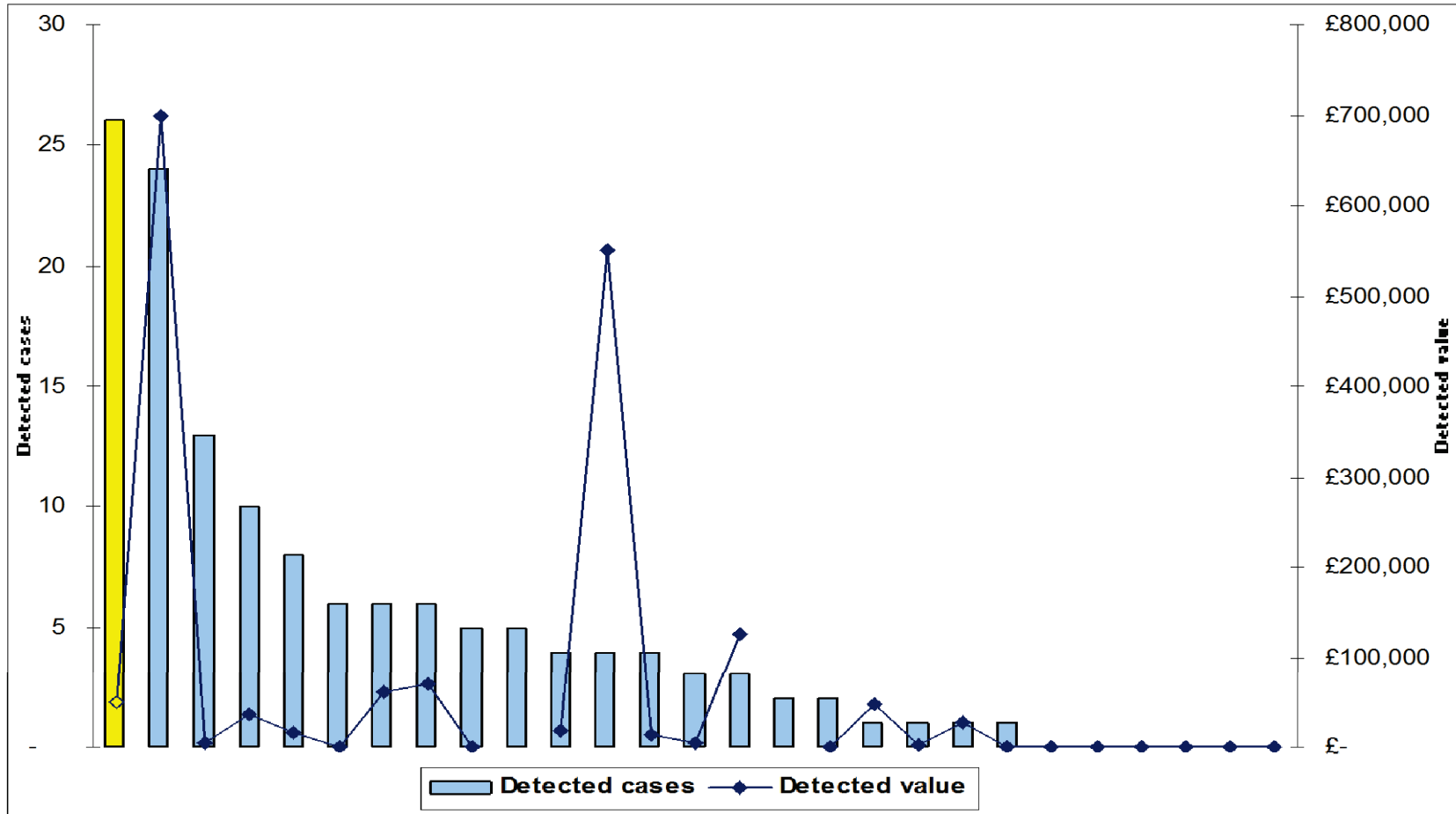
Lancashire detected: 9 cases, valued at £17,400
County Council total: 13 cases, valued at £38,400

County Councils 2012/13

Internal fraud

Detected cases and detected value

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Lancashire detected: 26 cases, valued at £50,004
County Council average: 5 cases, valued at £63,811



Any questions?

