

## Lancashire County Council

### Audit and Governance Committee

Monday, 30th January, 2017 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston

#### Agenda

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

No.	Item	
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- |     |  |                  |
|-----|--|------------------|
| 1.  | <b>Apologies</b>   |                  |
| 2.  | <b>Disclosure of Pecuniary and Non-Pecuniary Interests</b><br>Members are asked to consider any Pecuniary and Non-Pecuniary Interests they may have to disclose to the meeting in relation to matters under consideration on the Agenda. |                  |
| 3.  | <b>Minutes of the Meeting held on 26 September 2016</b><br>To be confirmed, and signed by the chair.   | (Pages 1 - 10)   |
| 4.  | <b>Update on Treasury Management Activity</b>  | (Pages 11 - 20)  |
| 5.  | <b>Financial Regulations</b>   | (Pages 21 - 34)  |
| 6.  | <b>Update on the Measurement of the Highways Network Asset</b>   | (Pages 35 - 40)  |
| 7.  | <b>Risk &amp; Opportunity Register Quarter 3</b>   | (Pages 41 - 54)  |
| 8.  | <b>Internal audit progress report</b>  | (Pages 55 - 68)  |
| 9.  | <b>External Audit - Annual Audit Letter</b>  | (Pages 69 - 92)  |
| 10. | <b>External Audit - Audit Update</b>   | (Pages 93 - 108) |
| 11. | <b>Urgent Business</b>   |                  |

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

**12. Date of Next Meeting**

The next meeting of the Committee will be held on 3 April 2017 at 2pm, Cabinet Room B at County Hall, Preston.

I Young  
Director of Governance,  
Finance and Public Services

County Hall  
Preston

# Agenda Item 3

## Lancashire County Council

### Audit and Governance Committee

**Minutes of the Meeting held on Monday, 26th September, 2016 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston**

#### **Present:**

County Councillor Terry Brown (Chair)

#### **County Councillors**

K Brown	A Jones
D Clifford	A Schofield
C Dereli	V Taylor
S Holgate	B Winlow

County Councillors A Jones and S Holgate replaced County Councillors Driver and Pritchard at the meeting respectively.

#### **1. Apologies**

None received.

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

County Councillor B Winlow declared a non pecuniary interest in items 10 and 11 as a Director of Lancashire County Developments Limited.

#### **3. Minutes of the Meeting held on 30 June 2016**

**Resolved:** That the Minutes of the meeting held on 30 June 2016 be confirmed and signed by the Chair.

#### **4. Risk and Opportunity Register**

Paul Bond, Head of Legal and Democratic Services, presented on an updated quarter 2, Risk and Opportunity Register.

It was noted that the Register had been reported to Management Team, and would be presented to the next meeting of the Cabinet Committee on Performance Improvement in October.

**Resolved:** That the updated Quarter 2 Risk and Opportunity Register, as set out at Appendix 'A' to the report, be noted.

## **5. Liquid Logic System Update**

Lisa Kitto, Director of Corporate Services, presented a report on the recent progress that had been made in improving the Liquid Logic System. The report also included the proposed next steps for the system and the new governance arrangements for system developments and implementations.

Officers responded to questions raised by the Members in relation to the processes in place and the timescales for implementation. Following further discussion, it was agreed that a further update would be presented to the next meeting of the committee on the 30 January 2017.

**Resolved:** i) That the report be noted.

ii) That a progress report on the Liquid Logic systems be presented to the next meeting of the Committee on 30 January 2017.

## **6. Internal Audit progress report**

Ruth Lowry, Head of the Internal Audit Service presented the Internal Audit Service Progress Report for the period to 9 September 2016.

The report highlighted key issues arising from the work undertaken during the period by the Internal Audit Service under the agreed Internal Audit Plan

It was reported that all the work in respect of the internal audit plan for 2015/16 had been completed, and work was taking place across a number of the planned audits for 2016/17. It was noted that the plan may be amended as scopes of individual audits were developed.

The report also included details of a proposal to appoint the Chartered Institute of Internal Auditors to undertake an external assessment of the Internal Audit Service. This would meet the requirement for an external quality assessment to be conducted at least once every 5 years by a qualified independent assessor, validating the service's own self-assessment.

Officers responded to questions raised by the Committee in relation to the external assessment and also key issues raised in the Progress report in respect of the debt management system and the Parent Pay System operated in the county's schools.

**Resolved:** That the Committee note:

- i) The Internal Audit Service Progress report for the period to 9 September 2016.
- ii) The proposed appointment of the Chartered Institute of Internal Auditors to undertake an external assessment of the Council's Internal Audit Service.

## **7. Statement of Accounts - Waste Plant - Valuation**

Neil Kissock, Director of Financial Services, presented a report on the valuation of the Waste Facilities at Farrington and Thornton Waste Technology Parks. It was reported that although an independent valuation had concluded there had been a reduction in the value, the value of the assets held in the accounts was considered materially correct. Therefore, there was no change in the value of the facilities to be reported in the council's Statement of Accounts.

**Resolved:** That the report be noted.

## **8. Annual Governance Statement 2015/16 Update**

Ian Young, Director of Governance, Finance and Public Services presented an update in relation to the Annual Governance Statement. The Committee were advised that whilst some of the narrative in the report had been updated since the AGS was approved in June, for example in relation to the Ofsted inspection of Children's Services, the financial position set out in the report had not been updated to reflect the information contained in the most recent update of the Medium Term Financial Strategy reported to Cabinet. This was because the AGS was intended to be published with the Council's Statement of Accounts form 2015/16, therefore the financial information needed to be consistent.

The report provided an update on several areas of activity, reflecting developments since June 2016 including in relation to:

- Organisational transformation
- Establishment of Local Pensions Partnership
- Children's Services – delivering the Improvement Plan
- Health and Social Care Integration
- A Combined Authority for Lancashire
- Implementation of the Council's Property Strategy

The Committee were also advised that a report on the statutory services budget review being undertaken with Price Waterhouse Cooper would be presented to the Executive Scrutiny Committee and the Cabinet on the 4 and 6 October 2016 respectively.

It was noted that the Annual Governance Statement was to be signed by the Leader and the Chief Executive for the year in question, and the Committee was asked to approve it.

**Resolved:** That the Annual Governance Statement for 2015/16 as now presented at Appendix A to the report be approved for inclusion in the County Council's Statement of Accounts for 2015/16.

## **9. Approval of the County Council's and County Pension Fund's Letter of Representation 2015/16**

A report was presented on the County Council's Management Representation Letter at Appendix 'A' and that for the Lancashire County Pension Fund at Appendix 'B' to the report.

The committee was informed that the Management Representation Letters should be made available to the external auditors (as part of the audit evidence) before the audit report was issued.

It was noted that the Management Representation Letters would be signed on behalf of the Lancashire County Council and the Lancashire County Pension Fund by the Council's S. 151 Officer and the Chair of the Audit and Governance Committee and the Committee was asked to approve them.

**Resolved:** That the management representation letters, as set out at Appendices 'A' and 'B', to the report now presented be approved.

## **10. External Audit Lancashire County Council - Audit Findings Report 2015/16**

A report was presented by Karen Murray, external auditor, on the overall findings of the external auditor in relation to the audit of the annual accounts of Lancashire County Council, their proposed opinion on those accounts, and conclusion on the council's value for money arrangements. The external auditor thanked the Council's finance team and other staff for the level of support and assistance provided during the audit.

In commenting on the county council's accounts, Karen Murray, external auditor, informed the committee that the draft accounts were, overall, prepared to a good standard. However, a number of misstatements and misclassifications had been identified within the accounts and these had been discussed with the County Treasurer and members of her team and the accounts amended.

The report also included the value for money conclusion. The opinion given in the report confirmed that apart from two matters, the council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

The committee also noted that the external auditor was unable to formally conclude the audit and issue an audit certificate until they had completed their consideration of matters brought to their attention by the Council in 2012/13. However they were satisfied that these matters did not have a material effect on the financial statements or a significant impact on their value for money conclusion.

The report included a recommendation requiring all declarations for related party disclosures to be completed annually. In response to concerns raised by the Members, Officers were asked to investigate whether any financial sanctions could be imposed on councillors who failed to complete their declarations.

**Resolved:** That:

- (i) The external audit findings report covering the audit of the County Council for year ended 31 March 2016 be noted.
- (ii) The adjustments to the financial statements and other issues raised by the external auditor, as set out in the report presented, be noted.
- (iii) Officers be asked to investigate whether any financial sanctions can be imposed on Councillors who fail to complete their related party disclosure declarations.

## **11. Approval of the County Council's Statement of Accounts 2015/16**

A report was presented on a summary of the process of preparation and the main points of the Statement of Accounts for 2015/16; the Statement itself was attached as Appendix 'A'.

Regulations governing the process and delegated authority from the County Council required the Chair of the Committee to sign off the accounts once approved by the Committee.

The Statement of Accounts had been prepared in accordance with the Accounting Code of Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The style and format of the accounts complied with CIPFA standards however, the content had been reviewed and refreshed to make the accounts easier to understand.

A number of accounting adjustments agreed with the external auditor and shown in their Audit Findings report at Item 10 of the agenda were reflected within the statement.

The Committee was taken through the main components and key issues of the statement including the movement in reserves and comprehensive income and expenditure statements, balance sheet and cash flow statement.

In response to queries raised by the Members, the officers agreed to expand the management structure in the 'Narrative' to the report and update the list of acronyms in the 'Glossary' to the accounts.

It was noted that the accounts of the County Council had been placed on deposit and made available for public inspection between 1 July and 11 August 2016.

The Lancashire County Pension Fund accounts were also included with the accounts as well as a separate item on the agenda.

**Resolved:** That the Lancashire County Council Statement of Accounts for 2015/16 be approved and signed by the Chair of the Committee.

**12. External Audit  
Lancashire County Council Pension Fund - Audit Findings Report  
2015/16**

A report was presented on the audit findings in relation to the accounts of the Lancashire County Pension Fund.

In commenting on the Lancashire County Pension Fund account, Karen Murray, external auditor, informed the committee that the audit work had not identified any material adjustments affecting the Fund's reported financial position. However, a number of minor adjustments had been made to improve the presentation of the financial statements.

It was reported that the pension fund's financial statements gave a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and the amount and disposition of the fund's assets and liabilities.

The external auditor thanked Council officers for their support during the audit.

**Resolved:** That the external audit findings report covering the audit of the Lancashire County Pension Fund for year ended 31 March 2016 be noted.

**13. Approval of the Lancashire County Pension Fund's Statement of Accounts 2015/16**

The Committee was asked to approve the Lancashire County Pension Fund's Statement of Accounts for 2015/16, as presented by Khadija Saeed, Head of Corporate Finance.

Regulations governing the process and delegated authority from the County Council required that the Chair of the Committee sign off the accounts once they were approved by the Committee.

The Statement of Accounts included the Fund Account and the Statement of Net Assets and had been prepared in accordance with standard accounting practice as outlined in the notes to the accounts of the Pension Fund.

**Resolved:** That the Lancashire County Pension Fund's Statement of Accounts for 2015/16 be approved and signed by the Chair of the Committee.

**14. Appointment of External Auditors**

Neil Kissock presented a report summarising the changes to the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.



The Committee were presented with three options for appointing External Auditors in the future:

Option 1: Establish its own independent auditor panel. The panel to be made up of a majority or of wholly independent members and must be chaired by an independent member.

Option 2: Establish a joint independent auditor panel to carry out the function on behalf of two or more Councils

Option 3: Opt-in to an approved sector led body (SLB) to be specified by the Department for Communities and Local Government (DCLG) to act as the Appointing Person on behalf of opted-in authorities.

It was noted that Option 3 above would require Full Council approval.

The Committee was advised that the Council would have until December 2017 to make an appointment, but if Options 1 or 2 were selected then in practical terms, action would be required by the Council almost immediately. Similarly, if the sector led approach described in Option 3 was adopted confirmation would be required by late autumn 2016.

In response to concerns raised by the Members, it was agreed that prior to entering into any contract, a further report would be presented to the Audit and Governance Committee setting out details of the contract, including the period of appointment.

Following debate and further questions to the officer with regard to the above Options, it was:

**Resolved:** i) That the Committee recommend Full Council to opt-in to an approved sector led body, specifically Public Sector Audit Appointments Ltd, to act as the Appointing Person for the appointment of External Auditors for the County Council.

ii) That prior to entering into a contract to appoint external auditors, a further report be presented to the Audit and Governance Committee setting out details of the contract, including the period of the appointment.

## **15. 2016/17 Treasury Management Activity Report - April to July 2016**

A presentation was made to the committee by Mike Jensen, co-chief investment officer, on a review of the county council's treasury management activities during the current financial year to the end of July 2016 and included:

- A review of the economic conditions during 2016/17,
- The implications for the Council's Treasury Strategy,
- Borrowing activity,
- Investment activity,

- Actual results measured against 2016/17 Prudential indicators and Treasury Management Indicators.

The officer responded to questions raised by the Members in relation to investment and borrowing activities and explained that regulations prevented the Council from issuing annuities.

Details of the treasury management activities were presented at Appendix 'A'.

**Resolved:** That the review of treasury management activities for the period 1 April to 31 July 2016 shown at appendix A to the report now presented, be noted.

## **16. The County Council's Treasury Management Strategy 2016/17**

A report was presented on the County Council's Treasury Management Policy. It was reported that recent economic uncertainty had resulted in the credit agencies downgrading the UK sovereign rating. Therefore, in view of the recent changes and in anticipation of any future reductions, the County Council's Treasury Management Policy had been reviewed.

The Committee was informed that the economic position and low interest rates also required further consideration for the fixing of long term debt and the report covered the options including the potential use of the Municipal Bond Agency (MBA). The report allowed for further opportunity to consider the risks associated with the MBA in response to the resolution of Full Council at their meeting held on 21 July 2016.

Following lengthy debate and questions to officers with regard to the risks and benefits associated with the potential use of the MBA, it was Moved and Seconded:

'That:

- i) The changes to the Treasury Management Strategy, as set out in the report, to allow for changes in the UK sovereign credit rating following the referendum vote to leave the European Union, be approved.
- ii) That Full Council be recommended to agree that the County Council does not enter into the UK MBA framework agreement'.

On being put to the vote the Motion was Lost. The substantive Motion was then put to the vote and it was:

**Resolved:** That:

- i) The changes to the Treasury Management Strategy as set out in the report, to allow for changes in the UK sovereign credit rating

following the referendum vote to leave the European Union, be approved.

- ii) Full Council be recommended to agree that the County Council enters into the UK MBA framework agreement as set out in the report to the committee.

#### **17. Urgent Business**

There were no items of urgent business.

#### **18. Date of Next Meeting**

**Resolved:** That the next meeting of the Committee be held on Tuesday 30th January 2017 at 2:00pm at County Hall, Preston.

I Young  
Director of Governance, Finance  
and Public Services

County Hall  
Preston



## **Audit and Governance Committee**

Meeting to be held on Monday, 30 January 2017

Electoral Division affected: (All Divisions);
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## **Update on Treasury Management Activity**

(Appendix 'A' refers)

Contact for further information:

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### **Executive Summary**

The report set out at Appendix 'A' is a review of the County Council's Treasury Management activities from August to November 2016. Management activities are regulated by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice and it is considered best practice to review treasury management activities on a regular basis.

This review includes:

- A review of the economic conditions in the period
- Borrowing activity
- Investment activity
- Comparison with Prudential Indicators and Treasury Management Indicators

### **Recommendation**

The Committee is asked to note the review of treasury management activities for the period August to November 2016.

### **Background and Advice**

As part of the County Council's governance arrangements for Treasury Management, the Audit and Governance Committee is charged with the oversight of the County Council's Treasury Management activities. To enable the Committee to fulfil this role, the Committee receives regular reports. Reports on treasury activity are discussed on a monthly basis with the Director of Financial Resources and the content of these reports is used as a basis for this report to the Committee.

This report outlines a review of the borrowing and lending activity from August to November 2016 and sets this activity against the economic background including

risk management strategies to protect the capital value of the County Council's reserves and balances.

### **Consultations**

Arlingclose Limited have provided treasury management advice.

### **Implications:**

This item has the following implications, as indicated:

### **Risk management**

The County Council's treasury management 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/Tel
Treasury Management Policy and Strategy 2016/17	Feb 2016	Paul Dobson; Treasury Management & Pensions; 01772 534725
CIPFA TM Code of Practice	2011	Paul Dobson; Treasury Management & Pensions; 01772 534725

Reason for inclusion in Part II, if appropriate

N/A

## **Treasury Management Activity - Second Report 2016-17**

### **1. Background**

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

The activity to 31<sup>st</sup> July has already been reported to the Committee therefore this report considers treasury management activity between 1<sup>st</sup> August 2016 and 30<sup>th</sup> November 2016.

### **2. Economic Context in the period**

The economic situation between August and November was dominated by the uncertainty about the short and medium term implications of the decision to leave the EU. In response to the risk of reduced economic growth the Bank of England Monetary Policy Committee initiated substantial monetary policy easing at its August meeting. This included a cut in the Bank Rate to 0.25%, further gilt and corporate bond purchases (QE) and cheap funding for banks (Term Funding Scheme) to maintain the supply of credit to the economy. To date, the economy is still showing growth with the Office of National Statistics (ONS) estimate of Q3 GDP showing that the UK economy expanded by 0.6% over the quarter and 2.2% year-on-year.

Another key economic feature of the period was the expectation for an increase in inflation. With the currency falling in value, import prices are rising. The August Quarterly Inflation Report from the Bank of England forecasted a rise in CPI to 0.9% by the end of calendar 2016 and thereafter a rise closer to the Bank's 2% target over the coming year. The expectation of increased inflation was borne out with the Consumer Price Index (CPI) rising to 1.2% in November 2016 which represents the highest CPI rate since October 2014.

#### **2.1 Interest Rate Environment**

Short term interest rates continue to be at historically very low levels. As referred to above in response to a potential reduction in economic growth the Bank of England reduced the base rate from 0.5% to 0.25% in August 2016; a level it remained at throughout the period. The expectation is that interest rates will remain low for the rest of the financial year and beyond.

#### **2.2 Implications for Lancashire County Council Treasury Strategy**

The County Council continued to use short term market borrowing to fund capital expenditure so taking advantage of historically low interest rates. This policy has proved to be very effective in an environment where rates have stayed low throughout the year. Prospects for interest rate increases are continuously monitored, however it is not anticipated that the interest rates will rise even though they are at very low levels.

This includes the rates for long term borrowing. Therefore the opportunity of fixing some of the debt for a longer period will be kept under consideration.

### 3. Current Treasury Management Policy

Full Council approved the 2016/17 treasury management strategy in February 2016. The County Council's stated Treasury Management objectives are:

- a) To ensure the security of the principal sums invested which represent the County Council's various reserves and balances;
- b) To ensure that the County Council has access to cash resources as and when required;
- c) To minimise the cost of the borrowing required to finance the County Council's capital investment programme; and
- d) To maximise investment returns commensurate with the County Council's policy of minimising risks to the security of capital and its liquidity position.

#### 3.1 Investment Activity

Investments at the 30<sup>th</sup> November are £572.41m consisting of £91.82m in bank and Local Authority deposits and £480.59m in bonds. In total investments have decreased by £42.14m over the period. The table below shows the investment activity between 1<sup>st</sup> August 2016 and 30<sup>th</sup> November 2016.

<b>Bank and Local Authority Deposits</b>	<b>Call/MMF £m</b>	<b>Fixed £m</b>	<b>Structured £m</b>	<b>Total £m</b>
<b>Balance 1 August 2016</b>	<b>71.81</b>	<b>56.50</b>	<b>0.00</b>	<b>128.31</b>
Maturities	-101.85	-10.00	0.00	-111.85
New Investments	75.37	0.00	0.00	75.37
<b>Balance 30 November 2016</b>	<b>45.32</b>	<b>46.50</b>	<b>0.00</b>	<b>91.82</b>
<b>Bonds</b>	<b>LA Bonds £m</b>	<b>Gilts £m</b>	<b>Others £m</b>	<b>Total £m</b>
<b>Balance 1 August 2016</b>	<b>35.83</b>	<b>82.71</b>	<b>367.70</b>	<b>486.24</b>
Maturities	-0.34	-1,268.80	-575.98	-1,845.12
New Investments	0.27	1,462.30	376.90	1,839.46
<b>Balance 30 November 2016</b>	<b>35.76</b>	<b>276.22</b>	<b>168.61</b>	<b>480.59</b>

Within the period, there has been an increase of £194m in the amount of Gilts. This reflects the re-balancing of the portfolio as the previous period saw a significant reduction in the level of Gilts held as a consequence of the volatility in the market at the time. To compensate for this there has been a decrease in Bank and Local Authority deposits of £36m and other bonds of £199m.



The current rate of return on the investment portfolio measured by Arlingclose Ltd is 1.04% which compares favourably with the benchmark 7 day LIBID which averages 0.45% over the same period.

### 3.2 Borrowing Activity

Current market conditions continue to enable the County Council to take advantage of short term market borrowing. The table below shows the borrowing activity which has taken place between 1<sup>st</sup> August 2016 and 30<sup>th</sup> November 2016.

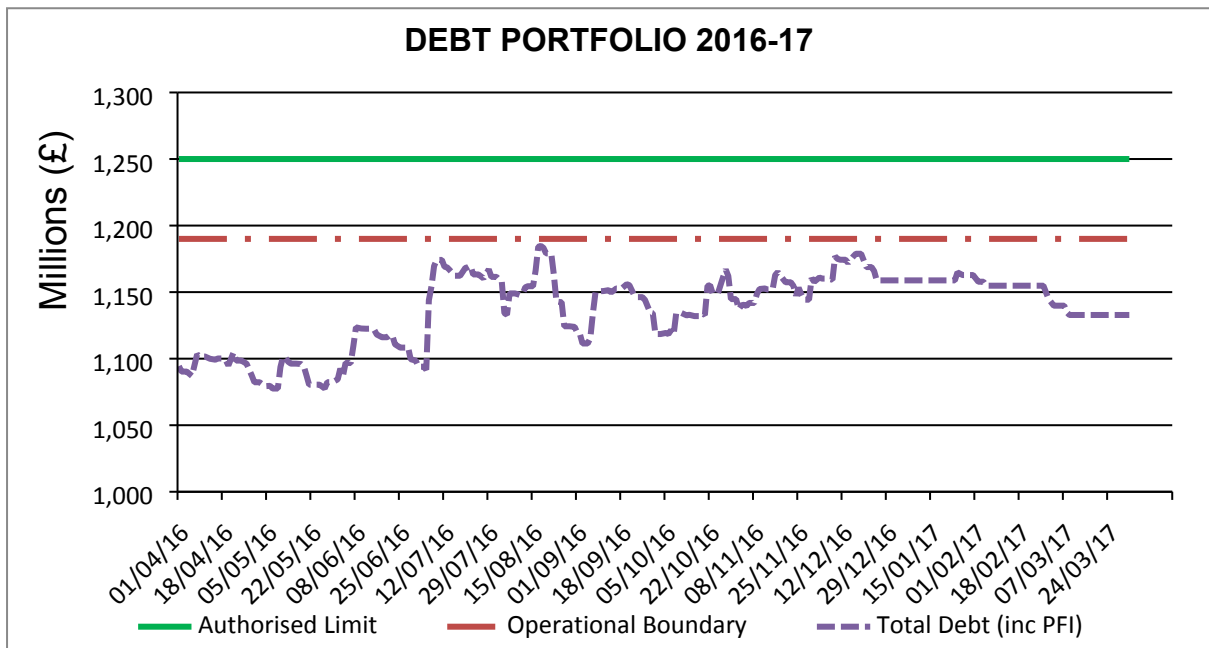
<b><u>Borrowing</u></b>	<b>PWLB Fixed £m</b>	<b>PWLB Variable £m</b>	<b>Long Term Market Loan £m</b>	<b>Other Local Authorities (incl PCC*) £m</b>	<b>Lancashire Call Accounts £m</b>	<b>Total £m</b>
<b>Balance 1 August 2016</b>	<b>213.10</b>	<b>125.75</b>	<b>51.78</b>	<b>552.00</b>	<b>99.81</b>	<b>1,042.45</b>
New Borrowing	0.00	0.00	0.00	219.00	170.85	389.85
Maturities	0.00	0.00	0.00	-201.00	-192.46	-393.46
<b>Balance 30 November 2016</b>	<b>213.10</b>	<b>125.75</b>	<b>51.78</b>	<b>570.00</b>	<b>78.20</b>	<b>1,038.84</b>
Public Finance Initiative (PFI) Liability	-	-	-	-	-	167.00
<b>Total Borrowing &amp; PFI</b>						<b>1,205.84</b>

\* Police & Crime Commissioners

The outstanding borrowing has reduced slightly by £4m in the period. This reduction is due to the decrease in shared investment scheme balances, offset largely by the increase in borrowing with other local authorities. Most of the new borrowing has been to replace short term loans which matured in the period and in line with the current policy have been short term in nature.

Total borrowing now stands at £1.206bn including the financing of £167m of assets through remaining PFI schemes.

The graph below shows the level of debt for the current financial year compared with the prudential indicator operational and authorised boundaries. The debt shown from 1<sup>st</sup> December 2016 represents the debt position if no maturing debt was replaced rather than an estimate of the expected position.



The Authorised Limit is a prudent estimate of debt which reflects the Authority's capital expenditure plans and allows sufficient headroom for unusual cash movements.

The Operational Boundary is a prudent estimate of debt but no provision for unusual cash movements. It represents the estimated external debt arising as a consequence of the County Council's current plans and as such it is expected that the boundary could be breached but not on a regular basis. Total debt for the period has remained below the Operational Boundary.

The current interest rate payable on debt as measured by Arlingclose Ltd is 1.78%. The most recent benchmarking figure available of the average rate for all Arlingclose clients (as measured on 31<sup>st</sup> March 2016) is 3.94%.

#### 4. Budget Monitoring Position

The net financing charges budget for 2016/17 is forecasted to be £26.756m lower than the full year budget. The main reasons for this are:

- Sale of bonds due to market movements during recent months. This enabled some core Gilt bonds and other traded bonds to be sold resulting in a gain of £25m offset by a small reduction in interest receivable.
- There is a reduction of £1.954m in interest payable as a result of lower than anticipated borrowing.

This position is kept under regular review taking account both of ongoing performance and also market movements. The forecast is provided to the Director of Financial Resources on a monthly basis.

## **5. Prudential Indicators 2016/17**

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.

The County Council is within these Prudential Indicators as detailed in Annex 1.

## **6. Economic Outlook**

The economic uncertainty is set to continue. With this outlook the County Council's treasury management advisers Arlingclose Ltd are predicting that in the short-term the economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment. Their central forecast for the base rate is that it is to remain at 0.25% for not only the rest of the year but up to March 2020. However if there is to be any movement they predict that it will be a further reduction.

Consequently, the current Treasury Management Strategy is still considered to be appropriate for the current market conditions. The level of borrowing and investments are in line with this strategy and within the indicator limits.

**Prudential Indicators**

<b>1. Adoption of CIPFA Treasury Management Code of Practice</b>	Adopted
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<b>2. Authorised limit for external debt</b>		
The Authorised Limit is a prudent estimate of debt which reflects the Authority's capital expenditure plans and allows sufficient headroom for unusual cash movements.	<b>2016/17</b>	<b>30th Nov Actual</b>
	<b>£m</b>	<b>£m</b>
Borrowing	1,250	1,037
Other long term liabilities (PFI schemes)	200	167
<b>TOTAL</b>	<b>1,450</b>	<b>1,204</b>

<b>3. Operational boundary for external debt</b>		
The Operational Boundary is a prudent estimate of debt but has no provision for unusual cash movements. It represents the estimated maximum external debt arising as a consequence of the County Council's current plans.	<b>2016/17</b>	<b>30th Nov Actual</b>
	<b>£m</b>	<b>£m</b>
Borrowing	1,190	1,037
Other long term liabilities (PFI schemes)	180	167
<b>TOTAL</b>	<b>1,370</b>	<b>1,204</b>

<b>4. Capital Financing Requirement to Gross Debt</b>		
The Capital Financing requirement is the underlying need to borrow for capital purposes. This is the cumulative effect of past borrowing decisions and future plans. This is not the same as the actual borrowing on any one day, as day to day borrowing requirements incorporate the effect of cash flow movements relating to both capital and revenue expenditure and income.	<b>2016/17</b>	<b>30th Nov Actual</b>
	<b>£m</b>	<b>£m</b>
Capital Financing Requirement	871	871
Estimated gross debt	1,010	1,037
Debt to Capital Financing Requirements	117%	119%

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

**The County Council confirms that it has complied with its Prudential Indicators for 2016/17 for the reported period. The Prudential Indicators were approved in February 2016 as part of the County Council's Treasury Management Strategy Statement.**

## **Treasury Management Indicators**

<b>1. Interest Rate exposure</b>	<b>Upper Limit</b>	<b>Actual</b>
The limit measures the County Council's exposure to the risk of interest rate movements. The one year impact indicator calculates the theoretical impact on the revenue account of an immediate 1% rise in all interest rates over the course of one financial year.		
	<b>£m</b>	<b>£m</b>
Net Interest Payable – Fixed Rate	50.40	9.00
Net Interest Payable – Variable Rate	5.00	3.50
1 year impact of a 1% rise	10.00	1.40

<b>2. Maturity structure of debt</b>	<b>Upper Limit %</b>	<b>Actual %</b>
The limit on the maturity structure of debt helps control refinancing risk.		
Under 12 months	75	13
12 months and within 2 years	75	35
2 years and within 5 years	75	26
5 years and within 10 years	75	6
10 years and above	100	20

<b>3. Investments over 364 days</b>	<b>Upper Limit</b>	<b>Actual</b>
The limit on the level of long term investments helps to control liquidity, although the majority of these investments are held in available for sale securities.		
	<b>£m</b>	<b>£m</b>
Authorised Limit	900	496
Operating Limit	600	496

<b>4. Minimum Average Credit Rating</b>	<b>Benchmark</b>	<b>Actual</b>
To control credit risk the County Council requires a very high credit rating from its treasury counterparties.		
Average counterparty credit rating	A+	AA+



## **Audit and Governance Committee**

Meeting to be held on Monday, 30 January 2017

Electoral Division affected: (All Divisions)
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## **Financial Regulations (Appendix 'A' refers)**

Contact for further information:

Neil Kissock, Director of Financial Resources, Tel: 01772 536154,

[neil.kissock@lancashire.gov.uk](mailto:neil.kissock@lancashire.gov.uk)

### **Executive Summary**

The Council's Financial Regulations provide the framework for managing the Council's financial affairs and form part of the County Council's Constitution. They seek to ensure that the Council conducts its affairs in a way that complies with specific statutory provisions, generally accepted accounting principles and professional good practice.

The revised Financial Regulations are set out at Appendix 'A'.

### **Recommendation**

The Committee is requested to consider the proposed revisions to the Financial Regulations and agree that the revised Financial Regulations at Appendix 'A' be submitted to Full Council for approval.

### **Background and Advice**

Lancashire County Council is responsible for many millions of pounds of public money and has a number of statutory responsibilities in relation to its financial affairs under the following Acts:

- The Local Government Act 1972
- Local Government Finance Act 1982
- The Accounts and Audit Regulations 2015
- The Local Audit and Accountability Act 2014

The Financial Regulations provide the framework for managing the Council's financial affairs. They identify the financial responsibilities of Members and Officers of the Council.

The Council's Financial Regulations have been updated to reflect changes in the Council's operating arrangements. The revised Financial Regulations are set out at Appendix 'A'.

The main changes to the Financial Regulations are detailed below:

- Removal of references to the Lancashire County Commercial Group (LCCG);
- Replace references to 'County Treasurer' with 'Chief Finance Officer';
- Replace references to 'Chief Officers' with 'Heads of Service/Directors';
- Increase the limits relating to capital variations from '10% of the amount approved for the scheme or £40,000 (whichever is the lower)' to '20% of the amount approved for the scheme or £100,000 (whichever is the lower)' (paragraph 2.8);
- Increase the limit in respect of the capital post-completion statement from £70,000 to £1,000,000 (paragraph 2.11);
- Increase the financial limits for the Scheme of Virement from '5% of the gross expenditure or £140,000 (whichever is the lower)' to '10% of the gross expenditure or £250,000 (whichever is the lower)' (paragraph 2.17);
- Inclusion of sections relating to:
  - i. Maintenance of Reserves
  - ii. Treatment of Year End Balances
  - iii. Financial Implications of Reports
  - iv. Taxation

The Financial Regulations will be supplemented by Financial Regulations Guidance Notes and detailed Financial Procedure Rules based on the Chartered Institute of Public Finance and Accountancy (CIPFA) best practice. These are designed to help users understand the implications and support implementation of the Financial Regulations. The guidance notes are not required to be agreed by Full Council and will be issued following approval of the Financial Regulations.

## **Consultations**

N/A

## **Implications:**

This item has the following implications, as indicated:

## **Risk management**

All members and officers have a general responsibility for taking reasonable action to provide for the security of the assets under their control, and for ensuring that the



use of all Council resources is legal, is properly authorised and provides value for money.

### **Legal**

As set out in the report.

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

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



## Financial Regulations

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## Financial Regulations

### 1. Financial Accountabilities and Management

- 1.1. The Chief Finance Officer shall be the officer charged with the responsibility for the proper administration of the County Council's financial affairs and for acting as financial adviser to the Full Council, the Cabinet, individual Cabinet Members and Committees.
- 1.2. All money in the hands of the Council shall be under the control of the Chief Finance Officer who is the officer designated for the purposes of Section 151 of the Local Government Act 1972.
- 1.3. All accounts and financial records shall be kept in a form approved by the Chief Finance Officer who will also be responsible for the submission of all claims for grant to Government Departments and other public bodies, and for exercising a current supervision over all financial matters.
- 1.4. Heads of Service/Directors shall be responsible for ensuring that these Financial Regulations are observed throughout the service areas under their control.
- 1.5. For the purpose of complying with these Regulations, the appropriate Heads of Service/Directors shall provide the Chief Finance Officer with any information which he/she may require and, in addition, shall allow the Chief Finance Officer access where necessary to the documents and records under his/her control.
- 1.6. The Chief Finance Officer shall be responsible for preparing and publishing the Statement of Accounts in accordance with the statutory timetable. Heads of Service/Directors shall comply with accounting guidance provided by the Chief Finance Officer and supply him/her with the necessary information when required.
- 1.7. For schools, is a separate version of the financial regulations - [The School and Early Years Finance \(England\) Regulations 2014](#) which should be complied with by Schools' Forum activities. The regulations should also be read in conjunction with the [Scheme for Financing Schools in Lancashire \(September 2015\)](#) and where appropriate, the "Procedures and guidance for the operation of schools' local bank accounts". In addition, schools are required to comply with the Consistent Financial Reporting framework as specified by the Department for Education (DfE).
- 1.8. Members of the Cabinet responsible for specific service budgets shall be empowered to incur expenditure within their approved budgets subject to compliance with the Standing Orders and Procurement Rules of the County Council. However, no expenditure, capital or revenue, shall be incurred in connection with the adoption of any new policy or extension of existing policy outside the budget without the prior approval of the Full Council.

- 1.9. All Financial Regulations are subject to the provisions of Standing Order 29, which allows urgent decisions which are outside the budget or policy framework to be taken.
- 1.10. The Financial Regulations Guidance Notes and Financial Procedure Rules supplement these Financial Regulations and set out how the regulations will be implemented.
- 1.11. Failure to comply with the Financial Regulations may constitute misconduct and lead to formal disciplinary action.

## 2. Financial Planning

### Revenue Expenditure

- 2.1. Estimates of expenditure and income for the appropriate periods and times shall be prepared jointly by the Chief Finance Officer and the appropriate Chief Officer for submission in the first instance to the Cabinet and then to the Full Council.
- 2.2. Subject to Regulation 2.4 Heads of Service/Directors shall be responsible for ensuring that the amount provided in any budgets approved by the Full Council shall not in whole or in part be used for any purpose other than that for which it is authorised.
- 2.3. Heads of Service/Directors shall maintain appropriate budgetary control within their service areas and ensure that all income and expenditure are properly recorded and accounted for.
- 2.4. Heads of Service/Directors shall be responsible for ensuring that any proposed item of expenditure not included in the approved budget or any likely overspending or reduction of estimated income which cannot be met by a transfer in accordance with Regulation 2.17 or from reserves shall not be incurred unless an alternative source of finance has been identified and the prior consent of the Cabinet has been obtained. In all cases, Heads of Service/Directors must ensure that funding has been identified for the ongoing costs of any decisions taken.

### Capital Expenditure

- 2.5. Programmes of capital expenditure estimates shall be prepared jointly by the Chief Finance Officer and the appropriate Heads of Service/Directors for submission to the Cabinet and subsequently to the Full Council, for such periods and at such times as shall be determined by the Full Council.
- 2.6. Programmes of capital expenditure estimates as approved by individual Members of the Cabinet in respect of specific services shall be consolidated into a comprehensive report by the Chief Finance Officer for submission to the Cabinet.

## Appendix A

- 2.7. Approval by the Full Council of the programme of capital expenditure estimates (The Capital Programme) shall constitute the authority for incurring expenditure. Additions and amendments to the authorised Capital Programme may be made by the relevant Cabinet Member at any time provided that a source of finance, other than borrowing, has been identified and that the revenue consequences can be contained within existing budgetary provision. Such additions and amendments shall be reported to the next meeting of the Cabinet for information. The Cabinet shall have the power to suspend all authority to commit or to incur any capital expenditure which is not legally or contractually committed pending confirmation by the Full Council.
- 2.8. The estimated expenditure committed under the above authority must not exceed the amount approved for the scheme in the Capital Programme by more than 20% or £100,000 (whichever is the lower).
- If estimated expenditure does exceed the approved Capital Programme figure by more than the above limits then approval to the excess must be sought from the Cabinet Member with responsibility for Resources before any commitment is entered into. If the excess cannot be contained within the overall Capital Programme then the approval of Full Council will be required.
- 2.9. The estimated expenditure referred to in para 2.7 shall be the amount of the accepted tender (adjusted if necessary for any non-contract items), or, if there is no tender, the latest estimate of cost. This figure shall constitute the approved amount for monitoring purposes.
- 2.10. Cost increases which arise in the course of a project are to be treated as follows:
- (a) if additional payments arising from cost increases are required to allow a project to continue without delay or if the cost increases arise from fluctuations in the price of loose furniture and equipment, no prior approval is required but any action taken under this Regulation should be reported retrospectively to the Cabinet Member with responsibility for Resources;
  - (b) if total increased costs, including any previous increases are less than 20% or £100,000 (whichever is the lower) approval to the increase may be given by the Chief Finance Officer on the recommendation of the appropriate Chief Officer, but any action taken under this Regulation should be reported retrospectively to the Cabinet Member with responsibility for Resources;
  - (c) approval to any other cost increases must be sought from the Cabinet before any expenditure arising from such cost increases is committed.
- 2.11. For each capital project with an out-turn cost greater than £1,000,000 a post-completion statement is to be presented to the relevant Cabinet Member. The statement must show the original capital programme cost

estimate, the amount of the accepted tender, any subsequent approvals to increased costs and the actual out-turn expenditure. The statement is to be produced as soon as possible, and at the latest within two years after practical completion of the project.

- 2.12. Where a capital scheme takes the form of a general approval to spend without containing details of individual projects then approval by the relevant Cabinet Member to a detailed programme of capital expenditure is necessary prior to expenditure being incurred. This regulation does not apply to schemes for structural maintenance.

### **Maintenance of Reserves**

- 2.13. The Chief Finance Officer shall be responsible for advising upon prudent levels of reserves for the Council.
- 2.14. For each reserve established, the purpose, usage (including the timeframe for usage) and basis of transactions shall be clearly articulated.
- 2.15. Authorisation to finance expenditure from reserves will require the approval of the Cabinet, upon the advice of the Chief Finance Officer, unless alternative arrangements were agreed when the reserve was established.
- 2.16. Under Section 114 of the Local Government Finance Act 1988 the Chief Finance Officer must report to Council if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the Council will not have the resources to meet its expenditure in a particular financial year.

### **Scheme of Virement**

- 2.17. Transfers of expenditure between budgets (virements) may be made by Heads of Service/Directors within delegated budgets provided the amount of any individual transfer does not exceed 10% of the gross expenditure or £250,000, whichever is the lower:

Or in any other case, with the consent of the relevant Cabinet Member/s.

### **In Year Budget Increase/Supplementary Budgets**

- 2.18. In the event that it is not possible to move resources between budget headings to meet a liability, a request may be made to Cabinet following consultation with the Cabinet Member with responsibility for Resources and the Chief Finance Officer, for an increase in budget.

### **Treatment of Year End Balances**

- 2.19. The Cabinet shall be responsible for agreeing procedures for carrying forward any under or over spending on budgets, provided that such carry forwards do not constitute an alteration to the policy and budget framework.

### **Financial Implications of Reports**

- 2.20. Heads of Service/Directors shall be responsible for ensuring that Cabinet Members are advised of the financial implications of all proposals and that the financial implications have been agreed by the Chief Finance Officer prior to the reports being submitted to the Cabinet or Cabinet Members.

### **3. Risk Management and Control of Resources**

#### **Insurance**

- 3.1. The Chief Finance Officer shall arrange and administer all insurances as directed by the Cabinet or, in the case of a school exercising the option for delegation, be arranged by the school in a manner approved by the Chief Finance Officer.
- 3.2. Heads of Service/Directors shall notify the Chief Finance Officer promptly of all risks, liabilities, properties or vehicles which require to be insured and of any alterations affecting risks or insurances indicating the amount of cover required.
- 3.3. Heads of Service/Directors shall immediately notify the Chief Finance Officer of any fire, loss, accident or other event which may give rise to a claim against the County Council's insurers.

#### **Internal Audit**

- 3.4. The Chief Finance Officer shall, to the extent he/she considers necessary or desirable, conduct or arrange for the examination and audit of the accounts of the County Council and of its officers and agents.
- 3.5. The Chief Finance Officer or his/her representative shall have access for any necessary examination and audit, at all reasonable times, to all cash, property, documents, books of accounts and vouchers appertaining in any way to the finances of the County Council, and shall be entitled to require such explanations as may be reasonably considered necessary to satisfy himself/herself of the correctness of any matter under examination.

#### **Control of Resources**

- 3.6. Heads of Service/Directors shall be responsible for the safe custody and physical control of stores and equipment and for the maintenance of records in the form approved by the Chief Finance Officer. The records shall include such items as the Chief Finance Officer, after consultation with Heads of Service/Directors, considers necessary.
- 3.7. Heads of Service/Directors shall arrange periodic physical checks of equipment and stores against relevant records by officers other than those responsible for their custody and control.



### **Irregularities**

- 3.8. Heads of Service/Directors shall notify the Chief Finance Officer immediately of all financial or accounting irregularities or suspected irregularities or of any circumstances which may suggest the possibility of irregularities including those affecting cash, stores, property, remuneration or allowances.

### **Third Party Funds**

- 3.9. Third party funds held by an employee of the County Council acting by virtue of his/her office or employment shall be notified to the appropriate Chief Officer concerned who shall, where necessary and in consultation and on the advice of the Chief Finance Officer, prescribe from time to time procedures for ensuring that such funds are properly administered, accounted for and audited.

### **Treasury Management**

- 3.10. The County Council has adopted CIPFA's Treasury Management in Public Services: Code of Practice, as described in that Code.
- 3.11. The Chief Finance Officer shall create and maintain a Treasury Policy Statement and suitable Treasury Management Practices as recommended in the CIPFA Treasury Management Code of Practice.
- 3.12. The Chief Finance Officer shall undertake to submit to the Full Council its Treasury Management Strategy in advance of the year.
- 3.13. The County Council sets its Treasury Management Strategy in line with the indicators required under the CIPFA Prudential Code for Capital Finance.
- 3.14. Within the approved indicators set for the authorised limit and operational boundary for debt, the Chief Finance Officer shall have delegated authority to switch between the levels agreed for borrowing and other credit liabilities.
- 3.15. All arrangements with the County Council's bankers shall be made solely by the Chief Finance Officer, or in a manner approved by him/her after consultation with the appropriate Heads of Service/Directors. The Chief Finance Officer shall be authorised to open such accounts in the name of the County Council and to give such directions thereon as shall be necessary for the making of payments on behalf of the County Council and for the deposit of moneys received by the County Council.

## **4. Financial Systems and Procedures**

### **Income and Expenditure**

- 4.1. New financial procedures and systems shall not be introduced or existing systems amended without consultation with, and the prior approval of, the Chief Finance Officer.

## Appendix A

- 4.2. All receipts shall be paid into and all payments shall be made out of the County Fund by or under the direction of the Chief Finance Officer.
- 4.3. Arrangements for the safe and efficient receipt and accounting of all moneys due to the County Council shall be subject to the supervision of the Chief Finance Officer who may issue such instructions as he/she deems necessary.
- 4.4. The Chief Finance Officer shall issue such instructions as he/she deems necessary on the procedures for the ordering of goods and the verification of invoices and claims; and he/she shall be entitled to make enquiries and to receive such information and explanation as he/she may reasonably require. (See also Regulation 4.10).
- 4.5. Invoices and claims for payment shall be examined and verified by or on behalf of Heads of Service/Directors and shall be certified in such form and manner as shall be prescribed by the Chief Finance Officer .
- 4.6. The Chief Finance Officer shall provide such Imprest and Advance Accounts as he/she considers suitable for appropriate officers and other employees of the County Council for the purposes of defraying petty cash and other expenses and shall issue the necessary instructions to imprest holders for the setting up and operation of these accounts.
- 4.7. The Chief Finance Officer shall, to the extent he/she considers necessary, examine, prior to payment, final accounts of contracts.
- 4.8. Without prejudice to the legal obligations of the nominated Architect or Engineer under the contract, on the completion of any contract for Building Construction or Engineering Works the final certificate of completion shall not be issued until the appropriate officers, private architects, engineers or consultants have provided to the Chief Finance Officer detailed statements of account and other relevant documents.
- 4.9. The Chief Finance Officer shall be informed in writing of all written contracts, agreements, awards and other instruments involving the payment or receipt of money by the County Council.
- 4.10. Purchase of equipment, goods and materials shall be effected through the most economical and practical means, making use of contracts arranged by the Corporate Procurement Team and co-ordinated purchasing or any other contracting arrangements where these are available. To this end the Chief Finance Officer shall issue such general instructions as he/she deems necessary and shall be entitled to make such enquiries and to receive such information and explanations as he/she may reasonably require.

### **Payments to Employees and Members**

- 4.11. The assessment, calculation and payment of all salaries, wages, pensions, pension payments, compensation and other emoluments or allowances to

employees or Members or former employees of the County Council shall be made by the Chief Finance Officer, or in a manner approved by him/her after consultation with the appropriate Heads of Service/Directors.

### **Taxation**

- 4.12. The Chief Finance Officer shall be responsible for maintaining the Council's tax records, making all tax payments, receiving tax credits and submitting tax returns by their due date as appropriate.

### **5. External Funding**

- 5.1. Heads of Service/Directors shall ensure that all funding notified by external bodies is received and properly recorded in the authority's accounts in a form approved by the Chief Finance Officer. Heads of Service/Directors shall also ensure that the written approval of the Chief Finance Officer is obtained prior to committing the County Council to act as the "accountable body" for any partnership with which it is involved.
- 5.2. Heads of Service/Directors shall ensure that the matched funding requirements are considered prior to entering into an agreement and that future revenue budgets reflect these requirements.
- 5.3. Heads of Service/Directors shall ensure that audit requirements are met, that all claims for funds are made by the due date and that all expenditure is properly incurred and recorded.

### **Note**

The above Regulations, whilst specific in terms, are intended to operate with proper consultations with the appropriate Heads of Service/Directors, especially where other professions and skills are required to give effect to them in relation to procedures and professional practices to be observed.

These Regulations should be read in conjunction with other internal regulatory frameworks which form part of the Council's Constitution, for example, procurement rules (contract standing orders); schemes of delegation; the Codes of Conduct for employees and Members and the Financial Regulations Guidance Notes and Financial Procedure Rules.



## **Audit and Governance Committee**

Meeting to be held on Monday, 30 January 2017

Electoral Division affected: (All Divisions);
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## **Update on the Measurement of the Highways Network Asset**

Appendix 'A' refers

Contact for further information:

Neil Kissock, Director of Financial Resources, Tel: 01772 536154,

Neil.Kissock@lancashire.gov.uk

### **Executive Summary**

At its meeting in September 2016, the new regulations for the measurement of the Council's Highways Network Asset (HNA), for the purposes of the Council's statutory statement of accounts, was reported to the Audit and Governance Committee. From 1 April 2016, it was intended that these assets would be disclosed separately as a single asset on the face of the Balance Sheet valued at Depreciated Replacement Cost, a change from the previous Historical Cost basis. Although this was expected to increase the Council's noncurrent asset value by several billion pounds, accounting adjustments would be required that would nullify any effect on the Council's net worth, funding requirements or budget.

CIPFA/LASAAC Local Authority Accounting Code Board, in November 2016, has taken the decision to defer implementation for the 2016/17 financial year. They will review this position at their meeting in March 2017 with a view to implementation in 2017/18.

The County Council will continue to develop the technical solutions to deliver these requirements with the new timeframe in mind considering the risks involved in implementing a change of this scale and complexity.

### **Recommendation**

The Audit and Governance Committee is recommended to note this report.

### **Background and Advice**

The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 includes the adoption of the asset valuation requirements of the CIPFA Code of Practice on Transport Infrastructure Assets (The Transport Code). The Transport Code was first published in 2010 with the objective of using an asset management based approach to the provision of financial information in relation to transport infrastructure assets.

The Council's transport infrastructure assets are currently measured on a Historical Cost basis and depreciated in accordance with its current accounting policies. From 1 April 2016, it was intended that these assets would be referred to as the 'Highways Network Asset' (HNA) and would be disclosed separately as a single asset on the face of the Balance Sheet, with its valuation built up from data maintained by highways engineers. It would be measured at Depreciated Replacement Cost (DRC) by calculating the cost of replacing the asset with its modern equivalent, then applying deductions for all forms of physical deterioration based on relevant data relating to age and condition of the assets in use. This approach was expected to harmonise the valuation methods used by local and central government and was considered by CIPFA to better reflect the economic value of the substantial assets held and maintained by local authorities.

This change, from the existing historic cost basis, was to be applied prospectively i.e. with effect from 1 April 2016 with no requirement for the 2015/16 position to be restated.

The impact on the Council's Balance sheet is expected to be significant, with the value of noncurrent assets likely to increase by several billion pounds. It should be noted, however, that a compensatory increase to the Revaluation Reserve will nullify the impact so that the overall change to the net worth of the Council's Balance Sheet would be nil. There will also be a commensurate increase in the amount of depreciation charged to service revenue accounts to account for the higher value asset base. As regulations prevent depreciation from being charged to the County Fund, there is no associated funding requirement and there will be no impact on the Council's budget.

### **Update on the Measurement of the Highways Network Asset**

In preparing to implement the new regulations, the Council used video survey of the Highways Network to provide up to date volumetrics. This survey information combined with national indices provided by CIPFA was to form the basis of the opening valuation. Further work was to be carried out by the finance team to validate the initial conclusions and update the opening value for changes to the Highways Network during 2016/17.

However, at its meeting on 9 November 2016, the CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC) decided to postpone the full implementation of the move to measuring the Highways Network Asset at Depreciated Replacement Cost in local authority financial statements. The statement from CIPFA/LASAAC is provided at Appendix 'A'.

CIPFA/LASAAC have recognised the commitment and work of local authorities in preparing for implementation as well as the engagement of local auditors in the project and is grateful for the level of feedback and input this has given. The latest feedback on preparedness has provided them a strong level of confidence in the amount of work local authorities have done.

A key, final, part of implementation was the provision of central Gross Replacement Cost (GRC) rates from CIPFA. The current rates were originally developed at the

start of the project and are now over five years old. For the last eighteen months CIPFA has been working with the relevant stakeholders, including the Department for Transport, to ensure that the review of the central rates for the measurement of the Highways Network Asset would be ready for the 2016/17 implementation date. New rates are critical to implementation given the timeframe since the last rates were produced. It has become clear that these rates will not be ready in good time for the 2016/17 financial statements.

As a result CIPFA/LASAAC, at its meeting in November 2016, took the decision to defer implementation for the 2016/17 financial year. CIPFA/LASAAC will review this position at its meeting in March 2017 with a view to implementation in 2017/18. In making its decision in March CIPFA/LASAAC will be looking to ensure that central GRC rates and central assurance processes will be delivered in a timely manner to allow successful implementation. CIPFA/LASAAC has decided that the approach to adoption of the new measurement requirements in the 2017/18 Code will be on the same basis as planned for 2016/17, i.e. not requiring restatement of preceding year information.

The County Council will continue to develop the technical solutions to deliver these requirements with the new timeframe in mind considering the risk involved in implementing a change of this scale and complexity.

### **Consultations**

N/A

### **Implications:**

This item has the following implications, as indicated:

### **Risk management**

### **Financial**

As set out in the report

### **Local Government (Access to Information) Act 1985**

#### **List of Background Papers**

Paper	Date	Contact/Tel
Approval of the County Council's Statement of Accounts 2015/16	26 September 2016	Khadija Saeed, Head of Corporate Finance, 01772 536195

Reason for inclusion in Part II, if appropriate

N/A





## **Important Update from the CIPFA/LASAAC Local Authority Accounting Code Board on the Measurement of the Highways Network Asset**

At its meeting on 9 November, the CIPFA/LASAAC Local Authority Accounting Code Board<sup>i</sup> (CIPFA/LASAAC) decided to postpone<sup>ii</sup> the full implementation of the move to measuring the Highways Network Asset at Depreciated Replacement Cost in local authority financial statements.

It will issue an Update to the 2016/17 *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) to confirm this decision once it has completed the full due process.

CIPFA's *Code of Practice on the Highways Network Asset*<sup>iii</sup> (Highways Code) was developed to promote effective asset management and use the same information for financial reporting of the Highways Network Asset within local authorities. For a number of years local authorities have been developing detailed inventory data on their network assets and beginning to use this data to develop the underlying valuation of the asset with a view to full implementation of the new measurement requirements in the 2016/17 financial statements, using centrally provided models and Gross Replacement Cost (GRC) rates. It is estimated that full implementation will result in a revaluation increase of approximately £1trillion to the UK public sector balance sheet in respect of local authority Highways Network Assets.

CIPFA/LASAAC recognises the commitment and work of local authorities in preparing for implementation as well as the engagement of local auditors in the project and is grateful for the level of feedback and input this has given. The latest feedback on preparedness provides a strong level of confidence in the amount of work local authorities have done on improving highways inventory data. As implementation progresses some detailed issues have emerged but CIPFA/LASAAC remains confident that these can be successfully resolved and many were addressed in the update to the Highways Code published in the Summer.

A key, final, part of implementation is the provision of central GRC rates. The current rates were originally developed at the start of the project and are now over five years old. For the last eighteen months CIPFA has been working with the relevant stakeholders, including the Department for Transport, to ensure that the review of the central rates for the measurement of the Highways Network Asset would be ready for the 2016/17 implementation date. New rates are critical to implementation given the time frame since the last rates were produced. Unfortunately, despite best efforts, it has become clear that these rates will not be ready in good time for the 2016/17 financial statements.

As a result CIPFA/LASAAC, at its meeting in November 2016, took the decision to defer implementation for the 2016/17 financial year. CIPFA/LASAAC will review this position at its meeting in March 2017 with a view to implementation in 2017/18. In making its decision in March CIPFA/LASAAC will be looking to ensure that central GRC rates and central assurance processes will be delivered in a timely manner to allow successful implementation. CIPFA/LASAAC has decided that the approach to adoption of the new measurement requirements in the 2017/18 Code will be on the same basis as planned for 2016/17, i.e. not requiring restatement of preceding year information.

CIPFA/LASAAC would once again like to thank all those involved for the hard work in getting to this point and will continue to work towards successful implementation whilst being minded of the level of risk involved.

## **CIPFA/LASAAC**

**14 November 2016**

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<sup>i</sup> CIPFA/ Local Authority (Scotland) Accounts Advisory Committee (LASAAC) is the Board responsible for the development of the Code of Practice on Local Authority Accounting in the United Kingdom.

<sup>ii</sup> The decision of CIPFA/LASAAC to postpone the move to the new measurement requirements for the Highways Network Asset and the issue of the Update to the 2016/17 Code will need to follow the normal full due process before publication ie the Update of the 2016/17 Code will be considered the Government's Financial Reporting Advisory Board (FRAB).

<sup>iii</sup> The Code of Practice on the Highways Network Asset, CIPFA, August 2016.

## **Audit and Governance Committee**

Meeting to be held on Monday, 30 January 2017

## **Report of the Head of Legal & Democratic Services**

Electoral Division affected: (All Divisions);
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### **Risk & Opportunity Register: Quarter 3**

(Appendix "A" refers)

Contact for further information:

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#### **Executive Summary**

This report provides an updated (Quarter 3) Risk and Opportunity Register for the Committee to consider and comment upon.

#### **Recommendation**

The Committee are asked to note the updated Risk and Opportunity Register at Appendix A.

#### **Background and Advice**

Following the corporate approach to reporting on risk and opportunity, the quarter 3 Risk and Opportunity register was recently reported to Management Team.

Following this the report was presented to Cabinet Committee on Performance Improvement on 5<sup>th</sup> December 2016. An updated Risk and Opportunity Register is attached at Appendix A and the Committee is asked to comment upon it.

The key highlights in the register include:

- for this quarter there are no additions or deletions to the register;
- allowing for mitigating actions, the residual risk score for the following entries remain 12 or above so the issue remains on the register:

<b>Risk Identification Number (RIN)</b>	<b>Risk Description</b>
CR1	Failure to implement the county council's Medium Term Financial Strategy (MTFS). Further mitigating actions added but residual risk score remains unchanged.
CR2	Risk to the on-going financial viability of the county council. Further mitigating actions added but residual risk score remains unchanged.
CR4	Delivering Organisational Transformation. Further mitigating actions added but residual risk score remains unchanged.
CR5	Inability to adequately protect and safeguard children. Further mitigating actions added. Direction of travel updated.
CR6	Failure to comply with statutory requirements and duties relating to CLA, children in need and children leaving care. No change.
CR7	Failure to recruit and retain experienced staff within Children's services. Further mitigating actions added and direction of travel updated
CR8	Reputational damage and risk of direct intervention by DFE. Direction of travel updated.
CR12	Inability to implement/maintain systems that produce effective management information. Further mitigating actions added but residual score remains the same.
CR15	Delivering new waste management arrangements – direction of travel updated.
CR16	Management of the County Council's assets. Further mitigating actions added but residual score remains the same.
CR20	Transforming care (Winterbourne). Residual score remains at 12.
CR21	Service user/customer risk associated with the inability to influence behaviour change in demand and expectations continue to rise. Residual score remains at 12.
CR24	Failure to achieve targets with National Troubled Families Unit. No change.
CR25	Failure to implement and meet the statutory requirement to children and young people with special educational needs and/or disabilities
CR26	Proposed museums closures. Further mitigating actions added but residual score remains the same.
CO1	Developing a new model for public service delivery in Lancashire. Further maximising actions added.
CO2	Delivering economic growth. Further maximising actions added.
CO3	Opportunities through delivering the corporate strategy and property strategy. No change.
CO4	Health & Social Care Integration. Further maximising actions added.

### **Implications:**

This item has the following implications, as indicated:

### **Risk management**

Good governance enables an authority to pursue its vision effectively as well as underpinning that vision with sound arrangements for control and management of risk. An Authority must ensure that it has a sound system of internal control which

includes effective arrangements for the management of risk. Failure to develop and maintain a Corporate Risk & Opportunity Register means the Council would be negligent in its responsibilities for ensuring accountability and the proper conduct of public business

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

Paper	Date	Contact/Tel
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N/A

Reason for inclusion in Part II, if appropriate

N/A



## Appendix A: Corporate Risk & Opportunity Register Q3 2016/17

Risk Identification Number (RIN)	Risk Description	Risk Type	Possible Consequences	Current Controls	Risk Score	Mitigating Actions	Residual Score	Risk Owner	Direction of Travel
CR1	Failure to implement fully the councils medium term financial strategy including the delivery of planned budget reductions	Economic	Financial Savings not achieved resulting in in-year overspends with pressure on following year budget and reserves depleted more quickly than planned. Reductions in service and/or drop in quality of delivery leading to JR and damage to Council's reputation. New legislative requirements not being met and uncertainty over being able to deliver and/or implement future large projects. Potential for infrastructure to deteriorate.	<ul style="list-style-type: none"> <li>Monthly budget monitoring processes for Heads of Service and Directors with particular focus on agreed savings delivery.</li> <li>Ensure key programmes of activity (particularly linked to savings / downsizing) are adequately resourced.</li> <li>Quarterly Money Matters budget monitoring reports, MTFs, reserves and Treasury Management reports presented to members (includes capital).</li> <li>Management Team actions to monitor key areas of expenditure and consider remedial courses of action to address budgetary pressures.</li> <li>Robust Medium Term Financial Strategy and Plan, updated to reflect variations to resource and demand assumptions. Reserves regularly monitored and reviewed.</li> <li>Resources allocated to Base Budget Review. Rebalance budget savings via an ongoing risk assessment.</li> </ul>	25	<ul style="list-style-type: none"> <li>Recommendations from Zero Based Budget Review to be considered by members at Cabinet meeting December 2016 as part of Money matters report. This will also be considered by Budget Scrutiny Working Group</li> <li>Improve commercial and financial acumen.</li> <li>Continuously revalidate budget assumptions.</li> <li>Develop a future public service model for Lancashire in conjunction with partners – stakeholder engagement plan in place - briefings have been delivered by PWC. Outline proposals for council's new delivery model have been presented to the Political Governance Working Group. Report to Cabinet in January 2017.</li> <li>Development of response to the Treasury and DCLG regarding the implementation of business rate retention and future needs assessment/allocation formula.</li> <li>Communicating with stakeholders to ensure an understanding of the councils financial position and need for change</li> <li>Communicating specific proposals and service developments in the context of the financial scenario</li> <li>Programme Office supporting services to deliver savings and bring forward savings wherever possible</li> </ul>	16	Section 151 Officer	As time progresses the risk to some extent reduces. However, the risk cannot be fully mitigated until all the necessary enabling decisions have been taken and the relevant budget options have been realised.
CR2	Risk to the ongoing longer-term Financial Viability of the County Council	Economic/ Political/Social	Problems stored up for the future as a combination of delivery issues in CR1 and further national funding reductions causing minimum reserve position not to be maintained with the risk of not being able to set a balanced legal budget in future years.	<ul style="list-style-type: none"> <li>Base Budget Review has identified the risk of the County Council not being able to meet statutory obligations by 2018/19. The actual timing of when this situation may occur will be identified from the various monitoring and review process outlined in CR1 above</li> </ul>	25	<ul style="list-style-type: none"> <li>Zero Based Review activity (focus on lower quartile) will determine the scope for additional savings in all remaining services within the County Council (ongoing).</li> <li>Links to Combined Authority work including Healthier Lancashire programme with the NHS as to any opportunities / additional pressures (ongoing).</li> <li>Lobbying – Treasury and DCLG by utilising ongoing existing networks MP's / Members, LGA, CCN, SCT (ongoing) – met with DCLG in July outlining financial position and outlook. Also explained PWC work and will meet again when this is available.</li> <li>Report on the Councils future delivery model will be reported to Cabinet in December 16.</li> <li>Development of response to the Treasury and DCLG of future needs assessment/allocation formula.</li> </ul>	25	MT	Level

						<ul style="list-style-type: none"> <li>Communicating with stakeholders to ensure an understanding of the councils financial position and need for change</li> <li>Communicating specific proposals and service developments in the context of the financial scenario</li> </ul>			
CR4	Delivering organisational transformation including capacity and resilience	Organisational	The failure to clearly implement the draft corporate strategy that sets out our vision, aims and priorities could result in a lack of purpose, direction and have an impact on service delivery and produce an adverse external audit report. The new structure that seeks to provide the ability to join up our services in a new way may not be fit for purpose. Ineffective employee engagement and buy in. A fall in staff morale could increase sickness absence and stress. Loss of knowledge and skills due to turnover puts demand on remaining staff which can expose the council to key person dependency and the risk of poor resilience.	<ul style="list-style-type: none"> <li>The draft corporate strategy has now been amended to reflect the consultation outcomes and has been to full council.</li> <li>The draft corporate strategy is being used to inform the development of the property review and proposed neighbourhood plans.</li> <li>As part of the base budget review process options for service delivery and redesign have been developed including proposals to stop some services.</li> <li>Management Team approval of all new appointments and cessation of temporary staff contracts.</li> <li>Senior Management Development programme implemented.</li> <li>Positive employee communication and engagement.</li> <li>Wellbeing initiatives and support for managers and employees.</li> <li>Introduced a new scheme of delegation for heads of service.</li> </ul>	16	<ul style="list-style-type: none"> <li>The draft corporate strategy has been amended to reflect the consultation outcomes and subject to amendment approved by full council. This process is on-going.</li> <li>Interim structures to reflect the base budget review options are being developed and implemented.</li> <li>Property strategy and accommodation review being progressed and approach to neighbourhood plan being developed.</li> <li>Independent challenge</li> <li>See specific actions in relation to other risk entries i.e. Ofsted inspection</li> <li>Use of transformation reserves to fund temporary staffing</li> <li>Property review – preparatory work on planned premises closures</li> <li>Implementation of recruitment and retention strategies</li> <li>Defining new service models across the organisation</li> <li>Adults service transformation – recruitment of temporary staff</li> <li>Children's service transformation – pilot programme in Fylde &amp; Wyre</li> <li>Children's services transformation – implementation of the framework contract and appointment of temporary staff</li> <li>Extensive information is made available through the councils website which is also used by the customer service centre as a core council information resource</li> <li>Promoting recognition and benefits of working at the council</li> </ul>	12	MT	Level
CR5	Failure to adequately protect and safeguard children	Social	Children are put at risk of harm.	<ul style="list-style-type: none"> <li>MASH hub.</li> <li>Serious incident reporting.</li> <li>Quarterly safeguarding report, to include LSCB.</li> <li>SCR learning shared.</li> <li>Case file audits.</li> <li>Multi-agency inspections.</li> <li>Supervision with HOS.</li> <li>Performance Data</li> </ul>	25	<ul style="list-style-type: none"> <li>Post Improvement Inspection Board with Independent Chair appointed.</li> <li>LSCB membership of Improvement Board and acting as critical friend.</li> <li>Post Inspection Improvement Plan.</li> <li>Review of all CiN cases using internal and external capacity.</li> <li>Social Work Recruitment Strategy.</li> <li>Peer Challenge.</li> <li>Newton Europe review of pathways.</li> <li>Established new QA system - developed risk sensible model develop CIN teams.</li> <li>LSCB have established new QA system including multi-agency case file audits.</li> <li>Monthly compliance recording of Strategy Meetings.</li> </ul>	16	Director of Children's Services	SW recruitment has improved. Senior managers are now working in districts. Independent Board Chair appointed. CSC remodelling including new CIN Hubs and PPA teams. 2 qualified social workers now working in



						<ul style="list-style-type: none"> <li>Strengthen quality assurance role of Independent Reviewing Officers.</li> <li>Management Team approval of 15 additional IRO posts and 3.5 additional Quality and Review Manager posts post inspection.</li> <li>IRO completion of mid-point checks on case files.</li> <li>Prepared for and supported Ofsted inspection of children in need and child protection cases that took place early September</li> <li>Serious case review rota in place</li> <li>Lancashire Safeguarding Children's Board to review the referral process</li> <li>Completed diagnostic of MASH &amp; Contact &amp; Contact and Referral assessment Centre</li> <li>New Director of Children's Services appointed</li> <li>Ofsted quarterly monitoring visit scheduled for 11th January 2017</li> <li>Peer review/challenge scheduled for New Year</li> </ul>			Customer Access Service to ensure appropriate referrals to CSC and timely response to S47 enquiries. Recruited to additional CSE posts to improve identification, assessment and intervention
CR6	Failure to comply with statutory requirements and duties relating to children looked after, children in need and children leaving care.	Legal/Political	LA is legally and possibly financially liable, judicial review. Further OFSTED intervention.	<ul style="list-style-type: none"> <li>Corporate legal oversight.</li> <li>Quarterly safeguarding report.</li> <li>Serious incident reporting.</li> <li>Serious case review learning.</li> <li>Peer review and challenge.</li> <li>Stronger management oversight in Districts.</li> </ul>	25	<ul style="list-style-type: none"> <li>Monthly compliance recording of Strategy Meetings and S47 Enquiries.</li> <li>LSCB have established new QA system including multi-agency case file audits.</li> <li>Back to basics SW practice training.</li> <li>Locality Practice Improvement Meetings.</li> <li>Develop PPA Teams.</li> </ul>	16	Director of Children's Services	Compliance reporting shows multi-agency Strategy Meetings are taking place in the majority of cases.
CR7	<p>Failure to recruit and retain experienced Social Work staff</p> <p>Failure to recruit and retain Independent Reviewing Officers.</p> <p>Failure to recruit and retain experienced BSO staff.</p>	Organisational	Inability to deliver effective services. High caseloads. Lack of management oversight. Increased staff turnover. Increased agency spend.	<ul style="list-style-type: none"> <li>Vacancy monitoring. Recruitment strategy. Quarterly safeguarding report.</li> <li>Reliance on agency staff risk of high staff turnover and inconsistency of practice. CYP experience frequent changes of IRO. Lack of consistent IRO oversight of Care Plans and CP plans. Impact on the budget - cost of agency staff.</li> <li>Insufficient BSO support resulting in increased administrative tasks for managers and practitioners.</li> </ul>	25	<ul style="list-style-type: none"> <li>Additional funding envelope. Enhanced recruiting – vacancies being filled with a high proportion of newly qualified staff. Newton Europe pathway review. Increased focus on retention.</li> <li>External agency contract to look at CIN cases and work following MASH</li> <li>Increased focus on staff retention</li> </ul>	16	Director of Children's Services	Improving Social Work recruitment is now at the levels within the original funding envelope prior to the £5M and recruitment is continuing
CR8	<p>Reputational damage and risk of Direct Intervention by DFE.</p> <p>Negative media exposure.</p>	Reputational	<p>DFE manages services directly and removes them from the LA. Commission arrangements brought in.</p> <p>Loss of reputation. Impact on partner agencies.</p>	<ul style="list-style-type: none"> <li>Safeguarding and Audit arrangements. Direct management oversight of services.</li> <li>Media planning around key issues and Serious Case Reviews. Scrutiny of key reports and information. Communication with Comms Team.</li> </ul>	25	<ul style="list-style-type: none"> <li>Post Improvement Inspection Board with Independent Chair appointed. Post Inspection Improvement Plan. Senior management input into each of the 3 Children Social Care Districts. Review of all CiN cases using internal and external capacity. Social Work Recruitment Strategy. Peer Challenge. Newton Europe review of pathways.</li> <li>The council has been issued with an Improvement Notice by DFE which is the lowest level of implementation.</li> </ul>	16	Director of Children's Services	Increased IRO capacity (now fully staffed) and Improved systems in place to quality assure practice.

						<ul style="list-style-type: none"> <li>• Communication planning surrounding publication of Serious Case Reviews. Two way communication between LSCB and partner agencies.</li> <li>• Additional IRO and Advanced Practitioner posts</li> </ul>			
CR12	<p>Failure to implement/maintain systems that produce effective management information</p> <p>Failure to improve quality of data in Liquid Logic's systems (LCS/LAS)</p> <p>Operational failure in the main IT Computer Suite (T101)</p>	Organisational	<p>Ineffective collection, collation and input of data</p> <p>Ineffective use of business intelligence, resulting in the inability to identify and respond to changing trends and inform strategic decisions. Impact on strategic planning, understanding and management demand e.g. around demographics and ageing population profile</p> <p>Ineffective reporting arrangements.</p> <p>Statutory returns will be compromised, so incorrect performance will be reported nationally. OFSTED/CQC/LGA and other external organisations will be using inaccurate information to judge performance. Service planning and management will be severely compromised.</p> <p>Reliance on uninterrupted operation of T101 cannot be over emphasised. Power up following an uncontrolled failure takes 5 times longer than after a controlled shutdown. Impact on service delivery</p>	<ul style="list-style-type: none"> <li>• Information management strategy. Data Quality processes. Oracle. Local Information Systems. Corporate performance information. JSNA and other needs assessments</li> <li>• Weekly provision of information to operational managers. Monthly Performance Books or dashboards provided to Start Well Management Team and Adults Leadership Team. Use of exception reports to flag up data quality issues.</li> <li>• Over £200k has been invested to improve the back-up services for T101 to improve reliability. However, there are still potential risks regarding A/C cooling, maintenance of UPS units and insurance requirements regarding fire alarm links</li> </ul>	15	<ul style="list-style-type: none"> <li>• External support to focus on Children's Services data issues. Introduction of new governance arrangements for children's services. Introduce a new performance management framework that is aligned to draft corporate strategy. Agree performance, financial data and intelligence required for all levels within the County Council. Agree milestones and metrics.</li> <li>• Project Accuracy being supported by Newton Europe, SRO and close involvement of Business Intelligence.</li> <li>• Developing improvement plan that includes culture and assurance. The plan will include systems such as Controcc and LAS</li> <li>• Performance sub-group reporting the Improvement Board Chair</li> <li>• Additional temporary resource employed within Business Intelligence to provide reports for Project Accuracy 2.</li> <li>• Multimillion pound refurbishment programme including upgrading the electrical infrastructure of county hall complex - to improve the reliability of the IT Suite.</li> <li>• Joint working of Children's Services, Business Intelligence, System Control Team and Programme Office to establish an Accuracy Working Group (relating to Children's services).</li> <li>• 'Passport to Independence' reporting work stream incorporating exception reporting.</li> <li>• 'P2P' project (led by System Control Team) focussing on procedures and data quality.</li> </ul>	12	MT	Level
CR15	<p>Delivering new waste management arrangements</p> <p>Delivery of BOP 046 and GRLOL Transformation</p>	Economic Environmental Reputational Legal	<p>Excessive transitional costs. Excessive operating cost. Operational hazards and liabilities. Health and Safety issues. Permit non-compliance. Increased landfill/reduced recycling. Public disillusionment</p>	<ul style="list-style-type: none"> <li>• LCC strategic leadership of waste company. LCC HR, Legal and Financial support. Programme office monitoring of savings targets. Regular liaison with Environment Agency. Cabinet Member briefing. Union consultation. Regular liaison with WCAs and Blackpool Council.</li> </ul>	16	<ul style="list-style-type: none"> <li>• Approval of GRLOL structure by Board and Employment Committee. Staff consultation and notice of redundancy. Review and reconsideration of operating proposals. Submission of permit modification</li> <li>• Review calculation of waste budget with finance. Development of detailed company operating and</li> </ul>	12	Head of Waste Management	Downwards. Risk from key transformation processes significantly reduced. Operational risks will reduce

	Delivery within 16-17 budget		<p>regarding recycling services. Impacts on WCAs and LWP. Employee and Union claims. Impacts</p> <p>Potential for budget overspend based due to following attributing factors: Initial calculation of waste budget (and MTFS); Increased and uncertain in year company operating costs; One off and uncertain company transitional costs; uncertainty with regards to delivery of operational changes (i.e. odour management systems, insurances)</p>	<p>Communications strategies</p> <ul style="list-style-type: none"> <li>Regular budget monitoring and forecasting exercises. Monthly monitoring meetings. Direct financial support to waste service. Dedicated liaison with waste company.</li> </ul>		<p>transition costs. Capitalisation where possible of transitional costs. Potential to reduce operational cost over and above GRLOL model. Potential delivery of additional one-off savings</p> <ul style="list-style-type: none"> <li>Potential for increased diversion from landfill at reduced costs</li> </ul>			<p>once operational changes established. Elements of risk will reduce further as each stage of transformation is completed. Upward. Clear potential exists to reduce various budget costs but realisation of these cannot be assumed to be guaranteed at this stage. Current monitoring identifying potential overspend</p>
CR16	Management of the County Councils Assets	Organisational	<p>Failure to maintain council owned assets and buildings.</p> <p>Inability to deliver in the timescale required and impact on organisational ability to achieve savings</p> <p>Failure to timely deliver a smaller more affordable property portfolio and associated savings. Inability to deliver service plans and savings effectively within required timescales, risks to service delivery across a number of services. Due to the high profile of Property Strategy (Neighbourhood Centres) delayed delivery could have reputational effect. Legal or public challenges.</p>	<ul style="list-style-type: none"> <li>Effective planning and programming method of delivery. Management of organisational transition and effective engagement with operational services</li> <li>Manage health and safety risks of customers and staff and ensure budgets are managed effectively to maintain assets to a satisfactory standard.</li> <li>Consider and manage risks associated with redundant properties. Planned maintenance approach. Risk assessments and regular H&amp;S inspections. Presently undertaken by various operational service areas.</li> <li>Delivery of Property Portfolio Rationalisation Programme (PPRP) is being managed by the programme board. Asset Management Service are working to specific timescales for the public consultation and delivery of recommendations to Cabinet. Office rationalisation is ongoing and is being managed by the PPRP team as a whole. Risks for each part of the project are registered and</li> </ul>	16	<ul style="list-style-type: none"> <li>Asset Management Strategy and accommodation review</li> <li>Establishment of a Premises Compliance Team</li> <li>Short-medium term facilities management strategy defined to deliver the spike in resource demand during the organisational transition period</li> <li>Property Strategy - Ongoing work to develop initial recommendations and to undertake public consultation continues. Multi-service working ensures the relevant professional input, including communications. Following Cabinet approval delivery of Neighbourhood Centres will be undertaken by the wider PPRP team.</li> <li>Communicating with stakeholders to ensure an understanding of the councils financial position and need for change</li> <li>Communicating specific proposals and service developments in the context of the financial scenario</li> <li>Libraries – public consultation has taken place to help inform service design and future strategy. The service is liaising closely with asset management, commissioning and estates services to ensure that the process of handover to community organisations who wish to provide an independent community library is as smooth as possible.</li> <li>Asset management strategy and implementation of the Property Strategy.</li> </ul>	12	Head of Asset Management/ Head of facilities Management	Stable – risks are significant but currently managed

				<p>reviewed by the PPRP team and Board on a regular basis, reporting to Management Team separately.</p> <ul style="list-style-type: none"> <li>Communications strategy for property strategy</li> </ul>		<ul style="list-style-type: none"> <li>Cabinet approval sets out the portfolio of buildings to be retained as Neighbourhood Centres. Ongoing work to develop design briefs for retained buildings requiring works and enable community asset transfer of surplus buildings where appropriate.</li> </ul>			
CR20	Transforming Care (Winterbourne)- the accelerated discharge of the population of adults with a Learning Disability from secure hospital in-patient beds into community houses	Economic/ Political/Social	<p>Increased pressure on the adult social care budget. Resettlement from hospital to community health and social care packages shifts the funding responsibility from solely NHS to a shared responsibility between CCG's and LA's to fund these high cost intensive health and social care packages. LCC may not be able to afford these new packages of care in the current financial climate. There is a National Plan to facilitate discharge therefore there is a reputational and political risk in not achieving as Lancashire is identified as a National Fast Track programme for this work due to the high number of Lancashire residents currently in in-patients LD hospitals. The closure of Calderstones hospital is part of this national plan. Failure to agree locally a reasonable figure for a dowry that is planned to follow a person from hospital (NHS) to LA's is a further financial risk.</p>	<p>There is a governance structure for the Fast Track programme through the Fast Track Steering Group with representation from LCC Director Adult Social Care and HoS Commissioning working alongside SRO's from NHS and CCG's in order to achieve agreement on financial issues including the dowry and any future agreement for a pooled budget. There are identified work streams each with a defined action plan with leads identified from commissioners across Lancs. Work streams are monitored by the Steering group in addition to oversight by NHS England. The trajectory for possible discharge Sept 15- Mar 19 is to be carefully monitored so appropriate development and procurement of suitable housing and care can be planned for.</p>	16	<ul style="list-style-type: none"> <li>Improved engagement with procurement colleagues to ensure due process is followed operationally in meeting the needs of this population.</li> <li>Lancashire's Fast track plan identifies the implementation of a revised model of care for people with LD improving crisis support through multi-disciplinary teams.</li> <li>This approach is aimed at reducing admissions and supporting providers to maintain a person's tenure in their chosen house rather than re-enter hospital.</li> <li>The plan commits to securing improved and alternate care and housing solutions for this population with the aim of creating shared tenancies with back ground support, rather than the current single tenancy model currently used, which will be more cost effective. There are plans to stimulate the provider market to inform innovative solutions to providing for these peoples care</li> <li>STP budget considerations</li> <li>Currently the financial risk has been negotiated with the CCG and immediate pressures have been offset whilst negotiations around the pooled budget take place.</li> </ul>	12	Director of Adult Services	<p>↑ the direction of travel is increased as these are new service users entering the social care system from the NHS, the risk is constant from a financial perspective as the cost will be high and require providing for life. (although there are plans to mitigate costs through a dowry system and improved commissioning solutions and the decision taken by Management Team re funding discharges and the decision taken by Management Team regarding funding discharges )</p>
CR21	Service user/Customer risk associated with the inability to influence demand whilst expectations continue to rise	Reputational/social/economic/political	<p>Demand and expectations continue to rise against a backdrop of reduced resources, thus leading to service failure and an increase in complaints. Failure to integrate health and social care to reduce pressures on demand and expectations as a result of ageing population. Unacceptable waiting</p>	<p>Consultation and engagement with service users and customers. Co-ordination of communications. Changes and impacts communicated to stakeholders. Impact assessments. Alternative delivery options being explored as part of base budget review option development. Learning from complaints and oversight at CCPI.</p>	16	<ul style="list-style-type: none"> <li>Alternative delivery options being explored as part of base budget review option development</li> <li>In relation to adult and children's social care Newton's Europe have been partly been engaged in this area of work</li> <li>See opportunities entry on Healthy Lancashire</li> <li>Early help and prevention investment in integrated wellbeing services</li> <li>Children's demand management strategy</li> <li>Additional capacity is being secured in key areas such as social work and occupational therapy</li> <li>Realignment of management capacity in adult</li> </ul>	12	MT	<p>↓ Downwards.</p>

			times for assessment and reviews including occupational therapy, safeguarding and social care reviews.			<ul style="list-style-type: none"> <li>social care to provide improved focus on operational priorities</li> <li>Clear triaging/prioritisation schemes at Customer Access Centre</li> <li>Work with Newton Europe is underway to improve productivity</li> <li>Working with health partners to improve arrangements around discharges from hospital</li> <li>Communicating with stakeholders to ensure an understanding of the councils financial position and need for change</li> <li>Communicating specific proposals and service developments in the context of the financial scenario</li> </ul>			
CR24	<p>Failure to achieve targets agreed with National Troubled Families Unit team due to the specific requirements of the programme.</p> <p>Failure to provide robust data to evidence the impact on outcomes for those families engaged with the programme</p>	Economic Political	<p>Failure to accrue maximum income from the programme for the authority</p> <p>Possible reputational risk as a result of failing to meet the national target.</p> <p>Risk of additional scrutiny of Lancashire's response to the programme</p>	<ul style="list-style-type: none"> <li>Manual tracking processes in development with view to maximising payment by result claim opportunities</li> <li>Improvement plan with operational staff with implementation to ensure that 'attached' cases meet national TFU principles</li> <li>Ongoing data matching to identify new eligible families</li> </ul>	16	<ul style="list-style-type: none"> <li>Development of reporting processes to ensure monthly progress checks against targets</li> <li>Business case to request additional resources to support tracking and claiming processes</li> <li>Redesigning of outcomes plan to set more achievable/realistic targets</li> <li>Establishment of multi-agency CYPTB task and finish group to drive multi-agency partnership working and explore how to embed the TFU principles within partner organisations</li> <li>Exploration of digital systems that can be used to undertake the necessary analysis for Lancashire's response to the programme.</li> <li>Workforce development ongoing for CAF and LP working.</li> <li>Revised CoN thresholds and CAF documentation, Quality Assurance and processes to assist in meeting requirements.</li> </ul>	12	Head of Wellbeing, Prevention and Early Help	Downwards
CR25	Failure to implement and meet the statutory requirement to children and young people with special educational needs and/or disabilities.	Organisational	Not providing adequate service to SEND leading to inspection failure. Lack of appropriate IT platform. Failure to recruit and retain staff. Commissioning arrangements with health not consistent.	<ul style="list-style-type: none"> <li>Self-assessment completed against new framework</li> <li>N/W regional peer support group established</li> </ul>	16	<ul style="list-style-type: none"> <li>Implementation of the early help (IT) module.</li> <li>Recruitment of qualified staff funded by the SEND reform grant.</li> <li>Commissioning arrangements with Health being reviewed.</li> </ul>	12	Head of Special Education Needs and Disability	Level
CR26	Proposed museum closures	Organisational/political/reputational/financial/legal	<p>The proposal to close five museums has attracted negative publicity nationally, regionally and locally due to the national importance of the sites and collections</p> <p>Impact on staff leading to sickness absence</p>	<ul style="list-style-type: none"> <li>Weekly meetings between Museums managers and asset management, equality and diversity, communications and business intelligence to proactively manage the process.</li> <li>Decisions on process continue to be cleared through legal services and cabinet member as appropriate.</li> <li>Expressions of interest have been</li> </ul>	16	<ul style="list-style-type: none"> <li>Public consultation has taken place to inform future service design and strategy of the museum service</li> <li>EIA detailing the mitigating actions have been completed</li> <li>A Cabinet Working Group with cross party membership has been established to ensure that any transfer of assets which may take place is transparent, fair and robust. This has met</li> </ul>	12	Head of Libraries, museums, culture & registrars	Level

			The Council could be challenged by Judicial review if the process by which museums are either closed or transferred to a third party cannot be shown to be fair and legally robust	invited for interested parties that can show they have the resources and expertise to continue operating the museum and ensuring the collections continue to be made accessible to the public.		<p>monthly. Cabinet member has agreed recommendations of working group.</p> <ul style="list-style-type: none"> <li>Information has been circulated to all staff to assist them with their health and wellbeing as a result of closures.</li> <li>Senior management update staff on a weekly basis</li> <li>To help develop a revised cultural offer an application for heritage lottery funding submitted</li> </ul>			
<b>Opportunity Identification Number</b>	<b>Opportunity Description</b>	<b>Opportunity Type</b>	<b>Possible Benefits</b>	<b>Progress to date</b>	<b>Opportunity Score</b>	<b>Maximising Actions</b>	<b>Residual Opportunity Score</b>	<b>Opportunity Owner</b>	<b>Direction of Travel</b>
C01	Establishing a new model for public service delivery in Lancashire	Political	The establishment of a Lancashire Combined Authority and securing a devolution deal with central government. A Combined Authority is an accountable body in its own right – this means it is a single point of decision making on agreed functions (quicker and simpler decisions); has powers delegated to it from Government and the individual local authorities (subject to local discussion and determination); can hold substantial amounts of Government and European funding. In relation to transport, greater co-operation will allow improvements to the region's public transport network.	Lancashire Leaders to formally take proposals for a new model (in principle) to their authorities. Briefings for County Council members. Progression of work streams.	12	<ul style="list-style-type: none"> <li>Work with local authority partners on the establishment of a Combined Authority for Lancashire and in securing a Devolution Deal with Government.</li> <li>The Combined Authority has now been operating in shadow form since September 2016. A "Lancashire Plan" is in development, and progress is regularly reported to the CA. Discussions are underway with government in relation to possible devolution opportunities. Workstreams have been identified, and arrangements established for political leads for each workstream. Consideration is being given to the establishment of a Lancashire Public Services Board reporting to the CA and engaging with key public sector partners</li> <li>One Public Estate submission has been developed and submitted</li> <li>A workshop took place on 5th October 16 facilitated by PWC. This was an information sharing session to identify potential opportunities for a pan Lancashire approach to service delivery. Key public sector partners were invited.</li> </ul>	16	Chief Executive	↑ Upwards
C02	Delivering economic growth	Economic	Continued successful delivery of the LEP's current strategic economic growth programmes. Successfully secured new resources for Lancashire to support job and business creation, housing growth and the delivery of strategic transport infrastructure linking to drive economic growth and regeneration, linking residents and businesses with economic opportunities.	Lancashire Enterprise Partnership has secured almost £1 billion of national resources to deliver a transformational programme of economic growth which see the delivery of new jobs, business and housing growth and strategic transport infrastructure. Key programmes/projects secured include the Preston, South Ribble and Lancashire City Deal, Growth Deal, three Enterprise Zones, Growing Places Funding, Boost Business Lancashire and Superfast Broadband.	12	<ul style="list-style-type: none"> <li>Work with local authority partners on the establishment of a Combined Authority for Lancashire and in securing a Devolution Deal with Government to ensure national resources to support economic growth and regeneration are secured.</li> <li>Maximise the support from key local and national public and private sector stakeholders outside of the County Council.</li> <li>Submitted growth deal 3</li> <li>As part of the City Deal, a planning application is being prepared for submission for a mixed use site at Cuerden.</li> </ul>	16	Director of Economic Development	↑ Upwards

						If successful the proposal will create up to 5000 new jobs. Public consultation on the proposal commenced 17 <sup>th</sup> November 2016.			
CO3	Opportunities through delivering the draft corporate strategy and property strategy	Economic/Social	This strategy seeks to ensure we continue to meet the immediate needs of our communities while shaping the council into an organisation that is sustainable and able to deliver successfully against its goals for years to come. It sets out what we will be doing to achieve that balance, along with our commitment to securing the best outcome for our citizens, communities and for Lancashire. The strategy will help to ensure that we deliver on the following strategic outcomes: - To live a healthy life - To live in a decent home in a good environment - To have employment that provides an income that allows full participation in society	A draft Corporate Strategy, has been produced and has been subject to Consultation. Cabinet considered the Strategy document and the approach contained within it at its meeting of the 26 November 2015. The Strategy was submitted to full Council on the 17 December 2015. The Strategy was debated and amendments agreed. It was resolved that the Corporate Strategy, as now amended, be approved subject to the section 'Our approach to service delivery' being referred back to Cabinet for further consideration. That review process is ongoing	12	<ul style="list-style-type: none"> <li>• Use the strategy and associated evidence base to guide our decision making and as the overarching framework for planning interventions which will meet the needs of communities</li> <li>• Digital by design</li> <li>• Embedding evidence based policy/decision making to plan for the future</li> <li>• Aligning with health to meet need</li> <li>• Property strategy consultation presented to cabinet September 16</li> </ul>	16	MT	↑ Upwards
CO4	Health and Social Care Integration	Organisational	The principle of the separate organisations working together to align plans, strategies and budgets will involve the development of new delivery models and ways of working, to avoid duplication and focus activity where it is needed, recognising that current models of service delivery are unsustainable. Integration would provide the best opportunity to minimise the impact of funding reductions as well as providing a better offer for service users	Participation in the Healthier Lancashire programme building upon the "Alignment of the Plans" work undertaken  Sustainability and Transformation Plan (STP). <ul style="list-style-type: none"> <li>• Influencing and shaping the process to take account of Combined Authority objectives if and where appropriate.</li> <li>• Aligning, where appropriate with existing work at a pan Lancashire level, and within individual health economies.</li> <li>• Consideration of new models of delivery and potential new funding arrangements, such as pooled budgets where appropriate.</li> </ul>	12	<ul style="list-style-type: none"> <li>• Recognise the need for: an ambitious vision, robust partnerships, clear and credible delivery plans, and strong leadership and governance arrangements at a pan-Lancashire level.</li> <li>• Lead the integration agenda, recognising the need for an ambitious vision, robust partnerships, clear and credible delivery plans. Strong leadership and governance arrangements at a pan-Lancashire level.</li> <li>• Develop a future public service model for Lancashire in conjunction with partners – stakeholder engagement plan in place - briefings have been delivered by PWC. Outline proposals for council's business and operating model has been presented to the Political Governance Working Group. Report to Cabinet in January 2017. Proposed briefing</li> </ul>	16	MT	Level

for political groups.

**Key to Scores**

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



## **Audit and Governance Committee**

Meeting to be held on Monday, 30 January 2017

Electoral Division affected:  
(All Divisions);

## **Internal audit progress report**

Appendices A and B refer.

Contact for further information:  
Ruth Lowry, Head of Internal Audit.  
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### **Executive Summary**

This report highlights key issues that the Audit and Governance Committee should be aware of in fulfilling its role of providing independent oversight of the adequacy of the council's governance, risk management and internal control framework. It highlights key issues arising from the work undertaken during the period to mid-December 2016 by the Internal Audit Service under the agreed internal audit plan.

### **Recommendation**

The Committee is asked to consider the Internal Audit Service progress report for the period to mid-December 2016.

## **Background and Advice**

### **Definition of internal auditing**

"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

"The provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control."

**The Institute of Internal Auditors, and  
Public Sector Internal Audit Standards, 2013**

### **Relevant regulations**

Internal audit: "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance

processes, taking into account public sector internal auditing standards or guidance."

**Regulation 5. (1)**

Review of internal control system: "A relevant authority must, each financial year (a) conduct a review of the effectiveness of the system of internal control ... and (b) prepare an annual governance statement."

**Regulation 6. (1)**

**Accounts and Audit Regulations 2015**

**Internal audit assurance**

Internal 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.

**Consultations**

The director of governance, finance and public services, and the director of financial resources have been consulted on this report. The individual directors and heads of service whose control systems are referred to have also been consulted on the areas of the report relevant to them.

**Implications:**

This item has the following implications, as indicated:

**Risk management**

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

**Local Government (Access to Information) Act 1985**

**List of Background Papers**

Paper

Date

Contact/Tel

Reason for inclusion in Part II, if appropriate

## Internal Audit Service progress report on implementation of the strategic internal audit plan: 2015/16, 2016/17 and beyond

### 1. Introduction

- 1.1. In January 2016 the Audit and Governance Committee considered and approved a strategic internal audit plan for 2015/16, 2016/17 and beyond, and the Internal Audit Service has been working to that plan since then. The work scheduled for 2016/17 has progressed well and a number of audits are now complete. The Audit and Governance Committee's terms of reference require it to consider periodic reports of internal audit activity and outcomes, and this report provides a summary to support that task.

### 2. Amendments to the audit plan

- 2.1. The plan has been subject to amendment as the scopes of individual audits have been developed with further input from directors and heads of service. Since the committee's last meeting in September 2016 it has become clear that the volume and extent of work being undertaken by Newton Europe Ltd, the Department for Education and Ofsted relating to the quality of data supporting children's social care means that additional work by the Internal Audit Service will be unnecessary. Further, audit work on the controls to be operated by the Premises Compliance Team in strategic premises management will be deferred into 2017/18 as that team has not yet been formed due to the pressures imposed by the development and approval of the council's new property strategy. The audit of the council's oversight of the Pension Fund has also been removed from the plan because other work addressing this has recently been undertaken by PricewaterhouseCoopers. It is intended that this work be made available to the Pension Fund Committee and Pension Board when it is complete.
- 2.2. It was reported in September that the audit work planned on the measures in place to monitor and achieve the council's planned budget reductions, and the council's role as accountable body for external funding, had been removed from the plan. Whilst the audit of the council's accountable body role has been effectively addressed by other work specifically focussed on the Lancashire Enterprise Partnership (LEP) and the Better Care Fund (as there are no longer large numbers of disparate smaller funding streams requiring the council to establish and operate a standard control mechanism), each of the three audits addressing financial governance have now been removed from the plan. It is therefore important that the committee and Council are aware of PricewaterhouseCoopers' work. Their report on the council's financial position (the 'Statutory Services Budget Review') is already in the public domain and is available through the following link: <http://council.lancashire.gov.uk/documents/s96916/Appendix%20A%20SSBR%20Interim%20Report%20FINAL.pdf>
- 2.3. PricewaterhouseCoopers' report summarises the latest financial forecast (as at its publication on 23 September 2016) as follows:
- "The Council is forecast to have a cumulative deficit of £398m by the end of 2020/21 and an in year deficit that year of £148m. This is predicated on all savings plans being achieved with no slippage. We have reviewed the Council's savings portfolio and have identified that a significant proportion of planned savings are at risk of slippage. We have reviewed the underlying assumptions behind the

## Internal Audit Service progress report

Council's [medium term financial strategy] and found them to be in line with those being made by other similar authorities, however, its forecast budget gap may be understated as a result of risks relating to the delivery of savings within the forecast timescale."

### 3. Internal Audit Service resources

- 3.1. The committee was informed in September that the resources available to the service had been agreed and, since early December, all of the auditor and senior auditor posts have been filled. However one of the two audit managers has recently returned to a post in the Finance team and recruitment to this key vacancy is currently taking place.
- 3.2. The service is also in the process of recruiting a graduate trainee internal auditor who will pursue qualification as a certified internal auditor with the Chartered Institute of Internal Auditors.

### 4. Internal audit work completed

- 4.1. The audit plan recognised at the outset that there were areas of the council's operations that were subject to too much turbulence to be audited, and areas where managers could not themselves provide assurance that services and systems are adequately controlled. A number of these were listed in the audit plan presented to the committee in January 2016. However it is clear that, despite the instability arising from the changes taking place across the council, there are some areas where strong control is still exerted over the services being provided and systems operated.
- 4.2. A brief summary of the assurance we have provided for each of the audits relating to 2016/17 and completed by mid-December 2016 is provided in the table below.

System	Assurance
<b>Governance and democratic oversight</b>	
Documentation of the council's governance arrangements	Substantial
<b>Business effectiveness</b>	
Preparation and use of the risk register	Substantial
<b>Service delivery: adult's services</b>	
Case management: supervision and support to front-line social workers to ensure safeguarding of service users	Limited
<b>Service delivery: public health and wellbeing services</b>	
Commissioning and oversight of commissioned public health service provision	Substantial
Operation of the Health and Wellbeing Board	Substantial
<b>Service delivery: corporate commissioning</b>	
Provision of school places	Full

System	Assurance
<b>Service delivery: economic development</b>	
Lancashire Enterprise Partnership: governance and accountability	Substantial (Details provided in September 2016)
Lancashire Enterprise Partnership: assurance framework	Substantial (Details provided in September 2016)
<b>Service delivery: emergency planning</b>	
Adequacy of the plans in place to address emergencies and civil contingencies	Substantial
<b>Service support: business systems</b>	
Monitoring of the contract with BTLS	Substantial
<b>Business processes: Financial processes</b>	
Accounts receivable and debt management system (a centrally managed system but with input from across the council)	Limited (Details provided in September 2016)
Cash and banking (central functions)	Substantial (Details provided in September 2016)
<b>Business processes: procurement</b>	
Central procurement: compliance with legislation, financial regulations and standing orders	Substantial

- 4.3. The matters arising from these audits are set out in the narrative below, and notes of the progress made on each audit on the plan for 2016/17 are set out in the table in Appendix B.

**Documentation of the council's governance arrangements:** substantial assurance

- 4.4. All of the documentation that would be expected to be in place to underpin constitutional decision-making and delegation of powers exists, as does most of the wider documentation required by the CIPFA/ SOLACE publication 'Good governance in local government: framework 2016'.
- 4.5. Most of this documentation is readily accessible on the council's intranet site, and users of the site are consistently directed to the single web-page holding the whole constitution. However many of the documents contained within the constitution have not been demonstrably reviewed and updated regularly, in some cases for several years. Although the Democratic Services manager is responsible for prompting reviews of this documentation, the currency of some documents is reliant on officers with more specialist knowledge of some important areas, for example finance and procurement.
- 4.6. The head of service for Legal and Democratic Services intends to adopt a more systematic approach to ensure that each of the key documents in the council's governance framework is assigned clear ownership and subject to more rigorous information governance procedures.

**Preparation and use of the risk register:** substantial assurance

- 4.7. The process by which the corporate and service risk registers are prepared are still relatively new and, although there are differences in the extent to which it is understood by individual services, the arrangements are operating as intended overall. Risks and opportunities are being identified, recorded and scored and controls and mitigating actions are recorded in services' risk and opportunity registers.
- 4.8. A dedicated intranet site was created in October 2015 which provides clear guidance, advice and support to officers compiling the services' risk and opportunity registers. Additional briefings have been provided to officers who have requested them and specific queries are addressed by the information governance manager as they arise. There is clear sponsorship of the risk management arrangements by senior officers and members, and the corporate risk and opportunity register is presented quarterly to the Management Team, Cabinet Committee on Corporate Performance Improvement and Audit and Governance Committee.
- 4.9. Whilst risk management is not a new process, the need to record individual risks and their implications in service risk registers is new. Although the scoring methodology is generally understood and appropriately applied, moderation by the director of governance, finance and public services and the head of legal and democratic services results in some adjustments to risk scores as well as the addition of corporate risks not included in individual service risk registers. It is likely that feedback to heads of services on the decisions taken as the corporate risk and opportunity register is prepared would be beneficial.

**Case management: supervision and support to front-line social workers to ensure safeguarding of service users:** limited assurance

- 4.10. Controls designed to ensure staff are supported in maintaining their professional and personal development through management supervision are key to the quality of social care provided across the county.
- 4.11. The current supervision arrangements for social care across Adult Services are considered by management to be too bureaucratic to operate effectively and are inconsistent with the revised operational structure that incorporates advanced practitioners. Whilst they are comprehensive, the policies and procedures intended to support supervision meetings and managers' assessment of the adequacy and quality of supervision are regarded as unduly onerous and are not being consistently followed. They are therefore being amended and the revised arrangements will reflect the new staff structure and the revised operational framework. A revised supervision policy and suite of supporting documents have been drafted and are being piloted in draft form by several managers. In the east of the county teams working with Newton Europe Ltd have also developed new ways of working, including holding weekly wellbeing meetings and case progression meetings, and feedback from the teams there is positive.
- 4.12. However the supervision policy and procedures actually operated by staff within Adult Services for the current year remain the older ones and it is against these that we tested compliance.
- 4.13. To sample supervision documentation we requested copies of their three most recent supervision records from 30 social workers but obtained responses from only 23. Of these, two were unable to provide any supervision records as their

supervision was not documented, and two were recent new starters who had not yet had any supervision. However the content of the personal supervision records we were able to test was generally appropriate and included all the elements expected.

- 4.14. Nonetheless supervision meetings are held too infrequently relative to the current policy, and supervision activity records are not adequately maintained or updated. Current supervision contracts are either lacking, or exist but are not reviewed.
- 4.15. The annual quality assessment and case audit process is intended to monitor the quality and frequency of supervisions undertaken by team managers, and confirm that team managers are undertaking case audits appropriately. However of the nine managers we contacted, four did not respond, three were new in post, and two were unaware of the current requirement to undertake case audits. Under the revised policies case audits will be replaced by a three-monthly best practice review.

**Commissioning and oversight of commissioned public health service provision:** substantial assurance

- 4.16. The Public Health team commissions a range of public health related services including mental health, sexual health and substance misuse services. Public health specialists commission and then monitor the activities of service providers under a range of contracts. As at June 2016 there were 36 contracts, nine with annual values over £1 million, and a further fifteen with annual values of between £100,000 and £1 million, managed by the Wellbeing, Prevention and Early Help service.
- 4.17. These contracts are well managed. For the contracts we tested, detailed specifications and signed contracts are in place, there is evidence of regular contact with service providers, and performance is reviewed and addressed where necessary.

**Operation of the Health and Wellbeing Board:** substantial assurance

- 4.18. The Lancashire Health and Wellbeing Board is a forum for key leaders from the health and social care services in Lancashire to work together to improve the health and wellbeing of the county's population and reduce its health inequalities. The board is a statutory body set up under the Health and Social Care Act 2012 and all the organisations specified in that act are represented. The board has been appropriately constituted and is acting in accordance with its terms of reference, in particular in relation to its development and review of the Health and Wellbeing Strategy.

**Provision of school places:** full assurance

- 4.19. The School Planning Team is part of the council's Asset Management Service and is responsible for ensuring that the council meets its statutory duty to provide sufficient primary and secondary school places in mainstream schools. Overall, the team operates robust controls to ensure that it meets its responsibilities and manages the risks to its service.
- 4.20. The team compiles, collates and analyses relevant data to plan and commission school places for the whole county, generating the council's school capital programme, and operates a comprehensive process to ensure that forecasting information is accurate. The strategy for the provision of school places is normally

reviewed on an annual basis but, this was not undertaken in 2015 whilst the team was restructured. The strategy is currently being redrafted and will be published in April 2017.

- 4.21. The team liaises with district councils and housing developers to ensure that education infrastructure is supported by housing development contributions or a community infrastructure levy agreement. It also completes the annual statutory return to the Department for Education addressing school capacity and places in the county.

**Adequacy of the plans in place to address emergencies and civil contingencies:** substantial assurance

- 4.22. We assessed the arrangements in place to respond to emergencies, ensure continuity of business and comply with the Civil Contingencies Act. The council is a 'category 1 responder' under the Act and is therefore central to the response to emergencies within the county and subject to the full set of civil protection duties defined by the Act. These duties include the assessment of risk, maintaining emergency response plans, ensuring as far as possible that the council is able to continue to perform its functions, communicating with the public, and advising and assisting business and voluntary sectors. The council's Emergency Planning, Resilience and Response Framework clearly defines the plans the council is putting in place to enable it to respond to incidents.
- 4.23. There are good practices already in place to ensure that emergency response plans are effective, viable, and up to date. There are some areas where compliance with the Civil Contingencies Act could be further enhanced but these have already been identified by management and action plans have been put in place.

**Monitoring of the contract with BTLS:** substantial assurance

- 4.24. On 1 April 2014 the council's partnership with British Telecommunications plc changed and became BT Lancashire Services Ltd (BTLS), a company wholly owned by BT providing ICT and transactional payroll services to the council. BTLS is contractually required to monitor and report its service delivery against performance targets defined within the service provision agreement introduced in April 2014.
- 4.25. The company's performance is managed within the council under a governance framework facilitated by the council's Client Services team and monitored effectively at an appropriately senior level within the council, including members of the Cabinet Committee on Performance Improvement. The financial position of the contract is monitored and payments are checked and paid in accordance with the contract terms.

**Procurement:** substantial assurance

- 4.26. The council spends approximately £340 million each year on centrally procured goods and services, and currently has over 420 contracts in place. There is regular scrutiny of procurement activity by the Procurement Board, made up of directors from across the Council, and by the Cabinet Committee on Performance Improvement.
- 4.27. Over the last two years the council's central Procurement Service has increasingly taken over responsibility for procurement across the council and, although a small number of operational teams still undertake their own procurement exercises, these



are considerably fewer than previously. The Procurement Service has established procedures to ensure that all procurement follows the council's rules and strategy, in particular that all procurement is properly approved and controlled through the use of the Oracle e-tendering system. The control exerted by the central team and the procedures it has imposed is effective.

- 4.28. The procurement rules were revised in 2016 to align them with the Public Contract Regulations 2015. Whilst compliance with the procurement rules and strategy is achieved by the Procurement Service and for large value exercises generally, this has not always been the case for lower value exercises in the operational teams. The Procurement Service has engaged with the services involved to develop processes for the lower value exercises that ensure the procurement rules are properly followed and evidenced as such.

### **ICT services**

- 4.29. Key elements of the service management framework for the council's ICT services, provided by BTLS, are subject to a programme of assessment within BTLS. This programme identifies and reports any non-conformances with the Service Management System, recommends improvement measures and ensures that their progress to completion is monitored. Some key areas are regularly assessed and the findings enable BTLS to provide some assurance to the council that risks arising from its use of information and communications technology are being managed on its behalf by BTLS. The following assurance can be provided by BTLS.

#### ***ICT Service Management System***

- 4.30. The ICT Service Management System is independently assessed annually as part of BTLS's ISO 9001:2008 certification: this is a certified quality management system that allows organisations to demonstrate their ability to consistently provide products and services that meet the needs of their customers. It covers key aspects of running the service including management of the training, skills and competency of staff, control of documentation and records and how internal assessments are planned and conducted. The certification process involves an end-to-end audit of key processes involved in the delivery of the ICT service including:

- Incident management – how faults reported by the customer are recorded and rectified;
- Change management – how changes to services are assessed, planned, actioned and recorded;
- Knowledge management – how the documentation and information required to operate the services is created, maintained and controlled;
- Problem management – how persistent faults are identified, assessed and rectified.

- 4.31. BTLS was assessed against ISO 9001:2008 most recently in December 2016 and no major or minor nonconformities were identified. One opportunity for improvement was found and the key processes provided by BTLS for the county council were therefore certified until June 2017.

#### ***Public Sector Network (PSN)***

- 4.32. The PSN is a government network which allows public sector organisations to work together, reduce duplication and share resources. In order to use this facility an

organisation must achieve 'PSN compliance' which demonstrates that its security arrangements, policies and controls are sufficiently rigorous to allow it to interact with the PSN and those connected to it. BTLS therefore submits an annual PSN application to the Cabinet Office, including a comprehensive description of the BTLS network and the policies and processes that maintain its security.

- 4.33. Since its inception BTLS has undertaken this exercise annually and has maintained PSN compliance each year. The latest certificate will confirm PSN compliance until January 2017.
- 4.34. The PSN compliance submission must also contain details of a recent independently conducted penetration test to identify any network vulnerabilities and any remedial actions required to address these. The most recent penetration test was conducted in July 2016 and the result met the required PSN standards.

***NHS Code of Connection***

- 4.35. N3 is the national broadband network for the English National Health Service (NHS), connecting all NHS locations and services. All non-NHS organisations that require a connection to the N3 network must complete a Logical Architecture Document (LCA) as part of the Information Governance Statement of Compliance (IGSoC) process. The county council is currently compliant with the requirements of the code of connection and elements of the IGSoC are the responsibility of BTLS. ICT Services contributed to the completion of the LCA by providing a comprehensive description of the technical security controls which they have in place to protect access to N3 and personal data.

Service area	Operational area of activity	Audit work	Planning principle	Progress/ findings	Assurance
<b>Governance and democratic oversight</b>					
Corporate governance framework	Documentation of the council's governance arrangements: the framework that addresses the council's constitutional decision-making and delegation of powers	Review of the ownership, completeness and currency of documentation the council is required to hold, publicise and periodically review setting out its governance arrangements for decision-making and delegation of powers.	Key component of opinion	All of the documentation that would be expected to be in place to underpin constitutional decision-making and delegation of powers exists, as does most of the wider documentation required by the CIPFA/ SOLACE publication 'Good governance in local government: framework 2016'.	Substantial
	Operation of the scheme of delegation to officers	Review of the introduction of the revised scheme of delegation and its operation in practice.	Coverage of control across the organisation	This work will be undertaken early in 2017.	
	Effective oversight of corporate governance by the Audit and Governance Committee	Assessment of the constitution and operation of the Audit and Governance Committee against professional guidance and current best practice.	Key component of opinion	Work on this audit is almost complete and will be discussed with the Leader of the Council as well as committee members before the year end.	
<b>Business effectiveness</b>					
Risk management	Preparation and use of the corporate risk register	Assessment of the principles and practical operation of risk management arrangements to produce a corporate risk register and respond to the issues it records.	Key component of opinion	The process by which the corporate and service risk registers are prepared are still relatively new and, although there are differences in the extent to which it is understood by individual services, the arrangements are operating as intended overall.	Substantial
Financial governance	Delivery of the council's financial strategy and budget reductions	Risk and control assessment of the measures in place to monitor and achieve planned budget reductions.	Controls to mitigate a significant risk	See PricewaterhouseCoopers' report.	Not applicable
	Oversight of the Lancashire Pension Fund	Assessment of the governance framework to achieve corporate oversight by the council of the Fund, whose assets are owned by the council.	Controls to mitigate a significant risk	PricewaterhouseCoopers' work on this area will replace the planned audit work, and establishes a framework of controls by which the council oversees the Lancashire Pension Fund.	Not applicable
	Acting as accountable body for funding	Evaluation of the controls that manage the risks in taking on the role of accountable body, taking a sample of the most significant funding streams.	Coverage of controls across the organisation	This work has been removed from the audit plan, but has been addressed by work on the Lancashire Enterprise Partnership and Better Care Fund.	Not applicable
Performance monitoring	Corporate performance monitoring	Support to management in establishing a revised framework for monitoring and managing achievement of the council's key strategies.	Support to management to improve controls	Work has begun but has been delayed.	
<b>Service delivery</b>					
Children's services	Escalation of matters of strategic or political importance through to the Operations and Delivery management team and beyond if appropriate	Compliance testing of the escalation as appropriate of issues arising within individual caseloads or social care teams. This work could be replicated in other service areas but will be piloted here first.	Controls to mitigate a significant risk, and supporting work relating to risk management	Discussions have begun with senior management, but it is now likely that this work will be deferred until 2017/18.	
	Identification of, and responses to, external feedback on children's services and schools	Assessment of the potential sources of feedback and operational services' responses to these including escalation of the information to senior management.	Controls to mitigate a significant risk	This audit work has begun and is continuing, focussing on the control framework relating to schools and Special Educational Needs and Disabilities.	
	Data held on LCS (Lancashire Children's Services system provided by Liquidlogic)	Compliance testing of the completeness and accuracy of the data records held on LCS.	Controls to mitigate a significant risk	Work being undertaken by Newton Europe Ltd, the Department for Education and Ofsted on data relating to children's social care has rendered this element of the audit plan unnecessary.	
	Oversight of schools' financial	Risk and control evaluation of the arrangements to	Coverage of controls across	This work is almost complete and a draft report will	

Lancashire County Council internal audit plan 2016/17: progress as at mid-December 2016

Service area	Operational area of activity	Audit work	Planning principle	Progress/ findings	Assurance
	management	oversee schools' financial management.	the organisation	be issued at the end of January 2017.	
	Certification of claims made under the Working Together with Families Programme	Testing to certify that central government's grant funding requirements have been met.	Requirement to comply with funding terms	We have begun to review samples of the claims now being prepared prior to the first claim being submitted in January 2017.	Not applicable
Adults' services	Case management: supervision and support to front-line social workers to ensure safeguarding of service users	Risk and control evaluation of supervision and support arrangements under the new team management arrangements, with full compliance testing.	Controls to mitigate significant risks in a number of individual instances	The service's managers are already aware that current supervision arrangements are not fully complied with; they are onerous and no longer reflect the new staff structure and the revised operational framework for adult social care. New policies and procedures have been drafted and are being piloted.	Limited
	Data held on LAS (Lancashire Adult Services system provided by Liquidlogic)	Compliance testing of the completeness and accuracy of the data records held on LAS.	Controls to mitigate a significant risk	This audit is being undertaken in conjunction with the three audits of case management below, all of which impact on the data held on LAS. Work is continuing.	
	Case management: assignment of officers to cases	Risk and control evaluation of assignment of cases and workloads, with compliance testing following implementation of new team working arrangements.	Controls to mitigate significant risks in a number of individual instances	A single risk and control framework has been developed for these three areas of case management and work is continuing.	
	Case management: timely completion of action to statutory and advisory deadlines	Compliance testing of the timeliness of case management action against the deadlines set in legislation and the council's policies.	Controls to mitigate significant risks in a number of individual instances		
	Case management: delegation of responsibilities to accredited social workers	Compliance testing of the accreditations awarded to social workers to facilitate their taking on enhanced responsibilities for case management decisions.	Coverage of controls across the organisation		
	Commissioning and oversight of commissioned public health service provision	Risk and control evaluation of joint working with the NHS and voluntary sector to provide services within Lancashire.	Coverage of controls across the organisation		Controls to oversee contracts for the provision of public health services are in place and operating effectively.
Public health and wellbeing services	Operation of the Health and Wellbeing Board	Assessment of the constitution and operation of the Board against professional guidance, local requirements and current best practice,	Coverage of controls across the organisation	The Lancashire Health and Wellbeing Board has been appropriately constituted and is acting in accordance with its terms of reference.	Substantial
with Corporate commissioning	Operation of the Better Care Fund	Including assessment of the governance arrangements for the council's use of the Better Care Fund.	Coverage of controls across the organisation	A draft report has been prepared and is being discussed with management.	
Corporate commissioning	Commissioning, design and monitoring of the capital programme	Risk and control evaluation of the revised procedures to oversee the whole capital programme, including elements managed by the council for the Lancashire Economic Partnership.	Controls to mitigate a significant risk	This work is scheduled to start in March 2017.	
	Provision of school places	Risk and control evaluation of the provision of school places.	Coverage of controls across the organisation	Effective controls are operated to ensure that the council's statutory responsibilities are fully met.	Full
	Operation of the Premises Compliance Team in strategic premises management	Assessment of risk and controls in relation to the council's property assets.	Coverage of controls across the organisation	Work was scheduled to start in October but, since compliance officers have not yet been appointed and given the changes still going on in this area it is been agreed that this work will be deferred into 2017/18.	
	Certification of claims made through the Challenge Fund to the Department for Transport	Testing to certify that central government's grant funding requirements have been met.	Requirement to comply with funding terms	The council's use of £5.1 million of grant funding for M65 motorway infrastructure and £5 million for its lighting under the Challenge Fund has been certified as meeting the conditions of that funding.	Not applicable
Economic development	Lancashire Economic Partnership (LEP): governance and	Assessment of the constitution and operation of the Partnership against guidance and local requirements, to	Controls to mitigate a significant risk	Our findings were reported in September 2016.	Substantial

Lancashire County Council internal audit plan 2016/17: progress as at mid-December 2016

Service area	Operational area of activity	Audit work	Planning principle	Progress/ findings	Assurance
	accountability	ensure the success of the partnership and the effective use of its individual funding streams (Lancashire Enterprise Zone, City Deal, Boost Business Lancashire, Growing Places Fund, Growth Deal Programme).			
		Establish and assess the assurance framework for the programme, including assurance available from other areas of audit work and any work by other organisations.	Maximising the value of audit work in other control areas	Our findings were reported in September 2016.	Not applicable
	Local Growth Fund certification	We have certified that the Department for Communities and Local Government's requirements in respect of Growth Deal funding have been met.	Requirement to comply with funding terms	The council's use of £39.35 million of grant funding under the Local Growth Fund has been certified as meeting the conditions of that funding.	Not applicable
Emergency planning	Adequacy of the plans in place to address emergencies and civil contingencies	Risk and control evaluation of the adequacy of emergency planning, including involvement of appropriate partners and adequacy of testing.	Controls to mitigate a significant risk	There are good practices in place to ensure that emergency response plans are effective, viable, and up to date. There are also areas where action is still required to enhance compliance with the Civil Contingencies Act, but these areas have already been identified and action is being taken or is planned for 2017.	Substantial
Pension fund administration	Administration of the fund to serve its members	Risk and control evaluation, with annual compliance testing, whilst the council has no other source of assurance over this.	Controls to mitigate significant risks in a number of individual instances	Work has begun and is currently ongoing.	
	Accounting for the fund	Risk and control evaluation, with annual compliance testing, whilst the council has no other source of assurance over this.	Controls to mitigate a significant risk	Work has begun and is currently ongoing.	
	Fund investment management	Assessment with management of the assurance framework and available assurance over the Fund's investments.	Controls to mitigate a significant risk	Work may begin in early 2017 but will be linked with the outcomes of the work being undertaken by PricewaterhouseCoopers, and may therefore take place in 2017/18 instead.	
		Follow-up of actions agreed in relation to monitoring the performance of the Pension Fund's investments.	Follow-up as required by professional standards	Work will begin in early 2017.	
<b>Service support</b>					
Business systems	Monitoring of the contract with BTLS	Risk and control evaluation of contract monitoring, with compliance testing.	Coverage of controls across the organisation	Monitoring of the contract within the council is effective.	Substantial
<b>Business processes</b>					
Financial processes	Treasury management	Risk and control evaluation of the controls in place, with annual compliance testing.	Controls to mitigate a significant risk	Work for 2015/16 was reported in September 2016, and further compliance testing for 2016/17 will begin in early 2017.	
	Oracle general ledger	Risk and control evaluation of the controls in place, with annual compliance testing.	Controls to mitigate a significant risk	The scope of this work has been agreed and work is progressing.	
	Accounts receivable and debt management: central controls	Risk and control evaluation of the controls in place, with annual compliance testing.	Controls to mitigate a significant risk	Work for 2015/16 was reported in September 2016. Since the action agreed by the Finance Team will be implemented during the remainder of 2016/17 we do not intend to undertake any further work (including follow-up of the agreed actions) on this system during the rest of the year.	Limited
	Accounts receivable and debt management: feeder system	Risk and control evaluation of the controls in place, with annual compliance testing of a sample of feeder	Controls to mitigate a significant risk	Work reported above on the central controls supporting accounts receivable and debt	Limited (as above)

Service area	Operational area of activity	Audit work	Planning principle	Progress/ findings	Assurance
	controls	systems.		management also addressed the main feeder system, Controcc, which supports adult social care. Testing also incorporated samples from the Symology, CART and MICE systems and the local arrangements within the services that use them (highways assets, transport and street lighting) and therefore no additional work will be separately undertaken this year.	
	Cash and banking: central controls including checks over completeness and compliance in other locations	Risk and control evaluation of the controls in place, with annual compliance testing.	Controls to mitigate a significant risk	Our findings were reported in September 2016.	Substantial
	Oversight of payroll payments	Risk and control evaluation of the council's monitoring and oversight of BTL's processes, with annual compliance testing.	Controls to mitigate a significant risk	Work has recently begun and will include follow-up of the actions agreed in 2015/16.	
	Accounts payable: central controls	Risk and control evaluation of the controls in place, with annual compliance testing.	Controls to mitigate a significant risk	Work is progressing.	
	VAT	Risk and control evaluation of the controls in place, with periodic compliance testing.	Coverage of controls across the organisation	Work will begin shortly and will include follow-up of the actions agreed in 2015/16.	
Investment	Implementation of the treasury management strategy, including refinancing the council's debt	Compliance testing of operational policies and procedures, and work with management to understand the nature of the representations being given to lenders and credit rating agencies.	Controls to mitigate a significant risk	This work is being scoped and testing will take place early in 2017.	
	Compliance with borrowing limits and any other restrictions on investment	Evaluation of the in-service compliance programme and management's responses to its findings.	Controls to mitigate a significant risk	This work is being scoped and testing will take place early in 2017.	
Procurement	Central procurement: compliance with legislation, financial regulations and standing orders	Risk and control evaluation with annual compliance testing.	Controls to mitigate a significant risk	The Procurement Service has established procedures to ensure that all procurement exercises follow the council's procurement rules and strategy, and the control exerted by that central team is effective.	Substantial
Payroll processing	Effectiveness of inputs to the system: the inputs required and how they are processed	Risk and control evaluation focussed on system inputs.	Controls to mitigate significant risks in a number of individual instances	Work is being undertaken within BTL's and with the council's HR Service to improve the inputs to the system provided by the council. This audit will therefore be deferred until later in 2017.	
	Processing of payments by BTL's, using information supplied by LCC	Risk and control evaluation, with annual compliance testing.	Controls to mitigate significant risks in a number of individual instances	Work has begun and is continuing.	
Human resources (and finance)	Amendments to the council's establishment: completeness, accuracy and currency of records	Risk and control evaluation to ensure that the staff establishment, hierarchies and budgets are aligned, with full compliance testing.	Controls to mitigate a significant risk	Work to establish the scope of this work has begun and will continue into 2017.	
ICT	Possible work may include general IT controls, IT security and continuity planning, and application controls.	External advice is required, including discussions with BTL's, to properly assess the ICT audit work that is appropriate and achievable.	Controls to mitigate significant risks	Discussions with BTL's are progressing, but some assurance over the controls operated on its behalf to manage the risks around the use of ICT systems is already available and has been provided.	

## **Audit and Governance Committee**

Meeting to be held on 30 January 2017

Electoral Division affected: All
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## **External audit - Annual audit letter**

(Appendix A refers)

Contact for further information:

Karen Murray, 0161 234 6364, Director, Grant Thornton

[karen.l.murray@uk.gt.com](mailto:karen.l.murray@uk.gt.com)

### **Executive Summary**

The Annual Audit Letter summarises the outcome of our work in 2015/16. It includes the key messages in relation to the financial statements audit and audit opinion, and Value for Money (VfM) conclusion.

The Annual Audit Letter will also be reported to Cabinet.

### **Recommendation**

The Audit & Governance Committee is asked to note the Annual Audit Letter.

### **Background and Advice**

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

### **Consultations**

The report has been agreed with the Council's management and will also be reported to Cabinet.

### **Implications:**

This item has the following implications, as indicated:

### **Risk management**

No significant risks have been identified

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

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

N/a		
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# The Annual Audit Letter for Lancashire County Council and Lancashire County Pension Fund

**Year ended 31 March 2016**

October 2016

**Karen Murray**

Director  
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**Caroline Stead**

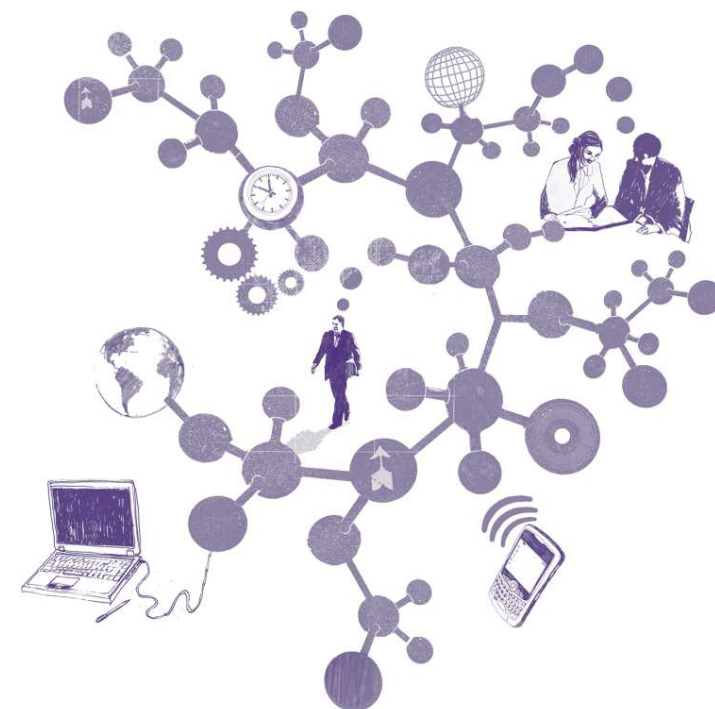
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## **Appendices**

A Reports issued and fees

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# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Lancashire County Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit and Governance Committee as those charged with governance in our Audit Findings Report on 26 September.

## **Our responsibilities**

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

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

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

## **Our work**

### **Financial statements opinion**

We gave an unqualified opinion on the Council's financial statements on 28 September 2016.

### **Value for money conclusion**

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016 except for

- The Council has received an inadequate Ofsted inspection of its children's services.
- The work of internal audit has been insufficient to provide an opinion on the overall system of internal control at the Council.

We therefore qualified our value for money conclusion in our audit opinion on 28 September 2016.

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### **Whole of government accounts**

We completed work on the Council's consolidation return following guidance issued by the NAO and issued an unqualified report on 29 September 2016.

### **Certificate**

We are unable to issue our certificate of completion of the audit. We cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of matters arising from 2012/13.

### **Working with the Council**

We have worked with you to move towards the early close of the accounts. You have plans to close your accounts earlier in 2016/17. We have worked with you to bring our work forward and will continue to do so during 2016/17.

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

**Grant Thornton UK LLP**  
**October 2016**

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# Audit of the accounts

## **Our audit approach**

### **Materiality**

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

### **Council**

We determined materiality for our audit of the Council's accounts to be £32m, which is 1.5% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as senior officer remuneration, auditors remuneration and transactions with related parties.

We set a lower threshold of £1.6m, above which we reported errors to the Audit and Governance Committee in our Audit Findings Report.

### **Pension Fund**

For the audit of the Lancashire Pension Fund accounts, we determined materiality to be £58.3m, which is 1% of the Fund's net assets. We used this benchmark, as in our view, users of the Pension Fund accounts are most interested in the value of assets available to fund pension benefits.

We set a lower level of specific materiality for certain areas such as auditors remuneration and transactions with related parties. We set a threshold of £ £2.9m above which we reported errors to the Audit and Governance Committee.

## **The scope of our audit**

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

This includes assessing whether:

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

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

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

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

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

# Audit of the accounts – the Council

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

Risks identified in our audit plan	How we responded to the risk
<p><b>The revenue cycle includes fraudulent transactions</b> Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Lancashire County Council and Lancashire Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Lancashire County Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p><b>There were no matters to report</b></p>
<p><b>Management over-ride of controls</b> Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• undertaken a review of entity level controls</li> <li>• tested of journal entries</li> <li>• reviewed the accounting estimates, judgements and decisions made by management</li> <li>• reviewed unusual significant transactions</li> </ul> <p><b>There were no significant matters to report</b></p>
<p>Valuation of Property Plant and Equipment - in respect of the waste plants owned by the Council.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• discussed the timeline of the plans with officers.</li> <li>• reviewed the information shared with the Council's external valuers setting out the impact of these plans on the service and therefore the Council's valuations for the sites</li> <li>• assessed the information used by the valuer to value the assets and the qualifications of the valuer in making the valuations required.</li> <li>• reviewed the valuation report and discussed with management how this would be accounted for in the financial statements</li> </ul> <p><b>We concluded the valuation was materially correctly stated. We reported our findings to the Audit &amp; Governance Committee</b></p>

# Audit of the accounts – the Council

Risks identified in our audit plan	How we responded to the risk
Valuation of pension fund net liability	<p>We undertook the following audit work:</p> <ul style="list-style-type: none"> <li>• identified the controls put in place by management to ensure the pension fund liability is not materially misstated.</li> <li>• assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.</li> <li>• reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation.</li> <li>• gained an understanding of the basis on which the valuation is carried out.</li> <li>• undertook procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>• reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul> <p><b>There were no matters to report</b></p>
Social care income and expenditure	<p>We undertook the following audit work:</p> <ul style="list-style-type: none"> <li>• identified the controls in place in the system</li> <li>• completed walkthrough testing of the controls to confirm they operate as we understand</li> <li>• sample tested transactions processed through the system during the year</li> <li>• reviewed the processes for identifying year end accruals of income and expenditure</li> <li>• sample tested year end balances for accruals of income and expenditure.</li> </ul> <p><b>There were no significant matters to report</b></p>
Employee remuneration accruals understated (Remuneration expenses not correct)	<p>We undertook the following audit work:</p> <ul style="list-style-type: none"> <li>• documented our understanding of the processes and key controls over the payroll transaction cycle</li> <li>• Completed walkthrough testing of the key controls to assess the whether they were operating in line with our understanding</li> <li>• reviewed the reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems and interfaces.</li> <li>• sample tested payroll transactions.</li> <li>• Performed a trend analysis of monthly payroll costs.</li> </ul> <p><b>There were no matters to report</b></p>

# Audit of the accounts – the Council

Risks identified in our audit plan	How we responded to the risk
<b>Creditors understated or not recorded in the correct period (Operating expenses understated)</b>	<p>We undertook the following audit work:</p> <ul style="list-style-type: none"><li>• documented our understanding of processes and key controls over the operating expenditure transaction cycle</li><li>• performed walkthrough of the key controls to assess the whether those controls were operating in line with our understanding</li><li>• substantively tested a sample of expenditure transactions</li><li>• reviewed managements processes to raise accruals and to ensure the accruals recognised are materially complete.</li><li>• substantively tested a sample of creditor balances and accruals recognised in the year end balance sheet.</li><li>• tested cash payments made after the year-end to identify potential unrecorded liabilities and gain assurance over the completeness of the payables balance in the accounts.</li></ul> <p><b>There were no significant matters to report</b></p>



# Audit of the accounts – Pension Fund

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

Risks identified in our audit plan	How we responded to the risk
<p><b>The revenue cycle includes fraudulent transactions</b> Under ISA (UK&amp;I)240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p><b>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</b></p>	<p>Having considered the risk factors set out in ISA(UK&amp;I)240 and the nature of the revenue streams at Lancashire County Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited due to clear separation of duties between the Fund, fund managers, and custodian ; and</li> <li>• the culture and ethical frameworks of local authorities, including Lancashire County Council as the administering authority, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p><b>There were no matters to report</b></p>
<p><b>Management over-ride of controls</b> Under ISA(UK&amp;I)240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>In line with our plan we:</p> <ul style="list-style-type: none"> <li>• reviewed entity-level controls</li> <li>• reviewed journal controls and tested a sample of journal entries</li> <li>• reviewed accounting estimates, judgements and decisions made by management</li> <li>• reviewed any unusual significant transactions</li> </ul> <p><b>There were no matters to report</b></p>

# Audit of the accounts – Pension Fund

Risks identified in our audit plan	How we responded to the risk
<p><b>Level 3 Investments</b></p> <p><b>Fair value measurements priced using inputs not based on observable market data not correct. - Valuation is incorrect (Valuation Net)</b></p> <p>Under ISA(UK&amp;I)315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p>	<ul style="list-style-type: none"> <li>carried out walkthrough tests of the system processes and controls..</li> <li>tested a sample of individual investments valuations by obtaining and reviewing the latest audited accounts for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31 March with reference to known movements in the intervening period.</li> <li>reviewed the qualifications of fund managers and custodian as experts able to value the level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached.</li> </ul> <p><b>There were no matters to report</b></p>
<p><b>Investment Income</b></p> <p><b>Investment activity not valid (Occurrence/Valuation)</b> <b>Investment income not correct (Accuracy)</b></p>	<p>We undertook the following audit work:</p> <ul style="list-style-type: none"> <li>updated and documented our understanding of processes and key controls for investment transactions</li> <li>Performed walkthrough of the key controls to assess whether those controls operated in line with our understanding</li> <li>for investments held by fund managers, reviewed reconciliation between the custodian , fund managers, and Pension Fund following up any significant variance and gain appropriate explanations/evidence for these.</li> <li>for a sample of direct property investments, rationalised income against expected rental income.</li> </ul> <p><b>There were no matters to report</b></p>
<p><b>Investment purchases and sales</b></p> <p><b>Investment activity not valid (Occurrence/Valuation)</b></p>	<p>We undertook the following audit work:</p> <ul style="list-style-type: none"> <li>reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances</li> <li>tested a sample of purchases and sales to ensure these are appropriately recorded</li> </ul> <p><b>There were no matters to report</b></p>

# Audit of the accounts – Pension Fund

Risks identified in our audit plan	How we responded to the risk
<p><b>Fair value measurements priced using inputs (other than quoted prices from active markets for identical investments) that are observable either directly or indirectly not correct</b></p> <p><b>Valuation is incorrect. (Valuation net)</b></p>	<ul style="list-style-type: none"> <li>• reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances</li> <li>• tested a sample of these investments to independent information from custodian/manager on units and on unit prices where the custodian does not provide independent pricing confirmation</li> <li>• for direct property investments, agreed values in total to the valuer's report and taken steps to gain reliance on the valuer as an expert.</li> </ul> <p><b>There were no matters to report</b></p>
<p><b>Contributions</b></p> <p><b>Recorded contributions not correct (Occurrence)</b></p>	<ul style="list-style-type: none"> <li>• performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding.</li> <li>• carried out controls testing over completeness accuracy and occurrence of contributions</li> <li>• Rationalised contributions received with reference to changes in member body payrolls and numbers of contributing pensioners and ensured that any unexpected trends were satisfactorily explained.</li> </ul> <p><b>There were no matters to report</b></p>
<p><b>Benefits payable</b></p> <p><b>Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)</b></p>	<ul style="list-style-type: none"> <li>• performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding.</li> <li>• Controls testing over completeness, accuracy and occurrence of benefit payments.</li> <li>• Rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year and ensured that any unusual trends were satisfactorily explained.</li> </ul> <p><b>There were no matters to report</b></p>
<p><b>Member data</b></p> <p><b>Member data not correct. (Rights and Obligations)</b></p>	<ul style="list-style-type: none"> <li>• performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding.</li> <li>• Performed controls testing over annual/monthly reconciliations and verifications with individual members</li> <li>• Tested a sample of changes to member data made during the year to source documentation.</li> </ul> <p><b>There were no matters to report</b></p>

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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's accounts on 28 September 2016, in advance of the 30 September 2016 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

## **Issues arising from the audit of the Council's accounts**

We reported the key issues from our audit of the accounts to the Council's Audit and Governance Committee on 26 September 2016.

## **Pension fund accounts**

We also reported the key issues from our audit of accounts of the Pension Fund hosted by the Council to the Council's Audit and Governance Committee on 26 September 2016.

## **Annual Governance Statement and Narrative Report**

We are also required to review the Council and Pension Fund Annual Governance Statements and Narrative Reports. It publishes them on its website with the draft accounts in line with the national deadlines.

The documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council

## **Other statutory duties**

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

We have not used these powers in 2015/16.

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# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

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

## Key findings

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

The key risks we identified and the work we performed are set out in table 2 overleaf.

As part of our Audit Findings report agreed with the Council in September 2016, we agreed a recommendation to address our findings, that a full internal audit plan should be delivered in 2016/17.

## Overall VfM conclusion

We are satisfied that, in all significant respects, except for the matters we identified below, the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

The areas where we identified the Council did not have proper arrangements in place were as follows:

- The Council has received an inadequate Ofsted inspection of its children's services.
- The work of internal audit has been insufficient to provide an opinion on the overall system of internal control at the Council.

# Value for Money

Risk identified	Work carried out	Findings and conclusions
<p><b>Ofsted inspection of children's services</b> Ofsted issued a report on the Council's children's services in 2015 which rated these as 'inadequate'. The Council is currently subject to follow up review.</p>	<p>We liaised with officers and review updates as they become available.</p>	<p>The Council's Children's Services were subject to an Ofsted inspection in 2015. The report, published on 27 November 2015 assessed the aspects of the service as follows:</p> <ul style="list-style-type: none"> <li>• Children who need help and protection - inadequate</li> <li>• Children looked after and achieving permanence - requires improvement</li> <li>• Adoption performance - requires improvement,</li> <li>• Experiences and progress of care leavers – inadequate,</li> <li>• Leadership, Management and governance - inadequate.</li> </ul> <p>The report identified wide ranging areas for improvement across the service with concerns raised around the failure of the Council to work with other key agencies in strategy discussions, risk assessments being undertaken without reference to, or knowledge of, significant history, complex work assigned to insufficiently qualified or experienced practitioners, and a lack of effective management oversight. The inspection also identified that performance management information was very poor, providing insufficient information to provide management and members with the right information to hold the service to account.</p> <p>The Council has responded quickly to the report and subsequent Improvement Notice issued by Ofsted. An Improvement Board was set up with an Independent Chair. The chair has the responsibility to develop an Improvement Plan which was subsequently agreed with Ofsted. An interim Director of Children's Services, shared with Blackburn with Darwen Council, is now in place.</p> <p>The Improvement Board meets on a monthly to consider the progress against the improvement plan, with an "improvement board 12 week plan" being considered at each meeting. This 12 week plan provides focus to three key areas identified for improvement – workforce, managing change and managing demand. Multi-agency focus groups have also been established to identify key issues and barriers to better working practice. The feedback to the improvement board is that communication and information sharing is an area for improvement.</p> <p>Progress is being made in a number of areas. In particular, the Council has worked to address the challenges in recruitment of staff (with agency staff currently being used to reduce workloads), accuracy of performance information, and the implementation of a new operating model. However, at the time of this report, the current version of the progress plan notes feedback from both Ofsted and the Department for Education indicates the pace of progress needs to be faster. At the start of September Ofsted visited the Council again for a follow up. The feedback from this visit was published on the Ofsted website on the 3 October 2016. In this Inspectors recognised the increase in the pace of change to improve services for children and young people in Lancashire. Further work needs to be carried out to embed good practice and to ensure that services are delivered consistently.</p>

# Value for Money

Risk identified	Work carried out	Findings and conclusions
<p><b>Internal control</b>            The Council's Head of Internal Audit was unable to provide an overall opinion on the Council's system of internal control in 2014/15 because of the limited nature of the internal audit plan.            In 2015/16, the Council's internal audit plan focuses work on key financial systems. It is therefore unlikely that the Head of Internal Audit will be able to provide an overall opinion again for this year.</p> <p>There is an outline plan in place for 2016/17 which identifies key areas of audit coverage. If this plan is refined and delivered as expected, it is likely that the Head of Internal Audit will be able to reach a conclusion on the Council's system of internal control.</p>	<p>We update our assessment of the Council's arrangements in the light of the year end report from the Head of Internal Audit and the Annual Governance Statement.</p>	<p>At the Audit and Governance Committee on 9 May 2016 the Head of Internal Audit reported that the audit plan for 2015/16 would concentrate on the following financial systems:</p> <ul style="list-style-type: none"> <li>• general financial ledger</li> <li>• cash and banking</li> <li>• accounts payable system</li> <li>• accounts receivable and debt management system</li> <li>• payroll</li> <li>• treasury management and</li> <li>• VAT</li> </ul> <p>The work planned by internal audit for the year was insufficient to support an overall opinion on the internal control framework of the Council.</p> <p>The planned work on the general financial ledger, accounts payable, payroll and VAT was completed and reported to the May committee meeting. The remaining work was scheduled for after the end of the financial year because members of the audit team were seconded into the finance service to provide capacity on key projects during 2015 and the early part of 2016. As a result, the work on cash and banking, accounts receivable, and treasury management was completed following the end of the financial year. As at 7 September 2016 the cash and banking report was still at draft stage.</p> <p>The draft Annual Governance Statement presented to members at the Audit and Governance committee held on 30 June 2016 recognises the internal audit service has not been able to deliver a plan which would support an overall opinion for 2015/16 and acknowledges that the work delivered by internal audit has not been sufficient in scope for a Council the size and complexity of Lancashire County Council.</p> <p>Looking ahead, the Audit and Governance Committee has approved a plan for 2016/17 which includes a fuller programme of work. This has been designed to support an overall head of internal audit opinion for 2016/17. Internal audit have begun to recruit to the new structure to support delivery of this plan</p>

# Value for Money

Risk identified	Work carried out	Findings and conclusions
<p><b>Financial position, planning and service transformation projects</b></p> <p>The Council's financial plan has been refreshed throughout the year in recognition of the significant financial challenge facing the Council in delivering good quality services for residents and taxpayers over the medium term.</p> <p>The plan requires significant savings to be made over the next few years. Consultation has now begun on some of the changes being made to the scope and scale of services to be provided.</p>	<p>We will review the project management and risk assurance frameworks established by the Council in respect of the more significant projects, to establish how the Council is identifying, managing and monitoring these risks.</p>	<p>The Council faces a significant financial challenge in the short to medium term. A significant amount of work is needed to understand the level of service that can be provided within the budget available, and then to make a reality of this delivery.</p> <p>In November 2015, the Council set out the scale of the financial challenges facing it in the update to the medium term financial strategy. When Cabinet received the updated medium term financial strategy it out that significant savings were needed as a funding gap of £262m over the five years to 2020/21 has been identified. At this stage, an overspend of £19.666m was also forecast for 2015/16. In the update taken to members in January 2016, as part of the budget setting council meeting, the in year overspend was forecast at £9.581m against the revenue outturn for 2015/16 but a further on-going pressure on budgets of £35.766m was identified. The Council was now reporting a funding gap of £200.5m for the period 2016/17 - 2020/21 after the impact of the financial settlement, new financial pressures and the £64.8m of savings proposals agreed by Cabinet in November. In September this funding gap has reduced to £147.944m, reflected in the change in council tax funding assumptions.</p> <p>At the end of 2015/16, the Council had successfully delivered within it's planned revenue budget. The final outturn position reported to members was £726.074m compared with a revenue budget of £726.675m set in February 2015. The final position, which is an overall underspend of £0.6m on services reflects a mixed picture across the Council's services. For example, there are overspends of £16.977m in adult services (largely relating to commissioned social care), £1.379m in children's services (where a significant overspend on Children's social care- £9.570m has been offset by other underspends), and £2.939m in commissioning, and £4.107m in development and corporate services. However, there was an underspend of £22.070m in Chief Executives, of which the most significant elements were higher than budgeted interest received and a lower Minimum Revenue Provision (MRP) charge. The reduction in MRP was partly due to lower than anticipated borrowing but also reflects the change in MRP policy agreed at Council on 11 February 2016. At the end of the financial year, the Council had £36m in the County Fund (unchanged from 2014/15) and £364.5m in earmarked revenue reserves (£376.1m in 2014/15).</p> <p>Despite the underspend in 2015/16, the Council knows that urgent action must be taken to reduce medium term funding gap through its transformation programme. This programme will drive radical change to the way services are provided. As part of this, the Council's base budget review is designed to identify the services the Council will provide. A key element of this is Council's property strategy and the Council has now consulted on detailed plans about how it will use its asset base to deliver services in future years. The proposal identified 130 premises preferred for retention as neighbourhood centres, with a further 106 premises identified for closure.</p> <p>The Council is working with external consultants to assess the future operating model for the Council and to test the financial resilience of future service plans. Additionally, external support is also being used to support plans for transformation of the delivery of social care.</p> <p>The Council's risk register clearly documents the risks to the on-going financial position, the longer term financial viability and the risks around transformation.</p>



# Value for Money

Risk identified	Work carried out	Findings and conclusions
<p><b>Waste plant</b>            In February 2016 the executive scrutiny committee considered a report on the proposed waste processing requirements and specification for services delivered by Global Renewables Lancashire Operations Limited (GRLOL). This recommended that elements of the plant were closed with immediate effect or by the end of the financial year 2015/16.</p> <p>On further discussion with officers, we understand the planned timetable for operational mothballing these assets stretches beyond the timescale agreed by members. We are also concerned that, as part of the decision making process, the impact on the valuation of the assets was not considered.</p>	<p>We have reviewed the decision making process the Council followed to understand that members considered all relevant information to make their decision.</p>	<p>Over recent years, the Council has been looking at ways to reduce the costs of waste disposal provided at two facilities in Lancashire. As part of the wider consideration of budget options in November 2015, a policy was agreed to reduce the processing activities and costs at the two plants as these were no longer considered to economic. Where this occurred, the plant and equipment was to be mothballed and maintained. As part of this decision, the service would cease composting of co-mingled food and garden waste. Alongside this was a commitment to downsize the waste company operating the facilities on behalf of the Council.</p> <p>Following this decision, the service options were considered in more detail. The recommendations made to the Cabinet Member for Environment, Planning and Cultural Services included that:</p> <ul style="list-style-type: none"> <li>• waste transfer operations were established for residual waste,</li> <li>• In Vessel Composting processes ceased with immediate effect</li> <li>• redundant processing equipment be protected and preserved; and</li> <li>• a new operating structure with the Council be agreed by GRLOL.</li> </ul> <p>This decision was taken on the basis of the lowest cost, lowest risk option, which at the time was to divert the residual waste to landfill. However, further discussion with contract holders for the waste output identified some options to use existing relationships to provide a lower specification output. As a result, some elements of the original service provision continue although on a reduced scale.</p> <p>Following our audit plan, the Audit and Governance committee requested and received a report on the decision taken and the financial impact.</p> <p>The plans for the downsizing of the company are continuing. This is expected to lead to a greatly reduced workforce at the company.</p> <p>The Council is committed to exploring the options for the future use of the two facilities and the equipment currently being preserved. A soft market testing exercise has been commenced but is not yet concluded so the longer term viability of the sites is unclear.</p> <p>The Council has discussed with its external valuer whether the changes in the service provision currently agreed impact on the carrying value of the assets. We received a draft of this on the 2 September 2016.</p>

# Value for Money

Risk identified	Work carried out	Findings and conclusions
<p><b>Better care fund</b> The Council has entered into a Section 75 agreement with local Clinical Commissioning Groups (CCGs). This has created pooled budgets for the delivery of certain schemes.</p>	<p>We have reviewed the arrangements for ensuring the governance of the Better Care Fund.</p>	<p>There are appropriate governance structures in place for the delivery of the Better Care Fund across Lancashire. The Lancashire Health and Wellbeing Board (HWB) takes overall accountability for the implementation of the Better Care Fund, and is supported by the BCF Steering Group, which reports directly to the HWB and manages the delivery of the BCF schemes. The Steering Group's aims are to review progress against the plan, scrutinise performance and finances and report by exception to the HWB.</p> <p>There is also a Programme Managers group, which is responsible at a local level for the delivery of the Better Care Fund. Within its terms of reference the group is also responsible for the submission of quarterly performance reports for use by the Health and Wellbeing Board.</p> <p>Meetings are held frequently and there is representation from NHS England, district councils and the third sector. The groups appear to be an effective forum for working through specific issues together.</p> <p>There has however been a lack of financial monitoring and performance reports in relation to the Better Care Fund within both the Steering Group and the Programme Managers Group. This has been recognised by both groups and is expected to be addressed early in 2016/17. Quarterly performance/spend returns are produced for NHS England but these are at a very high level and do not assess whether desired outcomes are being achieved. There is a risk register which is brought to the Programme Managers' Group for review, but members of this group have recognised that more consideration of risks needs to be given by them.</p> <p>Over the medium term, the five year Sustainability and Transformation plans being developed for the wider health economy will need to be supported by strongly defined and clear governance arrangements. Work is on-going to agree the appropriate arrangements to support this. Clarity over the detailed reporting and monitoring arrangements at the outset will be a key requirement of these new arrangements.</p>

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# Working with the Council

## **Our work with you in 2015/16**

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

**An efficient audit** – we delivered the accounts audit x days before the deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work.

**Understanding your operational health** – through the value for money conclusion we provided you with assurance on your operational effectiveness. We highlighted the need for you to continue to deliver your improvement plan in response to your Ofsted inspection and the importance of delivering a full internal audit plan in 2016/17.

**Sharing our insight** – we provided regular audit and governance committee updates covering best practice. Areas we covered included: Innovation in public financial management, Knowing the Ropes – Audit Committee; Effectiveness Review, Making devolution work, Reforging local government.

We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

**Providing training** – we provided your teams with training on financial accounts and early close of the accounts in 2017/18. The courses were attended by members of your finance team.

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# Working with the Council

## **Working with you in 2016/17 Highways Network Asset**

The Code of Practice on Local Authority Accounting (the Code) requires authorities to account for Highways Network Asset (HNA) at depreciated replacement cost (DRC) from 1 April 2016. The Code sets out the key principles but also requires compliance with the requirements of the recently published Code of Practice on the Highways Network Asset (the HNA Code), which defines the assets or components that will comprise the HNA. This includes roads, footways, structures such as bridges, street lighting, street furniture and associated land. These assets should always have been recognised within Infrastructure Assets.

The Code includes transitional arrangements for the change in asset classification and the basis of measurement from depreciated historic cost (DHC) to DRC under which these assets will be separated from other infrastructure assets, which will continue to be measured at DHC.

This is expected to have a significant impact on the Council's 2016/17 accounts, both in values and levels of disclosure, and may require considerable work to establish the opening inventory and condition of the HNA as at 1 April 2016.

Under the current basis of accounting values will only have been recorded against individual assets or components acquired after the inception of capital accounting for infrastructure assets by local authorities. Authorities may therefore have to develop new accounting records to support the change in classification and valuation of the HNA.

The nature of these changes means that Finance officers will need to work closely with colleagues in the highways department and potentially also to engage other specialists to support this work.

Some of the calculations are likely to be complex and will involve the use of external models, a combination of national and locally generated rates and a number of significant estimates and assumptions.

We have been working with the Council on the accounting, financial reporting and audit assurance implications arising from these changes. We have issued two Client Briefings which we have shared with your capital team. We will issue further briefings during the coming year to update the Council on key developments and emerging issues.

This significant accounting development is likely to be a significant risk for our 2016/17 audit, so we have already had some preliminary discussions with the Council to assess the progress it is making in this respect. Our discussions with Council Officers to date has highlighted the following:

- The Council understands the requirements of the Code and the finance team are working with your highways team to ensure sufficient information is available to support the disclosures in the accounts.
- We have agreed to undertake early work on the processes undertaken to calculate the opening balances in the 2016/17 statement of accounts. This will include understanding the systems and processes in place to capture the information
- The timescales and amount of information required will be challenging for your team.

# Appendix A: Reports issued and fees

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

## Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	112,995	112,995	150,660
Statutory Audit of Pension Fund	34,169	34,169	34,169
IAS19 protocol audit work	1,737	1,737	1,737
Audit of subsidiary company LCDL Ltd	31,130	31,130	
<b>Total fees (excluding VAT)</b>	<b>180,031</b>	<b>180,031</b>	<b>186,566</b>

## Fees for other services

Service	Fees £
<b>Audit related services:</b>	
• Teacher's Pensions return, reasonable assurance engagement	4,200
• Initial teacher training reasonable assurance engagement	2,000
• Local Transport Plan Major projects reasonable assurance engagement	2,500
<b>Non-audit services</b>	
Risk management workshop	3,684
Tax services to subsidiary company	20,200
<b>Pension Fund</b>	
Facilitation of self assessment of governance arrangements	4,500

## Reports issued

Report	Date issued
Audit Plan - Council	May 2016
Audit Plan – Pension Fund	May 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016



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**Audit and Governance Committee**  
Meeting to be held on 30 January 2017

Electoral Division affected: All
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**External Audit Update report**  
(Appendix 'A' refers)

Contact for further information:  
Karen Murray, 0161 234 6364, Director, Grant Thornton  
[karen.l.murray@uk.gt.com](mailto:karen.l.murray@uk.gt.com)

**Executive Summary**

Update report including progress to date with the 2016/17 audit of the accounts, Value for Money (VfM) conclusion and other work. The outcome of our work will be reported to the Audit and Governance committee throughout the year. The report also provides additional information on sector developments to the members of the Audit and Governance Committee as those charged with governance for the Council.

**Recommendation**

The Committee is asked to note the update report.

**Background and Advice**

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

**Consultations**

The report has been shared with the Director of Financial Resources.

**Implications**

This item has the following implications, as indicated:

**Risk management**

No significant risks have been identified.

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

Paper	Date	Contact/Service/Tel
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N/A





Audit and Governance Committee  
progress and update report for  
Lancashire County Council  
*Year ending 31 March 2017*

January 2017

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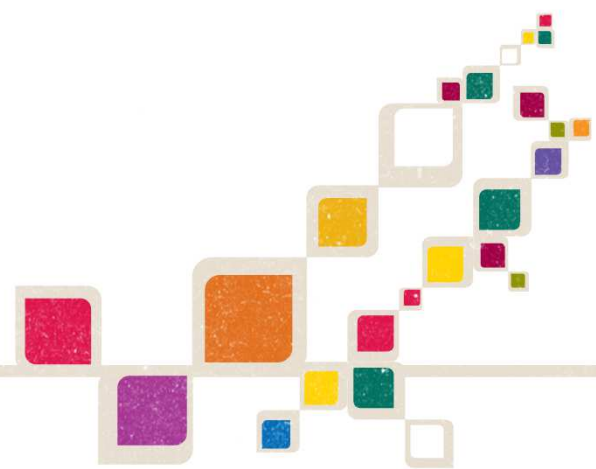
Assistant Manager

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

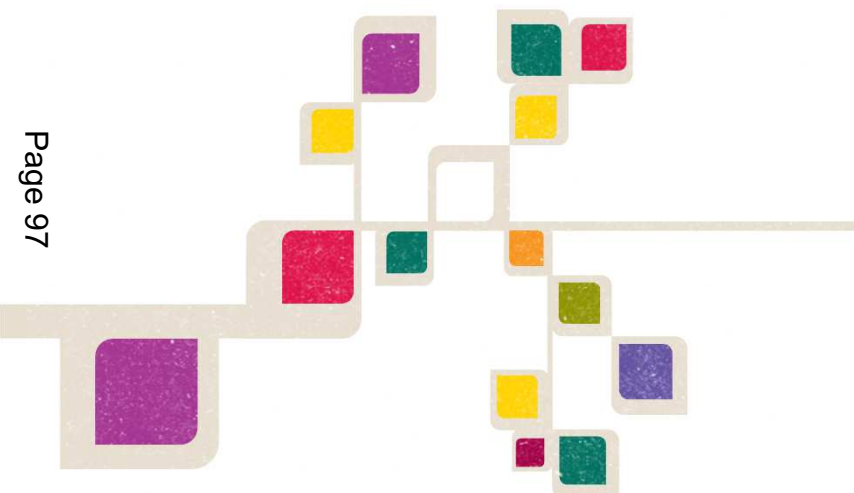


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# Introduction

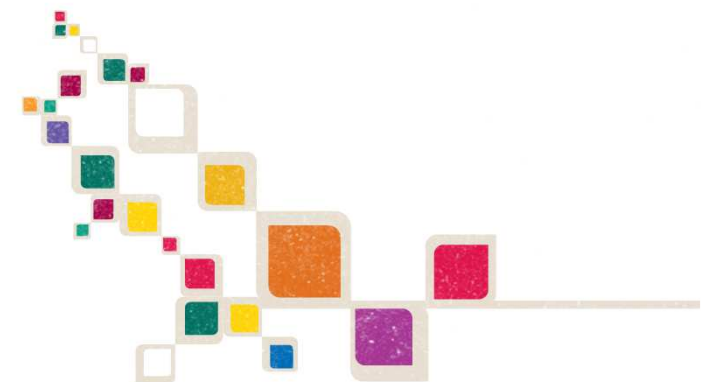
This paper provides the Audit and Governance Committee and other members with a report on progress in delivering our responsibilities as your external auditors.

Members can find useful material on our website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk), where we have a section dedicated to our work in the public sector.

In this update we are providing you with a copy of our latest publications listed below:

- Advancing Closure: Transforming the financial reporting of local authority accounts;  
<http://www.grantthornton.co.uk/en/insights/advancing-closure-the-benefits-to-local-authorities/>
- Culture of Place: summary of round table discussions and a collection of short videos:  
<http://www.grantthornton.co.uk/en/insights/culture-of-place/>

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




# Progress at January 2017



 **Progress against plan**  
On track

 **Opinion and VfM conclusion**  
Issued 28 September 2016

 **Outputs delivered**  
Fee letter, Audit Plan, Progress Reports, Audit Findings Report and Annual Audit Letter delivered to plan

## 2015/16 work Completed Comments

2015/16 work	Completed	Comments
<p><b>Audit Findings Report and opinion</b> Our Audit Findings Report summarises the key findings from the financial statements and value for money conclusion (VfM) work for the year ended 31 March 2016. We were required to report to those charged with governance by 30 September 2016.</p>	September 2016	<p>We issued an Audit Findings Report and presented it at the 26 September 2016 Audit and Governance Committee.</p> <p>An unqualified financial statements opinion and a qualified VfM opinion were issued on 28 September 2016. We have not yet issued our audit certificate to formally close the audit for 2015/16.</p>
<p><b>Annual Audit Letter</b> Our Annual Audit Letter summarises the key findings arising from the work that we have carried out for the year ended 31 March 2016. We were required to agree the report with management and provide a copy for all members by 31 October 2016.</p>	October 2016	<p>We issued our Annual Audit Letter in October 2016. The Letter is included on the agenda for this committee and has been presented to the Cabinet on the 19 January 2017.</p> <p>The Annual Audit Letter confirms that we issued an unqualified financial statements opinion and a qualified VfM opinion on the 28 September 2016.</p>

# Progress at December 2016



 **Progress against plan**  
On track

 **Opinion and VfM conclusion**  
On track

 **Outputs delivered**  
On track

## 2016/17 work

### Fee Letter

We were required to issue a fee letter for 2016/17 by 30 April 2016.

April 2016

We issued the fee letter for 2016/17 in April 2016, with no change to the scale fee proposed. There is no change in the scope of the areas of audit from 2015/16.

### Accounts Audit Plan

We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2016/17 financial statements.

Not yet started

Our Audit Plan for 2016/17 will be presented to the Audit and Governance Committee meeting in April 2017.

### Interim accounts audit

Our interim fieldwork visit includes:

- updating our review of the Council's control environment;
- updating our understanding of financial systems including an IT control environment review;
- review of Internal Audit reports on core financial systems;
- early work on emerging accounting issues;
- early work on the VfM Conclusion; and
- early substantive testing.

In progress

Our interim audit started in January 2017 and we expect to complete this part of our work programme in March 2017. Any findings from our work will be reported in the Audit Plan.

### Final accounts audit

Including:

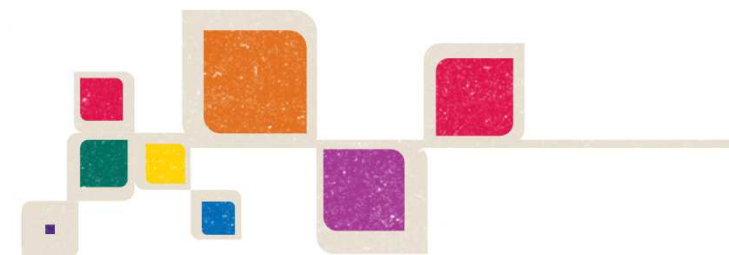
- Audit of the 2016/17 financial statements, and
- proposed opinion on the Council's accounts.

Not yet started

We anticipate scheduling our work on the Council's statement of accounts for June / July 2017.

Discussions are on-going with officers on the potential to have an earlier Audit and Governance Committee meeting to conclude the audit ahead of the statutory 30 September deadline. This is because the deadline changes in 2017/18 so that completion of the audit is required by 31 July 2018. We are keen to work with the Council to make 2016/17 a 'dry run' for the both your finance team and our audit team in advance of this significant change in the timing of the audit.

# Progress at November 2016



2016/17 work	Completed	Comments
<p><b>Value for Money (VfM) conclusion</b></p> <p>The scope of our work is set out in the guidance issued by the National Audit Office in November 2016.</p> <p>The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>The work required is to assess the overall criteria of; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".</p> <p>The three sub criterion for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> <li>• informed decision making;</li> <li>• sustainable resource deployment; and</li> <li>• working with partners and other third parties.</li> </ul>	<p>Not yet started</p>	<p>We will undertake our risk assessment alongside our interim work and will report any areas of significant risk to you in the Audit Plan.</p> <p>Between March and June we will complete any further work required from the risk assessment. We will report the final outcome of our work in our Audit Findings Report.</p>
<p><b>Annual Audit Letter</b></p> <p>Our Annual Audit Letter summarises the key findings arising from the work that we have carried out for the year ended 31 March 2017.</p>	<p>Not yet started</p>	<p>We will issue an Annual Audit Letter to the Council in line with specified deadlines after the audit of the 2016/17 financial statements.</p>



# Accounting and audit issues







## Accounting and audit issues

### Code of Practice on Local Authority Accounting in the United Kingdom 2016/17

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2016/17. The main changes to the Code include:

- the requirement for local authorities to report in the Comprehensive Income and Expenditure Statement on the same basis as they are organised and report in the year (ie. no longer following SERCOP). This is accompanied by the introduction of a new Expenditure and Funding Analysis which provides a reconciliation between the way local authorities budget and report during the year and the Comprehensive Income and Expenditure Statement.

## Accounting and audit issues

### Flexible use of capital receipts

DCLG has issued a [Direction and Statutory Guidance](#) on the flexible use of capital receipts to fund the revenue costs of reform projects. The direction applies from 1 April 2016 to 31 March 2019.

The Direction sets out that expenditure which 'is incurred by the Authorities that is designed to generate on-going revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners' can be treated as capital expenditure.

Capital receipts can only be used from the disposals received in the years in which the flexibility is offered rather than those received in previous years.

Authorities must have regard to the Statutory Guidance when applying the Direction.



# Grant Thornton Publications





# Advancing closure: the benefits to local authorities

With new regulation bringing forward the required publishing date for accounts local authorities must consider the areas needed to accelerate financial reporting.

In February 2015, regulations were laid before parliament confirming proposals to bring forward the date by which local authority accounts must be published in England. From 2017/18, authorities will need to publish their audited financial statements by 31 July, with Wales seeking to follow a similar approach over the next few years.

Many local government bodies are already experiencing the benefits of advancing their financial reporting processes and preparing their accounts early, including:

- raising the profile of the finance function within the organisation and transforming its role from a back office function to a key enabler of change and improvement across the organisation;
- high quality financial statements as a result of improved quality assurance arrangements;
- greater certainty over in-year monitoring arrangements and financial outturn position for the year, supporting members to make more informed financial decisions for the future;

- improved financial controls and accounting systems, resulting from more efficient and refined financial processes; and
- allowing finance officers more time to focus on forward looking medium term financial planning and transformational projects, to address future financial challenges.

While there is no standard set of actions to achieve faster close there are a number of consistent key factors across the organisations successfully delivering accelerated closedown of their accounts, which our report explores in further detail, including:

- enabling sustainable change requires committed leadership underpinned by a culture for success
- efficient and effective systems and processes are essential
- auditors and other external parties need to be on board and kept informed throughout.

Grant Thornton reports



Advancing closure  
Transforming the financial reporting of  
local authority accounts



<http://www.grantthornton.co.uk/en/insights/advancing-closure-the-benefits-to-local-authorities/>

# Culture of Place

## Our towns, counties and cities have distinct and varied cultures

Our towns, counties and cities have their own compelling and richly varied cultures. There are shared and sometimes contested values, local traditions, behaviours and drivers for change. Culture evokes memory and identity. It affects how we feel about where we live and work and what's possible. It can be a set of stories describing how we do things around here, bringing out the best in us – like our history and heritage – but also preventing us from moving forward.

With local authorities increasingly adopting a place-shaping role we're exploring how culture impacts on the sector's ability to facilitate and support a vibrant economy.

We have hosted two round tables with local authority CEOs, leaders and others, to consider how local authority leadership needs to change if it is to take local culture into account.

From conversations with local authority CEOs, leaders and others, we have collated a selection of stories that invite us all to think about how the sector can disrupt fixed thinking, open up cultures and energise our places. They go beyond what's immediately obvious, voice what is sometimes unsaid and work with the strengths of their place.

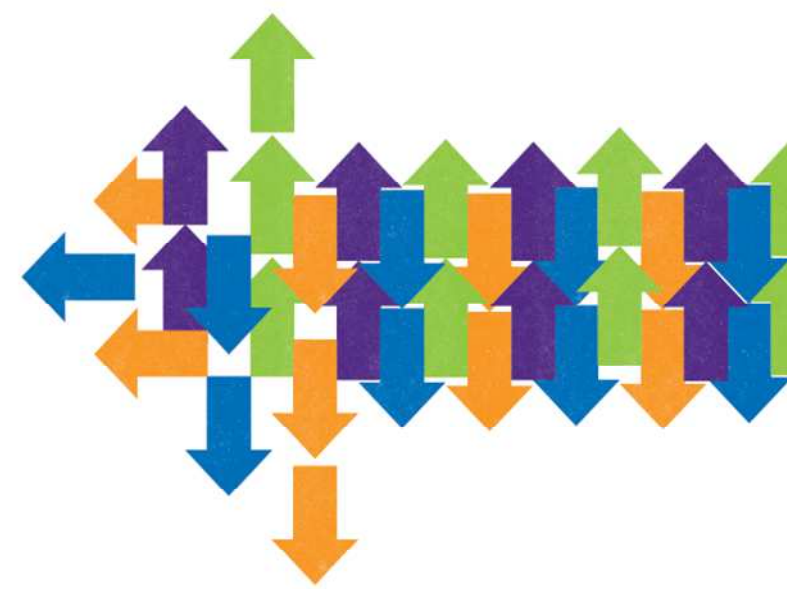
Although the term culture of place is heavily subjective our initial conversations suggest there are some common themes occurring.

- Being clear about what they want to see – there is a strong need to create an environment that gives people permission to care, to be innovative, to take action themselves, to adapt and experiment
- Socio-economic situations often drive the culture – the uniqueness of socio-economic factors leads to a recognition that one place will never be like another – and, in fact, should not aspire to be so - instead tailoring their approach to the areas specific strengths.
- It's all about context – areas within Britain can be local, national and international all at the same time, learning to live with, and get the best advantage from, what's on our doorstep is key.

A copy of the report and a collection of short videos can be found on our website at:

<http://www.granthornton.co.uk/en/insights/culture-of-place/>

Grant Thornton reports





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