

Lancashire County Council

Audit Committee

Monday, 27th June, 2011 at 2.00 pm in Cabinet Room 'B' - County Hall, Preston

Agenda

Part 1 (Open to Press and Public)

No. Item

1. **Apologies for absence**
2. **Audit Committee** (Pages 1 - 4)
**Constitution: Membership; Chair and Deputy Chair;
Terms of Reference**
3. **Disclosure of Personal and Prejudicial Interests**
Members are asked to consider any
Personal/Prejudicial 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 21 March 2011.** (Pages 5 - 10)
To be confirmed, and signed by the Chair.
5. **Update on treasury management activity** (Pages 11 - 22)
6. **Implementation of International Finance Reporting
Standards (IFRS) for Lancashire County Council** (Pages 23 - 28)
7. **The Future of Local Public Audit** (Pages 29 - 48)
8. **County Council and Pension Fund External Audit
Fees 2011-12** (Pages 49 - 60)
9. **Risk Management Report** (Pages 61 - 80)
10. **Annual Governance Statement 2010/11** (Pages 81 - 88)
11. **Response of the Audit Committee to the Audit
Commission's request for information to support its
compliance with International Standards on
Auditing** (Pages 89 - 94)

12. **Internal Audit annual report to the Authority for 2010/11** (Pages 95 - 116)
13. **Internal Audit Service Progress Report** (Pages 117 - 134)
14. **Internal Audit Service terms of reference and strategy** (Pages 135 - 142)
15. **Counter fraud and special investigations annual report 2010/11** (Pages 143 - 154)
16. **Overview and Scrutiny Annual Report** (Pages 155 - 166)

17. **Urgent Business**

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

18. **Date of Next Meeting**

The next meeting of the Audit Committee will be held on Monday 26 September 2011 at 2.00 p.m. in Cabinet Room B, County Hall, Preston.

I M Fisher
County Secretary and Solicitor

County Hall
Preston

Agenda Item 2

Audit Committee

Meeting to be held on 27 June 2011

Electoral Division affected: All

Audit Committee

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

Contact for further information:

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Executive Summary and Recommendation

The committee is asked to note:

- i. the 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 and Advice

The county council at its annual meeting on 26 May 2011 approved the constitution of the committee on the basis of 6 Conservative members, 2 Labour members and 1 member from the Liberal Democrat Group. The following members were appointed by their respective groups:

County Councillor:

K Brown	J Lawrenson
S Chapman	M Parkinson
C Grunshaw	M Welsh
H Henshaw	D Westley
M Younis	

Councillors S Chapman and M Younis have been appointed as Chair and Deputy Chair of the committee respectively.

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

N/A

Consultations

N/A

Implications:

N/A

Risk Management

N/A

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

Paper	Date	Contact/Directorate/Ext
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N/A

Reason for inclusion in Part II, if appropriate

N/A

Audit Committee - Terms of Reference

To support the council in its responsibilities for issues of risk, control and governance and associated assurance.

Membership

The members of the Audit Committee shall comprise nine councillors.

Meetings

The Audit Committee will meet at least four times a year. Meetings are open to the public but they may be excluded information of an exempt or confidential nature is being discussed.

Responsibilities

The Audit Committee will advise the Council on:

- a) the adequacy of the Authority's strategic processes for risk, control and governance and the Statement on Internal Control;
- b) the accounting policies, accounts and annual report of the Authority and any companies controlled by it, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letters of representation to the external auditors;
- c) the planned activity and results of both internal and external audit;
- d) adequacy of management's responses to issues identified by audit activity, including external audit's management letter; and
- e) assurances relating to corporate governance requirements.

The Audit Committee will review and approve the Authority's Statement of Accounts and those of the Lancashire County Pension Fund. Following the Committee's approval, the Statements of Account shall be signed and dated by the person presiding at the Committee at which approval was given.

The Audit Committee has responsibility for the over-sight of the County Council's corporate governance arrangements, and approve the Authority's Annual Governance Statement.

The Audit Committee will receive for information the audited financial statements of the Authority's group subsidiaries and associates.

Functions

The Audit Committee will consider at each meeting:

- a) A progress report from the Head of Internal Audit summarising:
 - i. work performed (and a comparison with work planned);
 - ii. key issues emerging from Internal Audit work;
 - iii. management response to audit recommendations;
 - iv. changes to the Audit Plan for the period; and
 - v. any resourcing issues affecting the delivery of Internal Audit objectives;
- b) A progress report from the External Audit representative summarising work done and emerging findings.

The Audit Committee will, on a periodic basis consider:

- a) A report summarising any significant changes to the Authority's Risk Register and the action being taken in response;
- b) Proposals for the Terms of Reference of Internal Audit;
- c) The Internal Audit Strategy and Annual Audit Plan;
- d) The Head of Internal Audit's Annual Opinion and Report;
- e) Quality Assurance reports on the internal audit function;
- f) The draft and finalised group Statement of Account of the Authority;
- g) The final Statement of Account of the Lancashire County Pension Fund;
- h) The Statement on Internal Control;
- i) A report on any changes to accounting policies;
- j) External Audit's management letter; and
- k) A report on co-operation between Internal and External Audit.
- l) The Council's Annual Governance Statement.

Agenda Item 4

Lancashire County Council Audit Committee

Monday 21 March 2011

Minutes

Present:

County Councillors

S Chapman (Chair)

C Grunshaw

M Welsh

H Henshaw

D Westley

M Younis

Officers in attendance

Michael Walder - Senior Policy Officer (Item 4)

George Graham – assistant director of finance (Items 5 & 6)

Roy Jones - assistant county secretary

Ruth Lowry – head of internal audit

Clive Portman - district auditor, Audit Commission (Items 9, 10 & 11)

Fiona Blatcher – senior audit manager, Audit Commission (Items 9, 10 & 11)

Item 1. Apologies

Apologies for absence were received on behalf of County Councillors K Brown, J Lawrenson and M Parkinson.

Item 2. Disclosure of Personal and Prejudicial Interests

County Councillor D Westley declared a personal Interest in Item 7 as a member of West Lancashire Borough Council (WLBC). The declaration related to his role as a WLBC Cabinet Member and the borough council's involvement with the county council and the joint venture company, One Connect Ltd.

Item 3 Minutes of the Meeting held on 24 January 2011

The Minutes of the previous meeting held on the 24 January 2011 were presented.

County Councillor Welsh referred to Item 4 of the Minutes in relation to the risk management update report. He felt that the comments made in respect of government proposals to allow local communities to run their own services had not been reported correctly.

It was agreed therefore, that the Minute be amended to reflect the view that 'there would be a serious risk to implementing this proposal if local communities proved unable or unwilling to undertake the delivery of local services.' It was also agreed that the risk be included in the risk register.

Resolved: That, subject to the amendments to Item 4 of the Minutes above, the Minutes of the meeting held on 24 January 2011 be confirmed and signed by the Chair.

Item 4. Risk Management Update Report

A presentation was made to the committee by Michael Walder, senior policy officer, who explained that an important part of the remit of the Audit Committee was to advise the council on the adequacy of the authority's strategic processes for risk management and to consider reports in respect of the authority's risk register and the action taken in response.

The report introduced the latest version of the register. It identified the significant directorate and cross cutting risks which the council faced together with current and planned actions to mitigate the risks.

Discussion took place regarding the scores given to five potential risk areas in the register:

- The review of locality working;
- The loss of highway infrastructure due to flooding;
- The failure of the Waste PFI contract;
- Corporate manslaughter on the highway; and
- The failure of public transport contracts (financial and reputation risk).

Members queried whether the scores for each of the above were appropriate given the significant high risk that could be attached to each and agreed that they be referred back to the directorates concerned for further consideration.

It was also agreed that a detailed report explaining how the risk register scores were applied would be presented to the next meeting of the committee on 27 June 2011.

Resolved: That:

- i) The content of the corporate risk register be noted.
- ii) The actions being taken in response to identified risks and the current process for identifying risk be noted.
- iii) That the scores in relation to the five potential risk areas identified above be referred back to the directorates concerned for further consideration.

- iv) That a detailed report explaining how the risk register scores were applied be presented to the next meeting of the committee on the 27 June 2011.

Item 5 Overview of the implementation of International Financial Reporting Standards for the accounts of the county council

George Graham, assistant director of finance (accountancy and financial services) reported on the progress made in implementing the new International Financial Reporting Standards (IFRS).

It was noted that progress continued to be made, and the IFRS was expected to be implemented in accordance with statutory deadlines.

Resolved: That the report be noted.

Item 6. Revision and Consolidation of Accounts and Audit Regulations 2003

George Graham, assistant director of finance (accountancy and financial services) reported on proposals by the Department of Communities and Local Government to make a number of amendments to provide clarity to the accounts and audit regulations and the process for the production of local authority accounts.

The committee was informed that the most significant change would be the way in which the accounts were approved. Instead of the committee signing off the accounts once the audit was complete, the responsible finance officer must sign off the accounts and then the members must approve the audited accounts by 30 September 2011.

The committee noted that the new accounting and audit regulations would come into force on 1 April 2011. It was also noted that it was unlikely that the committee's terms of reference would need to be amended as a direct result of the changes proposed since the terms of reference already treated the financial statements and annual governance statement separately.

Resolved: That the report be noted.

Item 7 Internal Audit progress report

Ruth Lowry, head of internal audit, presented the internal audit progress report for the eleven months to 28 February 2011.

The report included a summary of the work performed and a comparison with work planned, progress made in relation to cross cutting and corporate risks, corporate or common controls, and service specific controls.

Of particular interest to members was the audit service's work in relation to concessionary travel. It was noted that a follow-up review had been completed recently and that an update would be presented to the next meeting of the committee on 27 June, 2011. In the meantime, it was agreed that the full report on the review would be made available to members prior to the next meeting.

Members also noted that an internal audit review had been undertaken of the financial and administrative arrangements operated by Lancashire Adult Learning Services. The committee queried whether the qualitative aspects of the service including its outcomes, could be reviewed if further audit work was to be undertaken in future rather than its financial and administrative arrangements.

Members welcomed the proposal to maintain the number of school audit visits.

Resolved: That the internal audit progress report for the eleven months to 28 February, 2011 as now presented, be noted.

Item 8 Audit Plan 2011/12

Ruth Lowry, head of internal audit, presented the internal audit work plan for 2011/12 which set out the plan of work to be undertaken by the county council's Internal Audit Service for the coming financial year.

The plan was intended to provide assurance that the chief executive and leader of the council need that the risks to the council's objectives were being adequately and effectively controlled.

The committee noted that in deriving this plan, the internal audit team had:

- Considered the county council's corporate and individual directorate/ service risk registers;
- 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 plan amounted to a total resource input to the county council of 2,780 days. This represented a reduction in audit input of 14% arising from the reduction in Internal Audit Service staffing as part of the county councils drive to reduce its costs, but was considered acceptable to provide the assurance the council needs.

Of particular interest to members was the management of the risk of fraud which was expected to account for approximately 415 days of audit resources during 2011/12. It was agreed that a report on managing the risk of fraud

would be presented to a future meeting of the committee for information. In the meantime, it was agreed that the Audit Commission's report on its national fraud initiative entitled "Protecting the Public Purse" would be circulated to the committee.

The committee noted that an annual report on whistle-blowing was presented to the Standards Committee. It was agreed that the annual report would also be presented to the Audit Committee for information.

Resolved: That:

- i) The Internal Audit Plan for 2011/12 be approved.
- ii) Reports on 'whistle-blowing' and 'managing the risk of fraud' be presented to a future meeting of the committee for information.

Item 9 Internal/ external audit protocol

Ruth Lowry, head of internal audit, presented a protocol which set out how Lancashire County Council's Internal Audit Service and the Audit Commission as its external auditor work together, and establish a framework for coordination, cooperation and exchange of information.

Resolved: That the report be noted.

Item 10 Audit Commission – Progress report

A report was presented on an update of the audit work undertaken by the Audit Commission against the 2010/11 audit plan.

The objective of the report was to provide a position statement as at 10 June 2010 setting out the progress of the audit for the period covered by the commission's audit plans for the council and the Lancashire County Pension Fund.

It was reported that progress on the plan was as expected and that key pieces of work were now underway including work on the accounts and the conclusion on the council's arrangements to secure economy, efficiency and effectiveness (VFM conclusion).

Resolved: That the Audit Commission's progress report be noted.

11. Audit Commission – Certification of claims and returns annual report

Fiona Blatcher, senior audit manager presented a report on a summary of the Audit Commission's work on certifying the council's 2009/10 claims and returns.

The committee was informed that four of the council's claims/returns had been subject to certification work for 2009/10 with a total value of £120 million.

The committee was reminded that significant issues had been raised in the previous year however, this year several improvements had been made including much tighter monitoring of sure start centres. This had resulted in a reduction in the fees charged for grants certification work in 2009/10.

Resolved: That the report be noted.

12. Urgent Business

There were no items of urgent business.

13. Date of Next Meeting

Resolved: It was noted that the next meeting of the committee would be held on Monday 27 June 2011 at 2.00 p.m. at the County Hall, Preston.

County Hall
Preston

I M Fisher
County Secretary and Solicitor

Audit Committee

Meeting to be held on 27th June 2011

Electoral Division affected: All

Update on treasury management activity

Appendix 'A' refers

Contact for further information:

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Executive Summary

The revised treasury management policy 2009-10 was approved by full Council on 17th December 2009. Full Council approved the Annual Treasury Management Strategy 2010/11 on 25th February 2010. The financial year 2010-11 is the first complete year of operation under the new strategy focussing on improving security of funds and reducing overall capital financing charges in the current difficult economic environment. The attached report is a review of treasury management activity over the year including provisional year end results.

Recommendation

The Committee is asked to note the report on recent treasury management activities in Appendix 'A'.

Background and advice

At the meeting of the Cabinet on 9 July 2009 it was agreed that in order to strengthen members' oversight of the County Council's treasury management activities, the Audit Committee should monitor and scrutinise regular updates on treasury management issues. Reports on treasury activity are discussed on a monthly basis with the County Treasurer and the content of these reports will be used as a basis for this report to the Committee. The aim of the report is to inform members of the general economic environment surrounding treasury management activities and to set out the position on the borrowing and lending activities of the County Council.

The quarterly report attached at Appendix 'A' is the review of treasury management activity for the 2010-11 financial year including provisional year end results. This will form the basis of the year-end report which will be presented to cabinet in July.

Consultations

Sterling Consultancy Services Limited provides advice on treasury management.

Implications:

N/A

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/Ext
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N/A		
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Introduction

In February 2010 the Council adopted the 2009 edition of the *CIPFA Treasury Management in the Public Services: Code of Practice*, which requires the Council to approve a treasury management strategy before the start of each financial year, a mid year report, and an annual report after the end of each financial year. This report is the annual report for the 2010/11 financial year.

1. The Economy and Interest Rates in 2010/11

Following recession in 2009, global economic activity rebounded in 2010. Traditional exporters like Germany benefited from rising consumer demand worldwide, although economies more reliant on domestic consumption, including the UK, faced a weaker outlook. The government and household sectors of these countries were burdened by excessive debt, ultimately resulting in weaker domestic spending.

The absence of a quick economic recovery led to rising government budget deficits, especially in the European periphery, and prompted some concern among bond investors and credit rating agencies. This loss of confidence in the ability of some governments to repay their debts saw bond yields rise and the markets effectively closed to certain countries. Greece, Ireland and Portugal were all forced to seek financial assistance from the European Union and the International Monetary Fund.

The UK's deteriorating financial position was also a concern. The UK had the highest budget deficit in the EU in 2009/10 and the economic outlook was weak. However, the new Conservative-Liberal Democrat coalition government, formed following the General Election in May 2010, outlined what was perceived by investors and credit rating agencies to be a credible fiscal consolidation plan. With financial problems continuing elsewhere in Europe, the UK was perceived to be a relative "safe haven", and strong appetite for UK government debt kept gilt yields low.

While the UK government focused on tightening fiscal policy, the Bank of England maintained loose monetary policy. Bank Rate remained at 0.5% throughout the financial year, despite inflation rising to over double the 2% target as the price of, largely imported, raw materials increased. With inflation expected to test 5% during 2011, the risk that raised inflation expectations would feed into wages and prices was increased, three members of the Monetary Policy Committee voted for an increase in Bank Rate in February. The remaining six members, however, were more concerned that higher interest rates could choke off the economic recovery, which was already showing signs of slowing in response to fiscal tightening. The MPC remains divided on when to raise Bank Rate, although the market expectation is for an increase this autumn.

2. Treasury Management Activities in 2010/11

Borrowing Activity 2010/11

The 2010/11 borrowing requirement was originally estimated at £51.638m after taking into account the advance borrowings brought forward from 2009/10 and the decisions taken by Cabinet in September 2010 in respect of switching revenue contributions to the capital programme to prudential borrowing. This is less than initially anticipated due to slippage in the Capital Programme. The outturn position to compare against this estimate was £52.340m, however the actual amount of borrowing activity undertaken has been markedly increased by two debt restructuring exercises during the 2010/11 financial year.

The actual 2010/11 borrowing position compared with the estimate based on the revised capital program is shown in the following table:

	2010-11 Estimate £000	2010-11 ACTUAL £000	2011-12 Estimate £000	2012-13 Estimate £000
Supported Borrowing	39,814	40,512	0	0
Unsupported Borrowing	41,136	29,964	42,714	22,624
Maturing Long Term Debt	9,029	19,022	10,500	10,000
Less transferred debt repayments	-4,069	-3,007	-3,000	-3,000
Less Minimum Revenue Provision	-24,272	-24,151	-28,567	-30,540
Less advance borrowing brought forward from previous years	-10,000	-10,000	-65,840	-
Total borrowing requirement	51,638	52,340	-44,193	-916
Repaid Long Term Debt		292,781		
Actual short term borrowing 10-11		-194,769		
Actual long term borrowing 10-11		-216,192		
Borrowing carried forward to 11-12		-65,840		
Short term debt replacement			150,576	149,660

During the year the Treasury Management Team undertook a debt restructuring exercise, taking advantage of very low short term interest rates by replacing relatively expensive long term PWLB debt with short term market debt. The resulting increase in borrowing activity is shown in the table above below the capital financing borrowing requirement. At some point the short dated borrowing will be replaced by longer maturities but the timing of this depends on the shape of the yield curve and the availability of market borrowing. The UK Treasury's decision as part of the Comprehensive Spending Review to introduce a 1% spread above gilts for PWLB pricing means it is very unlikely future borrowing will be sourced from the PWLB. The short term debt replacement estimates for 2011/12 and 2012/13 assume current market conditions will continue, but obviously this situation may change depending

on the above factors, and the position will be kept under review and reported to Members as necessary.

Analysis of Debt Outstanding and Average Interest Rates

The following table sets out the structure of the County Council's debt at 31st March 2011. The figures in this table are calculated on the basis required by International Financial Reporting Standards and the 2010 position has been adjusted accordingly.

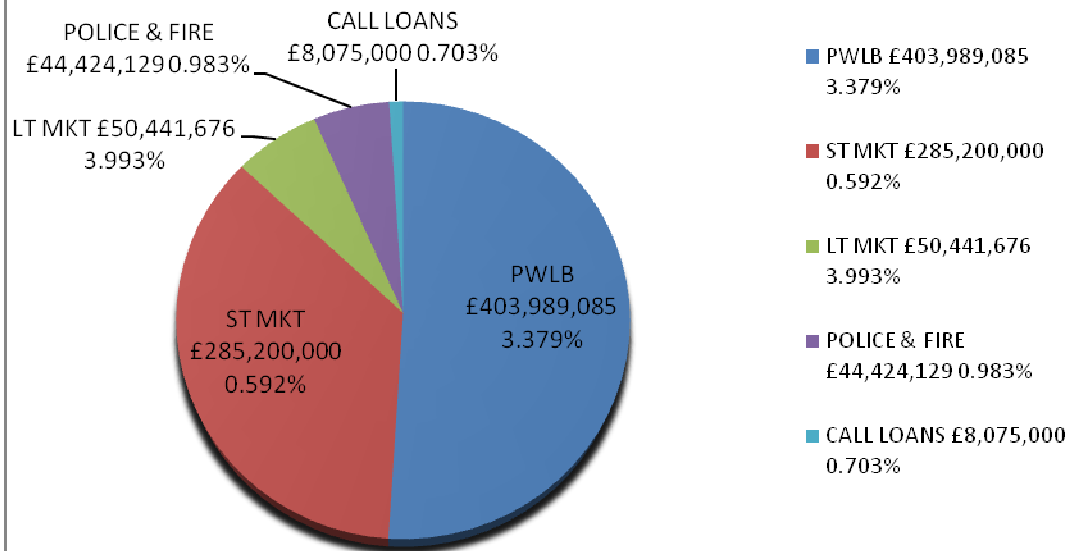
	Debt at 31 March 2010 Restated		Borrowing £m	Repayments £m	Debt at 31 March 2011	
	£m	%			£m	%
Fixed Rate Funding						
Public Works Loan Board	510.020	78.70		301.803	208.217	78.70
LOBO (RBS)	0.000		50.650	0.208	50.442	
Local Bonds	0.022				0.022	
Short term Market Borrowing	108.000	16.67	1,149.695	972.495	285.200	16.67
	618.042		1,200.345	1,274.506	543.881	
Variable Rate Funding						
Public Works Loan Board	30.000	4.63	165.750	-	195.750	4.63
District Call Loans Facility	0.00		57.430	49.355	8.075	
Police and Fire Authorities	35.286		319.973	310.835	44.424	
	65.286		543.153	360.190	248.249	
Loan Debt Administered by the County Council	683.328	100	1,743.498	1,643.696	792.130	100

The total loan debt administered by the County Council at 31 March 2011 of £792.130m represents mainly borrowings over the years to finance the acquisition of the County Council's fixed assets, which are currently valued at £2.437 billion. However, it includes £47.900m managed by the County Council on behalf of other local authorities and the Police Authority. This debt relates to assets transferred to those authorities in local government re-organisations and the financing charges are repaid to the County Council quarterly.

The average rate of interest paid in 2010/11 on the debt administered by the County Council was 2.69% per annum compared with an average rate of 4.37% in 2009/10.

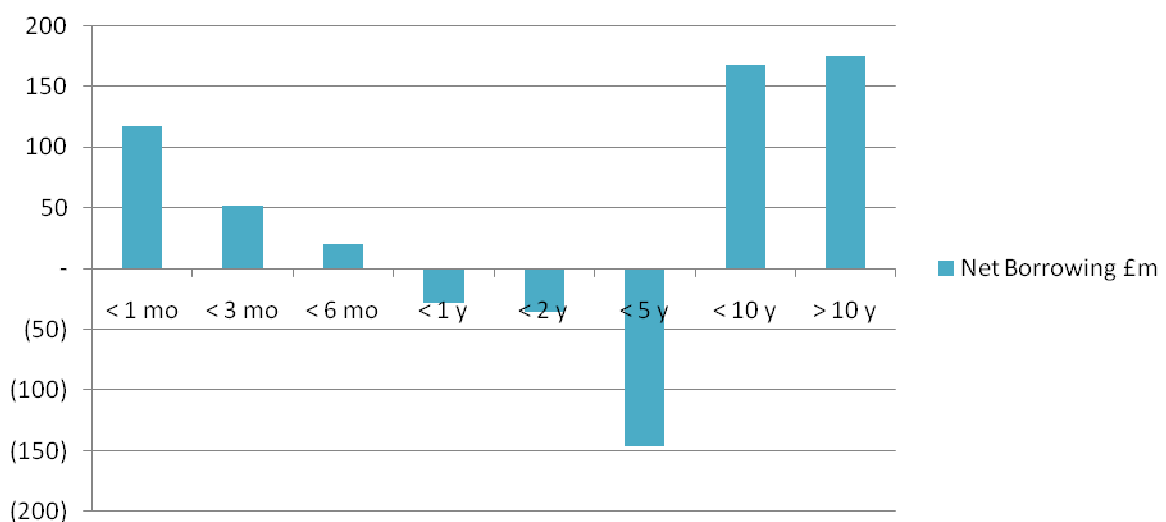
The following chart shows the breakdown of LCC Debt and the average interest rate payable on the different type of instruments.

Borrowing as at 31st March 2011



The debt restructure has also brought about a significant change to the maturity profile of the County Council's debt. Much more of the debt will need to be refinanced in the short term and this leaves the portfolio exposed to some interest rate risk which will need to be carefully managed in the coming year. The chart below shows the net refinancing risk, that is borrowing less maturing investments.

Total Borrowing Net of Maturing Investments



It can be seen that there is a large level of short term borrowing which needs to be constantly refinanced as part of the strategy to benefit from low short term rates, and it is this which gives rise to the interest rate risk, nevertheless, the risk is partly mitigated by maturing short term investments.

It is also mitigated by a long term £50m loan taken on a Lender Option Borrower Option (LOBO) basis. The interest rate of this loan is fixed for 2 years at 1.65% and thereafter at 7.52% less the sterling 10 year swap rate, providing an inverse relationship with interest rates - the interest payable on the loan will fall as interest rates rise.

Impact of the above year end position on the approach to borrowing in 2011/12.

A revised forecast of interest rates, published recently by our treasury management advisors Sterling Consultancy Services is shown below. Note that the Quarter and Half years referred to are calendar (as opposed to financial) years.

Interest Rate Forecast May 2011

SCS Central forecast

Market forecast

	<i>Bank Rate</i>	<i>1 month LIBOR</i>	<i>3 month LIBOR</i>	<i>12 month LIBOR</i>	<i>25 year PWLB</i>	<i>Bank Rate</i>	<i>3 month LIBOR</i>
Current	0.50	0.63	0.83	1.59	5.17	0.50	0.83
Q2 2011	0.50	0.65	0.85	1.60	5.30	0.53	0.84
Q3 2011	0.75	0.85	1.00	1.85	5.40	0.58	0.92
Q4 2011	1.00	1.10	1.25	2.10	5.50	0.68	1.03
Q1 2012	1.25	1.35	1.50	2.40	5.60	0.83	1.17
Q2 2012	1.50	1.60	2.00	2.90	5.70	0.99	1.35
H2 2012	2.00	2.10	2.50	3.50	5.80	1.37	1.79
H1 2013	2.75	2.85	3.25	4.40	5.90		2.21
H2 2013	3.50	3.60	4.00	5.00	6.00		2.66

Forecasting Future rates has become an exercise in quantifying the MPCs willingness to look through current short term inflation spikes in applying its "controlling future inflation on a 2yr horizon" mandate. Expert opinion remains divided, the slight majority calling a path of small 25bp rises beginning in August taking base rate from the current 0.50% to 2.0% over the course of the next 18mths, whilst a number of strategists see the economy still being too fragile to deal with simultaneous fiscal and monetary tightening and therefore rate rises being unlikely until mid to late 2012. On balance the Treasury management view is in the later camp.

There is a similar dislocation of views on longer term rates between the camp calling for higher long term rates required to maintain investor demand for government debt and others who see continued foreign demand for UK debt as a "safe haven" from turmoil in peripheral Europe and Pension Fund liability hedging demand. Given the

scale of the Pension liability problem in the UK (and the rest of developed markets) we are in the later camp. UK Pension Fund Liability potential demand is in excess of £1.5 trillion (ie. million million) compared to UK annual gilt issuance of £165bn.

UK forward interest rate curves are still forecasting higher rates, so even if we do see a series of rate rises the market has already discounted such moves..

Investment of Cash Balances

Following the formal approval of the revised investment policy at Full Council on 17th December 2009, the County Council is now operating a credit de-risking strategy using information from the credit default swap market in addition to credit ratings to assess counterparty reliability and by increasing our exposure to sovereign credit at the expense of bank risk.

It has been our view since the beginning of 2010 that market expectations of early and sharp rises in base rate were too aggressive and that the steepness of the forward interest rate curve would have to be pegged back. Whilst our ability to express this view is limited by the financial instruments available to us we have continued to add to our 2-5yr deposit portfolio as a good approximation of the view.

The team have progressed with the construction of the "4 portfolio" approach outlined in the Treasury Management Policy 2009. We now have all portfolios populated and the de-risking policy has been fully implemented. The majority of the Council's investments are now in Government or Government guaranteed bonds or deposits in institutions with Government ownership/support.

Like most other councils, Lancashire has a benchmark for the average rate of interest earned on its invested cash balances. The benchmark rate is the average commercial market rate for money deposited on 7 days' notice. During 2010/11, on average, that rate was 0.431%, with Lancashire's average rate being 2.453% over the same period, reflecting the longer term nature of the portfolio.

At the 31st March 2011 the interest rate on the portfolio was 3.43%. The table below provides an analysis.

Maturity Range	Amount £m	Average Rate %
Call, MMF & Under 1yr	83.96	1.58
1-2 Years	67.65	3.07
2-3 Years	106.31	2.79
3-5 Years	75.45	4.62
5 Years +	5.89	4.54
Local Authority Bonds	20.79	4.71
Bonds	60.72	3.71
Index Linked Bonds	61.59	5.35
Totals	482.36	3.43

Operation of arrangements with other bodies (District Councils, Fire and Police Authorities and Pension Fund)

During 2010/11 there have been a number of changes to the accounting treatment of transactions undertaken on behalf of other bodies.

The Lancashire County Pension Fund as a result of a regulatory change has established its own banking arrangements and consequently the cash funds previously placed by the Fund with LCC now will now be placed directly with market counterparties in line with the specific LCPF treasury management policy approved by the Pension Committee in April 2011.

Funds accepted from District Councils and the Fire and Police Authorities now form part of LCC's capital financing programme and as such are categorized as "Call borrowing programmes" and accounted for in the same way as other short term borrowing. While this change creates some transitional issues in the consistent presentation of information in the longer term it provides greater transparency to these arrangements which are beneficial to all parties.

Financing Charges Year end Out-turn Summary 2010-11

The 2010 -11 financing charges budget was set at £46,487m, against which the outturn was £31,294m representing an underspend of £15.193m.

Financing Charges 2010/11

Outturn Figures	budget	out-turn	variance
	£000	£000	£000
Minimum rev provision	26,460	23,984	-2,476
Interest paid	25,187	20,074	-5,113
Investment interest received	-4,704	-12,323	-7,619
Grants received	-456	-441	15
Total net financing charges	46,487	31,294	-15,193

Treasury Management Consultants

It had been over five years since the County Council invited tenders for the TM Consultancy contract and therefore all relevant market participants were put on notice of an upcoming tender process in October 2010. Tenders were formally invited in February for a new contract to begin on 1st April 2011 and accordingly Sterling Consultants (SCS) were appointed to the contract.

Treasury Management Prudential Indicators 2010/2011

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 2011 compared to the prudential indicators set in the treasury management strategy for 2010/11 and with revised indicators agreed by cabinet on 4th November 2010, is set out below.

The indicators were revised during the year to take account of the fact that in the interests of transparency, monies held on behalf of the Police and Fire Authority, previously netted off cash in the accounts, would in future be shown as borrowing. Secondly in undertaking the debt restructure programme and switching secure (but expensive) long term borrowing to much cheaper short term borrowing, the Authority must have maintained enough liquidity to meet its day to day financial obligations and it is important to keep credit streams open.

At the peak of the restructure programme in January the Authority breached, for a short time, the authorised external debt limit. This was rectified immediately by reducing the level of short term borrowing.

In addition the revised indicators did not take account of Private Finance Initiative assets coming back onto the balance sheet under IFRS accounting and it is this that accounts for the breaching of the operational and authorised boundaries for other long term debt. As PFI liabilities are not direct borrowing by the Council this is a technical rather than a fundamental issue, nevertheless a full review of the Authority's prudential indicators will be undertaken in the near future and all changes presented to members for approval.

Treasury Management Prudential Indicators	2010/11 Original £M	2010/11 Revised £M	2010/11 Actual £M
1. Adoption of the CIPFA Code of Practice for Treasury Management	This has been fully 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	780	1000	792
Other long-term liabilities(eg leases)	5	5	191
TOTAL	785	1005	983
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	745	950	792
Other long-term liabilities	3	3	191
TOTAL	748	953	983
4. Upper limit for fixed interest rate debt	780	800	544
5. Upper limit for variable rate debt	390	600	248

The limits shown at 4 and 5 above are consistent with current practice and reflect prudent levels in the current economic climate.

6. Upper limit for total principal sums invested for over 364 days (per original period to maturity):	150	-	-
For UK and Overseas AAA rated banks:	-	500	
For UK Nationalised and Part Nationalised Banks and UK Local Authorities	-	300	
UK or AAA rated foreign Government or Supra-national Bank Securities and UK Local Authority Bonds.			75% OF TOTAL PORTFOLIO

7. Maturity structure of debt

	Upper/Lower Limit % 2010/11 Revised	Upper/Lower Limit % 2010/11 Actual
Under 12 Months	75 / 0	36
12 months and within 2 years	75 / 0	1
2 years and within 5 years	75 / 0	1
5 years and within 10 years	100 / 25	19
10 years and within 15 years	100 / 25	4
Maturing after 15 years	100 / 25	39

Investment in Icelandic Banks

Lancashire County Council had £6.436m on deposit with the Icelandic Bank Landsbanki Is when it collapsed in October 2008. At the time the winding up committee decided that wholesale depositors, such as local authorities, were preferential creditors, meaning that they would be amongst the first claims to be paid distributions from the winding up of the company. This decision makes a great deal of difference to the amount of the claim against the assets of the bank which the Authority can expect to receive. Due to the sums involved the decision was challenged through the Icelandic courts by vulture funds and other non-preferential creditors.

The case was heard on 14-18 February in Reykjavik and the decision passed down by the judge on 1st April. The Icelandic District Court found in favour of local authorities and ruled that deposits placed by UK wholesale depositors have priority status in the winding up of the Icelandic banks. Subsequently an appeal to the Supreme Court has been made and a final decision is expected in September 2011. No indication has been given as yet to the timing of any distributions.

Based on the current statement of assets and liabilities of the bank the most up to date indications are that Authority will recover 94.85% of the value of the claim (CIPFA May 2011) although this figure is wholly dependent on realisations made from the assets of the bank and may change.

In terms of accounting treatment, since the collapse in 2008-09 the Icelandic deposit has been treated as an impaired asset, with the value of the asset written down to reflect the potential loss and this has been charged to the general fund. In 2008-09 and 2009-10 the Authority took advantage of a special capital financing regulation, which enabled the Authority to defer the impact on the general fund by transferring the impairment to the financial instruments adjustment account. It has always been the case that the regulation would last for two years and that the impairment transfer to the financial instruments adjustment account would be reversed in 2010/11.

In accordance with legislation and CIPFA accounting guidance, all transactions relating to the Landsbanki investment transferred to the financial instruments adjustment account in previous years have now been reversed, and an impairment charge of £1.285m made to the 2010-11 Accounts. In addition and also in accordance with recommended accounting practice £0.308m of notional interest has been credited to the investment interest account. In total this reflects an assumption that 94.85% of the Council's total claim will be paid.

Agenda Item 6

Audit Committee

Meeting to be held on 27th June 2011

Electoral Division affected: All

Implementation of International Finance Reporting Standards (IFRS) for Lancashire County Council (Appendix A refers)

Contact for further information:

George Graham, 01772 538102, County Treasurer's Department,

George.graham@lancashire.gov.uk

Executive Summary

The 2010/11 Statement of Accounts for Local Authorities must be completed under International Financial Reporting Standards (IFRS). Authorities must use a transitional date of 1st April 2009, in order to include comparative 2009/10 figures under the new standards within the 2010/11 Statement of Accounts.

This report summarises the approach that has been taken to deliver the transition to IFRS and updates the committee as to the current position.

Recommendation

That the Audit Committee notes the report.

Background and Advice

Local Authorities previously prepared their annual statement of accounts under United Kingdom Generally Accepted Accounting Practice (UK GAAP). However, in order to allow comparability and consistency with the private sector, it was announced in the 2008 Central Government Report that from 2010/11 Local Authorities are required to produce their annual statement of accounts under International Financial Reporting Standards (IFRS).

Appendix A gives an overview of the key facts relating to the implementation of IFRS, and progress made on those aspects.

Consultations

Not applicable

Implications:

This item has the following implications, as indicated:

Legal – The production of the statement of accounts under IFRS is a statutory requirement.

Risk management

There is a risk associated with non-compliance of statutory requirements.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Directorate/Tel
n/a	n/a	n/a
Reason for inclusion in Part II, if appropriate		
n/a		

Progress report on the implementation of International Financial Reporting Standards for the accounts of the County Council

27th June 2011

1. Executive Summary

- 1.1 Local Authorities are required to adopt International Financial Reporting Standards (IFRS) from 2010/11 onwards. Although IFRS is fully implemented from 1 April 2010, the transition date is 1 April 2009. The transition process from current financial reporting standards to IFRS has had a significant impact on the accounts of the County Council; therefore a project plan was put in place to ensure a successful transition and to maintain both the quality and integrity of the County Council's accounts.
- 1.2 This report summarises the Council's approach to the implementation of the new standards and provides assurance that the necessary action has been taken for their successful integration in to the 2010/11 closure process.

2. Background

- 2.1 Local Authorities were previously required to prepare their annual Statement of Accounts in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP).
- 2.2 In the 2008 Pre Budget Report it was announced that Local Government must implement IFRS from 2010/11 onwards. The aim of the change in financial reporting standards is to bring comparability and consistency between financial reports in the global economy and to follow private sector best practice.
- 2.3 As part of the 2010/11 Statement of Accounts process Local Authorities are required to fully re-state their 2009/10 UK GAAP accounts under IFRS.
- 2.4 Central Government and NHS had an earlier implementation date of 2009/10, therefore Local Authorities can learn from both their successes and the challenges faced during the transition process.

3. Delivering the adoption of IFRS

- 3.1 The IFRS Project Group was set up in November 2009 to drive the implementation of the new standards across the council.
- 3.2 The group developed an action plan and timetable to deliver IFRS and then reported on progress regularly to the Audit Committee.

- 3.3 As part of the 2010/11 Statement of Accounts process Local Authorities are required to fully re-state their 2009/10 UK GAAP accounts under IFRS. This has meant the examination of data not only for 2009/10 but for 2008/09 and prior years to determine the correct accounting treatment of a number of elements.
- 3.5 Previous reports to the committee have detailed the key issues that have been dealt with through the project and shown how the Council's resources have been utilised to deliver the required results. The major areas of work undertaken include:
- Examination of all leases held by the Council and assessment of their accounting treatment
 - Analysis of all contracts held by the Council to determine if they contained any embedded leases
 - Reclassification of the Council's Fixed assets where appropriate under IFRS
 - Consideration of the components of fixed assets and their treatment
 - Analysis of employee benefits to meet the reporting requirements under IFRS
- 3.6 As reported previously to the committee a number of these areas of work required a significant level of resource to deliver the information required. The majority of the action required was 'backward facing' to provide the base information in 2008/09 and 2009/10 so that the 2010/11 accounts were being compared to previously periods consistently.
- 3.7 As a result of this processes have now been put in place to ensure the data continues to be collected as part of normal procedures thus ensuring a effective and efficient process in future years.
- 3.8 The final restatement of the 2009/10 accounts under IFRS has been provided to the Council's auditors and feedback has been positive based on the work submitted.
- 3.9 The 2010/11 draft statement of account have now been prepared in accordance with IFRS requirements, and together with the restatement of the 2009/10 accounts will be formally considered as part of the 2010/11 audit, the findings of which will be reported back to the committee in September.
- 3.10 The indications from the feedback received to date indicate that there should not be any significant issues arising due to the implementation of IFRS, however, as previously reported to the committee it is expected that there will be a greater number of minor issues arising from the audit. This is not

unexpected as there has been, and continues to be, a significant amount of discussion over the interpretation of the standards on a national scale which will lead to some disparity in treatment by different organisations. This type of issue may well be borne out in the report we ultimately receive.

- 3.11 This year's audit report will therefore provide valuable guidance for the production of the accounts in future years, and the advice received will enable any queries raised to be dealt with in future periods.

4. Summary

- 4.1 Through the action of the project group and the determination of a detailed project plan, the Council has met its requirements in the restatement of its 2009/10 accounts under IFRS as part of the preparation of the 2010/11 accounts and has produced the 2010/11 accounts themselves in accordance with the new standards.
- 4.2 Regular contact with, and advice from, the Audit Commission has provided invaluable assistance in achieving this.
- 4.3 The processes developed to obtain information that informed the production of transitional IFRS accounts have been embedded in the standard processes of the Council to provide such information on an on-going basis in the future.
- 4.4 Whilst we are confident that there will be only be issues of an immaterial level identified when the accounts are audited under IFRS it is important to state that it is expected there will be more in number than in previous years. This is considered to be an opportunity as the identification of such issues will enable the Council to develop its processes in the production of the accounts in future years so that they are minimised.
- 4.5 The outcome of the Audit of the Council's accounts will be reported back to the Committee in September including an assessment of the Council's delivery of its transitional IFRS accounts.

Audit Committee

Meeting to be held on 27th June 2011

Electoral Division affected: None

The Future of Local Public Audit

(Appendices A, B & C refer)

Contact for further information:

George Graham, (01772) 538102, County Treasurer's Department,

george.graham@lancashire.gov.uk

Executive Summary

The Government has published consultation proposals for the new audit regime for local authorities to follow the proposed abolition of the Audit Commission (Appendix A). A copy of the proposals can be found at:

<http://www.communities.gov.uk/publications/localgovernment/localpublicauditconsult>

The County Council's proposed response is set out at Appendix C, with general principles covered in the letter at Appendix B.

In broad terms the Government proposes to mirror the Companies Act regime for local authorities. While as a broad framework this is regarded as acceptable there are certain areas of detail which are considered to require further work.

The proposals also set out specific proposals for the audit of small local bodies, mainly parish and town councils which could have fundamental implications for the County Council.

Recommendation

The Audit Committee are asked to endorse the County Council's proposed response on the future of local public audit set out in appendices B and C.

Background and Advice

During summer 2010 the Government announced its intention to abolish the Audit Commission and free local authorities to appoint their own auditors. At the end of March 2011 the Department for Communities and Local Government published a consultation document setting out their proposals for the new audit regime for local authorities following the abolition of the Audit Commission with a request for responses by 30th June 2011.

In broad terms the key elements of the proposed regime are:

- The National Audit Office will maintain and gain Parliamentary approval for a Code of Audit Practice which will specify the scope of the audit.
- The same regime of regulatory approval and quality assurance as exists in the company sector will apply to the authorisation of firms to undertake this work and the ongoing review of quality once authorised.
- The appointment of the auditor will be made by the Full Council on the recommendation of an Audit Committee with a majority of independent (i.e. non councillor) members.
- The auditor would continue to have duties with regard to reporting in the public interest and dealing with objections although the latter process would be much simplified.
- The relevant Upper Tier Council (the County Council in Lancashire) would be expected to appoint the Independent Examiner for smaller bodies (mainly town and parish councils).
- The relevant Upper Tier Council would determine whether a public interest inquiry should be conducted at a smaller body and what action might be required as a result of such an inquiry.

From the above with the exception of the last two points it might be thought that the degree of change is not significant. However, there are a number of specific issues raised in the proposals to which detailed responses are set out in the appendices.

The key issues set out in the County Council's proposed response are around:

- Ensuring that the quality of the audit product is maintained
- Facilitating joint procurement while maintaining the effectiveness of the Audit Committee for the individual organisation
- Ensuring that the external auditor can be demonstrably free of conflicts of interest in their relationship with the Council enabling them to report without fear or favour.
- The impact of the proposals in relation to small bodies on the County Council's existing relationship with town and parish councils.

Having undertaken this consultation, and received a report from the CLG Select Committee, the Government proposes to produce draft legislation for scrutiny, probably this autumn. The Government has also announced preparations for the "outsourcing" of 2012/13 audits (including the possibility of a bid by the Audit Commission's in house practice) as part of a transition to the new arrangements.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

At this stage there are no specific implications as the Government is consulting on proposals. The detailed implications will become clear when legislative proposals are published.

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

Paper	Date	Contact/Directorate/Tel
The Future of Local Public Audit Consultation	30 th March 2011	Downloadable at http://www.communities.gov.uk/publications/localgovernment/localpublicauditconsult

Reason for inclusion in Part II, if appropriate

N/a

DRAFT

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Your ref:
 Our ref: CT - GK/GG
 Date: 28 June 2011

Dear Mr Scofield

The Future of Local Public Audit

Lancashire County Council welcomes the opportunity to respond to the Government's consultation on the future of local public audit. The detailed response set out in the enclosed document has been considered by the Council's Audit Committee, but in addition to this there are a few general comments which the Department may find useful in framing its final proposals. Before responding in detail we should emphasise the strong and productive relationship the Council enjoys with its external auditor from the Audit Commission's in house practice, and our high regard for the quality of work and professionalism delivered by our local audit team. Our objective will be to maintain such standards under any new arrangements.

Firstly while we welcome the fact that the Government considers local authorities should be able to appoint their own auditors we feel that it is extremely important that the public continue to feel confident that the external auditor however appointed remains independent of the Council and will act without fear or favour. Thus we feel that it is important that any opportunity to strengthen the public perception of the auditor's independence is taken, including a prohibition on undertaking non audit work.

Secondly we feel that while the independence of the auditor from the audited is important the Government have not emphasised enough how any new arrangements will serve to deliver a quality audit product. While the Government are proposing a regulatory framework in relation to quality we do not see that the difference between public money and the private money that is at risk in a company is drawn clearly enough in the framework set out.

We are also concerned that the Government runs the risk of being over-prescriptive in a number of areas which should properly be left to local authorities themselves to determine taking into account the needs and wishes of their communities, in particular terms of reference of audit committees and the nature of reporting.

The proposals also suggest changes which might fundamentally change the relationship between the County Council and the various Parish and Town Councils in Lancashire. While these proposals are no doubt a sensible response to the issues they seek to address it is clear that they have not been viewed in this wider context. Is the change in relationship that will occur if the County Council has to act as a regulator towards parishes something that will impact negatively or positively on the way in which the various organisations act together for the benefit of communities? The answer to this question is unknown because it has not been tested, and while the capacity of local government to make things work is significant if this creates a systemic problem it is difficult to see how it might be fixed, given that all the infrastructure which supports alternative options will by that time have been dismantled.

The other area where the proposals are in a sense "shooting in the dark" relates to whether or not the sorts of regulatory framework envisaged will encourage new market entrants and hence promote greater price competition. Whatever framework is created new entrants are only likely to enter the market if they feel there is the capacity and space in the market for them to make money. This will only be clear for potential new market entrants and for purchasers of audit services once the Government's view on the future of the Audit Commission's in house practice has become clear. The Government needs to be clear, not least for the very talented and dedicated staff in the in house practice what its objectives in relation to the development of this market are, and then consider whether the proposed regulatory framework will support this.

As with many other elements of the Government's "Localism" and "Big Society" agendas there is an assumption that there will be numerous qualified volunteers willing to put themselves forward to serve on council audit committees. Again this is an unproven assertion and there has to remain a concern that failure to recruit such volunteers might lead to some form of paralysis in the system due to the inability to attain a quorum.

Finally the Government needs to provide greater clarity in its final proposals on how it envisages the joint procurement of services between local authorities working. As set out the proposals seem likely to disincentivise such action, which is counter intuitive, and will also potentially reduce the effectiveness of audit committees to individual councils.

We look forward to seeing the Government's final proposals.

Yours sincerely



Gill Kilpatrick
County Treasurer

The Future of Local Public Audit – Lancashire County Council's Detailed Response

Lancashire County Council serves a population of 1.2 million people and is one of the largest local authorities in England. In addition to the Council's revenue budget of £769m we are responsible for a capital programme of some £500m and a pension fund with assets of £4.25bn. The Council has enjoyed a long and constructive relationship with its external auditors who provide an important part of the system for demonstrating appropriate stewardship of public funds. The Council welcomes this opportunity to contribute to the process of developing new arrangements for the audit of local public bodies which build on the strengths of the previous arrangements and focus on this core purpose of reporting on the stewardship of public funds. We deal with each of the consultation questions in turn below, with some more general comments set out in our covering letter.

1. Have we identified the correct design principles? If not what other principles should be considered? Do the proposals in this document meet these design principles?

Broadly the proposed design principles seem to be appropriate. However, the issue will be in terms of how the principles are applied in practice and how these design principles ensure the delivery, or equally importantly the perception of the delivery of high quality public audit.

A key debate will clearly be around how independent the process of appointment is in the model suggested by the Government. This is, in our view, the wrong debate. The debate should focus on how any package of reform delivers a quality audit product in which the public will have confidence.

2. Do you agree that the audit probation trusts should fall within the Comptroller and Auditor General's regime?

Yes, the current situation is clearly anomalous and should have been dealt with when the National Offender Management Service was first created as a unified organisation.

3. Do you think that the National Audit Office would be best placed to produce the Code of audit practice and the supporting guidance?

As the UK's Supreme Audit Institution there seems no obvious alternative to the National Audit Office (NAO) in taking this role, other than through some form of "privatisation" such as giving it to the Auditing Practices Board, which would not provide the same level of clear parliamentary accountability which is fundamental to the role.

We do, though, have some reservations about the NAO taking on this role. The NAO is not familiar with the local government environment and the vast diversity of institutions within it. We would therefore look to the NAO to transfer in some of the Audit Commission's existing expertise in this area of work.

4. Do you agree that we should replicate the system for approving and controlling statutory auditors under the Companies Act 2006 for statutory local public auditors?

Given the Government's desire to create an arrangement akin to that in the company sector it seems appropriate to base any registration system in relation to local authority audits on the existing arrangements.

5. Who should be responsible for maintaining and reviewing the register of statutory local public auditors?

Given the clear desire on the part of the Government to mirror the arrangements in the Company sector, which clearly has some benefit in terms of economies of scale the use of the Financial Reporting Council for this purpose would appear to be sensible. However, if there is an additional resource requirement for this it should be met directly and transparently by Central Government and not form part of a "levy" on the audit fees payable by local authorities. Should the FRC not be able or willing to undertake this role then the default alternative would seem to be the NAO which could perhaps achieve the necessary assurance through the letting of framework contracts from which local authorities could "call off" through "mini competitions". The due diligence process for inclusion on the framework would in effect serve as the registration process, and might also serve to reduce the costs of procurement to individual local authorities.

6. How can we ensure that the right balance is struck between requiring audit firms eligible for statutory local public audit to have the right level of experience, while allowing new firms to enter the market?

The role of the Audit Commission in managing the market has, arguably, been successful in maintaining audit quality although we would argue at the expense of far higher levels of audit fee than are paid in other sectors of the economy. However, it is also the case that a market free for all could endanger audit quality the maintenance of which is a vital outcome of any new arrangements.

To be able to maintain effective audit quality an audit practice will have to maintain a minimum number of clients in order to be able to maintain the necessary technical expertise. In reality this probably means that the firms capable of entering the market and sustaining the initial investment required are the "big four" plus a number of the larger "second tier" firms who may be able to develop the business in specific geographic areas or which might acquire parts of the current "in house" practice if disposed of rather than mutualised.

Our suspicion is that the market will grow very slowly in the first instance, unless the Government chooses to dispose of the current in house practice to a number of current non-participants. The size of the in house practice will actually act as a

barrier to competition if it is maintained as a monolithic provider. This would argue that while the registration requirements may have some effect on the diversity of the market a far more important factor will be the Government's decisions about the future of the in house audit practice.

7. What additional criteria are required to ensure that auditors have the necessary experience to be able to undertake a robust audit of a local public body, without restricting the market?

In order to encourage new market entrants we would not expect to see a demonstrable track record in the field as one of the criteria. At the same time we would not expect local authorities to meet the cost of the learning curve for new entrants. We would expect that those seeking registration should be able to demonstrate a long term commitment to operating in this market, for example through acquisition of elements of the in house practice if it is sold or the development of internal centres of technical expertise.

8. What should constitute a public interest entity (i.e. a body for which audits are directly monitored by the overall regulator) for the purposes of local audit regulation? How should these be defined?

This is a potentially difficult area as it would seem undesirable for too many of the entities subject to the current Audit Commission regime to fall into the Public Interest Entity category. The options would seem to be

- All principal local authorities, although this, again, may involve too many organisations, or
- A size threshold based on budget requirement or balance sheet size, set at a level which would bring an appropriate number of organisations within the scope of this regime.

In some sense neither of these is satisfactory as they do not necessarily identify those organisations which represent the greatest systemic risk. In fact as a generalisation the more problematic bodies within the Commission's remit have tended to be smaller ones.

In terms of whether additional work is required, given the move to a regime parallel to that for companies we would expect that the requirements on the FRC would be somewhat less than at present.

9. There is an argument that by their very nature all local public bodies could be categorised as 'public interest entities.' Does the overall regulator need to undertake any additional regulation or monitoring of these bodies? If so, should these bodies be categorised by the key services they perform, or by their income or expenditure? If the latter, what should the threshold be?

See above. Fundamentally we believe that either all local public bodies are public interest entities or if for practical purposes the number needs to be smaller then those that might be seen to represent systemic risk should be included in this category. How those authorities which might represent systemic risk are arrived at is

difficult, but in addition to a very substantial size threshold of say a revenue budget requirement in excess of £500m any body having had a public interest report, submitted accounts late, or had their accounts qualified in the last five years should be included. The public interest lies in the maintenance of wider public confidence in local public bodies and organisations with any of these qualitative characteristics run the risk of undermining public confidence.

10. What should the role of the regulator be in relation to any local bodies treated in a manner similar to public interest entities?

Given the desire to maintain a regime similar to that for companies we would argue that the regulator's role should be the same as in the company sector.

11. Do you think the arrangements we set out are sufficiently flexible to allow councils to cooperate and jointly appoint auditors? If not, how would you make the appointment process more flexible, whilst ensuring independence?

We feel there is a need to distinguish between a joint committee to appoint auditors and an "ordinary" Audit Committee. Taking Lancashire as an example as a minimum we would wish to make a joint appointment for the County Council, the Police Authority, the Fire Authority and the Pension Fund as all these bodies share a common systems infrastructure that only needs to be audited once. We also feel that a more comprehensive procurement involving the 2 unitary and 12 district councils in Lancashire will generate further savings through exploiting similar commonalities, although this has not been formally discussed at this stage. It would be impractical for one Audit Committee to actually undertake effectively the routine work required by each body even in the minimum scenario. This issue could be addressed by having a Joint Audit Appointment Committee, which could even be made up entirely of independent members supported by each Council's Audit Committee constituted in the way envisaged by the Government.

12. Do you think we have identified the correct criteria to ensure the quality of independent members? If not, what criteria would you suggest?

The criteria that are provided are designed to guarantee independence, which they do. However, they do not guarantee any other quality such as the ability to effectively question either the auditor or the management of the audited body. In seeking to recruit independent members to such committees it would be sensible to provide a role description and person specification to assist in the recruitment process as with any other position. In particular it would be useful to be able to specify some degree of financial understanding and understanding of the role of the Audit Committee.

The provision that the majority of members of the committee are independent, presumably of those present, is determinate on a successful recruitment process.

13. How do we balance the requirements for independence with the need for skills and experience of independent members? Is it necessary for independent members to have financial expertise?

This would certainly be beneficial, although understanding and the ability to know which questions to ask rather than direct practical expertise may be a more achievable aim.

14. Do you think that sourcing suitable independent members will be difficult? Will remuneration be necessary and, if so, at what level?

Clearly it would be appropriate for independent members to be reimbursed for their out of pocket expenses. In terms of remuneration this should be a matter for council remuneration panels to determine in line with the principle of localism and should be related to the scale of work undertaken. Clearly if councils are unable to recruit such members on a voluntary basis and having independent members is a legal requirement then some form of remuneration will need to be introduced. In line with the other elements of change proposed in the public audit regime we feel that this is an area where the market should be allowed to decide. The County Council has experienced difficulties in its recruitment of Independent members to its standards committee and its remuneration panel.

15. Do you think that our proposals for audit committees provide the necessary safeguards to ensure the independence of the auditor appointment? If so, which of the options described in paragraph 3.9 seems most appropriate and proportionate? If not, how would you ensure independence while also ensuring a decentralised approach?

As the document itself acknowledges to an extent the appointment of the auditor will never be truly independent if the Council is involved in it. The proposals made seem to provide the most transparent means of achieving some independence in the process. We do have some concerns about the description of the process to be followed. We would envisage that these will need to be procurements under EU procurement rules and therefore the Committee will need to specify in advance of the tender the evaluation and award criteria and then apply them in their evaluation. These criteria therefore come up with the most suitable bidder, rather than the almost entirely subjective process set out in the consultation document.

We are also concerned by the form of words "*may wish to have regard to advice from the s.151 Officer*". The s 151 Officer while an employee of the Council owes a personal fiduciary duty to local taxpayers (as established in *Attorney General v de Winton*) and is clearly in a position to provide appropriate advice to an Audit Committee with regard to auditor appointments. While the Audit Committee may choose to ignore advice, as any Committee can, it should be under an obligation to at least listen to that advice and we would therefore argue that the Committee either "*should have regard to*", or "*should consider in coming to its decisions*" advice provided by the s, 151 Officer.

As indicated above we see practical difficulties in ensuring that the important wider role of an Audit Committee is fulfilled in the context of joint appointments and would suggest that provision be made in such circumstances to allow for the separation of the role of audit appointment from the wider role where a joint appointment is to be made. In general terms we would prefer option 1 as the more minimalist and

therefore localist approach but supported by a requirement to take into account professional best practice in setting the terms of reference of the Audit Committee.

16. Which option do you consider would strike the best balance between a localist approach and a robust role for the audit committee in ensuring independence of the auditor?

As indicated above we feel that Option 1 supported by a requirement to have regard to professional best practice in setting the terms of reference of an Audit Committee provides the best approach.

17. Are these appropriate roles and responsibilities for the Audit Committee? To what extent should the role be specified in legislation?

In our view it is a matter for individual local authorities to determine the number and role of committees within their governance structure with the minimum degree of prescription and therefore we feel that as little as possible should be set out in legislation and statutory guidance.

18. Should the process for the appointment of an auditor be set out in a statutory code of practice or guidance? If the latter, who should produce and maintain this?

Given the other elements to the legislative framework and the fact that the appointment processes seem likely to require a European procurement which in itself will prescribe the appointment process there seems to be no requirement for further guidance.

19. Is this a proportionate approach to public involvement in the selection and work of auditors?

These proposals do not seem particularly burdensome, although they do result in the identification of those firms involved in the procurement process to the public at an early stage. We have no objection to this and would welcome it. However, the private firms involved may have different views.

20. How can this process be adapted for bodies without elected members?

The issue here seems to be one particularly in relation to the proposed Police and Crime Commissioners as other bodies have some body analogous to a Full Council and can appoint an Audit Committee. The suggestion in relation to the Police and Crime Panel seems a sensible way forward.

21. Which option do you consider provides a sufficient safeguard to ensure that local public bodies appoint an auditor? How would you ensure that the audited body fulfils its duty?

While we find it difficult to envisage circumstances where a local authority would refuse to appoint an auditor we accept that powers such as those suggested are a necessary fail safe. Our preference would be for option 1 as option 2 in essence

represents the same situation as the appointment of commissioners by the Secretary of State.

22. Should local public bodies be under a duty to inform a body when they have appointed an auditor, or only if they have failed to appoint an auditor by the required date?

Local public bodies should inform the Secretary of State that they have appointed an auditor and of the identity of that auditor.

23. If notification of auditor appointment is required, which body should be notified of the auditor appointment/failure to appoint an auditor?

The Secretary of State.

24. Should any firm's term of appointment be limited to a maximum of two consecutive five-year periods?

This seems a reasonable span of time. However, we would be concerned that local authorities do not get drawn in to debates over the application of TUPE regulations to work of this sort and hence in to potential additional costs.

25. Do the ethical standards provide sufficient safeguards for the rotation of the engagement lead and the audit team for local public bodies? If not, what additional safeguards are required?

We believe that the current ethical standards provide sufficient safeguards and would not wish to see additional regulation in this area.

26. Do the proposals regarding the reappointment of an audit firm strike the right balance between allowing the auditor and audited body to build a relationship based on trust whilst ensuring the correct degree of independence?

In general terms this seems a sensible balance. However, we are concerned that there might be issues with this in particular parts of the country where there may be a lack of competition and in effect some sort of local monopoly as is the case now in some areas where work is dominated by the Audit Commission's in house practice. There will need to be some way of ensuring that there is effective competition for work in all areas so that this provision does not lead to a gradual upward movement in fees.

27. Do you think this proposed process provides sufficient safeguard to ensure that auditors are not removed, or resign, without serious consideration, and to maintain independence and audit quality? If not, what additional safeguards should be in place?

Yes

28. Do you think the new framework should put in place similar provision as that in place in the Companies sector, to prevent auditors from seeking to limit their liability in an unreasonable way?

Clearly placing an unlimited liability on auditors in relation to the possible legal costs of public interest work such as the Westminster case will result in two things. Firstly an overall increase in fees, and secondly a risk assessment in terms of which work to bid for which may result in some bodies being unable to appoint auditors. Neither situation is desirable.

We would prefer the Government to continue to indemnify auditors in such situations as this will allow them to continue to act without fear or favour in the broader public interest and we would see the proposal to create a regime analogous to that for companies as very much second best. We feel that a company style regime will result in inconsistencies in the degree of audit coverage that are delivered through the limitation of liability which could have a negative impact on public confidence in the audit regime.

29. Which option would provide the best balance between costs for local public bodies, a robust assessment of value for money for the local taxpayer and provides sufficient assurance and transparency to the electorate? Are there other options?

The answers to the following questions need to be viewed in the context of our strong belief that the accounts of local authorities following the adoption of IFRS (and even before this) have become incomprehensible to many professional readers never mind the general public with concomitant impacts on audit fees. There is therefore an urgent need to either simplify the overall financial reporting framework or separate reporting for the purposes of public accountability from traditional external financial reporting.

In terms of the options presented we are not convinced that the additional costs that would be incurred in the scope of audit set out in option 3 would be justified by the realisable benefits. We would also question the point of a conclusion in relation to financial sustainability unless the Government proposes to take action in response to conclusions that organisations are not financially sustainable. This has to be a role for government as the solutions to these issues are most often outside the control of the individual council and in future are likely to relate to inability to achieve economies of scale. As the Government has explicitly ruled out reorganisation of local government which would be the principal way of dealing with this there seem to be no, or very few, tools available to address these issues making the idea of an additional audit conclusion for something that will, in any event be self evident redundant.

It seems illogical to reduce the scope of the current audit and hence the information available to the public and therefore we believe that option 2 presents the appropriate scope of audit that together with other aspects of the Government's proposals will allow local public bodies to achieve reductions in audit fees. This scope also allows Council's and auditors to jointly agree value for money audits if appropriate to local circumstances.

While other options for the scope of audit may be available we can see no justification for changes in this area, particularly for changes which might have the effect of reducing the level of information available to the public.

30. Do you think local public bodies should be required to set out their performance and plans in an annual report? If so, why?

As a matter of principle we feel that setting out requirements for how local authorities make themselves accountable to the public is anti-localist. We do though accept that a form of annual report is an appropriate part of such arrangements and report our operational and financial performance to residents through the Council's twice yearly newsletter. However, this will be an entirely unbalanced and incomprehensible document if it has to include the full financial statements, which for the County Council run to over 150 pages. Council's must be given the flexibility to report in a way that is meaningful to residents and supports the way in which they wish to engage with the Council rather than adopting the bureaucratic standard classifications specified in government returns and regulations. A company style annual report is not an appropriate way for Lancashire County Council to make itself accountable to 1.2m residents and would represent an unduly costly way of achieving this broad objective.

31. Would an annual report be a useful basis for reporting on financial resilience, regularity and propriety, as well as value for money, provided by local public bodies?

Such a report is unlikely to be perceived as timely by residents if it has to include audited financial data as it will appear a minimum of six months after the end of the financial year. While clearly it provides a medium for communicating issues such as these it may not be the best one for doing this.

32. Should the assurance provided by the auditor on the annual report be 'limited' or 'reasonable'?

Other than the financial data included in such a report we do not believe that the auditor should need to express an opinion on any of the other information contained in it. For example a report might include performance information such as the level of recycling. For the auditor to provide assurance they would then need to audit this information. This reinstates the audit of performance indicators which is something that the previous government abolished in an effort to reduce burdens on councils and seems to run counter to what the Government is seeking to achieve.

33. What guidance would be required for local public bodies to produce an annual report? Who should produce and maintain the guidance?

We do not think guidance is necessary, we believe that local authorities are perfectly capable of devising an adequate way of reporting their financial and operational performance to residents without new guidance.

34. Do these safeguards also allow the auditor to carry out a public interest report without his independence or the quality of the public interest report being compromised?

Certainly it is vital that the public interest reporting regime be maintained. The safeguards set out should have the desired effect, when added to with a ban on non audit work as set out in our response to question 35. However, this will not become clear until tested.

35. Do you agree that auditors appointed to a local public body should also be able to provide additional audit-related or other services to that body?

No we would wish to see a specific prohibition on auditors carrying out other work for audit clients and from being involved in the supply of other services to audit clients through partnership arrangements. We see this as an important safeguard in providing public assurance that auditors' views are not being swayed by their firms' potential access to other more lucrative income streams. In particular residents might perceive that auditors who provide non audit services would be less likely to carry out public interest investigations which might set them at odds with a potentially lucrative client. We feel that this is an important safeguard from the public's point of view when as acknowledged by the Government the independence of the auditor appointment process will be reduced.

36. Have we identified the correct balance between safeguarding auditor independence and increasing competition? If not, what safeguards do you think would be appropriate?

No as indicated above we feel the fact that public money is involved here requires a higher level of protection against the perception of conflict of interest which can only be given by a prohibition on non audit work. We believe that there is sufficient audit and non audit work in the total market for firms to be able to generate sufficient revenues without their viability being compromised by this. It is also the case that such a prohibition might encourage the entry of some audit only specialists in to the market by assuring them that they are on a level playing field with the big firms.

37. Do you agree that it would be sensible for the auditor and the audit committee of the local public body to be designated prescribed persons under the Public Interest Disclosure Act? If not, who do you think would be best placed to undertake this role?

We do not feel that the Audit Committee is an appropriate body to become a designated person as the Committee is not a corporate or single person entity, and will be administered by officers of the local authority. The consultation document refers to the role perhaps being taken by one of the independent members. This is practical although we would suggest it should probably be the independent chair and this may be a factor in whether or not the position should receive some form of remuneration.

Continuing the current arrangements in relation to auditors seems entirely appropriate.

38. Do you agree that we should modernise the right to object to the accounts? If not, why?

Yes, the Government's proposals here seem entirely reasonable and provide an opportunity to address the issue of vexatious complainants which has placed significant burdens on some individual local authorities.

39. Is the process set out above the most effective way for modernising the procedures for objections to accounts? If not, what system would you introduce?

Yes, it allows the auditor to exercise appropriate professional discretion in the way in which they deal with individual issues, something not present in the current arrangements.

40. Do you think it is sensible for auditors to be brought within the remit of the Freedom of Information Act to the extent of their functions as public office holders? If not, why?

Yes. To do this is entirely consistent with the Government's objective of "opening up" the operation of government at its various levels.

41. What will be the impact on (i) the auditor/audited body relationship, and (ii) audit fees by bringing auditors within the remit of the Freedom of Information Act (to the extent of their functions as public office holders only)?

There is clearly a danger that becoming subject to the Freedom of Information Act might cause auditors to be less frank in their assessments in order to maintain relationships with audited bodies and potentially to avoid some form of perceived liability or risk of being sued. This is clearly undesirable, but at the same time were it to be the case the auditor would surely be failing in their duty to report without fear or favour and could be subject to regulatory sanction, thus providing a countervailing pressure. This risk is based on a view that the client is the audited body. While this may be the case in a company audit the situation with public bodies is more complex and in reality the client is the broader public. When this view is taken the threat which auditors might perceive from the Freedom of Information Act is lessened.

While it would be nice to think that auditors could be brought within the Freedom of Information Act without there being any cost this would be a naive assumption. It seems likely that if the experience of local authorities is anything to go by they will be subject to a range of "fishing expeditions" by individuals or firms seeking competitive advantage. However, the firms, perhaps to a greater extent than local authorities because of their internal costing processes, will be able to justify charging for the provision of responses where allowed.

42. Which option provides the most proportionate approach for smaller bodies? What could happen to the fees for smaller bodies under our proposals?

Option 2 would provide a genuinely localist approach, although this would seem likely to be at the expense of a greater workload for the audited bodies and higher fees as it seems likely that there will be less competition for small "penny packets of work" of this sort, which is why the Audit Commission moved to adopt the current arrangements for independent examination which seem to work well. In the case of option 1 if upper tier authorities were to use their own staff for this it might result in somewhat lower fees but this is a matter of conjecture and the clustering of work at particular times of year (200+ sets of accounts at once in Lancashire alone) might make handling this work with in house staff difficult. If this were the case it is difficult to see how a smaller contract than the Audit Commission's current arrangements could generate economies of scale. Option 1 also fundamentally changes the relationship between upper tier authorities and their town and parish councils and the impact of this on the broader relationship between the different bodies also needs to be considered carefully before going down the route of what appears to be the Government's preferred option.

43. Do you think the county or unitary authority should have the role of commissioner for the independent examiners for smaller bodies in their areas? Should this be the section 151 officer, or the full council having regard to advice provided by the audit committee? What additional costs could this mean for county or unitary authorities?

We note with interest that the Government does not propose to give this role to District Councils in the shire areas where there is a much more direct relationship between the district and the parish or town councils. Given the current effective national arrangements operated by the Audit Commission we see no reason why CLG could not operate such arrangements directly. While this is not a particularly localist approach it is a way of making sure key elements of the current arrangements which work are not lost.

In reality there is little difference between the two options indicated as the full council advised by the audit committee will be advised by the section 151 officer who will undertake the detailed work required. The scale of the work will vary considerably from place to place given the penetration of Parish Councils. Clearly there will be a cost to such work in carrying out the procurement process and managing the contracts once let. There is also likely to be a need for a considerable amount of interaction with audited bodies during the procurement process and in particular around the level of fees proposed, particularly if there is a significant increase. Undertaking this work will divert resources from core activity in relation to the management of the financial affairs of the upper tier council, which will have a cost in terms of lost productivity and this will either need to be funded through the new burdens mechanism or through a levy on the audited bodies which is likely to increase fees even further.

44. What guidance would be required to enable county/unitary authorities to:

- a.) Appoint independent examiners for the smaller bodies in their areas?**
 - b.) Outline the annual return requirements for independent examiners?**
- Who should produce and maintain this guidance?**

In essence this requires a version of the Code of Audit Practice tailored to parish councils which acts as a minimum specification for the procurement process.

Given the nature of the guidance it would seem appropriate for this to be produced by the National Audit Office alongside the main Code of Audit Practice.

45. Would option 2 ensure that smaller bodies appoint an external examiner, whilst maintaining independence in the appointment?

In theory yes, however the practicality of such arrangements remains to be seen.

46. Are there other options given the need to ensure independence in the appointment process? How would this work where the smaller body, e.g. a port health authority, straddles more than one county/unitary authority?

Other than maintaining the current national arrangement via CLG no other options are obvious. If option 1 is pursued then the obvious way to arrive at a solution for cross border bodies would be to designate a lead authority as is done for many other things. In general local authorities manage to deal with these issues without massive problems.

47. Is the four-level approach for the scope of the examination too complex? If so, how would you simplify it? Should the threshold for smaller bodies be not more than £6.5m or £500,000? Are there other ways of dealing with small bodies, e.g. a narrower scope of audit?

The four level approach seems sensible and proportionate. However we do have a concern about the upper threshold being set at £6.5m. Acceptance of this type of audit regime requires the acceptance that there will be a greater degree of risk taken in relation to these smaller bodies because of the relative immateriality of their expenditure. We are not clear whether the move to £6.5m has been looked at in terms of risk assessment and are concerned that setting the threshold at what will be perceived by the public as a very high level could run the risk of undermining public confidence in the audit regime.

Certainly a narrower scope of audit could be an appropriate approach for smaller bodies. However, again this runs the risk of undermining public confidence in the audit regime and if this route were to be taken it would be important to consider this sort of impact before making any change.

48. Does this provide a proportionate, but appropriate method for addressing issues that give cause for concern in the independent examination of smaller bodies? How would this work where the county council is not the precepting authority?

In the context of the idea that the upper tier council would appoint the Independent Examiner then this arrangement is sensible, whether it would be so in any other arrangement is questionable. In terms of the suggestion in relation to making the relevant parish's next precept conditional on addressing issues in a public interest report this raises a range of issues. It needs to be borne in mind that these issues

are not theoretical as more public interest reports have been issued in relation to parishes than any other type of council.

Presumably the full council of the upper tier authority would have to resolve to impose this form of sanction, on the advice of the relevant audit committee. There could be significant issues were these powers to be exercised by individual officers. This still leaves some specific questions:

What would happen if the relevant parish council refused to accept the recommendations contained in the public interest report?

What would happen if the upper tier council refused to accept the recommendations of the auditor?

49. Is the process set out above the most appropriate way to deal with issues raised in relation to accounts for smaller bodies? If not, what system would you propose?

We are not convinced that the section 151 officer of a County Council, rather than a District Council is best placed to undertake this role. However, it is sensible for the role to reside with the same organisation that commissions the independent examination and is responsible for dealing with public interest reports.

50. Does this provide a proportionate but appropriate system of regulation for smaller bodies? If not, how should the audit for this market be regulated?

We do have specific concerns about the County Council exercising a regulatory role over Parish Councils and the impact this might have on the relationship between organisations. However, putting this to one side the framework described seems to deliver a proportionate system for smaller bodies.

Audit Committee

Meeting to be held on 27 June 2011

Electoral Division affected: All

County Council and Pension Fund External Audit Fees 2011-12

(Appendices A and B refer)

Contact for further information:

Clive Portman, 0844 798 7038, Audit Commission,
c-portman@audit-commission.gov.uk

Executive Summary

This report provides the proposed fees for the external audit of Lancashire County Council and Lancashire Pension Fund for 2011/12.

Recommendation

The committee is asked to note the Audit Commission's fee letters for the audit of the County Council and the Pension Fund for the year ending 31st March 2011.

Background and Advice

Attached at Appendices A and B are fees letters covering the Audit Commission's planned audit work for 2011/12. These comprise 2 separate audit fee letters, one for the audit of Lancashire County Council and one for Lancashire Pension Fund. The letters set out the main elements of the proposed audit work for 2011/12 and where appropriate, highlight any specific risks which will be reviewed as part of this work.

The letters refer to the 'scale fee'. This is the fee determined by the Audit Commission nationally. In previous years the Audit Commission set a scale fee for each audit based on a formula linked to gross expenditure in the case of the county council audit and net assets in the case of the pension fund. Local auditors agreed a fee locally reflecting their local risk assessment of the work which would be needed but with an expectation that the locally agreed fee would fall within a pre-defined variation from the scale fee. Historically the locally agreed fee for the county council audit has fallen well below the prescribed scale fee, (17% below for 20/10/11). The variation from scale fee for the pension fund in previous years has been more variable since the net assets of the pension fund, and therefore the scale fee, have varied significantly whilst the auditor's assessment of the work needed has remained relatively constant.

For 2011/12, the Audit Commission has set scale fees for local authority audits using the previously agreed fees as the basis in order to ensure that the prescribed scale

fees reflect the local risk assessments. The expectation is that locally agreed fees will match the scale fee unless there has been a significant change in the risk assessment for an individual audited body. For pension funds the scale fee has continued to be set based on the net assets of the pension fund.

The 2011/12 scale fees build in reductions to reflect the new approach being taken to local VFM audit work and lower continuing costs after implementing IFRS as outlined in the letters. In addition, rebates against the 2011/12 fees, subject to affordability, are expected to be announced in the summer of 2011.

The following table provides a comparison over the last two years of the overall fee for the audit of the Council and Pension Fund and shows a 10% reduction in the planned audit fees before taking account of any rebates.

	2010/11	2011/12
	£	£
LCC Audit	279,000	251,100
Pension Fund Audit	61,795	55,089
Total Audit Fee	340,795	306,189
Grant claims certification (estimated)	20,000	20,000
Total Fee	360,795	326,189
Rebate	(32,331)	TBA
Net Fee	328,464	326,189

The way in which the pension fund is being managed is changing and the fee letter for the pension fund notes that the application of the new Treasury Management strategy and policy may result in the need for additional audit procedures. In particular investments in new and more complex financial instruments could require additional audit work. The letter notes that this will be considered later in the year when more information is available and any impact on the fee will be reported to the audit committee.

Consultations

The fees have been agreed with the County Treasurer

Implications:

N/A

Risk management

N/A

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

Paper	Date	Contact/Directorate/Tel
Audit Commission's statement of responsibilities of auditors and of audited bodies		Fiona Blatcher Audit Commission 0844 798 7056
Audit Commission Act 1998		
Codes of Audit Practice		
Audit Commission Work programme and scale of fees 2010/11		
Reason for inclusion in Part II, if appropriate		
N/A		

15 April 2011

Phil Halsall
Chief Executive
Lancashire County Council
County Hall
PO Box 78
Preston
PR1 8XJ

Direct line 0844 798 7038

— Dear Phil

Annual Audit Fee 2011/12 - Lancashire County Council

I am writing to confirm the audit work that we propose to undertake for the 2011/12 financial year at Lancashire County Council. The fee reflects the risk-based approach to audit planning set out in the Code of Audit Practice and work mandated by the Commission for 2011/12. The audit fee covers the:

- The audit of financial statements
- Value for money conclusion
- Whole of Government accounts.

As I have not yet completed my audit for 2010/11 the audit planning process for 2011/12, including the risk assessment, will continue as the year progresses.

Audit fee

The Audit Commission has set the scale fee for each audited body for 2011/12, rather than providing a scale fee with fixed and variable elements. The scale fee reflects proposed decreases in the total audit fee, as follows:

- no inflationary increase in 2011/12 for audit scales of fees or the hourly rates for certifying claims and returns;
- a cut in scale fees resulting from our new approach to local VFM audit work; and
- a cut in scale audit fees of 3 per cent for local authorities, police and fire and rescue authorities, reflecting lower continuing audit costs after implementing IFRS.

Audit Commission, 2nd Floor, Aspinall House, Aspinall Close, Middlebrook, Horwich,
Bolton, BL6 6QQ

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The scale fee for Lancashire County Council is £251,100. The scale fee is based on the planned 2010/11 fee, adjusted for the proposals summarised above, shown in the table below. Variations from the scale fee will only occur where my assessments of audit risk and complexity are significantly different from those identified and reflected in the 2010/11 fee.

Audit Area	2011/12	2010/11
Scale Fee	£251,100	£338,150
Planned Audit Fee	£251,100	£279,000
Less Rebates	See Note Below	(£32,331)
Net Cost	£251,100 (See Note Below)	£246,669
Certification of Claims and Returns (Estimated)	£20,000	£20,000

Note: The Audit Commission has agreed, subject to affordability, to make additional rebates of up to 8% of the scale fee in 2011/12. The Commission will notify audited bodies of the amount due to them in Summer 2011.

I will issue a separate audit plan in December 2011. This will detail the risks identified to both the financial statements audit and the vfm conclusion. The audit plan will set out the audit procedures I plan to undertake and any changes in fee. If I need to make any significant amendments to the audit fee, I will first discuss this with the County Treasurer. I will then prepare a report outlining the reasons the fee needs to change for discussion with the audit committee.

My approach to work to support the vfm conclusion in 2011/12 will be risk-based, in accordance with criteria identified by the Audit Commission and will be determined following the conclusion of 2010/11 vfm conclusion work.

I will issue several reports over the course of the audit. I have listed these at Appendix 1.

The fee excludes work the Commission may agree to undertake using its advice and assistance powers. We will negotiate each piece of work separately and agree a detailed project specification.

I will charge fees for considering objections, from the point at which I accept an objection as valid, or any special investigations, such as those arising from disclosures made under the Public Interest Disclosure Act, as a variation from the scale fee.

Audit team

The key members of the audit team for 2011/12 are:

Name	Contact details	Responsibilities
Clive Portman District Auditor	c-portman@audit-commission.gov.uk 0844 798 7038	Clive is responsible for the overall delivery of the audit including the quality of outputs, liaison with the Chief Executive, County Treasurer and Chair of the Audit Committee and issuing the auditor's report.
Fiona Blatcher Engagement Manager	f-blatcher@audit-commission.gov.uk 0844 798 7056	Fiona manages and coordinates the different elements of the audit work. Key point of contact for the County Treasurer.
Colin Smith Team Leader	c-smith@audit-commission.gov.uk 0844 798 1977	Colin has significant experience of auditing the financial statements of local authorities. He will lead the on-site team in delivering the audit.

Your audit team will:

- be readily accessible and responsive to your needs, but independent and challenging to deliver a rigorous audit;
- understand national developments and have a good knowledge of local circumstances; and
- communicate relevant information to you in a prompt, clear and concise manner.

I am committed to providing you with a high-quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me. Alternatively you may wish to contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk)

Yours sincerely

Clive Portman
District Auditor

Cc: Gill Kilpatrick - County Treasurer

Appendix 1- Planned outputs

We will discuss and agree our reports with officers before issuing them to the audit committee.

Table 1

Planned output	Indicative date
Audit plan	December 2011
Annual governance report	September 2012
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2012
Final accounts memorandum (to the County Treasurer	October 2012
Annual audit letter	November 2012
Annual claims and returns report	February 2013

15 April 2011

Gill Kilpatrick
 Treasurer
 Lancashire County Pension Fund
 County Hall
 PO Box 78
 Preston
 PR1 8XJ

Direct line 0844 798 7056

— Dear Gill

Annual Audit Fee 2011/12 - Lancashire County Pension Fund

I am writing to confirm the audit work that we propose to undertake for the 2011/12 financial year on Lancashire County Pension Fund. The fee reflects the risk-based approach to audit planning set out in the Code of Audit Practice and work mandated by the Commission for 2011/12.

As I have not yet completed my audit for 2010/11 the audit planning process for 2011/12, including the risk assessment, will continue as the year progresses.

Audit fee

The Audit Commission has set the scale fee for each audited body for 2011/12, rather than providing a scale fee with fixed and variable elements. The scale fee for pension funds reflects no inflationary increase in 2011/12 for audit scales of fees and is calculated based on the size of pension fund net assets.

The Commission has stated in its “Work programme and scale of fees 2011/12” publication that it will keep scale fees for pension funds under review. In this context the Commission will analyse the costs of completed 2010/11 audits to determine whether it needs to make any changes.

The scale fee for Lancashire County pension Fund is £55,089. The table below shows a comparison of audit and scale fees for 2011/12 and 2010/11.

Audit Area	2011/12	2010/11
Scale Fee	£55,089	£49,437
Planned Audit Fee	£55,089	£61,795

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Variations from the scale fee will only occur where my assessments of audit risk and complexity are significantly different from those assumed within the scale fee. The audit fee set for 2010/11 reflected the need for additional audit procedures relating to a number of specific audit risks for the Pension Fund including issues around the lack of a separate bank account and difficulties in obtaining assurance for the private equity fund investments. For 2011/12 these issues are not expected to require additional audit procedures following changes made by the Pension Fund. However, the application of the Pension Fund's new Treasury Management Strategy and Policy could result in the need for additional audit procedures. In particular investments in new and more complex financial instruments could require further audit work. At this time, it is too early to assess the impact of the proposed changes on my audit responsibilities and I have therefore set the initial audit fee at scale fee for 2011/12. On completion of my 2010/11 audit I will consider the impact of the new arrangements for the management of the pension fund and will assess the impact on the audit fee. This review will include consideration of the planned reviews to be undertaken by internal audit for 2011/12 and the extent to which they will reduce the need for me to undertake additional audit procedures.

I will issue a separate audit plan in December 2011. This will detail the risks identified to the financial statements audit. The audit plan will set out the audit procedures I plan to undertake and any changes in fee. If I need to make any significant amendments to the audit fee, I will first discuss this with you. I will then prepare a report outlining the reasons the fee needs to change for discussion with the audit committee and pension

I will issue several reports over the course of the audit. I have listed these at Appendix 1.

The fee excludes work the Commission may agree to undertake using its advice and assistance powers. We will negotiate each piece of work separately and agree a detailed project specification.

Audit team

The key members of the audit team for 2011/12 are:

Name	Contact details	Responsibilities
Clive Portman District Auditor	c-portman@audit-commission.gov.uk 0844 798 7038	Clive is responsible for the overall delivery of the audit including the quality of outputs, liaison with the Treasurer and Chairs of the Pension Fund and Audit Committees and issuing the auditor's report.
Fiona Blatcher Engagement Manager	f-blatcher@audit-commission.gov.uk 0844 798 7056	Fiona manages and coordinates the different elements of the audit work. Key point of contact for the Treasurer.
Ian Pinches Team Leader	i-pinches@audit-commission.gov.uk 0844 798 1975	Ian has experience of auditing the financial statements of pension funds. He will lead the on-site team in delivering the audit.

Your audit team will:

- be readily accessible and responsive to your needs, but independent and challenging to deliver a rigorous audit;
- understand national developments and have a good knowledge of local circumstances; and
- communicate relevant information to you in a prompt, clear and concise manner.

I am committed to providing you with a high-quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me. Alternatively you may wish to contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk)

Yours sincerely

Clive Portman
District Auditor

Appendix 1- Planned outputs

We will discuss and agree our reports with officers before issuing them to the Pension Fund Committee. As the pension fund accounts remain part of the financial statements of Lancashire County Council as a whole, the Audit Committee will retain ultimate responsibility for receiving, considering and agreeing the audit plans, as well as receiving and considering any reports arising from the audit.

Table 1

Planned output	Indicative date
Audit plan	December 2011
Annual governance report	September 2012
Auditor's report giving the opinion on the financial statements	September 2012

Audit Committee
Monday the 27 June, 2011

Electoral Division affected: All

Risk Management Report
(Appendices 'A & B' refer)

Contact for further information:
Habib Patel, (01772) 536099, Office of the Chief Executive
habib.patel@lancashire.gov.uk

Executive Summary

An important part of the remit of the Audit Committee is to advise the council on the adequacy of the Authority's strategic processes for risk management and to consider reports in respect of the Authority's risk register and the action taken in response.

This report introduces the latest version of the register.

Recommendation

In accordance with the Audit Committee's terms of reference, members may wish to consider whether:

- the content of the corporate risk register reflects the key risks facing the council and whether there are any perceived gaps;
- the actions being taken in response to identified risks appear to be appropriate and, in the light of these considerations; and
- the current process for identifying risk is effective.

Background and Advice

Risk management has been an integral feature of corporate and directorate business and financial planning over many years. The corporate risk register is a high level summary of the significant risks which the council faces. It may be regarded as a checklist to identify and track the status of key risks and how these are being managed.

The process for preparing the register has been further refined so that Executive Directors and their senior management teams have direct input into its development. Reference has also been made to risks identified in the areas of business continuity, emergency planning and health and safety, to ensure that no important risks have been overlooked and all significant risks are reported in one place.

Updated content

The risk register reflects recommendations from the last Committee meeting where it was agreed that anomalies identified in the scores used to assess several potential risk areas would be referred back to the directorates concerned for further consideration.

The council has a scoring matrix for each risk to be assessed against (Appendix B) and the scoring is initially carried out within directorates and subsequently agreed by individual management teams. A corporate challenge takes place where directorate reps come together and explain scoring for each of the risks identified and an assurance process takes place. This is then circulated and discussed with Management Team.

As a result of the Corporate Policy Review, the Localities Team has been disestablished and the locality working functions have been delegated to the directorates. The directorates are confident through their current locality working arrangements that this is in hand and therefore no need for a corporate risk around localities working.

The issue previously discussed at Committee with regard to the third sector taking on service delivery responsibility on behalf of the council has not materialised as a result of the budget cuts and neither has the concept of Big Society taken off as intended by the coalition government. Therefore a corporate risk around this particular issue is not relevant for the corporate risk register.

Future risk reporting

The Committee may wish to note that as the Policy Unit is reconfigured, the Internal Audit Service will take on a greater role in facilitating risk management across the council from 1 July 2011.

The corporate risk register will be updated and presented quarterly, so that members of the Audit Committee are kept up to date with significant changes to the content of the risk register and will be able to scrutinise the actions being taken in response.

Consultations

N/A

Implications:

Risk management

Risk management is the subject matter of the report.

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

Paper	Date	Contact/Directorate/Ext
Risk Management update report to Audit Committee	21 March 2011	Habib Patel, OCE Policy Unit Tel. 36099
Reason for inclusion in Part II, if appropriate – N/A		

Corporate Risk Register – Audit Committee 27 June 2011

Dir	Potential risk areas	Score without controls		Summary of existing controls and mitigations	Score with controls		What else do we need to do? By whom and by when?	Lead officer on actions	Review date
		Impact	Likelihood		Impact	Likelihood			
Mgt Team	<p>Failure to deliver required budget savings in three year budget cycle. Additional budget reductions needed as a result of:</p> <ul style="list-style-type: none"> • Delivery milestones not being met • Impact of potential legal challenge • Impact of demographics under estimated 	4	3	<p>Continued robust financial and performance monitoring considered monthly at the Management Team and quarterly at Cabinet to ensure the delivery of the approved budget strategy is on track.</p> <p>Delivery plans, including key milestones and accountable officers held at project and Directorate level.</p> <p>Directorate management teams monitoring progress.</p>	3	2	On-going 'horizon scanning' of likely financial impact of changing policy agenda, demographics and achievement of delivery milestones.	Management Team	Monthly
Mgt Team RES	<p>Strategic Partnership with British Telecommunications plc</p> <p>- Unprecedented partnership working with a private sector organisation.</p>	3	3	<p>Joint governance arrangements in place prior to commencement.</p> <p>Staff at a senior level from both LCC and BT have been involved to date and will continue to be involved to establish, develop and provide continuity around relationships.</p> <p>LCC Cabinet Committee on the Strategic Partnership established.</p>	2	1	<p>Joint Venture Company Board meetings to be held quarterly.</p> <p>Annual Review process to be followed, as contractually agreed.</p>	Eddie Sutton, Director of Special Projects	Quarterly
Mgt Team	<p>Effective delivery of the corporate strategy</p> <p>- failure to measure stated outcomes</p> <p>- no ownership of the corporate strategy</p> <p>- no plans in place to highlight and address</p>	3	3	<p>A council-wide executive performance group chaired by a member of ELT has been established to oversee the delivery of the corporate strategy.</p> <p>A basket of indicators has been established to measure the delivery of the corporate strategy (and Corporate Scorecard).</p> <p>A performance management</p>	2	2		Management Team	Quarterly

Dir	Potential risk areas	Score without controls		Summary of existing controls and mitigations	Score with controls		What else do we need to do? By whom and by when?	Lead officer on actions	Review date
		Impact	Likelihood		Impact	Likelihood			
	poor performance			framework which identifies under performance and leads to recovery plans being developed and discussed by ELT and the Cabinet Committee for Performance Improvement (CCPI)					
OCE	<p>Lancashire Local Enterprise Partnership (LEP)</p> <p>- Need to establish a single economic voice for Lancashire</p> <p>- Need to engage key business leaders in shaping and delivering agreed economic priorities</p>	3	3	<p>Economic Development Framework agreed.</p> <p>Shadow business leadership group in place.</p> <p>Majority of local authorities in support of Lancashire LEP.</p> <p>Draft LEP governance arrangements to be agreed.</p>	2	2	Continue to engage positively with private sector business leaders.	Martin Kelly, Director of Economic Development	Ongoing
Page 66	<p>Public Health White Paper</p> <p>Part of fundamental NHS reforms.</p> <p>Significant additional responsibilities for LCC from 2013 for public health and health improvement outcomes, ring fenced PH budget, establishing Health and Wellbeing as statutory committee, conducting joint strategic needs assessment, developing high-level strategy for health, wellbeing, social</p>	5	5	<p>Influencing final proposals via robust and detailed responses to current consultations.</p> <p>Identifying implications for LCC, including financial, legal and constitutional.</p> <p>Working regionally and locally to ensure transition plans for systems to be completely in place by April 2013 are fit for purpose and reflect LCC position.</p>	4	3	<p>Develop options for Public Health Lancashire, future PH service for which LCC will be responsible with PCTs, districts etc. Consider models from other, similar counties.</p> <p>Develop and deliver detailed transition plan for LCC, within an overall partnership PH transition plan.</p> <p>Undertake more detailed work to identify implications, including HR.</p> <p>Confirm / identify member lead for transition to new health system, including Public Health.</p> <p>Work towards "early implementer" status for Health and Wellbeing</p>	Management Team	Ongoing

Dir	Potential risk areas	Score without controls		Summary of existing controls and mitigations	Score with controls		What else do we need to do? By whom and by when?	Lead officer on actions	Review date
		Impact	Likelihood		Impact	Likelihood			
	care, service integration and joint commissioning.						Board.		
Mgt Team / CCG	The Authority to effectively manage the consequences of an emergency, thereby impacting on the delivery of services.	5	3	<p>The Authority has established a governance mechanism through the Corporate Contingencies Group (CCG) to oversee the strategic issues relating to Business Continuity Planning (BCP).</p> <p>There is a planned roll-out of BCP throughout the Authority in order to build resilience within services.</p> <p>A reporting system has been established through the Directorate structures to enable the Authority to capture the impacts from Emergencies on Service delivery and to take the appropriate actions to mitigate the effects on service users (i.e. public).</p> <p>Directorate Emergency Liaison Team established within ACS, OCE/RES & ENV and currently being developed for CYP & LCCG.</p>	3	3	Complete the roll-out of Business Continuity Planning to all services within the Authority and complete the establishment of Directorate Emergency Liaison Team to increase the ability of Directorates to respond to, and manage, emergencies which affect service delivery.	CCG / Management Team	April 2011
OCE / PU	<p>Voluntary Community Faith Sector (VCFS) Sustainability of Third Sector Lancashire (VCFS consortium): no structure through which to facilitate strategic engagement of the sector</p> <p>Breach of compact principles leading to a challenge for breach</p>	3	2	<p>The Principal Policy officer from Corporate Policy Team (CPT) is to be replaced by the post of VCFS Development and Commissioning Officer. This role will continue to support and advise Third Sector Lancashire (TSL).</p> <p>It is also anticipated that this post holder will review existing arrangements with a view to strengthening the relationship in terms</p>	2	1	<p>Principal Policy Officer CPT will be replaced by the VCFS Development and Commissioning Officer which should be completed mid June 2011. This post holder will continue to develop a relationship with Chair TSL and lead a review of the Third Sector Compact.</p> <p>Directors of commissioning across authority now agreeing a general</p>	VCFS Development and Commissioning Officer. Based within ACS (TBC.)	Ongoing

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		Impact	Likelihood		Impact	Likelihood			
Page 68	<p>resulting in bad reputation and time and resources responding to challenge</p> <p>Increased involvement of the sector in public service delivery: the risk is not yet clear and is dependent on the extent to which coalition expect to see evidence of more third sector commissioning</p> <p>Uncoordinated approach to funding leading to the possibility of double funding and missed opportunity for joint commissioning and efficiency savings</p> <p>Increased involvement of the VCFS in public service delivery – risk = lack of capacity/capability within the sector to respond</p> <p>Competition aid i.e. giving core grants to organisations who are tendering for services – risk possible legal challenge from other VCFS or private sector organisation on the grounds of unfair</p>			<p>of strategically engaging with the sector.</p> <p>Improvements to the oracle database is an ongoing process. We continue to identify gaps in information and consult with the oracle team to find solutions.</p> <p>The directors of commissioning from across the directorates are currently considering a corporate approach to commissioning. A VCFS commissioning framework will follow and capacity and capability building will be integral to the framework.</p> <p>The criteria for gateway grant funding have been revised to reflect a new approach to core funding particularly where organisations requesting core funding are delivering multiple contracts. This new approach has now been applied by a newly introduced assessments panel.</p>			<p>approach to commissioning prior to developing a VCFS commissioning framework</p> <p>Process for tagging VCFS organisations is in progress, but there is still work to do in the accounts payable area. This work is continuing and will be considered as part of the review of commissioning as described above.</p> <p>Undertake a full review of investment in capacity building and develop proposals for how capability can be developed. This review is continuing and has led to changes to the central gateway programme in relation to funding infrastructure groups. Capacity building will be an integral element of the VCFS commissioning framework.</p> <p>Undertake a critical analysis of current core funding grants and then consult across the authority on the implications of withdrawing this kind of support. This analysis has been carried out and the outcome is reflected in a new approach to core funding VCF organisations via the Central Gateway grants programme.</p>		

Dir	Potential risk areas	Score without controls		Summary of existing controls and mitigations	Score with controls		What else do we need to do? By whom and by when?	Lead officer on actions	Review date
		Impact	Likelihood		Impact	Likelihood			
	advantage in competitive market								
ACS	Failure of the working partnership between Adult Community Services and health: strategic and operational failures and negative publicity	4	4	<p>Working more closely with partner organisations in light of changes in government policy, introducing stronger Partnership agreements and looking at joint Project Governance arrangements.</p> <p>Collaborating on service delivery with, for example, joint funded posts and integrated delivery teams and the now the introduction of Public Health within the authority.</p> <p>Collaborating on projects with shared project plans and objectives.</p> <p>Prioritising strategic work with new working arrangements in health to maintain ongoing relationships.</p>	2	3	<p>Commissioning to prioritise areas where health funding is crucial to delivery of our priorities, secure senior management support within health for the priority areas and develop contingency plans in the event of failure.</p> <p>Reach agreement about government funding stream with regard to Reablement.</p> <p>Agree the Public Health governance and funding arrangements.</p>	Steve Gross	August 11
ACS	Market failure of Adult and Older People provider services – market withdrawals and take-overs leading to reduced capacity for choice.	4	3	<p>Developing robust commissioning and procurement planning systems and strategies which ensure the current and future market is understood and themes are identified for development.</p> <p>Working with providers in identifying their service offer and costs, changes in requirements and areas which might lead to business failure. Development of a preferred supplier list and provider engagement strategy.</p> <p>Framework agreements set up with providers providing a broad market across small, medium and large providers which mitigates some of the risks if a provider ceases business.</p>	4	2	<p>Using and evaluating an information framework to improve intelligence on market changes, budgetary issues and use of monitoring information.</p> <p>The development and monitoring of more flexible contracting arrangements which assist the use of individual budgets and cut out unnecessary costs from the system</p>	Ann Mylie	August 11

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		Impact	Likelihood		Impact	Likelihood			
ACS	Budget Cuts combined with increased call on social care budgets and the changing demographic profile (ageing population) leading to increased requirements for services. Budgets could be subject to legal challenge	4	5	<p>Medium and Long Term Financial planning in place. Robust forecasting tools. Robust and regular Budget monitoring. Well developed financial reporting systems.</p> <p>Projects and programmes ongoing to plan and achieve each of the budget cut proposals, Each has a senior lead. Careful monitoring of work programmes. Redirection of resources where necessary.</p> <p>Budget reductions proposals agreed by cabinet following consultations with the public. EIA completed.</p>	3	5	<p>This risk is now an issue as the CSR significantly reduced the councils budget.</p> <p>Continue implementation projects and monitoring / reporting. Ensure sufficient resource and governance in place to realise the budget cut reductions.</p> <p>Continue preparations for Judicial Reviews.</p>	Roger Hulme	August 11
Page 70 S	Unexpected death or serious injury of service user with Adult Community Services	5	3	<p>Safeguarding Board and Governance in place, Safeguarding Project established, with an Action Plan. Safeguarding Procedures have been refreshed. This project has completed and a Service Improvement Plan developed.</p> <p>Procedures in place should something happen, including Communications unit available to deal with any public information / communication issues.</p> <p>In House-Providers: comprehensive set of Risk Assessments and Health and Safety Procedures in place.</p> <p>Staff training programme in place to raise practice standards in safeguarding and familiarise with procedures.</p> <p>DoL work, like restraint etc training</p>	5	2	<p>Continue roll out of Safeguarding and Awareness Training. E-Learning package available June 2011.</p> <p>Complete the Safeguarding Service Improvement Plan to further improve Safeguarding arrangements and responses. On-going</p> <p>Review systems to identify hidden safeguarding alerts in all the correspondence.</p>	Olive Carroll (Mike Banks)	August 11

Dir	Potential risk areas	Score without controls		Summary of existing controls and mitigations	Score with controls		What else do we need to do? By whom and by when?	Lead officer on actions	Review date
		Impact	Likelihood		Impact	Likelihood			
Page 271 AS				<p>courses, procedures well established Arrangements to review serious cases, including domestic homicide reviews safeguarding on a multi agency basis, so that we can all learn when things go well.</p> <p>Item approved: Principals of the MCA and Dols need to be embedded for people living in their own homes or supported tenancies. The financial envelope around this work is now agreed.</p> <p>Serious case review procedure in place to learn lessons from serious incidents.- ratified</p>					
	Death or serious injury of staff member working within Adult Community Services	5	3	<p>For work with service users: Lone Worker Policy, Risk Assessments and Health and Safety Procedures in place. Robust on call arrangements, use of mobile phones and safety alarms. Use of virtual whiteboard to track staff whereabouts and monitor returns. Handover arrangements to brief staff of potential problems.</p> <p>Personal Social Care (PSC) Quality Framework project has embedded changes and improvements into PSC working practices. This project completes Jan 2011.</p> <p>Risk Assessment flag in ISSIS.</p> <p>For worker self harm: Use of Occupational Health Unit (OHU) assessment where medical conditions</p>	5	2	<p>Review of framework for all Service User related risk assessments to be undertaken as part of PSC work programme: an interim review has been done, but once Self Directed Service (SDS) and the PSC restructure is complete, they will be reviewed and updated again.</p> <p>All PSC team lone-worker policies to be reviewed in the context of Agile Working and restructuring - on-going.</p>	Olive Carroll (Barbara Lewis)	August 11

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		Impact	Likelihood		Impact	Likelihood			
				exist, return to work procedures for staff who have medical problems.					
LCCG	Public sector spending cuts leading to threats to workload within the county commercial group services	3	5	Being flexible to reduce fixed costs. Good capacity mgt. Review of options.	3	4	Awareness, cost reduction and efficiency measures. Development of options.	Nigel Finnamore	Ongoing
LCCG	Sustainability post Equal Pay Review within Commercial Services - increased costs - disaffected employees - impact on costs and competitiveness	3	4	Sustainability and affordability for LCCG is being considered.	3	3	Identify measures to be taken and other options for service delivery where applicable.	Nigel Finnamore / Bernard Noblett	Ongoing
LCCG Page 72	Serious Health and Safety Service Failure (including food hygiene) potentially involving: - employee - someone in our care - member of public Costs associated with accidents (fines, litigation, insurance costs), business disruption, LCCG's reputation. Resulting in reduced profitability e.g. impact of Corporate Manslaughter and Corporate Homicide Act – Larger fines, publicity orders and impact on future business.	5	4	Maintaining health and safety management system third party certificated to OHSAS 18001. Audits by IMS team Competency based training in Operations. Greater emphasis on incident reviews and lesson learned. IMS team's audit schedule with increased audits and non conformance close outs monitored and trends analysed. HACCP for School and Care Catering. IMS Business Plan 2011 being implemented to address the most frequently occurring types of serious incidents that result in days lost etc	5	3	Review of Integrated Management Systems to simplify, integrate and to reduce bureaucracy and increase accessibility via the intranet*. Action By MDS (Dec 2012)	Nigel Finnamore	Quarterly
							Revision of Catering procedures to determine suitability. Action By Janette Mason / IMS (Jan 2011)	Catering SMT	Quarterly
							Oracle Self Service being used to record all incidents. Reporting output to be provided by Oracle Self Service project team Action By (Jul 2011)	Nigel Finnamore	Quarterly
	Adverse impacts of	4	4	Corporate Information Governance	3	3	Annual Information Risk Review	SIRO +	June 11

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		Impact	Likelihood		Impact	Likelihood			
Page 73	<p>weaknesses in quality or security of information, information systems or information handling within the organisation, in electronic and paper forms.</p> <p>Adverse impacts may include</p> <ul style="list-style-type: none"> • Financial cost • Service delivery failures • Damage to individuals • Reputation damage • Effect on legal proceedings 			<p>Group.</p> <p>Directorate information Champions.</p> <p>Guidance, policies and procedures on Intranet and in e-Learning Course.</p> <p>Management processes in place and in business planning process.</p> <p>Security controls and encryption protection.</p> <p>Statements of conformity, spot checks and security breach procedures.</p>			<p>underway.</p> <p>External review of all governance documentation.</p> <p>Technical infrastructure review underway plus penetration testing.</p> <p>Data Quality Strategy Statement of Conformity returns being collected.</p> <p>Large intranet site full of guidance: http://lccintranet2/corporate/web/view.asp?siteid=4305.</p>	CIGG	
	<p>Failure to comply with Information Governance requirements e.g. Freedom of Information Act, Data Protection Act</p> <p>Legal penalties in the event of breaches of Data Protection Act e.g. Civil Monetary Penalty, potentially up to £0.5million</p>	4	4	<p>Management controls, including effective logging and tracking, complaints and appeals procedures</p> <p>Effective use of technology</p> <p>The Publication Scheme has been reviewed and updated, and the model publication scheme approved by the Information Commissioner adopted.</p>	3	3	<p>Some staff training and awareness sessions have taken place with many more still to take place.</p> <p>The work load of the Access to Information Team continues to increase due to the growing number of Freedom of Information requests and Data Protection enquiries/subject access requests.</p> <p>Additional resources for the team are being considered</p> <p>Directorate IG champions to be vigilant looking for examples of data misuse in particular that data is:</p> <ol style="list-style-type: none"> 1. Fairly and lawfully processed 2. Processed for limited purposes 3. Adequate, relevant and not excessive 4. Accurate 5. Not kept longer than necessary 6. Processed in accordance with the data subject's rights 	SIRO + CIGG	June 11

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		Impact	Likelihood		Impact	Likelihood			
							7. Secure 8. Not transferred to countries without adequate protection. CIGG to review security breach records from security breach procedure and look for trends and issue action plans and guidance accordingly		
CYP Page 74	Death or serious injury of a child known to us, or who have been known to us as a result of systemic failure	5	3	<p>Multi-agency safeguarding children Board Arrangements in place and safeguarding children procedures updated.</p> <p>Mechanisms in place to review all cases. Clear procedures in place with Communications Unit in respect to response to media enquiries</p> <p>Closely monitor referrals and assessments and statutory reviews for children subject to Child Protection Plans in place. The roll out of Contact, Referral and Assessment Team (CART) to improve responses to referrals and improve assessments has been completed.</p> <p>Provide training and support to staff including multi-agency training in respect to Child Protection, assessing risk, Child death and Serious Case Reviews.</p> <p>Panels in place to learn lessons and disseminate learning to practitioners and managers.</p> <p>Monitor Educational Visits and policy and guidelines in place.</p>	3	3	<p>Continued implementation of service and post inspection action plans.</p> <p>Ensure staff attendance at Multi-agency conferences disseminating lessons from Serious Case Reviews both within Lancashire, regionally and nationally.</p> <p>Continue to improve information sharing between agencies via training and agreed procedures and protocols.</p> <p>Continue to explore integrated and co-located multi-agency teams to improve assessments and information sharing between agencies.</p> <p>Through the Directorate Corporate Electronic Records Management System (CERMS) Lead and Data Capture Storage and Distribution Project Board, address current system issues that may prevent frontline staff from accessing information required to provide effective help to vulnerable children and young people.</p> <p>Continue to audit practice and respond to recommendations which highlight areas for improvement.</p>	Tony Morrissey Head of Safeguarding Inspection & Audit	Ongoing

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CYP	Failure in performance in schools and other educational settings	4	5	Quality Audit Tool used by Early Years (EY) consultants with EY settings. Early warning system identifying schools/settings at risk of failure on wide range of factors. Settings where there are concerns are monitored and supported by the School Improvement Challenge Board (SICB). Schools where there are concerns relating to Finance, Personnel, Governance, Standards, Quality of Education are reported to, monitored and supported by the SICB. Contracts of support are provided for schools in difficulty including school to school support. Review the Early Warning systems in the light of the new Ofsted Framework for Inspection (Head of QCI March 2010).	2	4	Develop the Early Years Workforce through programme of training and support. Further develop the support/challenge/monitoring arrangements for Children's Centres (Head of QCI July 2011). Review early warning systems in the light of reduced funding and the loss of the school improvement partner role and further develop school to school support programmes through: collaborations/federations, the work of National and Local leaders in Education, Teaching Schools and consultancy support (Head of QCI September 2011).	Bob Stott Director for Universal and Prevention Services	Ongoing
CYP	Workforce recruitment and retention within Children's services- capacity to undertake workforce planning; shortages of key skills/workers/leaders; low levels of workforce well-being & poor retention; lack of key leadership competencies; lack of training & development opportunities	3	3	<ul style="list-style-type: none"> Children's Workforce Strategy in place. Implementation underway Common workforce data collection undertaken Leadership development programme underway Development of career pathways across sections of the Directorate Range of initiatives in place for work-based recruitment – teachers (GRTP), social workers, apprentices & graduate trainees Range of training & development opportunities to support retention and progression Flexible working arrangements in place Range of staff well-being schemes across Directorate 	2	1	<ul style="list-style-type: none"> Continue development and implementation of Children's Workforce Strategy Implement change programme projects Managing budget/staffing reductions through a managed process of restructuring Transition CYP Change Programme to Continuous Improvement Programme 	Dave Carr, Head of Efficiency and Business Support	Ongoing

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				<ul style="list-style-type: none"> Talent Pool programme in place Range of support in place to identify and develop school leaders. 					
CYP	Inspection failure in limiting judgement area relating to services to children, young people and families which leads to failure in performance of the County Council as a whole	3	3	<p>Post inspection action plans in place monitored by Directorate Leadership Team and Safeguarding Steering Group.</p> <p>Inspection preparation group in place.</p> <p>Mock inspections have been undertaken to review against inspection criteria.</p> <p>Service plan and performance management framework in place.</p> <p>Audit team established and a calendar of audits including 'themed audits are being progressed to review practice.</p> <p>Multi-agency Partnership Board in place and critically evaluating specific services</p> <p>Peer Review taking place in July 2011 by LGID in respect to safeguarding and children looked after. This will offer a challenge and support and inform us of our strengths and areas for development in preparation for future Ofsted inspection.</p>	3	2	<p>Need to consider implications for inspections from Munro Review and Government response.</p> <p>Refresh the Common Assessment Framework (CAF).</p>	Tony Morrissey Head of Safeguarding Inspection and Audit	Ongoing To be completed by October 2011
CYP	System and process failure leading to inability to deliver effective social care services	5	4	<p>Data Capture Storage and Distribution (DCSD) Project Board established and will continue to provide governance until outstanding project issues are resolved</p> <p>Key issues identified and</p>	4	3	<p>Ensure all remaining files are scanned and indexed (Sept 2011)</p> <p>Complete Corporate Electronic Records Management System (CERMS) review and assess impact on social care services (June 2011)</p>	Dave Carr Head of Efficiency and Business Support	July 2011

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				<p>responsibilities for resolution identified</p> <p>BT/One Connect committed to review of future systems for delivery of electronic records management</p> <p>Support calls to be logged via CSD where they will be directed as appropriate to ensure a speedy resolution.</p>			<p>Increase training capacity for front line staff (to be agreed with learning and development team/one connect)</p> <p>Provide facilities for LCC staff working on partner networks to access scanned records (no timescale agreed – solution being sought by one connect))</p> <p>Complete priority system enhancements (presented to one connect change board)</p>		
OCE	<p>Equal Pay Review</p> <p>leading to:</p> <ul style="list-style-type: none"> - serious industrial action; - significant numbers of tribunal claims; - difficulties in retaining staff; 	4	5	<p>A Collective Agreement has now been signed by the main trade unions agreeing to most of the new terms and conditions introduced wef 1 August 2010.</p> <p>On-going dialogue with trade unions and continuing communication with staff.</p> <p>Ongoing communications with schools to keep them engaged and informed.</p>	2	2	<p>Continue communication with staff groups affected and trade unions.</p> <p>Continue engagement of senior managers to ensure consistent messages are given and communicated to staff.</p> <p>Continue and complete the JE appeals process.</p> <p>Complete JE for special and chief officer grades.</p> <p>Complete JE for other staff groups e.g. soulbury grades.</p>	Deputy County Secretary and Solicitor	Quarterly
ENV	<p>Surface water flooding.</p> <p>LAs now responsible for surface water management (Flood and Water Management Act April 2010)</p>	3	4	Ongoing development of Surface Water Management Plan for Lancashire. Development of prioritised and targeted action to reduce risk.	2	3	<p>Re-prioritise capital funding.</p> <p>Develop in-house expertise.</p>	Jo Turton, Executive Director	Six - Monthly
ENV	<p>Loss of highway infrastructure due to flooding</p>	4	2	<p>General inspections of high risk structures now being undertaken every year (previously every 2 years).</p> <p>Principal Inspections (hands-on close</p>	3	1	Close monitoring of risk via service risk register (ongoing).	Jo Turton, Executive Director	Annually

Dir	Potential risk areas	Score without controls		Summary of existing controls and mitigations	Score with controls		What else do we need to do? By whom and by when?	Lead officer on actions	Review date
		Impact	Likelihood		Impact	Likelihood			
				quarter check) of high risk structures now being undertaken every 6 years (not undertaken previously). Scour inspections of high risk bridges over rivers now being taken every 2-3 years (in Autumn prior to periods of heavy rainfall). Superficial inspections of high risk bridges over rivers being undertaken immediately following high rainfall events.					
ENV	Failure of Waste PFI Contract - financial and reputation risk.	4	2	Weekly, Monthly, Quarterly and Annual monitoring and reconciliation of data and performance against both diversion and financial targets. Maximising throughputs and exploring commercial opportunities from various sectors will aid in the challenge to effectively manage baseline costs.	2	1	Close monitoring of risk via service risk register (ongoing).	Jo Turton, Executive Director	Six - Monthly
ENV	Failure of Public Transport Contracts - financial and reputation risk	3	2	Public transport operators closely monitored. Where appropriate, contingency measures are put in place allow us to replace contracts quickly and efficiently should the need arise.	2	1	No further action proposed.	Jo Turton, Executive Director	Six - Monthly
ENV	Corporate Manslaughter on highway	3	2	Highway safety inspections (3,6 or 12-monthly as appropriate) .Annual skid resistance surveys. Bi-annual bridge inspections. Monitoring of highway slopes and embankments. Annual review of Highest risk routes undertaken.	2	1	Close monitoring of risk via service risk register (ongoing). Resolution of risks highlighted as a result of Audit inspection as per delivery programme in directorate's response.	Jo Turton, Executive Director	Six - Monthly

CORPORATE RISK ASSESSMENT

Impact

Score	What's the worst that could happen?
1	<ul style="list-style-type: none"> • Insignificant disruption with no loss of service to citizens • No harm to life or limb • No reputation damage • No or insignificant environmental damage • Low financial loss
2	<ul style="list-style-type: none"> • Some disruption to non-critical citizen service • LCC liable for disruption to key partner but no loss of service • Minor injury to third parties (requiring first aid treatment) • Minimal reputation damage (minimal adverse coverage in local press) • LCC responsible for minor damage to local environment • Medium financial loss
3	<ul style="list-style-type: none"> • Noticeable disruption to critical service not exceeding 48 hours • LCC responsible for disruption to key partner resulting in loss of their service not exceeding 48 hours • Violence or threat of serious injury (medical treatment required) • Adverse coverage in national tabloid press and/or extensive front page coverage in local press or TV • LCC liable for moderate damage to local environment • High financial loss
4	<ul style="list-style-type: none"> • Serious disruption LCC's ability to provide a critical service to citizens (loss of service between 2 and 7 days) • LCC responsible for major disruption to key partner resulting in a loss of their service lasting between 2 and 7 days • Adverse coverage in national broadsheet press and/or low level national TV reporting • Extensive and multiple injuries • LCC liable for major damage to local environment • Major financial loss
5	<ul style="list-style-type: none"> • Central Government intervention in running of LCC / Directorate • Loss of critical citizen service for more than 7 days • Business failure of partner or loss of service delivery of over 7 days • Multiple injuries including loss of life • Extensive coverage in national press and broadsheet editorial and/or national TV item • Significant local, national or international environment damage • Enormous financial loss

Likelihood

Score	Descriptors
5	Almost Certain. Expected to occur in most circumstances or more than a 75% chance of occurrence.
4	Likely. Potential of occurring several times in 10 years or has occurred recently. Between 50% and 75% chance of occurrence.
3	Moderate. Could occur more than once in 10 years. History of occurrence or near miss. Less than a 50% chance of occurrence.
2	Unlikely. May occur over a 10 year period. Less than 10% chance of occurrence.
1	Rare. Has not occurred. May occur in exceptional circumstances. Less than 2% chance of occurrence.

Impact / Likelihood matrix

		Impact				
		1	2	3	4	5
Likelihood	5	1/5	2/5	3/5	4/5	5/5
	4	1/4	2/4	3/4	4/4	5/4
	3	1/3	2/3	3/3	4/3	5/3
	2	1/2	2/2	3/2	4/2	5/2
	1	1/1	2/1	3/1	4/1	5/1

Level of Concern	Action Required
Very concerned	Urgent attention required at senior level to ensure risk is reduced to an acceptable level. Action planning should start without delay. Progress on actions should be reported to ELT.
Concerned	Minimum of robust contingency plan plus early warning indicators. Some control measures likely to be necessary. Progress on actions should be reported on at directorate senior management team.
Uneasy	Acceptable with some mitigation and contingency planning. Routine reviews should be carried out to ensure there has been no change which will make them more severe.
Content	Acceptable, but keep under review. No further action required unless risk becomes more severe.

Audit Committee

Meeting to be held on 27th June 2011

Electoral Division affected: None

Annual Governance Statement 2010/11

(Appendix A refers)

Contact for further information:

Roy Jones, 01772 533619, Office of the Chief Executive,
roy.jones@lancashire.gov.uk

Executive Summary

The Annual Governance Statement (AGS) 2010/11 is presented for approval.

Recommendation

To approve the Annual Governance Statement for 2010/11.

Background and Advice

The AGS requires a review to be conducted of the governance arrangements in the authority. It has previously been agreed that this would be achieved by means of obtaining statements of assurance from executive directors and by reference to the annual report of the Head of internal Audit. The process has been overseen by the Corporate Governance Working Group.

Those statements have now been obtained. Executive Directors were asked to confirm the adequacy of the arrangements within their directorate against the 17 control areas in the statement, by indicating whether in each case they were good, adequate or weak. In all cases, the response have been categorised as either good or adequate.

The draft statement is attached at Appendix A. The Statement describes the governance arrangements in the authority and the process by which the review of those arrangements have taken place.

The Statement outlines areas where there is a programme for improvement in the coming year. This refers to the relevant reference in the annual report of the Head of Internal Audit, which is set out at Item 12 on the Agenda. It will be seen that there is reference here to the authority's arrangements for risk management.

The AGS will be presented to the Chief Executive and Leader for signature.

The Audit Committee are asked formally to approve the AGS.

Consultations

Executive Directors individually.

Risk management

The risk management implications are referred to in the body of the report.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Directorate/Tel
Delivering Good Governance in Local Government – Guidance Note for English Authorities	2007	Roy Jones, Office of the Chief Executive, 01772 533619

Delivering Good
Governance in Local
Government - Framework

Reason for inclusion in Part II, if appropriate

N/A

Annual Governance Statement – Financial Year 2010/2011

This statement is prepared in compliance with the requirements of the Accounts and Audit Regulations 2011 to prepare a statement on internal control in accordance with proper practices and the guidance on those practices provided by CIPFA and SOLACE in 2007.

The authority's responsibility in relation to internal control

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

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

The authority has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. The authority also complies with the CIPFA statement on the role of the Chief Financial Officer in Local Government (2010).

A copy of the code of corporate governance is on our website and a hard copy can be obtained by contacting Roy Jones on 01772 533619. This statement explains how the authority has complied with the code and identifies actions further to improve our corporate governance arrangements during the coming financial year.

The purpose of the governance framework

The governance framework comprises the systems and processes, culture and values by which the authority is directly controlled and the activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. It is an ongoing process designed to identify and prioritise the risks to the achievement of the authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

This statement confirms that the governance framework has been in place at the authority for the year ended 31 March 2011 and up to the date of approval of the annual report and statement of accounts.

The authority's governance framework

This section highlights the key elements of the systems and processes that comprise the authority's governance arrangements in accordance with the six principles of corporate governance included in our code:

- ❖ Lancashire County Council has a Corporate Strategy which sets out its vision for Lancashire for the period 2010-2013. The strategy is refreshed annually to reflect changes in both local and national priorities.
- ❖ The authority is keenly aware of the need to ensure that it delivers on its ambitions. Quarterly reports are considered by the Cabinet Committee on Performance Improvement which set out performance against applicable indicators and in relation to the authority's corporate objectives. The authority's Customer Access Strategy has the vision 'That everyone in Lancashire can get help and information on all the County Council's services conveniently and efficiently.' The authority uses the views of the public through its 'Living in Lancashire' residents' panel and bespoke research and consultation activities to inform decision making.
 - ❖ Lancashire has a 'strong leader' model of executive government and the roles and responsibilities of the different elements of the Executive, Leader, Cabinet, and individual cabinet members, are set out in its constitution. In December 2008 it passed a resolution to adopt a leader and cabinet executive within the terms of the Local Government and Public Involvement in Health Act 2007.
 - ❖ The Council's current scrutiny arrangements have been in place since May 2010. It comprises three scrutiny committees - the Scrutiny Committee, Education Scrutiny Committee and Health Scrutiny Committee.

The Forward Plan appears on the committees' agendas and cabinet members are regularly called to committees to be questioned about areas of policy. The committees appoint task groups to undertake

scrutiny reviews which are then considered by the relevant committee for adoption. When recommendations are made to a cabinet member, there is a protocol under which an initial response will be provided to the committee within three months. During the year scrutiny reviews have included consideration of safeguarding adults, access to county museums and looked after children from outside Lancashire. The functions of the Scrutiny Committee include scrutiny of the authority's crime and disorder partnership, which is the Safer Lancashire Board. The committee met to consider these arrangements during the year.

To date, no decisions have been 'called in' in this authority, although during the year, scrutiny committees held special meetings on two occasions to deliberate whether a decision should be called in.

The Health Scrutiny Committee has the statutory role of scrutinising proposed significant variations in service delivery in the health service. In this geographically large county, that involves working with three primary care trusts, six acute trusts and several specialist trusts (such as mental health, physical disabilities and ambulance trusts). A number of trusts straddle our borders so that joint working has been undertaken with the two unitary authorities in our area, Blackburn with Darwen and Blackpool, and also with adjoining authorities. With the many changes taking place in the health service this has entailed a heavy workload for this committee. It has worked hard at forming and maintaining productive relationships with the various health trusts. This year, the Health Scrutiny Committee has used its statutory power to refer substantial variations to the health service in the area proposed by the NHS on two occasions. On both occasions, the Secretary of State declined the request for an independent review.

- ❖ The authority has a Standards Committee which complies with statutory requirements. It has kept itself fully updated on the Government's proposals to abolish the national standards regime during 2011/12. Since May 2008 it has had the additional statutory role of acting as the local filter for complaints when there has been a breach of the code of member conduct. Of 20 complaints in total since that period only 3 cases have been referred for investigation, a demonstration of the generally high standards of conduct of members of the authority. There is a report of the committee's proceedings to each meeting of the Full Council and the committee has undertaken monitoring of compliance with both member and officer codes.
- ❖ The authority has an Audit Committee in place which operates in accordance with CIPFA guidance. It has delegated to it approval of the annual statement of accounts and also this annual governance statement. It receives appropriate training for the work that it does, and regularly conducts a review of its manner of operation.
- ❖ The authority has a well regarded internal audit service that works with officers to assess and develop the control environment, and which

supports management's assessment of compliance with established policies, procedures, laws and regulations.

- ❖ The authority's internal audit service provides a counter fraud and investigatory service through its annual Counter Fraud Plan and produces an Annual Report on Counter Fraud and Special Investigations for the Audit and Standards Committees.
- ❖ The scheme of delegation to officers enables decisions to be taken at the most appropriate and effective level. The Constitution includes a Protocol on County Councillor/Officer Relations, providing the foundation for good and regular information flowing between officers and members. Reviews of the scheme of delegation and the protocol are to be held during 2011/12.
- ❖ Standing Orders, Financial Regulations and the Scheme of Delegation are embedded within the county council and under constant review. There are common templates for reports to committees and the cabinet, and also for decisions made by cabinet members. Cabinet member decision-making is governed by a decision-making protocol and takes place in accordance with a pre-arranged programme. There is a Corporate Risk Management Policy and Strategy and also guidance on risk management available to officers.
- ❖ The process for ensuring legality and financial probity in relation to decisions has a number of components:
 - The decision-making protocol mentioned above.
 - Within that protocol, officers formulating reports are required to have regard to particular issues and in particular take legal and/or financial advice at an early stage if that is warranted.
 - All reports leading to decisions are checked within the office of the county secretary and solicitor to ensure that governance issues are identified and statutory and financial requirements are complied with.
 - Corporate advice and guidance is provided on the public sector equality duty contained within the Equality Act 2010 and includes an Equality Impact Assessment template. This is to be reviewed during 2011/12.
- ❖ There is an effective whistleblowing procedure which is regularly used. Reports on the level of use and outcomes are presented to the Standards Committee. There is a two-stage general complaints procedure and also specific complaints procedures for Children and Young People and Adult Social Care, which follow the relevant statutory guidance. In the general procedure, after initial investigation, if a complainant remains dissatisfied they have access to a panel of county councillors who they have the right to address in person.

- ❖ There is a cross-party member development working group in place with the remit of planning and co-ordinating member development activities to meet individual and group needs. Officer training is overseen through a new performance and development review process which was rolled out to all officers during 2011.
- ❖ A number of communication tools have already been identified, such as the Living in Lancashire Panel. However, the authority is aware that for communication with the community to be effective, it needs to be approached on a number of levels. Other examples are:
 - Cabinet in the Community – Cabinet members have a 'Question Time' in various parts of the county facilitated by a local journalist.
 - Council and committee meetings are web-cast.
 - There is member representation on neighbourhood management boards across Lancashire.

Review of effectiveness

The authority has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectors. The authority is also required to review the effectiveness of internal audit and this has been undertaken by the county treasurer.

The authority's code of corporate governance has been approved by the cabinet and considered by Full Council, the Audit Committee and the former County Management Board (now Management Team.)

This Annual Governance Statement will be considered for approval by the Audit Committee on 27th June 2010, and will be reported to the Standards Committee on 30th June. It will thereafter be considered by the council on 22 July.

Statements of assurance have been signed by executive directors as to the effectiveness of the governance arrangements for which they are responsible, including the system of internal control. The statements of assurance cover all the principles set out in the authority's Code of Corporate Governance. The statements of assurance reveal no significant areas of weakness in the authority's corporate governance arrangements; the arrangements have been categorised as either good or adequate.

Programme of improvement on governance issues

In her annual report, the head of internal audit reports her concern that the procurement processes followed across the council have not in all cases followed corporate procedures. The head of internal audit has also highlighted that the council's arrangements to counter risks arising from the employee's conflicts of interest are currently inadequate and the need to strengthen the arrangements relating to officers' declaration of interests.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

The authority will, in the coming year, review its governance arrangements as the proposals to abolish the current national standards regime progress and as additional responsibilities are placed upon Audit Committees in relation to the appointment of external auditors.

In addition, the authority has a project plan in place to respond to the potential governance structures to emerge from the proposed significant changes to the health service and the duties this will place on local authorities.

Signed:

Leader of Lancashire County Council

Chief Executive of Lancashire County
Council

Dated

Audit Committee

Meeting to be held on 27 June 2011

Electoral Division affected: All

Response of the Audit Committee to the Audit Commission's request for information to support its compliance with International Standards on Auditing (Appendix 'A' refers)

Contact for further information:
Gill Kilpatrick, county treasurer (01772) 534701
gill.kilpatrick@lancashire.gov.uk

Executive Summary

The Audit Commission is obliged to comply with International Auditing Standards and to obtain reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. To support this work the Audit Committee has been asked to provide some information as follows.

The Audit Committee is asked to explain how, with the Standards Committee, it oversees management's processes in relation to:

- Assessing the risk that the financial statements may be materially misstated due to fraud;
- Identifying and responding to the risk of fraud in the council;
- Communicating the council's views on business practice and ethical behaviour to employees; and
- Communicating to those charged with governance the council's processes for identifying and responding to fraud.

The Audit Committee is also asked to confirm the following:

- How the committee oversees management processes to identify and respond to the risk of fraud and possible breaches of internal control;
- Whether the committee or its chair has knowledge of any actual, suspected or alleged frauds affecting the council; and
- How it gains assurance that all relevant laws and regulations have been complied with.

A response has been prepared for consideration by the committee and is attached at Appendix A.

Recommendation

It is recommended that:

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

Background and Advice

As set out in the Executive Summary above.

Consultations

Not applicable.

Implications

Not applicable

Risk Management

The risk to the authority as detailed in the report.

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

Paper	Date	Contact/ Directorate/ Ext
Letter from Fiona Blatcher of the Audit Commission to Councillor S. Chapman	4 April 2011	

Reason for inclusion in Part II, if appropriate:

Not appropriate.

27 June 2011

Dear Mr Portman

Response of the Audit Committee to the Audit Commission's request for information to support its compliance with International Standards on Auditing

The Audit Committee considered your request for information to enable you to comply with International Standards on Auditing at its meeting on 27 June 2011 and has approved the following response.

1. Your requirements

- 1.1 The Audit Commission is obliged to comply with International Standards on Auditing. In particular it is required to gain an understanding of how those charged with governance exercise oversight of management's processes in relation to:
- Assessing the risk that the financial statements may be materially misstated due to fraud;
 - Identifying and responding to the risk of fraud in the council;
 - Communicating the council's views on business practice and ethical behaviour to employees; and
 - Communicating to those charged with governance the council's processes for identifying and responding to fraud.
- 1.2 The Audit Commission is also required to understand:
- How the Audit Committee oversees management processes to identify and respond to the risk of fraud and possible breaches of internal control;
 - Whether the Audit Committee or its chair has any knowledge of any actual, suspected or alleged frauds; and
 - How the Audit Committee gains assurance that all relevant laws and regulations have been complied with.

2. Role of the Audit Committee

- 2.1 Under its terms of reference the Audit 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 Committee is also charged with responsibility for overseeing management's arrangements in response to the risk of fraud. However the Standards Committee is charged with governance in this area and its work too is considered in this response.
- 2.3 In an organisation of Lancashire County Council's scale, 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 Committee's oversight of internal audit work

- 3.1 The Audit Committee approves the annual internal audit plan, which is based on an assessment of the council's full range of operational and financial controls. Where controls to manage the risk of non-compliance with laws and regulations are assessed as significant, these are included in the annual audit plan.
- 3.2 The annual audit plan 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. It is also built upon an assessment of risk that includes the risk of non-compliance with relevant laws and regulations.
- 3.3 The Audit Committee receives regular progress reports from the head of internal audit, and the Standards Committee receives regular reports on the council's counter fraud arrangements, including reports on breaches of internal control and fraud risks. The assistant director of finance (accountancy and financial services) also briefs the Audit Committee on financial matters, and other officers attend to brief the Audit Committee on control issues as necessary to respond to audit reports and inform the committee of progress where remedial action has been agreed.
- 3.4 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.
- 3.5 As the Audit Commission will be aware, the council actively participates in its 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 promptly on the reports raised by this initiative and support is also given to the Lancashire districts.
- 3.6 The Internal Audit Service serves 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.

- 3.7 The Audit Committee has been provided with the annual report of the head of internal audit, and this report has also been shared with the Audit Commission.
- 3.8 Both management and the Audit Committee are aware of the Audit Commission's assessment of the level at which misstatements of the financial statements are deemed to be material, and are briefed on the Commission'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 Committee.

4. The Audit Committee's oversight of management processes

- 4.1 The Audit Committee takes its role in reviewing the effectiveness of internal control, including financial control arrangements and compliance with the law, seriously. It values its independence of both the executive and scrutiny functions and its direct reporting line to the council.
- 4.2 A key element of the assurance available to the committee and to the council is the suite of assurance statements made by each of the executive directors annually that support the annual governance statement and require each executive director to take personal responsibility for the operation of an adequate and effective control system, which includes compliance with applicable laws and regulations.
- 4.3 The committee receives information about instances of financial impropriety and fraud as well as breaches of control within the head of internal audit's regular progress reports and annual report. However it is the council's Standards Committee that is charged with oversight of the overall arrangements by which the risk of fraud is managed.
- 4.4 The Standards Committee has considered the council's counter fraud arrangements and has approved a counter fraud policy statement, strategy and work-plan, and a whistle-blowing policy which have been periodically communicated to the council's staff. It receives periodic reports from the Internal Audit Service of issues being investigated as potential impropriety or fraud, and management's responses to these.
- 4.5 A proportionate approach is taken to further awareness-raising and those members of staff exposed to the risk of fraud or impropriety are made well aware of the council's position, for example through line management's briefings.

5. Actual, suspected or alleged frauds affecting the council

- 5.1 Other than the issues noted in the head of internal audit's annual report the Audit Committee is unaware of any actual, suspected or alleged frauds affecting the council.

6. Actual or potential litigation

- 6.1 The Audit Committee is unaware of any actual or potential litigation or claims against the council that would have a material impact on the financial statements that will not be reported in the notes to the financial statements ('Contingent liabilities').

Yours sincerely

Chair of the Audit Committee
Lancashire County Council

Audit Committee

Meeting to be held on 27 June 2011

Electoral Division affected: All

Internal Audit annual report to the Authority for 2010/11

(Appendix A refers)

Contact for further information:

Ruth Lowry, (01772) 534898, County Treasurer's department
ruth.lowry@lancashire.gov.uk

Executive Summary

The annual report to the Authority is included at Appendix A to this report.

The opinion given in the report states that "I can provide substantial assurance that there is generally sound system of internal control, adequately designed to meet the council's objectives, and controls are generally being applied consistently."

However there are matters that put the achievement of the council's objectives at risk and these have been discussed with the chief executive and with individual directors and senior managers.

Recommendation

The Committee is asked to consider the internal audit annual report for 2010/11.

Background and advice

The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 states that the head of internal audit's formal annual report to the organisation must:

- (a) include an opinion on the overall adequacy and effectiveness of the organisation's control environment;
- (b) disclose any qualifications to that opinion, together with the reasons for the qualification;
- (c) present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
- (d) draw attention to any issues the head of internal audit judges particularly relevant to the preparation of the statement on internal control;
- (e) compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and targets;
- (f) comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

Consultations

Not applicable.

Implications:

Not applicable

Risk Management:

Not applicable

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

Paper	Date	Contact/Directorate/Ext
CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom	2006	Ruth Lowry X 34898

Reason for inclusion in Part II, if appropriate:

Not appropriate.

**Lancashire County Council
Internal Audit Service**

**Annual report of the head of internal
audit for the year ended 31 March 2011**



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 - 2 Summary assessment of internal control
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- Annex A: Scope, responsibilities and assurance and audit assurance levels
- Annex B: Audit assurance levels and classification of audit recommendations
- Annex C: Detailed analysis of internal audit assurance assignments 2010/11
- Annex D: Audit resources expended against the audit plan

1 Introduction

Purpose of this report

- 1.1 This report summarises the work that the county council's Internal Audit Service has undertaken during 2010/11 and the key themes arising in relation to internal control, governance and risk management across the council.

The role of internal audit

- 1.2 The Internal Audit Service is an assurance function that provides an independent and objective opinion on the adequacy of the council's control environment. The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom requires the head of internal audit to provide a written report to those charged with governance, timed to support the annual governance statement. This report presents my opinion based upon the work the Internal Audit Service has performed during 2010/11.
- 1.3 The scope of our work, management and audit's responsibilities, the basis of my assessment, and access to this report are set out in Annex A to this report.

Interim reports

- 1.4 This report builds on the matters reported in previous years which remain relevant and matters that have been the subject of discussions throughout the year with the chief executive and individual executive directors and their senior management teams.
- 1.5 I have also reported summaries of key areas of audit work to the Audit Committee as they have been completed during the year, including a report for the final quarter of the year.

Ruth Lowry
Head of internal audit
Lancashire County Council

2 Summary assessment of internal control

Overall opinion

- 2.1 On the basis of our programme of work for the year, I can provide **substantial** assurance overall that there is generally sound system of internal control, adequately designed to meet the council's objectives, and controls are generally being applied consistently. However some weaknesses in the design and inconsistent application of controls put the achievement of particular objectives at risk. In particular, the procurement processes followed across the council have not in all cases followed corporate procedures; and there is a requirement for officers to make adequate declarations of personal interests, both to enhance the council's governance arrangements and particularly in light of the introduction of the Bribery Act from 1 July 2011.
- 2.2 In forming my opinion on the council's internal control environment, risk management process and corporate governance, I have considered the work undertaken by the Internal Audit Service throughout the year, as well as, to a more limited extent, that of external providers of assurance. I have provided more detailed summaries of individual pieces of audit work throughout the course of the year in my progress reports to each Audit Committee.
- 2.3 Explanations of the work we have done are set out below and an explanation of the levels of assurance the Internal Audit Service provides are set out in Annexes A and B. Annex C provides a table of each assurance assignment the team has undertaken during the year and the level of assurance we have provided for each, and Annex D sets out the audit resources we have expended to fulfil the audit plan.
- 2.4 Our work has been organised in accordance with the Internal Audit Service's understanding of the council's controls as follows:
- Cross-cutting controls: These controls manage the risks arising from the council's over-arching business objectives that cut across all 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 risks of its day to day operations that are operated in common across the whole organisation.
 - Service-specific controls: The controls designed to manage the risks arising in individual service areas.
- 2.5 Since some work is service-specific but involves more than one service area, I have also reported findings categorised as cross-service work.

Management's responses to our findings

- 2.6 Each of the issues I have raised during the year has been discussed with the relevant service management teams as well as with the council's Management Team. Action plans have been agreed and actions are already being implemented; the Internal Audit Service will follow up our findings during the course of 2011/12 and provide support to managers to develop pragmatic solutions to the control issues identified.

Follow-up of our previous work

- 2.7 We have undertaken work to ascertain progress in implementing agreed recommendations resulting from earlier years' reviews. Except as noted, the majority of the recommendations we have agreed with management have been implemented, and revised action plans have been obtained detailing the progress to date and timescale for full implementation if this has not already been achieved.

Summary of assurance provided by the Internal Audit Service

- 2.8 A summary of all the assurance we have provided during the year is provided in the table below. This includes each internal audit assignment directed to providing controls assurance, but it excludes work for example on the certification of grant funding claims and participation in the council's working groups, as well as work such as our early assessment of the 'one team' approach to engineering work.

Assignments relating to:	Assurance				
	Full	Substantial	Limited	None	Incomplete
Cross-cutting controls	1	9	5	0	4
Cross-service controls	0	1	1	1	0
Corporate controls	0	19	4	0	1
Service-specific controls	1	23	11	2	6
Total assignments = 89	2 (2%)	52 (59%)	21 (21%)	3 (3%)	11 (12%)

Wider sources of assurance available to the county council

- 2.9 As we have implemented the audit plan during the year we have taken into consideration the assurance also provided to the council by external bodies, including the Audit Commission, Ofsted, and the Care Quality Commission.
- 2.10 Ofsted has completed its annual unannounced inspection of children's services contact, referral and assessment arrangements, and its annual children's services assessment concluded that the council 'performs well'.
- 2.11 The Care Quality Commission, the independent regulator and inspectorate for health and social care in England determined during

2010 that the council was 'doing well' in relation to adult social care, addressing both safeguarding and improving health and wellbeing for older people. It also concluded that the council's capacity to improve was 'excellent'. The Commission's assessment of adult social services' performance for 2009/10, reported during 2010, also concluded that overall the council's performance in delivering outcomes was 'excellent'.

3 Key issues and themes

- 3.1 There is a clear trajectory of continuous improvement in the council's common controls, specifically through developments in the use of e-enabled systems and the county's financial ledger system which are being streamlined and demand consistency in their operation by users. The implementation of the new income management system during the year and preparations for the implementation of the new HR/ payroll system are examples of this. Development of the financial system will continue through the implementation of the latest release of the Oracle Financials system in April 2012. Although there remain indications that there is a lack of sufficiently clear procedural guidance for certain common or cross-cutting control systems, for example lone working arrangements, the use of purchasing cards, and staff travel expense claims, the concerns that have been reported in previous years regarding the lack of consistent controls are now plainly being addressed.
- 3.2 Where controls are the subject of close management attention, such as those over the procurement of the county council's new strategic partner, or the introduction of the new HR/ payroll system they are implemented well, being well designed and operated as intended.
- 3.3 There are newly introduced services and systems that are already working well and over which we have provided substantial assurance; these include for example the Help Direct service and the retail model for transforming community equipment stores. We have, as would be expected, also found areas in new services and systems where controls could be improved but, since these are subject to close management attention they are also subject to continuous on-going improvement. Examples include the ground-breaking new systems introduced within the Adult and Community Services Directorate to support commissioning and procurement of care services, the action being taken to develop the council's information governance, and the Reablement Service operated by LCCG. We therefore expect our follow-up work during 2011/12 to find that where any significant risks remain in these areas they will have been appropriately mitigated.
- 3.4 However some long-standing operational systems, both within individual service areas and those spanning more than one service area, exhibit control weaknesses. Risks are more likely to be inadequately mitigated where controls have been in place for a long time, and have not been fully reconsidered as organisational structures have been altered and posts reconfigured. We have, for

example been able to provide only limited assurance in relation to service-specific controls over access to ISSIS and some aspects of adult social care case management, adoption allowances, management of certain grant funding streams and recovery of the costs of highways damages. This appears to be exacerbated when more than one service area is involved, for example the provision of transport for children with special educational needs, which is commissioned and provided by teams across different service areas.

- 3.5 We have also identified a number of areas in which management checks are not being undertaken effectively. Although we identified few examples of widespread significance this is likely to be a growing theme as the council reduces the scale of its operations and, in particular reduces its management team: it is likely that the risks associated with reduced management oversight will have to some degree to be accepted. Inadequate management oversight is exemplified by a general lack of compliance with the council's partnership protocol before and whilst working in partnership with external bodies, and there has been a notable lack of management awareness (corporately and in the relevant service areas) regarding the risks associated with working hours and compliance with the European Working Time Directive. However a lack of management oversight is in certain cases built into the system; for example budget holders are by-passed at a number of points during the purchasing process when their involvement would be expected.
- 3.6 Purchasing and procurement have emerged as common issues across the council. The selection of suppliers to a number of service areas across the council cannot clearly be shown to have followed appropriate procurement procedures, in particular where there are long-standing arrangements with familiar suppliers. We have been unable to obtain sufficient evidence to support the selection and ongoing use of suppliers, except for the most recent examples. More recent procurement exercises have been flawed in a variety of ways, largely arising from weaknesses in the system design and the non-compliance with agreed procedures.

Risk management

- 3.7 The council's strategic risk register has been regularly updated and reported to the Audit Committee during the course of the year. However the corporate approach to risk management remains under review as the council's approach is clarified and the way the council identifies and manages its risks is again under consideration. As the Policy Unit is reconfigured, the Internal Audit Service will take a greater role in facilitating risk management across the council from 1 July 2011.

Corporate governance

- 3.8 The Internal Audit Service continues to be involved in the development of the council's corporate governance arrangements and is represented on the council's corporate governance working group.

- 3.9 The coming year will provide opportunities for the council to reconsider its long-standing governance arrangements as the standards regime is revised nationally, and the government's future approach to public audit raises the possibility that additional responsibilities will be placed upon audit committees in relation to the appointment of external auditors.
- 3.10 The coming year will provide opportunities for the council to reconsider its long-standing governance arrangements as the standards regime is revised and possibly discontinued nationally, and as additional responsibilities are placed upon audit committees in relation to the appointment of external auditors. It will be appropriate to reconsider the role of the Audit Committee as it has gradually acquired a variety of responsibilities in relation to risk management, internal control, approval of the council's financial statements and treasury management as well as oversight of both internal and external audit, but it does not currently have responsibility for oversight of the council's counter fraud and whistle-blowing arrangements.
- 3.11 The introduction of the Bribery Act 2010, which will take effect from 1 July 2011, will require the council to demonstrate that we have adequate procedures to counter the risk of bribery and corruption. Our work during 2010/11 has shown that the council's arrangements to counter the risks arising from employees' conflicts of interest in particular are currently inadequate. More positively, we have provided substantial assurance in relation to members' allowances and the receipt of gifts and hospitality by members.

4 Implications for the annual governance statement

- 4.1 In making its annual governance statement the council considers the head of internal audit's opinion in relation to its internal control environment, risk management processes and corporate governance. The annual governance statement is therefore likely to refer to the need to improve the council's procurement processes and also to strengthen arrangements relating to officers' declarations of interests.

5 Assurance work for other organisations

- 5.1 The county council's Internal Audit Service also serves a number of external organisations within Lancashire on the basis that they are important partners to Lancashire County Council; a number of the district authorities, the Police Authority, Regenerate Pennine Lancashire Limited and Lancashire and Blackpool Tourist Board Limited. Whilst our work for the larger external organisations is undertaken on a commercial basis and is generally subject to market testing, our work for the Tourist Board and Regenerate Pennine Lancashire in particular is undertaken to provide assurance not only to

the boards of those bodies but also to Lancashire County Council itself.

- 5.2 I have not reported any matters to these organisations that would have any implications for Lancashire County Council or its governance statement.

6 Counter fraud and investigatory work

- 6.1 The Internal Audit Service provides a counter fraud and investigatory service to management, which is distinct from audit but is related in considering the council's controls and in the skill sets required.
- 6.2 We have provided a separate report on this work to the council's Standards Committee and the Audit Committee has also received this report for information.

7 Internal audit inputs and performance

- 7.1 The outputs of our audit work have been reported in detail to the senior management teams of individual service areas, and the key themes arising for them and for the council as a whole are set out above. However in fulfilling its duty to consider the performance of the council's internal audit service, the Audit Committee will be interested, on behalf of the council, to understand the way that the Internal Audit Service has deployed its resources against the audit plan for the year.

Internal audit plan 2010/11

- 7.2 Taking account of expected staff vacancies we planned to provide 3,260 days during 2010/11 and achieved 3,727 (14% more than planned), an increase of 467 days, using time made available in particular from the reduction in input required to our external work on assessment of the Financial Management Standard in Schools.
- 7.3 Overall, we have provided the assurance the council requires and in particular we have completed our work on the council's corporate financial and ICT systems. We will be able to satisfy the Audit Commission that our work is sufficient for them to take assurance from it in undertaking their external audit. We have completed 89 individual assurance assignments and these are set out in Annex C.
- 7.4 The days spent on each area of our audit plan, by service, are set out in the table included at Annex D. This does not include time spent during April and early May 2011 to complete work relating to 2010/11.

Internal audit performance

- 7.5 During the summer of 2010 the Audit Service used the CIPFA benchmarking service to undertake a client satisfaction survey. The Audit Service is regarded as 'good' overall, and in particular we achieved an improvement in the timeliness of our reporting, which is important to our clients and has previously been assessed as

'adequate' but in 2010 was assessed as 'good'. We have recently begun to issue client satisfaction surveys for the summer of 2011.

- 7.6 We have also updated our self assessment against the CIPFA Code of Practice for Internal Audit in Local Government in the UK to assess compliance with this Code. We continue to demonstrate a high degree of compliance and no further significant actions are required at this point.

A Scope, responsibilities and assurance

Approach

- A.1 In accordance with the CIPFA Code of Audit Practice, 2006, the scope of internal audit encompasses all of the council's operations, resources and services including where they are provided by other organisations on their behalf.

Responsibilities of management and internal auditors

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

Basis of our assessment

- A.6 My opinion on the adequacy of control arrangements is based upon the result of internal audit reviews undertaken and completed during the period in accordance with the plan approved by the Audit Committee. We have obtained sufficient, reliable and relevant evidence to support the recommendations that we have made.

Limitations to the scope of our work

- A.7 There have been no limitations to the scope of our work.

Limitations on the assurance that internal audit can provide

- A.8 There are inherent limitations as to what can be achieved by internal control and consequently limitations to the conclusions that can be drawn from our work as internal auditors. These limitations include the possibility of faulty judgement in decision making, of breakdowns because of human error, of control activities being circumvented by

the collusion of two or more people and of management overriding controls. Also there is no certainty that internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks which may arise in future.

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

Access to this report and responsibility to third parties

- A.10 I have prepared this report solely for Lancashire County Council. As you are aware, this report forms part of a continuing dialogue between the Internal Audit Service, the chief executive, Audit Committee and management of the council. It is not therefore intended to include every matter that came to our attention during each internal audit review.
- A.11 I acknowledge that this report may be made available to other parties, such as the external auditors. I accept no responsibility to any third party who may receive this report for any reliance that they may place on it and, in particular, I expect the external auditors to determine for themselves the extent to which they choose to utilise our work.

B Audit assurance levels and classification of audit recommendations

Audit assurance

Full assurance: there is a sound system of internal control which is designed to meet the service objectives and controls are being consistently applied.

Substantial assurance: there is a generally sound system of internal control, designed to meet the service objectives, and controls are generally being applied consistently. However some weakness in the design and/ or inconsistent application of controls put the achievement of particular objectives at risk.

Limited assurance: weaknesses in the design and/ or inconsistent application of controls put the achievement of the service objectives at risk.

No assurance: weaknesses in control and/ or consistent non-compliance with controls could result/ has resulted in failure to achieve the service objectives.

Audit recommendations

All recommendations are stated in terms of the residual risk they are designed to mitigate.

Extreme residual risk: Critical and urgent in that failure to address the risk could lead to one or more of the following occurring: catastrophic loss of the county council's services, loss of life, significant environmental damage or huge financial loss, with related national press coverage and substantial damage to the council's reputation. *Remedial action must be taken immediately.*

High residual risk: Critical in that failure to address the issue or progress the work would lead to one or more of the following occurring: failure to achieve organisational objectives, disruption to the business, financial loss, fraud, inefficient use of resources, failure to comply with law or regulations, or damage to the council's reputation. *Remedial action must be taken urgently.*

Medium residual risk: Less critical, but failure to address the issue or progress the work could impact on operational objectives and should be of concern to senior management. *Prompt specific action should be taken.*

Low residual risk: Areas that individually have no major impact on achieving the service objectives or on the work programme, but where combined with others could give cause for concern. *Specific remedial action is desirable.*

Detailed analysis of internal audit assurance assignments 2010/11

	Assurance					Recommendations				
	Full	Substantial	Limited	None	Incomplete	Extreme	High	Medium	Low	Total
Cross-cutting issues										
The council's role as accountable body			✓			Recommendations are being discussed.				
Customer Service Centre: Acorn system operational support and data security		✓				0	1	1	0	2
Corporate governance										
Members' expenses and allowances		✓				0	0	2	3	5
Declarations of interest, gifts, hospitality – members		✓				0	0	2	2	4
Declarations of interest, gifts, hospitality – officers			✓			0	4	2	2	8
Information governance		✓				0	0	2	0	2
Health and safety of staff										
LCCG's engineering and catering services		✓				0	0	8	2	10
Corporate health and safety arrangements			✓			0	1	9	4	14
Lone workers – CYP					x					
Lone workers – Environment					x					
Lone workers – LCCG			✓			0	0	9	0	9
Health and safety of the public										
Corporate manslaughter on the highways			✓			0	0	10	2	12
Petroleum safety		✓				0	0	4	3	7
Information governance		✓				0	0	2	0	2
Safeguarding										
Vetting & barring (CRB checks)					x					
Safeguarding adult finances		✓				0	0	7	5	12
Safeguarding vulnerable adults		✓				Recommendations are being discussed.				
Safeguarding transport					x					
Selection of the council's strategic partner	✓					0	0	0	1	1
	1	9	5	0	4	0	6	58	24	88

	Assurance					Recommendations				
	Full	Substantial	Limited	None	Incomplete	Extreme	High	Medium	Low	Total
Cross-service issues										
SEN transport charges				✓		0	1	0	0	1
Assessment and Reablement Service: management			✓			0	3	0	0	3
Assessment and Reablement Service: service delivery		✓				0	0	7	2	9
	0	1	1	1	0	0	4	7	2	13
Corporate controls										
Commissioning and procurement										
Purchasing			✓			0	2	20	6	28
Tendering arrangements			✓			0	2	8	1	11
Financial controls										
Due diligence over strategic partnership's budgets		✓				0	0	0	0	0
Oracle/ HR payroll system testing		✓				0	0	0	0	0
Efficiency savings		✓				0	0	1	0	1
Accounts payable		✓				0	0	3	2	5
Accounts receivable		✓				0	0	9	1	10
Cash and banking		✓				0	0	4	1	5
Expenses		✓				0	0	7	0	7
General ledger		✓				0	0	3	0	3
Oracle user management and user responsibilities		✓				0	0	4	1	5
Payroll		✓				0	1	2	1	4
Treasury management		✓				0	0	6	1	7
VAT		✓				0	0	2	0	2
ICT controls										
Asset management and disposal					x					
Change management		✓				0	0	9	0	9
Follow-up			✓			0	0	1	0	1
Government Connect Secure Extranet Code of Connection		✓				0	0	3	1	4
Network management and Active Directory		✓				0	1	4	0	5

	Assurance					Recommendations				
	Full	Substantial	Limited	None	Incomplete	Extreme	High	Medium	Low	Total
Controls over management of the council's estate										
Final accounts in Property Services		✓				0	0	0	0	0
Premises management			✓			0	0	7	2	9
Property maintenance		✓				0	0	2	6	8
HR controls										
Absence management		✓				0	0	1	10	11
Equal Pay Review		✓								0
	0	19	4	0	1	0	6	96	33	135
Service-specific controls										
Adult and Community Services										
Transforming community equipment services		✓				0	0	7	4	11
Lancashire Adult Learning: financial governance and management information			✓			0	0	16	4	20
Case management arrangements			✓			0	2	4	0	6
Commissioning and procurement schemes			✓			0	2	16	1	19
Payments and monitoring system (PAMS)		✓				0	0	6	3	9
Follow-up: contract monitoring		✓				0	0	4	0	4
Follow-up: non residential care services (NRCS)		✓				0	0	1	0	1
Follow-up: PAMS		✓				0	0	4	2	6
Help Direct		✓				0	0	1	1	2
Children and Young People										
Agency placements		✓				0	1	10	1	12
Fostering payments		✓				0	0	4	1	5
Adoption allowances			✓			0	1	10	1	12
Graduate Leadership Fund				✓		0	3	9	1	13
Safeguarding Board										0
Elective home education		✓				0	0	7	1	8
Follow-up: SSH			✓							0
Follow-up: SSEYCS Commissioning		✓				0	1	1	0	2

	Assurance					Recommendations				
	Full	Substantial	Limited	None	Incomplete	Extreme	High	Medium	Low	Total
Environment										
Closed landfill sites		✓				0	0	2	1	3
Final accounts for contractors		✓								0
Highways damages			✓			0	0	9	0	9
PFI billing model, data management and budget forecasting					x					
Project management (Heysham M6, Guild Wheel, Huncoat)					x					
Development control: s278		✓				0	1	5	3	9
Development control: s106					x					
Waste management PFI		✓				0	0	10	2	12
Follow-up: transport contract monitoring		✓				0	0	0	0	0
Follow-up: information management		✓				0	0	1	0	1
Follow-up: Traffic Management Act		✓				0	0	0	0	0
Follow-up: partnerships		✓				0	0	1	0	1
Follow-up: concessionary travel			✓			0	1	3	3	7
Follow-up: urban traffic control system			✓			0	0	2	0	2
Lancashire County Commercial Group										
Home for older people - establishment visits			✓			1	6	11	1	19
Working Time Regulations				✓		0	2	8	2	12
School catering IT system		✓				0	0	6	0	6
Follow up: Payroll interface			✓			0	1	7	0	8
Economic development										
Income protection					x					
Procurement/ regeneration projects		✓				0	0	2	4	6
Regenerate Pennine Lancashire										
Capital receipts		✓				0	0	2	2	4
Multi-area agreement										
Future Jobs Fund			✓			0	1	4	0	5

	Assurance					Recommendations				
	Full	Substantial	Limited	None	Incomplete	Extreme	High	Medium	Low	Total
Pension fund										
Altair					x					
Global custodian		✓				0	0	1	0	1
Property fund		✓				0	0	4	0	4
Third party reports on fund managers' controls	✓					0	0	0	0	0
	1	23	11	2	6	1	21	177	38	237
TOTAL for Lancashire County Council = 89	2	52	21	3	11	1	37	338	97	473
	2%	59%	24%	3%	12%	0%	8%	71%	21%	100%

Audit resources expended against the audit plan

Audit area	Planned audit days	Actual audit days			Variance
		Relating to		Total	
		2009/10	2010/11		
Corporate issues					
Corporate governance	25	1	42	43	18
Information governance	30	-	43	43	13
Risk management	15	-	3	3	(12)
Formation of a strategic partnership	20	-	113	113	93
Safeguarding	105	-	177	177	72
Health and safety of the public	35	-	41	41	6
Health and safety of staff	60	-	116	116	56
Integrated service delivery	70	-	22	22	(48)
The customer service centre	80	-	56	56	(24)
Accountable body role	30	-	13	13	(17)
Commissioning and procurement	25	-	93	93	68
Performance (indicators and grant)	15	-	15	15	0
Sub-total	510	1	733	734	154
Directorates and services					
Adult and Community Services	255	80	186	265	10
Children and Young People	260	49	225	275	15
Schools	350	11	224	235	(115)
Environment Directorate	240	77	207	284	44
Lancashire County Commercial Group	100	9	80	89	(11)
Economic Development	35	3	30	33	(2)
Accountability for Regenerate	30	-	20	20	(10)
Pension Fund	120	8	93	101	(19)
Sub-total	1,390	237	1,065	1,302	(88)
Corporate controls					
Financial systems	455	85	588	674	219
ICT systems	175	7	146	153	(22)
Property management	100	12	80	92	(8)
Human resources controls	30	7	73	80	50
Sub-total	760	111	887	998	188
Response to the risk of fraud					
Proactive work	210	-	94	94	(116)
Responsive work/ whistle-blowing	290	-	516	516	226
Sub-total	500	-	610	610	110
Management of the service					
Audit and Standards Committees	6	-	10	10	4
Audit planning and reporting	30	14	46	60	30
Support to senior management	10	-	8	8	(2)
Audit Commission liaison	4	-	5	5	1
Sub-total	50	14	69	83	33
Contingency	50	-	-	-	(50)
Total audit days	3,260	363	3,364	3,727	467

Audit Committee

Meeting to be held on 27 June 2011

Electoral Division affected: All

Internal Audit Service Progress Report

(Appendix A refers.)

Contact for further information:

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Executive Summary

In the context of fulfilling its responsibility to monitor the adequacy and effectiveness of the Internal Audit Service, the committee is asked to consider the progress report for the year to date (Appendix A).

Recommendation

The Audit Committee is asked to consider the Internal Audit Service progress report for the year to 31 March 2011 and work relating to that year completed during April and May 2011.

Background and Advice

The Audit Committee's terms of reference state that the head of internal audit will provide a progress report summarising the following, and this has been achieved as follows:

Matters to be included in the progress report	How these matters have been addressed
i) work performed (and a comparison with work planned);	Please see Appendix A to this report.
ii) key issues emerging from internal audit work;	The issues arising from the work for the year are reported in the annual internal audit report for 2010/11, reported separately to this committee, and individual reports finalised since the last progress report are reported in Appendix A.
iii) management response to audit recommendations;	We have followed up the matters raised previous years' audit work and have in most cases confirmed that agreed actions have been implemented.

Matters to be included in the progress report	How these matters have been addressed
iv) changes to the audit plan for the period; and	The outturn against the original plan is reported in this progress report, and a summary of all the work undertaken during the year 2010/11 has been reported in the internal audit annual report.
v) any resourcing issues affecting the delivery of Internal Audit objectives.	As noted in January 2011, the Internal Audit Service establishment is being reduced to contribute to the council's cost saving targets, and a small amount of planned work has been undertaken in the first quarter of 2011/12 but, the Internal Audit Service's objectives and annual plan have been achieved.

Consultations

Not applicable.

Implications:

None

Risk management

This report supports the Audit Committee in undertaking its role, which includes advising the Council on the adequacy of the Authority's strategic risk management processes.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact
Not applicable.		

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

1 Introduction

- 1.1 This report summarises the work undertaken by the council's Internal Audit Service under the internal audit plan for 2010/11 and the work carried forward from the previous audit plan completed during the year. It completes the suite of progress reports for 2010/11, in which summaries of our audit reviews are provided to the Management Team and Audit Committee. The findings included in this report have been agreed with executive directors and shared with the Management Team. It does not repeat the work already reported to the Audit Committee at its meetings earlier during 2010/11.
- 1.2 This report supplements the internal audit annual report also presented to the Audit Committee at this meeting.

Audit assurance

- 1.3 Audit assurance is stated in the following terms:

Full assurance: there is a sound system of internal control which is designed to meet the service objectives and controls are being consistently applied.

Substantial assurance: there is a generally sound system of internal control, designed to meet the service objectives, and controls are generally being applied consistently. However some weakness in the design and/ or inconsistent application of controls put the achievement of particular objectives at risk.

Limited assurance: weaknesses in the design and/ or inconsistent application of controls put the achievement of the service objectives at risk.

No assurance: weaknesses in control and/ or consistent non-compliance with controls could result/ have resulted in failure to achieve the service objectives.

- 1.4 The report below refers to the council's services as follows:

Adult and Community Services Directorate:	ACS
Children and Young People's Directorate:	CYP
Environment Directorate:	Environment
Lancashire County Commercial Group:	LCCG

2 Cross-cutting and corporate risks

- 2.1 Work has now been completed on a number of the cross-cutting reviews planned for the year, but some are still ongoing. Our findings in relation to the council's selection of its strategic partner, and information governance, were reported to the Committee in January 2011; our work on members' allowance and expenses was reported in September 2010. The findings of our other reviews are reported below.

Safeguarding

- 2.2 Our work on safeguarding has been undertaken during the final part of the year and is still ongoing. We are drafting reports in relation to the operation of the Criminal Records Bureau vetting and barring scheme and safeguarding arrangements within both Environment and LCCG relating to children's

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transportation. However we have completed work on safeguarding vulnerable adults and their finances.

Safeguarding vulnerable adults

- 2.3 The council works alongside the police and NHS bodies to ensure that procedures and effective arrangements are in place jointly to encourage the reporting of suspected abuse of vulnerable adults. A report by the Care Quality Commission early in 2010 concluded that the county was performing well. The Safeguarding Adults Team was restructured in January 2011 and the new Area Operations Team and Practice Development Team have worked to embed the new structure and revised processes since then.
- 2.4 Given the depth of the Care Quality Commission inspection, the scope of our review was limited to considering the systems in place to ensure that the monitoring and review functions across the directorate are appropriately aligned and complementary to each other. We are able to provide substantial assurance over the arrangements operated within the directorate.

Safeguarding adult finances

- 2.5 We are able to provide substantial assurance over the safeguarding of adult finances. The Safeguarding Adult Finances Team manages the finances of adults who lack the capacity to do so for themselves and where there are no suitable alternatives, for example family members, friends or solicitors. It works closely with the council's Safeguarding Adults Team and the Court of Protection and receives referrals from care managers. Over the last eighteen months the team has experienced significant growth in client numbers (including a 50% increase in caseload in January 2010), a related increase in transactions, and a further increase in workload arising from service users receiving the Independent Living Fund, which has inevitably placed a strain on the team's resources. Despite this, the team manages effectively the finances of vulnerable adults under appointee and court appointed deputy arrangements.
- 2.6 There was, at the time of our audit, no overall reconciliation between client balances, detailed bank statements, the database records and the overall client monies account. However the migration of data onto ISSIS from 6 December 2010 now supports a reconciliation process and facilitates effective monitoring of client balances.

Health and safety of the public

Petroleum safety

- 2.7 We have provided substantial assurance over the council's arrangements in relation to petroleum safety at closed service stations whose storage tanks have been decommissioned, although there is scope to enhance monitoring of these sites and to update documented procedures more regularly.

Highways responsibility relating to corporate manslaughter

- 2.8 At the time of our audit, the council's risks in relation to corporate manslaughter arising out of its responsibility for the county's highways were not fully mitigated and we provided only limited assurance over the controls in place. Inspections of the highways are undertaken externally but no evidence was retained that these inspections were monitored to ensure compliance with the council's Highways Safety Inspections Code of Practice, and testing concluded that few

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defects identified were being rectified within the stipulated time. However since then a number of actions have either been implemented or are planned, including more formal arrangements for undertaking risk assessments and monitoring highways inspections. The ongoing development of the 'one-team' approach with LCCG is expected to enhance the speed and efficiency of the defect rectification process. Risk management arrangements will also be improved by the development of a specific ICT application, and these enhancements will be reflected in a revised Transport Asset Management Plan and other documentation.

- 2.9 Data sharing agreements, policies and guidance between the council and Lancashire Constabulary had not been regularly updated, but arrangements have now been made to review the documents by the end of June 2011, and at least annually thereafter.

Health and safety of council staff

- 2.10 We reported our work on corporate health and safety arrangements to the Audit Committee in January 2011.

Staff providing catering and engineering services

- 2.11 Health and safety arrangements specifically relating to staff providing LCCG's catering and engineering services are effective and we have provided substantial assurance over these controls. LCCG's integrated management system sets out the requirements for the service-specific management of health, safety, quality and the environment. Its highways, fleet management, Travelcare, and school crossing patrols services have systems that are registered to ISO 9001 and also to Occupational, Health and Safety Advisory Services (OHSAS) 18001 with Lloyds Register Quality Assurance Ltd.

Lone workers

- 2.12 We have provided only limited assurance in relation to controls over the risks of lone working in LCCG; our reviews of lone workers in Environment and CYP are ongoing and work will be undertaken during 2011/12 on ACS. Although there are examples of good procedures in place, across the council as a whole there is a wide variety of procedures and no consistency. Where procedures are in place it is unclear that all staff members are aware of and complying with them, and some services had no procedures in place at all.

The role of the county council as accountable body

- 2.13 Controls over the council's role as accountable body for various funding streams have some design flaws and are inconsistently applied, and we can therefore only provide limited assurance that the risks are managed.
- 2.14 Although there is an approval process in place requiring directors to approve the council's entry into any partnership, there is no way of enforcing this and as a result some partnerships, including those giving the council responsibility for funding streams, do not have this approval or gain it only later as a formality. Project managers are required to complete the council's Evaluation Questionnaire before entering into grant-funded partnerships and further, if the council is to undertake the role of accountable body, then authorisation must also be obtained from the county treasurer and others including the county

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secretary and solicitor. None of our sample had completed either level of authorisation.

- 2.15 We reported in January 2011 that we had verified the details of performance data supporting the council's claim for Performance Reward Grant.

The customer service centre

- 2.16 We have considered the controls associated with the 'Acorn' system which supports the operation of the customer service centre and can provide substantial assurance over the system's operational support to the delivery of services but only limited assurance over data security since elements of the web-based components of the system render it vulnerable to external threats. Overall however, we have categorised our assurance over the Acorn system as substantial.

Corporate governance

Declarations of interest, gifts and hospitality – members

- 2.17 We have provided substantial assurance in relation to arrangements for members' declarations of interest and receipts of gifts and hospitality, although there may be an opportunity to use the new 'modern.gov.net' system more effectively, particularly since this facilitates direct input by members.

Declarations of interest, gifts and hospitality – officers

- 2.18 We have provided only limited assurance over the controls relating to declarations of interest by officers. Although declarations were sought during April 2010, there was no requirement on employees to submit nil returns and therefore for an employee positively to confirm that they have no relevant interests. In April 2011 the register of interests held only 38 declarations, and three were duplicates since earlier declarations by the same individuals are not removed.
- 2.19 It is unclear what use could and should be made of this information and to what extent it can be shared within the council, for example the extent to which it should be shared with the relevant management team to enable them to act on it. This has had very real implications in practice during the year, when it is possible that the procurement of certain goods may have been compromised by personal interests. The control derived from adequate declarations of interest is important to protect staff and prevent them from being put into positions where their personal interests conflict with those of the council. It will also be particularly important from 1 July 2011 when the Bribery Act comes into force and the council will be expected to have implemented adequate procedures to provide a defence against the risk of bribery.

3 Cross-service controls

- 3.1 Our audit plan included work on 'cross-directorate services' that addressed two areas of joint working between Environment and LCCG and these assignments are reported separately here to distinguish them from our work on cross-cutting controls that are applicable across the whole of the council. We reported the findings of our work on the Reablement Service, jointly operated by LCCG and ACS in January 2011.

The 'one team' approach to engineering work

- 3.2 We have reviewed the first project to be undertaken under the new 'one team' approach of integrated service delivery, combining teams from Environment and LCCG. Whilst significant savings have been reported, the extent to which these can be specifically attributable to the new arrangements is not easily demonstrated. The teams involved are still developing the new approach and beginning to understand how they relate to one another in a changed environment and it is not appropriate at this point to assign an assurance category to our work. Audit work in 2011/12 will focus on the strategies employed to embed this change in approach.

Transport for children with special educational needs

- 3.3 We are able to provide no assurance over the process by which charges are made for the provision of transport for children with special educational needs as there is a general lack of control over the process and the management information available is not fit for purpose. This in turn makes it difficult to demonstrate that the service provides value for money. Although our work has been restricted (because our original objective was to obtain a robust understanding of the re-charges made to CYP by LCCG and the team formerly located in Environment) it appears that there are a number of issues that the management team needs to address that fall within the remit of the Accessible Transport Board.
- 3.4 It is clear that the management teams within CYP, Environment and LCCG are already aware of some of the issues we have raised, and more, and a steering group has begun to work to remedy them.

4 Common controls

Tendering and purchasing

- 4.1 We reported our findings in relation to tendering and purchasing in January 2011. The corporate Procurement Team has now been seconded into One Connect Ltd as part of the strategic partnership with BT plc and the issues we identified will be addressed by the partnership.

Financial control systems

- 4.2 We have completed our reviews of each of the council's key financial systems and the assurance we have given on each is identified in the table below.
- 4.3 In addition we worked with finance teams across the council to verify the completeness, accuracy and currency of the budgets being transferred from the council to One Connect Ltd associated with the services transferring into the strategic partnership. We have provided advice and assistance, and reviewed the testing strategy, before the new Oracle HR/ payroll system was made 'live' for the Resources Directorate. We also reviewed the controls in place to ensure that efficiency savings are identified, actioned and monitored against planned savings, as required by the Department for Communities and Local Government.

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Control system	Assurance provided
Due diligence over the strategic partnership's budgets	Substantial
Oracle HR/ payroll system testing	Substantial
Efficiency savings	Substantial
Accounts payable	Substantial
Accounts receivable	Substantial
Cash and banking	Substantial
Expenses	Substantial
General ledger	Substantial
Oracle Financials user management and user responsibilities	Substantial
Payroll	Substantial
Treasury management	Substantial
VAT	Substantial

- 4.4 We noted improvements in the operation of the duplicate payments software and prompt creditor payments on the accounts payable system, and improvements too in debt management procedures as part of the accounts receivable system.
- 4.5 Work is now underway with One Connect Limited on the implementation of the new release of the Oracle Financials system in April 2012, and work on the chart of accounts will be progressed in accordance with that time scale. Amendments will also be made to system user rights too, to ensure that system users are able to access only the functionality required for their role.
- 4.6 Corporate policy is lacking regarding the expenses that may be claimed by home-workers and there are inconsistencies in practice across the council and within individual directorates. In areas where applicable policies have been established, for example covering mileage claims for office-based workers, we found a small number of breaches of these policies. However generally we found that controls within the expenses system are adequately designed: the mechanism for setting up authorising officers and the system for authorising expenses are good. Further expenses and allowances policies for office based staff have been revised following the Equal Pay Review and are now available to view on the intranet.
- 4.7 As part of the proactive fraud plan we have performed a number of unannounced visits to establishments throughout the council to assess their controls over cash, and have made a number of recommendations to improve control. In some establishments which receive only low levels of cash it may not be practical or cost-effective to implement additional controls and in these cases we will discuss what action is appropriate for an establishment.

ICT controls

- 4.8 We reported our work on Government Connect in January 2011, and our review of the arrangements for asset management and disposal is still ongoing.

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- 4.9 We have completed our review of the security of the council's network and data under the new operational arrangements that have come into effect over the last few years. We focussed on how network access is assigned, managed and terminated across the council and although we have concluded that, overall, we can provide substantial assurance over the operation of Active Directory (the system the council uses to access, manage and secure the ICT network), our conclusion is more limited specifically in relation to the management of user accounts. The system is reliant on managers notifying ICT Services of all staff moves and changes in role that have an impact on their access to the council's network, and there is at present no interface between Active Directory and the human resources system.
- 4.10 We provided substantial assurance over the management of change to the council's IT systems, and these areas appear to be well managed on a day to day basis. However there are no formal change and configuration management policies. Directorates have established their own procedures and documentation in support of the corporate commissioning process that reflect their own requirements, but it is not clear that these are efficient and effective in the corporate context.
- 4.11 The council's new strategic partnership arrangements should enable it to fully address these issues and to move to comply with best practice standards during 2011/12.

Controls over the council's estate

- 4.12 We have provided substantial assurance over the design of the systems established for property maintenance. Testing confirmed that the controls over service contracts administered by the Building Services Team are operating effectively, but at the time of our audit sample checking of servicing work by engineers had temporarily ceased due to staff vacancies, which we understand will be resolved by the Property Group restructure.
- 4.13 We have provided limited assurance over the controls in place over the council's premises management: the system is adequately designed to achieve its objectives, but at the time of our work controls were inconsistently applied. The council's policy framework requires the designation of a local premises manager for each council-owned building to provide overall control on site and to make an annual statement of compliance with corporate policy requirements. Steps have been taken to implement a premises management framework and associated procedures but, although responsible managers have been identified for each building, not all compliance statements had been made at the time of our audit. We have been informed that the Property Group has now received compliance statements for most of the council's buildings.
- 4.14 We have provided assurance on final accounts with contractors on a sample basis and there are no issues to report.

Human resources controls

- 4.15 We reported our work in relation to the Equal Pay Review in September 2010 and our review of attendance management arrangements, and work in relation to employees on the payroll also receiving pensions (undertaken at the Audit Committee's request), were reported in January 2011.

5 Service specific controls

Adult and Community Services Directorate (ACS)

- 5.1 We reported our opinion of substantial assurance in relation to the Transforming Community Equipment Service in January 2011.

Adult social care case management

- 5.2 Our work on adult social care case management identified a number of areas of good practice, including documented procedures for the management and supervision of social care cases. Cases are allocated with regard for their complexity and any safeguarding issues or crisis situations. On the whole, cases are managed on a timely basis and closed appropriately.
- 5.3 However delays in implementing revised roles and responsibilities within ISSIS mean that members of staff continue to have numerous access permissions. Security over some personal mailboxes should be improved and, since access to client records is not proactively monitored, there is a risk that records may be accessed inappropriately and this access would not be identified. Cases have also been allocated to dummy mailboxes and to those staff who have left the council's employment (although action has now been taken to reallocate many of these).
- 5.4 We have therefore provided only limited assurance over these social care case management arrangements.

Care commissioning and procurement arrangements

- 5.5 We reviewed the commissioning and procurement arrangements in respect of five specific supported living schemes and the move away from block care contracts procured by the council to personal care arrangements and self-directed support. Four of the schemes had been decommissioned at a time when statutory Social Care organisations faced unprecedented change and uncertainty associated with new government policy directives concerning 'personalisation' in late 2007. They were re-commissioned against a backdrop of urgent concerns about service quality and viability. The directorate was therefore operating in a new landscape, before the legal status of care contracts had been clarified and current policy was developed, and its commissioning toolkit was still in development.
- 5.6 Based on the controls in place at the time of our work, we can provide only limited assurance, but managers are still continuing to develop and improve commissioning arrangements for similar schemes.

Help Direct Service

- 5.7 The Help Direct Service was established in November 2008, and is open to all adults in Lancashire to help them to access a network of practical support to remain independent and healthy, and to resolve problems before they become crises. We provided substantial assurance over the controls operated to support the Service.

Financial and administrative arrangements within Lancashire Adult Learning Services

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- 5.8 We found a number of areas of good practice in financial governance and internal control within Lancashire Adult Learning, including administration of the strategic board, data quality standards, and controls over the management of grants. However a number of issues have limited the assurance we can provide.
- 5.9 In particular: there are inconsistent working practices within the Finance Team, arising from a lack of operational procedures; although key personal documentation is not retained we found that CRB disclosure forms had been retained beyond the period allowed; and there are weaknesses in the implementation and operation of the new management information system, particularly application security and control.

Payments and monitoring system (PAMS)

- 5.10 We provided substantial assurance in relation to controls over PAMS. This system enables ACS to make payments to residential and nursing homes for clients who have been assessed as in need of such care, taking into account the amount that the client and any third party will pay as a contribution to the cost of the placement.

Follow-up work

- 5.11 We have followed up our previous work on contract monitoring, the non-residential care system and payments and monitoring system, and have provided substantial assurance in relation to each although implementation of a small number of planned actions is ongoing.

Environment Directorate

- 5.12 We reported in January 2011 our findings in relation to closed landfill sites and section 278 agreements relating to development control. Our review of the waste management PFI project, centred on financial forecasting and the assumptions supporting an assessment of the project's future liabilities began late in the year and is still on-going. Our work on the directorate's project management arrangements, specifically relating to the Heysham-M6 link (which has recently been given funding approval), and the Guild Wheel has also now begun and will be completed during 2011/12. We have provided assurance on final accounts with contractors on a sample basis during the year and there are no issues to report.

Development control - section 106 agreements

- 5.13 Our review of this area of development control has proven more wide-reaching than initially envisaged. Section 106 agreements are a way of addressing matters that are necessary to make a proposed development acceptable in planning terms, and they affect the district councils as well as a number of county council services. The two-tier nature of the national planning system means that the county council is largely dependent upon district council partners to identify and protect the county council's interests and there are a number of key risks that are beyond the county council's control.
- 5.14 We can therefore only provide limited assurance over the controls in place, and significant, structural changes to the way in which these agreements are administered are necessary including the local arrangements for managing,

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monitoring, and reporting development applications and their financial implications.

Highways damages

- 5.15 Control arrangements have changed during the year and our work will be used by the directorate to supplement the work it is already undertaking following its restructure. Controls to recoup the costs of damage to the highways from drivers and insurers are inconsistently designed and applied across the county, with variations in the East of the county for historical reasons and we have therefore provided only limited assurance over them.

Accrington eco-station grant funding certification

- 5.16 Although not an assignment directed towards an assessment of internal controls, we have certified the council's grant claims for this scheme and therefore have had continuous involvement in the project. In addition to arrangements relating to Accrington EcoStation rail station that opened this year, the project brings together other rail projects across Europe with similar environmental features. Our work raised a number of queries around the procurement of several key suppliers and most of these were resolved through retrospective approval of the procurement decision. One procurement issue relating to the use of legal advisors remains outstanding but is being taken forward by the corporate Procurement Team within One Connect Ltd and the County Secretary and Solicitor's Office.

Follow-up work

- 5.17 We completed a number of follow-up reviews during the year. The implementation of some agreed actions was affected by the directorate's restructure, budget cuts and loss of staff, but we have provided substantial assurance over the contract monitoring system relating to transport, information management within the highways function, partnerships and the Traffic Management Act. We have provided limited assurance over the urban traffic control system and concessionary travel arrangements.

Directorate for Children and Young People (CYP)

- 5.18 We reported in September 2010 that we had completed our work on data quality and in January 2011 that our findings were being addressed by the directorate. We also reported that the directorate had begun to address matters relating to Sure Start, Early Years and Childcare Services' commissioning arrangements, but that we were unable to provide assurance over the controls in place to operate the Graduate Leader Fund.
- 5.19 We are currently undertaking work on the Lancashire Safeguarding Children Board and will complete this during 2011/12.
- 5.20 The county council is directly responsible for the care of over 1,200 children and young people, who are looked after either by a foster carer (employed by the council or an agency) or in a council residential home. A Corporate Parenting Board monitors the care provided to ensure that appropriate standards are being set and met. During the year we have considered fostering allowances, adoption and other allowances, and agency placements.

Fostering allowances

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5.21 Foster carers are reimbursed for the expenses they incur whilst providing temporary homes for children who are unable to remain in their parents' care. The council implemented a new package of carer allowances in April 2009, increasing the basic allowance and including enhancements for special events and when certain conditions are met. Additional discretionary payments are also made if approved by a panel.

5.22 We have provided substantial assurance over the controls in place over fostering allowances, but note that guidance regarding the application of the scheme of delegation could be strengthened to improve consistency.

Adoption allowances

5.23 Allowances are payable in certain circumstances to enable children to be adopted where the financial impact on a family may otherwise present a barrier. Both the child's circumstances and the family's income are considered in establishing eligibility and other factors are then used in addition to determine the amount of the allowance that will be paid. Three adoption allowance schemes are currently operated by the council, dependent upon when the adoption allowance began. Residence order allowances and special guardianship orders are paid at the equivalent rate for fostering and are adjusted annually.

5.24 We have provided limited assurance over the systems in place to award adoption, residence order and special guardianship order allowances. Whilst each of the three allowances are different, the review processes for each were operating ineffectively, which may result in the needs of the children and families involved not being met, or overpayments being made by the council.

Agency placements

5.25 The Commissioning Team is responsible for sourcing external agency placements through the framework provided by the North West Foster Care Controls, established jointly with 21 other local authorities.

5.26 The directorate is focussed on improving the agency placements and wider care provision processes and we have provided substantial assurance over the current controls, although more should be done to ensure full compliance with the agency selection procedure and further automation of the system could improve its efficiency. The Service has also agreed to review the process by which consideration is given to reunifying children with their parents where appropriate.

Elective home education

5.27 Legally, the responsibility for educating children rests with their parents and, whilst education is compulsory, school attendance is not. Parents may therefore elect to educate their children at home. The council has a statutory duty to identify children resident in Lancashire who may not be receiving a suitable level of education, and to make arrangements to safeguard and promote their welfare.

5.28 We have provided substantial assurance over the controls in place, although the Elective Home Education Team does not review data relating to children of primary school age who are no longer registered at a school, and it is reliant upon notifications from external agencies and other teams to identify children who have never registered with an education provider. In 2008/09 the CYP

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Overview and Scrutiny Committee investigated the monitoring of elective home education. Its findings were deferred pending the outcome of a national review but have not been reviewed since the finding of the national review were rejected.

Schools

- 5.29 For 2010/11 we have completed 36 school audits and a summary of the assurance we have provided in relation to each school is set out in the table below.

School type	Number of audits	Level of assurance			
		Full	Substantial	Limited	None
High school	4	0	1	1	2
Primary school	32	1	22	8	1
Total	36	1	23	9	3

- 5.30 In March we reported the coverage of our school audits and an outline of the principles on which a level of assurance is assigned to a school, although the audit team ultimately applies professional judgement when deciding the level of assurance. We also reported that all of the schools given no assurance, and one of those given only limited assurance, were selected for audit on the basis of concerns raised either by the headteacher or the Area Finance Office. These have not therefore been selected on any random basis and cannot reasonably be regarded as representative of schools generally.
- 5.31 However it is clear that there is scope to improve the control environments of individual schools and the Internal Audit Service and Schools Financial Services are actively working with schools to achieve this. With the support of the Schools Forum and Schools Sounding Board we will provide information to all schools regarding common control weaknesses and what remedial action they should take, including links to guidance and best practice. Each of the schools that received either limited or no assurance will be followed up during 2011/12.
- 5.32 The common themes that are repeated across many schools relate to the authorisation of expenditure, in particular lack of segregation of duties, the high number of confirmation orders raised after invoices have been received, a lack of records of stock and assets, and weaknesses in computer system security arising particularly from poor password controls. Where schools let out their premises, charges are often not agreed by governors and the school may not hold adequate public liability insurance and indemnities. We will undertake reviews of specific controls across a number of schools during 2011/12 to focus on those controls that are likely to need improvement but where there may be examples of good practice that can be shared.

Young Person's Learning Agency (YPLA) funding

- 5.33 The YPLA provides funding to schools with sixth forms and during 2010/11 requested us to provide assurance that the schools' attendance and qualification aims are complete and accurate for individual students. In particular they strongly recommended that each council perform an audit of census data (pupil numbers and learning objectives) within schools with sixth forms to allow the county treasurer to certify the annual grant return.

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- 5.34 We highlighted a number of discrepancies in the data submitted, each of which will have a financial impact on the funding provided to the school. Jointly with the 16-19 Team we will support the county's other schools with sixth forms to more closely meet the YPLA's data requirements in future years.

Lancashire County Commercial Group (LCCG)

- 5.35 We reported our findings in relation to compliance with the Working Time Regulations in September 2010 and January 2011.

Residential care establishments

- 5.36 In January 2011 we reported that we had followed up our earlier work on controls at the county's care homes for older people. At the time, many of the issues we reported in 2009/10 remained unresolved and, in addition, we identified a discrepancy in relation to a controlled drug, which required the council to notify the police and Care Quality Commission (although neither took any further action). However, management are progressing with the issues identified in our audit and a single supplier has now begun to provide medication to all 17 homes, and related services to help the homes to control this medication, which ought to facilitate further improvements in medication management. The medication policies and procedures have also been reviewed and members of staff have recently received training in this area.
- 5.37 Key performance indicators have also been developed that will highlight, for example, when care plans are overdue but these indicators and the data collection processes required to operate them were still new at the time of our work.
- 5.38 However since implementation of the agreed action plan is still in progress, we have been able to provide only limited assurance over the controls currently in place.

School catering management system

- 5.39 LCCG provides more than 50,000 meals each day in more than 550 schools. It has recently replaced an Access database with a catering management system that can gather details of purchases, stock and cash income from multiple sites and provide management information as well as interfacing with the council's main Oracle Financials system. Implementation of the system was on-going during the course of our work but we have provided substantial assurance over its controls at this stage.

Whistle-blowing

- 5.40 Although not addressed as assurance work, we have undertaken work during the year in response to a number of whistle-blowing calls. These have raised control issues in specific locations relating to various procurement procedures and management oversight of these, the use of sub-contractors, and cash handling.

Economic development

- 5.41 We have provided substantial assurance over the income protection arrangements in relation to properties let out to tenants by Lancashire County Developments Ltd through its relationship with Property Group, and identified no significant issues.

The accountable body role in relation to Regenerate Pennine Lancashire (RPL)

- 5.42 The council remains the accountable body for the Housing Market Renewal Pathfinder partnership in the face of significant changes to the nature and amount of current and future funding. Audit work will continue to ensure that any risks to the council are robustly dealt with until the county council's responsibilities for this partnership end.
- 5.43 We have provided substantial assurance over procedures relating to the treatment of capital receipts to ensure that the partnership's ongoing responsibilities continue to be met although we identified instances of non-compliance with the agreed financial and operational procedures.
- 5.44 At the request of the RPL Board we are undertaking specific assurance work relating to the eligibility and accuracy of any redundancy payments the partnership will be required to make as a result of its reduced funding. As previously reported, the first phase of this work has been to confirm with the relevant funding bodies any eligibility criteria associated with their funding. Assurance over redundancy payments is ongoing as partner authorities report their relevant expenditure on a quarterly basis and it is expected that a significant number of redundancy payments will be made in the quarter to 31 July 2011.

Pension Fund

- 5.45 Lancashire Pensions Service has been under particular pressure during 2010/11 arising from the additional work involved both in processing the abnormal level of redundancies associated with the council's cost saving measures, and also from the implementation of the new pensions administration system, Altair. This has also delayed our audit work, and we still have some enquiries to make before our work is finalised. However we have not identified any major issues to date.
- 5.46 We have provided substantial assurance over the controls associated with the pension fund's global custodian: information on the fund's investment activity is received from the global custodian and investment managers on a regular basis and is accurately reconciled. We have reviewed the fund managers' reporting accountants' assurance reports on the adequacy and effectiveness of controls within three of our fund manager's systems, and the fund managers' controls are reported as satisfactory, providing full assurance.

Investigations and counter fraud work

Special investigations

- 5.47 During 2010/11 we undertook work on a total of 27 special investigations, 14 of which were completed during the year. A number of investigations and related disciplinary procedures are on-going and have been for time. As a result of the 14 investigations that were concluded during the year, three employees were dismissed, one resigned and one was subject to police prosecution. Twelve of the investigations highlighted control weaknesses and areas for improvement which were reported to management.

Counter fraud activity

- 5.48 Our counter fraud activity has been adversely affected by the time required on investigations but we have undertaken work in preparation for the Bribery Act 2010 and provided fraud information bulletins on the council's intranet and schools portal. We have also used computer assisted audit techniques to identify schools that have not banked cash regularly, and have made unannounced visits to these schools and have made similar visits to the council's own establishments, including libraries and museums. These audits have identified a number of control weaknesses.

National Fraud Initiative

- 5.49 As part of the council's duty to protect public funds, the Audit Commission requires all local authorities to participate in the National Fraud Initiative (NFI). This is a two-yearly exercise that matches electronic data held by public sector organisations to highlight potentially fraudulent activity. Nationally, the 2008/09 NFI exercise identified £215 million of fraud, errors and overpayments, including £46,482 related to the county council. We are continuing to investigate the potential issues raised by this exercise using data interrogated by the Audit Commission during 2010/11.

Audit Committee

Meeting to be held on 27 June 2011

Electoral Division affected: All

Internal Audit Service terms of reference and strategy (Appendix A refers)

Contact for further information:

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Executive Summary

The Internal Audit Service works to terms of reference that reflect the requirements of the Chartered Institute of Public Finance and Accountancy's Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006. Although this Code remains unchanged, it is appropriate periodically to review our terms of reference and to reflect the changes that have occurred within the county council since the Internal Audit Service's terms of reference and strategy were last revised in January 2011.

The proposed revised terms of reference and audit strategy are attached at Appendix A.

Recommendation

The Committee is asked to consider the revised Terms of Reference and audit strategy.

Background and Advice

The Chartered Institute of Public Finance and Accountancy's Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006, states specifically in relation to internal audit's Terms of Reference that they should:

- a. establish the responsibilities and objectives of internal audit
- b. establish the organisational independence of internal audit
- c. establish the accountability, reporting lines and relationships between the head of internal audit and:
 - (i) those charged with governance
 - (ii) those to whom the head of internal audit may report
- d. recognise that internal audit's remit extends to the entire control environment of the organisation

- e. identify internal audit's contribution to the review of the effectiveness of the control environment
- f. require and enable the head of internal audit to deliver an annual audit opinion
- g. define the role of internal audit in any fraud-related or consultancy work
- h. explain how internal audit's resource requirements will be assessed
- i. establish internal audit's right of access to all records, assets, personnel and premises, including those of partner organisations, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

The document attached at Appendix A achieves these objectives.

Consultations

Not applicable.

Implications

Not applicable

Risk Management

Not applicable

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

Paper	Date	Contact/ Directorate/ Ext
Chartered Institute of Public Finance and Accountancy's Code of Practice for Internal Audit in Local Government in the United Kingdom	2006	Ruth Lowry, x 34898

Reason for inclusion in Part II, if appropriate:

Not appropriate.

Lancashire County Council

Internal Audit Service terms of reference and strategy

June 2011

The Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 ('the Code of Practice') states that an effective internal audit service should aspire to:

- understand the whole organisation, its needs and objectives;
- understand its position with respect to the organisation's other sources of assurance and plan its work accordingly;
- be seen as a catalyst for change at the heart of the organisation;
- add value and assist the organisation in achieving its objectives;
- be forward looking – knowing where the organisation wishes to be and aware of the national agenda and its impact;
- be innovative and challenging;
- help to shape the ethics and standards of the organisation;
- ensure the right audit resources are available, recognising that the skills mix, capacity, specialisms, qualifications and experience requirements all change constantly;
- share best practice with other auditors; and
- seek opportunities for joint working with other organisation's auditors.

These terms of reference and strategy establish the framework in which Lancashire County Council's internal audit service achieves these aspirations, updating the previous version dated December 2006.

1 Responsibilities and objectives

1.1 The Code of Practice defines internal audit as

'an assurance function that provides an independent and objective opinion to the organisation on the control environment (comprising governance, risk management and internal control) by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.'

1.2 Lancashire County Council's Internal Audit Service is therefore required to provide an independent and objective opinion on the council's control environment. This is widely drawn to include risk management, control and governance, and the scope of internal audit work therefore potentially encompasses all of the council's activities including those operated through partnerships with other organisations.

- 1.3 Internal audit work is chiefly directed to the provision of an independent and objective opinion on the adequacy and effectiveness of the controls designed to achieve the council's objectives or to manage the risks to their achievement. The aim of every internal audit report should be to give an opinion, on the basis of sufficient, evidenced work, on the risks and controls of the area under review.
- 1.4 On the basis of work undertaken during the year, the head of internal audit will provide an opinion annually to the council on the overall adequacy and effectiveness of its control environment. This opinion will be an important element of the council's review of the effectiveness of its control environment.
- 1.5 The existence of the Internal Audit Service does not diminish the responsibility of management to establish a control environment and systems of internal control, risk management and governance to ensure that the councils' objectives are met and its activities conducted in a secure and well-ordered manner.
- 1.6 The Code of Practice recognises that, at the request of management, and subject to the adequacy of resources, the Internal Audit Service may go beyond the work needed to meet its assurance responsibilities and assist with, for example, the investigation of suspected fraud or corruption, or provide a consultancy service to management. These services apply the professional skills of internal audit and may contribute to the opinion which the head of internal audit provides on the control environment.

2 The statutory regime and related guidance for internal audit

- 2.1 Internal audit is a statutory service in the context of the Accounts and Audit Regulations 2011, which state in respect of internal audit that:

'A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.'
- 2.2 'Proper practices' are established in the Code of Practice.

'Internal Audit should prepare a risk-based audit plan designed to implement the audit strategy. In preparing the plan the Head of Internal Audit should take account of the organisation's risk management, performance management and other assurance processes.

'The Head of Internal Audit is responsible for the delivery of the audit plan. Significant matters that jeopardise the delivery of the plan or require changes to the plan, should be identified, addressed, and reported to the Audit Committee.'

- 2.3 The Internal Audit Service complies with the standards set by the Code of Practice, and also has regard to the standards and practice statements issued by The Institute of Internal Auditors.
- 2.4 In addition, the Local Government Act 1972 (Section 151) states that local authorities are required to 'make arrangements for the proper administration of their financial affairs'. It is this legislation that requires internal audit to maintain a focus on internal financial controls as well as the controls over the council's wider risks as required by the Audit and Accounting Regulations.
- 2.5 The council's Financial Regulations provide for the Internal Audit Service, representing the county treasurer, to have access to all cash, property, documents, books of accounts and vouchers appertaining in any way to the finances of the county council, and to require explanations as necessary.

3 Reporting lines and relationships

- 3.1 The county treasurer has a responsibility under the Local Government Act 1972 to ensure that there is an effective system of internal control and to ensure that there is an effective internal audit function. The head of internal audit therefore reports to and is managed by the county treasurer.
- 3.2 The county council has an audit committee, which meets at least four times each year, and the head of internal audit reports to each meeting of that committee under its terms of reference. The Audit Committee is responsible for approving (but not directing) the annual audit plan and the head of internal audit has regular access to the chair of the Audit Committee.
- 3.3 The Internal Audit Service and the Audit Commission, as the Authority's external auditor, operate to a protocol which sets out the relationship between internal and external audit, and supports regular liaison between the two services, leading to a joint improvement in performance and avoidance of duplication of work.

4 Independence and accountability

- 4.1 The Internal Audit Service remains independent of the council's other services, with the exception of its responsibilities for risk management, counter fraud and investigatory work, and no internal auditor has any other executive or operational responsibilities. Auditors are expected to deploy impartial and effective professional judgement.
- 4.2 The Internal Audit Service's priorities are determined in consultation with the Management Team and the senior leadership team, but remain a decision for the head of internal audit.
- 4.3 The Internal Audit Service has direct access to the council's records, assets, premises and officers and is able to report independently and impartially as required. Accordingly the head of internal audit has direct access to and freedom to report in her own name and without fear or

favour to, all officers and members and particularly the Audit Committee.

- 4.4 The Audit Committee's working practices provide the opportunity for the head of internal audit to meet informally with all members of the Committee, without other officers present, at least once per year in a non-decision making session.
- 4.5 Accountability for the response to the Internal Audit Service's advice and recommendations lies with the council's Management Team, which either accepts and implements the advice or accepts the risks associated with not taking action.
- 4.6 Audit advice and recommendations, including where the Internal Audit Service has been consulted about significant changes to the internal control systems, are given without prejudice to the right of the Internal Audit Service to review and make further recommendations on the relevant policies, procedures, controls and operations at a later date.

5 Internal audit resources

- 5.1 Lancashire County Council has taken the strategic decision to provide its internal audit service itself and is committed to providing a cost-effective service that meets or exceeds best practice standards.
- 5.2 The head of internal audit is responsible for ensuring that Internal Audit Service resources are sufficient to meet its responsibilities and achieve its objectives. If the head of internal audit or the Audit Committee considers that the level of audit resources or the terms of reference in any way limit the scope of internal audit, or prejudice the ability of the Internal Audit Service to deliver a service consistent with its statutory and related requirements, they should advise the council accordingly.
- 5.3 Nonetheless, the Internal Audit Service has finite resources and its workforce is therefore to be deployed to meet an annual audit plan that pays regard to the relative risks accepted, and levels of assurance required, by the council.

6 Quality assurance

- 6.1 The head of internal audit operates a performance management and quality assurance framework that assesses on-going compliance with the Code of Practice, and whether the Internal Audit Service is consistently meeting its internal quality standards.

7 Fraud and corruption

- 7.1 The Internal Audit Service is not responsible for the prevention or detection of fraud and corruption. Managing the risk of fraud and corruption is the responsibility of management.
- 7.2 Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that fraud and corruption may have been occurring. Audit procedures

alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.

- 7.3 The head of internal audit should be informed of all suspected or detected fraud, corruption or impropriety and will consider the implications for their opinion on the adequacy and effectiveness of the relevant controls, and the overall internal control environment.
- 7.4 The Internal Audit Service operates the council's whistle-blowing helpline and provides an additional service to respond to and investigates instances of suspected or actual fraud, corruption or impropriety.

8 Risk management

- 8.1 The Internal Audit Service is not responsible for managing the council's risks, which is the responsibility of management.
- 8.2 However the Internal Audit Service supports management in making its assessment of risk. The Internal Audit Service will also share information gathered during the course of internal audit work with management to enhance management's understanding of the risks to the council and the financial and operational controls in place to manage them.

9 The Internal Audit Service strategy/ business plan

- 9.1 The Internal Audit Service business plan is formulated in accordance with corporate guidance and sets out, amongst other things, the following matters:
- The Internal Audit Service's aims and objectives;
 - Performance measures and service standards;
 - Action plans for the short and medium term; and
 - Resources (financial, staff, ICT assets and accommodation).
- 9.2 It is framed in terms of the Internal Audit Service's professional objectives, which require the Service to achieve:
- A best practice approach;
 - Effective use of technology;
 - Sound client management;
 - A strong audit team; and
 - Effective quality assurance.
- 9.3 These objectives underpin the Internal Audit Service's strategic development and operation in practice.

10 Performance measures and service standards

10.1 The Internal Audit Service assesses its performance as follows:

Measures focussed on client satisfaction:

- The degree to which client input is sought to the scope of audit work, and audit procedures agreed in advance;
- The clarity with which findings are communicated;
- The practicality of auditors' analysis and recommendations;
- The level of auditors' knowledge of clients' business;
- The effectiveness of liaison arrangements; and
- Auditors' responsiveness to requests for advice, and the extent to which staff demonstrate a professional and helpful attitude.

Each of these measures, and others, are assessed at least annually through the client satisfaction survey externally administered by CIPFA's Benchmarking Club.

Measures directed towards achieving professional standards:

- The timeliness of quality review processes at the scoping, fieldwork, and reporting stages;
- The timeliness of our audit reporting, within the targets agreed between the audit team and our clients;
- The degree of reliance placed on our work by the Audit Commission; and
- Achievement of a target level of chargeable time.

The audit team will agree target start and end dates with clients for each review as it is scoped, and include the actual dates achieved in the final report.

Auditors will issue a draft report within four weeks of the closure meeting with management of the area under review, and will issue a final report within two weeks of receipt of management's response.

The reliability of the work of the Internal Audit Service is periodically assessed by the Audit Commission, as required by external audit standards, and its findings are reported to the Audit Committee.

Organisational measures:

- The delivery of internal audit assurance within the Internal Audit Service's budget; and
- Achievement of corporate policy targets including for example compliance with health and safety procedures.

Audit Committee

Meeting to be held on Monday 27 June 2011

Electoral Division affected: None

Counter fraud and special investigations annual report 2010/11

(Appendix 'A' refers)

Contact for further information:

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Executive summary and recommendation

The Audit Committee is asked to note the 2010/11 counter fraud and special investigations annual report.

Background and Advice

This report brings together in one document a summary of the outcomes of our work to prevent and detect fraud and corruption during 2010/11. The report has been produced in line with best practice recommended by The Chartered Institute of Public Finance and Accountancy (CIPFA).

This report together with details of each of the cases investigated has been provided to the county treasurer and the chief executive. This report will be presented to the Standards Committee under its Terms of Reference on the 30 June but the Audit Committee has also requested a copy of this report. Members of the Audit Committee are asked to consider the annual report for 2010/11.

Supporting information

The counter fraud and special investigations annual report 2010/11 is attached as Appendix A.

Consultations

N/A

Implications:

None.

Risk management

This report is for information but details measures to prevent and detect the County Council's exposure to fraud and corruption.

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

Paper	Date	Contact/Directorate/Tel
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Nil

Reason for inclusion in Part II, if appropriate

N/A

Lancashire County Council

**Counter fraud and special investigations annual
report 2010/11**

June 2011

Contents

1. Introduction
2. Impact on control environment
3. Fraud work undertaken
 - Special investigations
 - Counter fraud arrangements
 - National Fraud Initiative

Annex A – Details of special investigations

Annex B – Counter fraud plan

1. Introduction

- 1.1. This report details the work performed by Lancashire County Council ('the council') to prevent and detect fraud and corruption. This report has been prepared for the Standards Committee; a similar report with additional data on each case has been reported to the county treasurer.
- 1.2. The National Fraud Authority estimates that the annual cost of fraud to the UK economy is £38 billion. The council has a clear commitment to minimising its exposure to fraud and corruption which is set out in the council's Anti Fraud Policy as follows:
- "Lancashire County Council values its reputation for financial probity and reliability. We recognise that over and above any financial damage suffered, fraud may also reflect adversely on its image and reputation. Our aim therefore is to limit the Authority's exposure to fraud by:
- Instituting and maintaining cost effective measures and procedures to deter fraud;
 - Taking firm and vigorous action against any individual or group perpetrating fraud against the county council;
 - Encouraging our employees to be vigilant and to report any suspicion of fraud, providing them with suitable channels of communication and ensuring sensitive information is treated appropriately;
 - Rigorously investigating instances of alleged fraud and pursuing perpetrators to seek restitution of any asset fraudulently obtained together with the recovery of costs; and
 - Assisting the police and all other appropriate authorities in the investigation and prosecution of those suspected of fraud.
- 1.3. The county council's Internal Audit Service plays a key role in helping the council to prevent and detect fraud, and is responsible for investigating suspected frauds at the direction of the county treasurer, management team and in response to the whistle blowing telephone line.
- 1.4. This report is based upon the work we have performed on special investigations and counter fraud during 2010/11. As investigations may cross over more than one financial year we have included investigations which commenced prior to 1 April 2010 but were still ongoing or completed by 31 March 2011. Due to the sensitive nature of our investigations we are unable to provide specific detail for cases which are ongoing.

2. Impact on the control environment

Overall opinion

- 2.1. We have identified no single issue that has a material impact on the county council's overall control environment. Therefore, in our opinion the issues we have identified are not sufficiently significant to impact on the annual governance statement.
- 2.2. However, we have carried out a number of investigations at Lancashire County Commercial Group (LCCG) throughout the year. Our investigations have found significant issues regarding the use of sub-contractors, and other issues regarding the purchasing of clothing and equipment for both LCCG staff and the client in the Environment Directorate. The issues identified relate to one of the Highways area offices, and from our initial enquiries there is no evidence to suggest the issues are more widespread. We will be performing additional work during 2011/12 across the service as part of our internal audit plan.
- 2.3. All our investigations are reported separately to the relevant directorate to allow appropriate action to be taken. Additionally, where our investigations identify weaknesses in control a separate report is issued to strengthen the control environment.
- 2.4. We are required by the Audit Commission to report any individual frauds exceeding £10,000 but no individual fraud or theft has exceeded this level for 2010/11.

3. Fraud work undertaken

- 3.1. The Audit Committee approved an annual audit plan for 2010/11 that included 300 days for special investigations and 200 days for proactive counter fraud work. The Internal Audit Service spent 503 days on special investigations and 107 days on counter fraud during 2010/11, a total of 610 days.

Special Investigations

- 3.2. During 2010/11 we undertook a total of 27 special investigations, 14 of which were completed during the year. A number of investigations are on-going, some having commenced in previous financial years.
- 3.3. Our investigations covered all directorates and a wide range of allegations were investigated, including: inappropriate expenditure; income not being banked and income shortfalls; inappropriate use of ICT equipment; misuse of service users' bank accounts; and theft of equipment.
- 3.4. Of the 14 investigations that were concluded during 2010/11 a summary of the outcomes is provided below:
 - 3 employees were dismissed;
 - 1 employee resigned;

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- 1 employee was subject to police prosecution; and
 - 12 of the investigations identified control weaknesses and areas for improvement which were reported to management.
- 3.5. Two particular areas have absorbed a considerable amount of time during the year; action in relation to a headteacher, and whistle-blowing calls within Lancashire County Commercial Group.
- 3.6. In 2007/08 we investigated allegations relating to the financial mismanagement of the school by the headteacher, specifically tax avoidance and instances where the headteacher had allegedly personally benefited. Our investigation concluded that there had been financial mismanagement and the head teacher was dismissed in November 2008 for gross misconduct. In the past 12 months we have spent considerable time liaising with council colleagues and the council's barrister to prepare for and attend the General Teaching Council and Employment Tribunal hearings, which have been cancelled and rescheduled, necessitating repeated preparation.
- 3.7. We have also spent a considerable amount of time investigating and reporting various allegations made regarding one of the LCCG Highways area offices. During the year we have received three whistleblowing calls which, after our initial enquiries have all merited full investigation.
- 3.8. The findings all related to one of the Highways area offices and our investigation reports were issued in June 2010 and December 2010. Disciplinary investigations are still ongoing and LCCG are taking action against the issues raised. We have included further work in this area in our 2011/12 audit plan and will include the other area offices as part of this audit.

Counter fraud arrangements

- 3.9. A total of 103 days has been spent during 2010/11 on proactive fraud work. This time has been spent on undertaking the work within the counter fraud plan. We have not performed all the planned counter fraud reviews as resources were required for investigations and also some of the areas were not as relevant as when they were first planned. Full details of our counter fraud work are set out within Annex A.
- 3.10. We have continued to work on areas where the county council's counter fraud arrangements need to be strengthened to ensure it meets best practice and to minimise the county council's exposure to fraud, in particular, the county council's counter fraud statement and the whistleblowing policy. Both will be publicised throughout the county council using the intranet to raise fraud awareness.
- 3.11. The annual counter fraud plan for 2010/11 identified several key fraud risk areas. We have continued to monitor the banking of school meal income and undertake visits to schools where banking is irregular. At one school we found that the school business manager had not been banking the schools income on a regular basis and the supporting records were

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inadequate. As a result it was not possible to quantify exactly how much income should have been collected and banked. Using available information such as meals provided records concluded that there had not been a material loss of income. During our investigation the school business manager resigned and the headteacher has accepted all of our recommendations to improve the control environment, and we will be following this up during 2011/12. We have also undertaken a number of visits to establishments within Adult and Community Services directorate that handle cash: libraries, museums and registrars' offices. We have not found any significant losses of income although some of the controls were not operating effectively.

- 3.12. We have now joined the Greater Manchester Fraud Group, which has representation from 13 local authorities, to enable us to share best practice and information, for example relating to potential frauds and bogus suppliers.
- 3.13. Where we have received information about potentially fraudulent suppliers we have notified the Accounts Payable team so that payments to them can be prevented, and publicised them through the intranet and the Schools Portal.

National Fraud Initiative

- 3.14. As part of the county council's duty to protect public funds, the Audit Commission requires all local authorities to participate in the National Fraud Initiative (NFI). This is a two-yearly exercise that matches electronic data held by public sector organisations to highlight potentially fraudulent activity. Nationally, the 2008/09 NFI exercise enabled £215 million of fraud, errors and overpayments to be identified with the county council identifying £46,482 as reported in our 2009/10 counter fraud and special investigations report.
- 3.15. The 2010/11 data was submitted in October 2010 and the matches were released in January 2011. The number of matches for the 2010/11 exercise is 27,558 an increase of 16,878 from the 10,680 identified as part of the 2008/09 exercise. This is mainly due to a new NFI report matching employee data to creditors data. Due to the sensitivity of this match, internal audit will be carrying out the investigations.
- 3.16. The matches cover a number of areas and some examples of the type and number of matches identified are provided below:

Area	No. of matches		Examples of data matches
	2008/09	2010/11	
Pension	1,849	1,972	Claimants that may have died or may have additional employment affecting their pension.
Payroll	1,091	4,169	Employees with additional employment, claimants of housing benefit, right to work within the UK.

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Area	No. of matches		Examples of data matches
	2008/09	2010/11	
Creditors	4,259	18,520	Possible duplicate payments, addresses, overpayment of VAT, employees with a business interest.
Insurance	298	164	Duplicate insurance claims.
Blue badges	2,618	2,212	Badge holder may have died and the badge used by someone else.
Residential care homes	565	521	Payments made to a care home for a resident who may have died.
Total	10,680	27,558	

- 3.17. We will continue to work closely with the relevant teams within the council to ensure the matches are appropriately investigated in accordance with the Audit Commission's and internal protocols.

The deadline for the matches to be investigated is January 2012. Throughout 2011/12 we will produce regular reports for the sections and the county treasurer.

2011/12 Counter Fraud Plan

- 3.18. For 2011/12 we have allocated 415 days for special investigations and counter fraud work. We are planning to spend 275 days on special investigations and a further 140 days on counter fraud work. Both of these figures are estimates and will depend on the number of cases we need to investigate. This is a reduction on the previous year's plan but reflects the reduced resources within the internal audit team. Our plans remain flexible and should additional resources be required then these could be released from our internal audit plans if appropriate.
- 3.19. Based on our understanding of the fraud risks facing the council we have developed a counter fraud plan for 2011/12 (See Annex B). In developing the plan we have taken into account the results of previous years investigations and the Audit Commission's Protecting the Public Purse report which includes common fraud risks for local authorities.

2010/11 Counter Fraud Plan

Planned activity	Planned days	Actual days	Variance	Detail
National Fraud Initiative (NFI)	10	13	3	The Audit Commission NFI is run every two years. In 2010/11 we submitted data which the Audit Commission then matched against other public authority databases. Matches were released in February 2011 and will form part of the 2011/12 counter fraud plan. Initial investigation work is normally performed by the relevant department within the council and we have met with each of them to discuss the data match reports and what is required of them.
Financial systems	50	11	(39)	Our audit work on the council's financial systems has incorporated counter fraud testing, and our results have been communicated with the relevant service managers to enable them to investigate.
Cash handling establishments	30	36	6	We undertook a number of unannounced visits at county council establishments handling cash, including libraries, museums and registrars' offices. Whilst we identified some specific issues we have identified some common themes across establishments that need to be addressed.
School income	20	21	1	Cash paid by parents for pupils' school lunches is a key risk area. Throughout the year we monitor the income received to ensure schools are banking on a regular basis. We performed two unannounced visits during the year. One school visit concluded that despite delays in banking the level of income expected had been banked. A number of recommendations were made to ensure weaknesses were addressed and that banking was undertaken on a weekly basis. The other school visit raised some concerns over the frequency of the banking of the school dinner money income and unusually high level of arrears. Records to support school lunch income were poor and several records were missing. During the audit a sum of cash was located in the school safe and this was thought to be unbanked school lunch income. The head teacher was not aware of the situation and during our audit the school business manager resigned. We have recalculated the expected levels of income and due to the poor records can only provide limited assurance that all income has been banked. A draft report has been issued to the head teacher. This work will continue throughout 2011/12.
Domiciliary services	25	0	(25)	This review was postponed until 2011/12.

Planned activity	Planned days	Actual days	Variance	Detail
Recruitment	20	0	(20)	This review was not undertaken because additional resources were required for investigations and because, following the council's budget savings plans, there is a freeze on recruitment and so this area is no longer seen as high risk.
Bribery Bill	20	4	(16)	The implementation of the Bribery Act was delayed until 1 July 2011 to allow additional guidance to be provided. This was provided in March 2011 to allow organisations to put processes in place before the implementation of the Act. We are currently drafting a report on the actions required to be compliant with the Act. This work will continue to be undertaken as part of the 2011/12 counter fraud plan.
Raising fraud awareness	25	18	(7)	During 2010/11 we have become aware of a number of fraud scams either through our work at the council or from our fraud networks. Where appropriate we have advised council staff of the risks, this has included messages being posted on the intranet, school portal and advising accounts payable to put a hold on certain suppliers. This work will continue during 2011/12.
Total days	200	103	(97)	

2011/12 Counter Fraud Plan

Planned activity	Planned days	Outline Scope
National Fraud Initiative (NFI)	45	Matches for the 2010/11 NFI exercise were released in February 2011. Internal audit will support the local teams to investigate the data matches and where appropriate will investigate potential fraud. Internal audit are also investigating the matches between payroll and creditor data.
Cash handling	10	We will follow up the recommendations from our 2010/11 audit report and may also perform unannounced visits during the year.
School income	20	We will continue to monitor schools who are not banking dinner income on a regular basis and will perform unannounced visits where appropriate.
Domiciliary Services	15	We will review the adequacy and effectiveness of the controls regarding clients monies with particular regards to preventing fraud.
Bribery Act	20	We are currently reviewing the council's arrangements to ensure we are compliant with the act which comes into force on 1 July 2011.
Prevention of bribery – streetworks	15	We will review the adequacy and effectiveness of the controls in place to prevent bribery with regards to streetworks.
Management of counter fraud activity	15	This time is required to manage the counter fraud service, provide assistance and advice to management and report progress to the county treasurer and the Standards Committee.
Total days	140	

Audit Committee

Meeting to be held on Monday 27 June 2011

Electoral Division affected: None

Overview and Scrutiny Annual Report

(Appendix A refers)

Contact for further information:

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josh.mynott@lancashire.gov.uk

Executive Summary

The Audit Committee is invited to consider the annual report of the Overview and Scrutiny Committees.

Recommendation

That the Audit Committee note and comment on the Annual Report of Overview and Scrutiny.

Background and Advice

The Overview and Scrutiny Committees have produced an Annual Report (attached as Appendix A) detailing key activities in the previous year. It is presented to the Audit Committee to support the development of a co-operative and mutually supportive relationship between the two bodies with separate yet complementary functions.

The views and comments of the Audit Committee on the work undertaken by Overview and Scrutiny are welcomed.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

There are no significant risk management implications in this report.

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

Paper	Date	Contact/Directorate/Tel
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N/A

Reason for inclusion in Part II, if appropriate

N/A

Overview and Scrutiny



Annual Report 2010/11

For further information contact:
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Foreword

This last year has seen scrutiny in Lancashire undergo the biggest change in its 10 year history, with a restructure leading to the creation of three new committees in an entirely new way of doing things.

This has presented some real challenges to all of those involved in scrutiny, but, as this report shows, those challenges have been met and scrutiny in Lancashire has produced some really excellent pieces of work, demonstrating the importance of what it does.

In these challenging economic times, making sure that there is an effective critical friend working with decision makers is more important than ever. Our work with the NHS, utilities companies, the police and the council's own leaders has shown that there is a genuine constructive challenge from scrutiny, and, just as important, a real willingness by those being scrutinised to be subjected to questions and to take account of the views of the people elected to serve their communities.

I would like to thank all of those, both the scrutineers and the scrutinised, who have made this year another successful year,

County Councillor John Shedwick
Chair, Scrutiny Committee

Introduction

In May 2010, new scrutiny arrangements were introduced in Lancashire. The previous structure, with four service-based committees co-ordinated by a Management Committee, was replaced with a model of 3 separate committees: Scrutiny, Health Scrutiny and Education Scrutiny.

The changes were driven by the desire to create a more efficient and effective scrutiny function, focussed much more on the fundamental principle of holding decision makers to account, and dispensing with the reports "to note" or "for information" that had occupied too much of the agendas in the previous structure.

As with any major changes, there has been concern that a reduced number of formal committee meetings would reduce the effectiveness of scrutiny. However, a key guiding principle has been that "scrutiny is not measured by volume" – the important thing is not how many meetings, but the quality of those meetings and the impact they have on services. The high quality work done by small groups of members working intensively on a single issue via task groups also continued, and examples are included in this report

This report assesses the effectiveness of scrutiny in Lancashire in 2010-11, with case studies highlighting some of the achievements, in particular

focussing on whether scrutiny has met the objective of holding the key decision makers in Lancashire to account.

Chairs and deputies of the committees 2010 - 2011

Scrutiny Committee

Chair – County Councillor John
Shedwick

Deputy chair – County Councillor
Kevin Ellard

Health Scrutiny Committee

Chair – County Councillor Maggie
Skilling

Deputy Chair – County Councillor
Keith Bailey

Education Scrutiny Committee

Chair – County Councillor Clive
Grunshaw

Deputy Chair – County Councillor Pat
Case

Scrutiny committee

The Scrutiny Committee's remit is an extremely wide one.

The key to the effectiveness of the committee has been in careful and robust work planning. Many issues come to the attention of the committee, but it is only by careful selection of those issues, particularly taking account of where scrutiny can make a difference, that the impact of scrutiny can be truly felt.

One issue which had a significant impact was the report produced by scrutiny on Young People and Employability. Usual practice is to present reports just to the individual cabinet members responsible for the issue at stake. On this occasion, scrutiny members felt that it was an issue of such importance that it should be presented to a meeting of the full cabinet. This was the first time that this had happened, and indicated a willingness in scrutiny to have its voice heard, as well as a willingness of cabinet to listen. The report itself was positively received, and work is ongoing to meet its recommendations.

In October 2010, the Scrutiny Committee received a report on winter maintenance, reporting on performance in the previous year and plans for the coming year. Although it was originally intended as a one off report, scrutiny members recognised that this was an issue of major public concern, and so decided that there

should be a series of reports outlining preparations for the year ahead.

Particular focus was on communications and working in partnership with districts, parishes and local people in a position to help such as farmers, and all of these things become important parts of the strategy for 2011.

The interest and influence of scrutiny extends beyond services provided by the county council itself. A major piece of work for the committee this year, which will extend into the next year, has been to look at the work of the utility companies in Lancashire. A meeting in February had representatives from United Utilities and Electricity North West. Topics under discussion included street lighting, last summer's hosepipe ban, and roadworks. Further work is planned on some of the issues in 2011/12. As well as demonstrating a willingness to address the real issues that affect people's day to day lives, this also showed how scrutiny was prepared to tackle other organisations, and also, crucially, how those other organisations recognised the value of participating fully in the scrutiny process. Both United Utilities and Electricity North West willingly submitted themselves to tough examination by elected representatives, gaining value from hearing the views of the public reflected by members. That willingness is both testimony to the value of scrutiny and reflects very positively on the companies themselves.

One of the first actions of the new committee in June 2010 was to hear a "Call In" request on the decision to close a number of Household Waste Recycling Centres in Lancashire. Representations were heard from district and parish councillors and members of the public at the meeting. Largely based on the findings of extensive scrutiny work on the issue in the previous year, the committee decided that the cabinet member should not be asked to reconsider (the "Call In"), but not before the decision had been subjected to a full and thorough challenge.

The committee is also the council's statutory crime and disorder committee, and this year its work on this area focussed on alcohol and drug misuse, reoffending rates, anti-social behaviour, and domestic violence. Representatives from the Police Service and the Police Authority attended to respond to the committee's questions. Significant work was also begun looking at arts and cultural issues, likely to lead to a full task group review of some of the issues in 2011/12

Task Group – Museums

This task group looked at the Museums service, and how to improve access and public use. The task group particularly looked at increasing the use of our museums by people with disabilities and from black and minority ethnic communities, as well as considering geographical reach and charging policies. The task group visited several major museums in Lancashire and beyond to compare the way services were offered. Many great examples of best practice were found, and the recommendations focussed on raising the profile of the service, making it more consistent and increasing the potential for commercial returns from our museums.

Health Scrutiny Committee

Perhaps the most important power held by scrutiny is the power it has to refer decisions about major changes to the health service to the Secretary of State for Health for independent review. Until 2010/11, scrutiny at Lancashire County Council had not used this power since it was first granted in 2001. In 2010/11, the power was used not once, but twice. The first was the final stages of the "Meeting Patients' Needs" changes in east Lancashire, particularly the closure of the Deerplay children's ward in Burnley. The second was the decision to close the Wesham rehabilitation unit in Fylde. Although both of these referrals were subsequently not referred for full independent review by the Secretary of State, clear messages were sent to the NHS about the need to engage and consult as the programmes progress.

"Meeting Patients' Needs" (MPN) is a longstanding review of hospital services in east Lancashire, and has been one of the biggest reviews of its kind in the country. The review has come before scrutiny several times, but it was the closure of a children's ward in Burnley, one of the final pieces of the 4 year programme, that caused concern. Serious and lengthy debates were held, involving some of the most senior health service figures in the North West, before the committee finally took the decision that an independent review was necessary. This was obviously a step welcomed by many, especially in Burnley, but

even those in the health service promoting the MPN programme welcomed the fairness and thoroughness of the scrutiny process.

The Wesham unit was very different. This was a decision made and implemented very quickly by the Blackpool Wyre and Fylde Hospital Trust. The committee responded in equally quick time in giving the issue time on the agenda for proper consideration.

Both cases show how Lancashire County Council scrutiny is prepared to take firm action where it is required. The NHS is obviously undergoing massive changes at the moment with the proposed reforms and many trusts having to find financial savings. The committee has clearly demonstrated its determination not to let these changes affect the quality of patient care and the outcomes for members of the public, nor to become distracted away from those fundamental principles, whilst at the same time ensuring that members stay fully up to speed with the significant changes and challenges ahead.

Task Group – Safeguarding Adults

This investigation looked at procedures in place to safeguard vulnerable adults and how partners could work better together to deliver joint outcomes. The Task Group concluded that whilst there were comprehensive systems in place to enable a thorough investigation of suspected instances of neglect or abuse there needed to be a consistent approach amongst partners with regard to the definition of a 'vulnerable adult' and also that central government should give consideration to putting the responsibility of ensuring the safeguarding of adults on a statutory footing, as is the case with children.

Education Scrutiny Committee

In 2010/11, the Education Scrutiny Committee has focussed on the significant developments in education being introduced by the government, and the impact on Lancashire children. In particular, the question of academies has been subject to careful scrutiny, and the committee has also made time to examine the impact of the proposals for children with Special Educational Needs and how that will affect children and schools in Lancashire.

In October 2010, the committee considered a "Call In" request on the decision to introduce a parental contribution to costs of transport to denominational schools. Representations were heard from

parents, governors and headteachers, as well as from the cabinet member. After lengthy and detailed debate, the committee decided that the policy should not be reconsidered by the cabinet member.

Budget 2011-2014

In 2010, Lancashire County Council took an unprecedented and unique step in setting its budget. Like all local authorities, Lancashire was faced with having to deliver services with greatly reduced resources. Recognising that dealing with the situation would require more than a simple one year plan, Lancashire decided to set a budget for three years, allowing everyone to see how Lancashire would manage its budget in the longer term and plan and adjust accordingly.

As in every other year, the initial proposals from cabinet were presented to scrutiny. All three committees were involved in questioning every single cabinet member, some of them twice, to hear the proposals explained, to challenge and to make recommendations back. This was a significant task, and, given the scale of the challenge, represented only the beginning. Scrutiny has committed to actively monitoring the budget over the next three years to make sure the decisions being made are the right ones for Lancashire.

Partnership working

Lancashire County Council continues to lead the Lancashire Scrutiny Partners Forum (LSPF), a regular meeting of scrutiny members and officers to discuss best practice, developments in scrutiny, share ideas, and crucially share workplans and seek opportunities for joint work.

Through the LSPF, Lancashire has sought input from district councils into several pieces of work, including its crime and disorder scrutiny and the task group on Looked After Children, and has also participated in a joint review led by Blackpool into alcohol pricing.

In June 2010, Lancashire County Council's Scrutiny Manager was invited to lead a workshop on scrutiny in the current economic climate at the Centre for Public Scrutiny annual conference. The feedback was extremely positive, with the session being described as the most popular one of the entire two days of the conference. The expertise of scrutiny officers in Lancashire plays an important part in helping councillors deliver really strong scrutiny.

Looking Ahead

The next year promises to be another very challenging one for scrutiny, as it will be for councils generally. The financial situation means councils face

increasing pressure to deliver services with a greatly reduced budget. The role of scrutiny in this will continue to be absolutely vital, subjecting decisions to challenge and bringing the voice of the public into the debate.

Again, this is not just about Lancashire County Council. The NHS is undergoing major reorganisation, and scrutiny will need to adapt to the new arrangements to make sure it continues to play a vital part in protecting services. Education Scrutiny has already looked at the impact of academies and free schools, and with these programmes likely to grow in the future, it will continue to be essential that the committee plays its part in ensuring the highest educational standards for Lancashire children.

Changes to the way the police are overseen will also impact on scrutiny, in terms of its current statutory duty to scrutinise crime and disorder partnerships. Whatever the arrangements in future, it is clear that an issue of such public concern must continue to be a priority for scrutiny.

The Localism Bill currently on its way through parliament may also have a significant impact. It seeks, amongst many other things, to bring all existing scrutiny legislation together in one place. This is an extremely welcome step, and it is hoped that the chance will also be taken to iron out one or two anomalies that have arisen over the years, mainly in those areas where legalisation concerning scrutiny has been introduced from different government departments.

Scrutiny itself must demonstrate value for money, both in its recommendations and in the way it works. Joint working opportunities with other councils will continue to be actively sought through the LSPF. A major training event is currently being planned for July 2011 involving all councils in Lancashire, delivering the training that is needed at a fraction of the cost of sending councillors to courses all over the country.

Conclusions

Scrutiny in Lancashire is effective. Its main task – to hold to account the decision makers – has been amply demonstrated this year. The reduction in the number of scrutiny committees made in 2010 has encouraged a focus on this key purpose, and also on the key issues. Reports “to note” or “for information” are increasingly a thing of the past in Lancashire scrutiny,

meaning that time is spent on things that actually make a difference.

The reduction in the number of committees and meetings also appears to have helped scrutiny members demonstrate their ability to influence, and increased their determination to have their voice heard. This is partly because the work scrutiny is now doing is more obviously meaningful, but it is also a sign that there is a group of members who are committed to the principles of scrutiny and it showing off the work it does. It is also clear that decision makers in Lancashire want to engage with scrutiny, and are willing to be challenged. Cabinet members, senior council officers, NHS Chief Executives, the most senior police officers, even people from private companies such as the utilities have all shown commendable willingness to be openly challenged, and crucially, scrutiny in Lancashire has shown the capacity and ability to do it, and to do it well.