

Lancashire County Council

Audit and Governance Committee

Monday, 9th May, 2016 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. | Apologies | |
| 2. | Disclosure of Pecuniary and Non-Pecuniary Interests
Members are asked to consider any Pecuniary and Non-Pecuniary Interests they may have to disclose to the meeting in relation to matters under consideration on the Agenda. | |
| 3. | Minutes of the Meeting held on 25 January 2016
To be confirmed, and signed by the chair. | (Pages 1 - 6) |
| 4. | Internal Audit annual report | (Pages 7 - 12) |
| 5. | Internal Audit Charter | (Pages 13 - 22) |
| 6. | Internal/ external audit protocol | (Pages 23 - 28) |
| 7. | Internal Audit Quality and Assurance Improvement Programme | (Pages 29 - 38) |
| 8. | External Audit - Lancashire County Council Audit Plan 2015/16 | (Pages 39 - 62) |
| 9. | External Audit Lancashire County Pension Fund Audit Plan 2015/16 | (Pages 63 - 84) |
| 10. | External audit - audit update | (Pages 85 - 102) |
| 11. | Urgent Business | |

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

12. Date of Next Meeting

The next meeting of the Committee will be held on Thursday 30 June 2016 at 2.00pm at County Hall, Preston.

13. Exclusion of Press and Public

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

Part II (Not open to Press and Public)

14. Annual report on counter-fraud, investigations and whistleblowing (Pages 103 - 114)

(Not for Publication – Exempt information as defined in Paragraphs 1 and 7 of Part 1 of Schedule 12A to the Local Government Act, 1972.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

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, 25th January, 2016 at 3.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Present:

County Councillor Terry Brown (Chair)

County Councillors

K Brown	A Schofield
D Clifford	V Taylor
C Pritchard	D Whipp
S Holgate	

County Councillors David Whipp and Steve Holgate attended in place of County Councillors Bill Winlow and Cynthia Dereli for this meeting only.

Officers in attendance

Ian Young - Director of Governance, Finance and Public Services
Damon Lawrenson - Interim Director of Financial Resources
Mike Jensen - Chief Investment Officer
Ruth Lowry - Head of Service, Internal Audit
Karen Murray - Director, Grant Thornton
Caroline Stead - Grant Thornton
Rachel Tanner - Head of Service, Procurement
Debbie Bonser - Information Governance Manager
Chris Mather - Democratic Services Manager

1. Apologies

None.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

None declared.

3. Minutes of the Meeting held on 28 September 2015

The minutes of the meeting held on 28 September 2015 were presented and agreed.

Resolved: That the Minutes of the meeting held on 28 September 2015 be confirmed and signed by the Chair.

4. Accounts of Lancashire County Developments Limited 2014/15

Damon Lawrenson, Interim Director of Financial Resources, presented a report which set out the financial statements of Lancashire County Developments Limited (LCDL) for 2014/15. LCDL was legally required to have its financial records audited annually and the appointed auditors were Grant Thornton Chartered Accountants.

Resolved: That the 2014/15 Statement of Accounts for Lancashire County Developments Limited be noted.

5. Update on Treasury Management Activity

Mike Jensen, Chief Investment Officer, presented an update report on a review of Treasury Management activities in 2015/16. Management activities were regulated by the CIPFA Code of Practice and it was best practice to review treasury management activities on a regular basis.

This review included:

- A review of the economic conditions during 2015/16
- Borrowing activity
- Investment activity
- Actual results measured against 2015/16 Prudential indicators and Treasury Management Indicators

The Committee was informed that the detail within the report related to a period of limited market activity between 1 September and 30 November 2015. Since then, however, the markets had been very volatile and much of the information in the report had been superseded. A brief summary of recent market activity was given and a more detailed report would be presented to the next meeting.

Resolved: That the review of treasury management activities in 2015/16 for the period 1 September to 30 November 2015 be noted.

6. Information Governance - update

Debbie Bonser, Information Governance Manager, presented a progress report on Information Governance arrangements within the County Council.

The Committee was informed since the last information governance update to this committee, on 30 June 2015, good progress had been made in the provision of information governance services to the Council. The Information Commissioner's Office (ICO) returned in October 2015 and praised the Council for their significant progress in all 3 ICO audit scope areas (Governance, Training and Subject Access requests).

Areas singled out for praise included:

- The creation of a draft Corporate Risk Register showing all high level risks and opportunities faced by the Council;
- The introduction of an information risk management group identifying high level information risks and opportunities and creating mitigating (or maximising) actions before pushing them to the Corporate Risk Register;
- The introduction of a Privacy Impact Assessment Policy which included a methodology to identify, assess and mitigate privacy risks at the start of all new projects; and
- The provision of secure email and remote access for social workers screening subject access requests prior to disclosure.

It was reported that the ICO audit process had been completed and all possible civil monetary penalties in lieu of security breaches at the Council had been cancelled.

The Committee's attention was also drawn to:

- The measures taken to raise awareness of information governance across the Council and to realign information governance work areas with ICO recommendations;
- The development of an electronic system to approve sharing between organisations and promote the rapid adoption of information sharing across the public sector;
- The Council's attainment of a high score of 94% against the NHS Information Governance Toolkit. It was noted that this was one of the highest scores on the toolkit; and
- A number of security incidents since the last update report. It was noted that none of the incidents were serious enough to be reported to the Information Commissioners Office and the measures taken to mitigate these incidents were explained.

Members welcomed the report and in particular the progress being made to develop robust arrangements to secure information properly.

Resolved: That the progress made on Information Governance arrangements within the County Council, as set out in the report now presented, be noted.

7. External Audit - Annual Audit Letter

Karen Murray, Director for Grant Thornton, presented the report on the External Audit's Annual Audit Letter. The Annual Audit Letter summarised the outcome of External Audit's work in 2014/15. It included the key messages in relation to the financial statements audit and audit opinion, the Value for Money conclusion, and Audit fee.

Resolved: That the External Auditor's Annual Audit Letter for 2014/15, as now presented, be noted.

8. External Audit - Audit Update

Karen Murray, Director for Grant Thornton, presented the External Audit update report to the Committee. The report included progress to date with the 2015/16 audit of accounts, Value for Money (VfM) conclusion and other work. It was noted that the outcome of External Audit's work would be reported to the Committee throughout the year.

The report also provided additional information on sector developments to the members of the Audit and Governance Committee as those charged with governance for the County Council.

Resolved: The External Audit update report as now presented be noted.

9. Strategic Internal Audit Plan: 2015/16, 2016/17 and Beyond

Ruth Lowry, Head of Service, Internal Audit, presented a report which explained the approach to establishing a strategic plan of work to be undertaken by the County Council's Internal Audit Service for 2015/16, 2016/17 and beyond.

The Committee had previously been informed that the Internal Audit Service would not complete a risk-based programme of work to support an overall opinion on the Council's framework of governance, risk management and control for 2015/16 but would focus its assurance work on the council's centrally managed key financial systems, as set out at Appendix 'A'. Details of the audit work around governance, risk management and control for 2016/17 and other areas of work which may be added to the plan during 2016 and 2017, or could be considered for inclusion in the following years' plan were also presented at Appendix 'A'.

A suggestion was made that the plan should include work on the Council's road safety service. A view was also expressed that work around Public Health and Wellbeing Services should be a high priority to be followed by work around children's and adult's services. It was noted that the plan would need to be flexible and that further work would be necessary to scope and timetable the planned audit work during 2016 and beyond. Members were invited to suggest other areas of work that could be considered for inclusion in the plan.

It was confirmed that that details of any significant amendments to the plan would be presented to the Committee for consideration.

Resolved: That the strategic internal audit plan, as now presented, be approved.

10. Risk and Opportunity Register

Ian Young, Director of Governance, Finance and Public Services, presented a report on the development of a Risk and Opportunity Register.

At its meeting on 28 September 2015 the Committee had received an update report in relation to a number of key issues that had started to emerge in 2014/15 which were also relevant to the External Auditor's Value for Money conclusion. The report highlighted that whilst risk management happened 'in practice', there was a need for the Council to embed a systematic approach to identifying strategic risks and opportunities. It was therefore reported that a proposed corporate approach to reporting in relation to these issues was being developed and would be provided to the Committee for consultation.

The report now presented set out the proposed approach (Appendix 'B') and included at Appendix 'A', a draft Risk and Opportunity Register for the Committee's consideration. Members were invited to suggest other areas for inclusion on the Register.

It was noted that the Register would be regularly updated and presented to Management Team, as well as to the Cabinet Committee on Performance Improvement and to the Audit and Governance Committee in accordance with the timetable provided.

Resolved:

- (i) That the draft Risk and Opportunity Register, as set out at Appendix 'A', be noted.
- (ii) That the proposed approach to reporting on risk and opportunities, as set out at Appendix 'B', be endorsed.

11. The Procurement Service Update Report

Rachel Tanner, Head of Service Procurement, presented an update report on the performance of the Procurement Service, including progress made to date in implementing the Procurement Service improvement plan, the development of a performance dashboard, the current performance of the service against the key performance indicators aligned to the procurement strategy, and the support given to suppliers.

Officers agreed to include details of contract awards to suppliers based outside the North West on the performance dashboard.

Resolved: That the update report on the performance of the Procurement Service, as now presented, be noted.

12. Urgent Business

There was no urgent business.

13. Date of Next Meeting

It was noted that the next meeting of the Committee be held on Monday 4 April 2016 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, 9 May 2016

Electoral Division affected: (All Divisions);
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Internal Audit annual report

(Appendix A refers)

Contact for further information:

Ruth Lowry, Head of Service – Internal Audit,
ruth.lowry@lancashire.gov.uk

Executive Summary

This report provides an update on the progress made on the audit work undertaken for the county council during 2015/16, and gives an indication of the planned improvements that the council may wish to reflect in its annual governance statement.

Recommendation

The committee is asked to consider and note the report.

Background and Advice

In June 2015 the Audit and Governance Committee considered the *Annual report of the Head of Internal Audit for the year ended 31 March 2015* which noted that the Internal Audit Service would not be able to undertake a sufficient breadth of work to support an overall audit opinion in 2015/16. This was largely because the focus of the Service would be work to support management and because a number of members of the team were seconded into Finance to support key transformation projects. In approving the *Strategic internal audit plan: 2015/16, 2016/17 and beyond* in January 2016 the Committee were informed that for 2015/16, the Internal Audit Service would focus its assurance work solely on the council's centrally managed key financial systems. The decision to refocus the resources of the Internal Audit Service during 2015/16 was taken in the context of the significant challenges facing the council, the need for resources to respond to these challenges, and in light of the council's recognition that improvements were required to its risk management, control and governance framework. Since the administration and senior management team are aware that controls require strengthening and are working to achieve those improvements, the Annual Governance Statement will reflect only management's own assurances and those provided by external organisations, such as Ofsted, where such assurance is available.

This report therefore provides an update on the progress made on the audits of the centrally managed key financial systems, and the outcomes where appropriate. It

also provides an indication of the planned improvements that the council may wish to reflect in its annual governance statement.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

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

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

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

N/A

Internal audit work undertaken during 2015/16

1 Introduction

- 1.1 In June 2015 the Audit and Governance Committee noted the *Annual report of the Head of Internal Audit for the year ended 31 March 2015* that stated, "During 2015/16 the Internal Audit Service will work to support management and in particular a number of members of the team will be seconded into the finance teams. It will not therefore undertake work that will support an overall opinion in 2015/16."
- 1.2 In January 2016 the committee also noted the *Strategic internal audit plan: 2015/16, 2016/17 and beyond* that stated, "The Internal Audit Service will not complete a risk-based programme of work to support an overall opinion on the council's framework of governance, risk management and control for 2015/16 but will focus its assurance work solely on the council's centrally managed key financial systems:
- The general financial ledger;
 - Cash and banking;
 - Accounts payable system;
 - Accounts receivable and debt management system;
 - Payroll;
 - Treasury management; and
 - VAT."
- 1.3 This report therefore provides an update on the progress made on each of these areas of work, and the outcomes where appropriate. At this point audit work on the treasury management system is ongoing, and work on the general financial ledger, accounts payable central system, payroll and VAT is complete. At management's request other work has been scheduled for after the end of the financial year end: work on cash and banking started in April; and the audit of the amended accounts receivable and debt management system will begin during May.
- 1.4 It also provides an indication of the planned improvements that the council may wish to reflect in its annual governance statement.

2 Overall opinion on the effectiveness of the council's risk management, control and governance processes

- 2.1 As has been noted by the Audit and Governance Committee during the course of the year the Internal Audit Service has, by agreement with the council's Management Team and the committee, undertaken insufficient audit work during 2015/16 to obtain the evidence to support an overall opinion on the council's risk management, control and governance.

3 Implications for the annual governance statement

- 3.1 The decision to refocus the resources of the Internal Audit Service during 2015/16 was taken in the context of the significant challenges facing the

Internal audit work undertaken during 2015/16

Audit and Governance Committee meeting 9 May 2016

council, the need for resources to respond to these challenges and in light of the council's recognition that improvements were required to its risk management, control and governance framework. Since the administration and senior management team are aware that controls require strengthening and are working to achieve those improvements, the annual governance statement will reflect only management's own assurances and those provided by external organisations, such as Ofsted, where such assurance is available.

3.2 In January 2016, as part of the audit planning process, the Management Team identified a number of areas where control improvements are intended to be made during 2016 and 2017. Whilst this list may not be exhaustive, it provides an indication of the improvements the council is planning to make;

- Implementation of a new approach to corporate performance monitoring;
- Implementation of a new, systematic, framework for risk management;
- Revisions to the quality assurance systems for both adults' and children's social care case management;
- Alignment of children's and adults' social care, and the transition of care users between them;
- Revised operating policies arising from both the Care Act and in relation to children with special educational needs and disabilities;
- Operation of personal social care budgets and direct payments to service users;
- Compliance with legislation relating to the deprivation of adult social care users' liberty;
- Improvements to the processing of payments to suppliers of social services through Controcc, the finance module of Liquidlogic's social care services software;
- Alignment of the delivery of the capital programme by services across the Programmes and Project Management, Corporate Commissioning and Community Services teams;
- Revised highways asset management following the implementation of software provided by Symology;
- Revised property asset management following the implementation of software provided by Technology Forge;
- Revised property programme and project management supported by the implementation of Cora Project Vision software;
- Implementation and operation of Oracle Financial's project and costing modules;
- Changes to the service provided by the waste management company following adjustments to its governance arrangements and structure.

Internal audit work undertaken during 2015/16

Audit and Governance Committee meeting 9 May 2016

4 Internal audit work completed during 2015/16

- 4.1 The Internal Audit Service has taken the opportunity provided during this year to reassess its operation and professional practice in light of the changes to the council's operating structure. The team has worked together to ensure that the audit methodology remains relevant and fit for purpose within the new and changing organisation, and is consistently applied. The last of the team members who were seconded into finance roles returned on 3 May, and the whole team has been involved in reassessing our methodology and working practices.
- 4.2 As part of this drive to reconsider and restart our work for the council, the Audit and Governance Committee will be asked to approve a revised Internal Audit Charter, which was last updated in June 2013, a Quality Assurance and Improvement Programme, and a revised Protocol for the relationship between Grant Thornton and the Internal Audit Service.
- 4.3 As noted above, work has been undertaken on the council's centrally managed key financial systems, and the outcomes of that work are as set out below.

The general financial ledger: (substantial assurance)

- 4.4 We assessed the adequacy and effectiveness of the controls in place to manage the following risks:
- Transactions recorded on the general ledger are miscoded, incomplete or do not balance due to posting/ calculation error, omission, duplication, data loss or corruption;
 - Transactions originating from feeder systems recorded on the general ledger do not balance, are incomplete or inaccurate;
 - Sub-ledgers do not reconcile;
 - Journals are miscoded, do not balance or unauthorised journal transfers are input;
 - Items in suspense are not cleared and there is inadequate review of control accounts.
- 4.5 We confirmed that the controls in place were operating effectively, with only very minor exceptions arising from staff turnover.

Accounts payable system: (substantial assurance)

- 4.6 We assessed the adequacy and effectiveness of the controls in place to manage the following risks:
- Unauthorised, inappropriate or illegitimate payments are made;
 - Inaccurate or duplicated payments are processed;
 - Invoices are not paid in a timely manner;
 - Unauthorised, inappropriate changes to supplier details, potentially resulting in fraudulent payments;
 - Payments are not accurately recorded and coded in the Oracle system.

Internal audit work undertaken during 2015/16

Audit and Governance Committee meeting 9 May 2016

4.7 The controls in place are operating effectively to control the central processing of payments through Oracle.

Payroll: (substantial assurance)

4.8 We assessed the adequacy and effectiveness of the controls in place to manage the following risks:

- Unauthorised or invalid pay grades or honorariums are input;
- Unauthorised or invalid persons (starters, leavers or ghost employees) are included in the payroll;
- Unauthorised or invalid payroll payments are made, whether regular, one-off or duplicated;
- Incorrect statutory or voluntary deductions are taken;
- Sickness and maternity pay are incorrect or invalid.

4.9 In the previous year we identified a number of non-BTLS payroll staff with system access enabling them to edit payroll data, and a number of BTLS staff with system access that was not commensurate with their role. During this year Payroll Services has reviewed and, through ICT Services, replaced some of the standard system access permissions with more appropriate access rights. However this work is ongoing and is part of a wider issue that is being addressed within systems across the council.

4.10 As in previous years we found examples of incorrect salary payments in respect of changes to basic pay, starters and leavers arising from both calculation and input errors. Similarly honoraria payments have been incorrectly made due to the council's calculation errors, non-compliance with policy and use of outdated information. In addition to more closely checking the information provided by the council, BTLS intends to provide more direct feedback to the council's managers and staff through focussed training and through a bulletin of commonly occurring errors. We also understand that a team has been set up within the council's Human Resources Service to control establishment hierarchies.

VAT: (substantial assurance)

4.11 We assessed the adequacy and effectiveness of the controls in place to manage the following risks:

- Input and output VAT (on supplies received and made) is not fully and accurately recognised and accounted for;
- Applicable exempt/ zero/ standard rates on input and output supplies are incorrectly applied and accounted for;
- VAT invoices are not received/ issued to support input and output tax recorded and included on VAT returns;
- VAT returns are not made on time or are inaccurate.

4.12 The controls in place are operating effectively.

Audit and Governance Committee

Meeting to be held on Monday, 9 May 2016

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

(Appendix A refers)

Contact for further information:

Ruth Lowry, Head of Service – Internal Audit,

ruth.lowry@lancashire.gov.uk

Executive Summary

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

The relevant standard setters, responsible for defining proper practices in terms of the Accounts and Audit Regulations have issued Public Sector Internal Audit Standards (PSIAS) with effect from 1 April 2013, that require the Internal Audit Service to establish and periodically review a charter. The current Internal Audit Charter was approved in June 2013: a revised document is attached at Appendix A and is submitted for the committee's consideration and approval.

Recommendation

The committee should consider and approve the revised Internal Audit Charter.

Background and Advice

Over the period since the current Internal Audit Charter was approved the council has experienced a number of significant changes, including the implementation of a new management structure. It is therefore appropriate that the document is reviewed and amended to reflect the revised management arrangements and the Internal Audit Service's new location within the organisational structure.

The professional guidance supporting this document is also subject to ongoing amendment and it is likely that small changes will be required again for 2017/18, but the revised charter will remain applicable throughout 2016/17.

It should be noted that both PSIAS and the Internal Audit Service's charter require the head of service – internal audit to provide an annual opinion on the council's framework of governance, risk management and control. As previously explained to the Committee, this is not possible in respect of 2015/16. The decision to refocus the

resources of the Internal Audit Service during the year was taken in the context of the significant challenges facing the council, the need for resources to respond to these challenges, and in light of the council's recognition that improvements were required to its risk management, control and governance framework.

Consultations

The director of governance, finance and public services has reviewed this revised Internal Audit Charter and has consulted the Management Team.

The audit director and manager of Grant Thornton LLP, the council's external auditor, have also been consulted.

Implications:

This item has the following implications, as indicated:

Risk management

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

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

Paper	Date	Contact/Tel
Public Sector Internal Audit Standards	2013	Ruth Lowry, 01772 5 34898

Reason for inclusion in Part II, if appropriate
Not applicable

Lancashire County Council Internal Audit Service Charter April 2016

1 Introduction

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

2 Relevant regulations and interpretation

- 2.1 The requirement for an internal audit function in local government is set out in the Accounts and Audit Regulations 2015 ('the Regulations').

"Internal audit: A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance." *Regulation 5. (1)*

Accounts and Audit Regulations 2015
- 2.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) is the relevant standard setter for internal audit in local government in the United Kingdom. CIPFA has published *Public Sector Internal Audit Standards ('PSIAS')*, which encompass the mandatory elements of the Global Institute of Internal Auditors' International Professional Practices Framework, including its *Definition of Internal Auditing*, *Code of Ethics*, and its *International Standards for the Professional Practice of Internal Auditing*. These documents are therefore mandatory for internal audit in local government in the United Kingdom, and they are supplemented within *PSIAS* by additional public sector interpretation and guidance. CIPFA has also published a *Local Government Advisory Note* setting

out sector-specific requirements for local government within the United Kingdom.

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

3 Definitions

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

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

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

- 3.2 The Global Institute of Internal Auditors and *PSIAS* also refer to the 'board' and 'senior management' and *PSIAS* recognises that these terms need to be interpreted in the context of the council's own governance arrangements.

- 3.3 The *PSIAS* defines the board as:

"The highest level of governing body charged with the responsibility to direct and/ or oversee the activities and management of the organisation. [...] 'Board' may refer to an audit committee to which the governing body has delegated certain functions."

Public Sector Internal Audit Standards, 2013

- 3.4 Within Lancashire County Council the board is defined as the Audit and Governance Committee.
- 3.5 Senior management is defined as the council's Management Team, consisting of the chief executive, the corporate director of commissioning and deputy chief executive, the corporate director of operations and delivery, the director of development and corporate services, the director of governance, finance and public services, and the director of financial resources.

- 3.6 The *PSIAS* also refers to the 'chief audit executive' who, at Lancashire County Council, is deemed to be the head of internal audit.

4 Responsibilities

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

- 4.7 A note of the responsibilities of the Management Team ('senior management') and the Audit and Governance Committee ('the board') in relation to the internal audit function are set out in the appendix to this charter. The Internal Audit Service's responsibilities are set out in the *PSIAS*, and these are supported by detailed operational policies and procedures that are regularly reviewed and updated as necessary.

5 Independence and objectivity

- 5.1 The Internal Audit Service remains independent of the council's other functions and, with the exception of its support to management in relation to counter fraud and investigatory work, no member of the Internal Audit Service has any executive or operational responsibilities. Auditors are expected to deploy impartial and objective professional judgement.
- 5.2 The Internal Audit Service's work programme and priorities are determined in consultation with the Management Team and the Audit and Governance Committee, but remain a decision for the head of internal audit. The head of internal audit has direct access to and freedom to report in her own name and without fear or favour to all officers and members, and specifically the Audit and Governance Committee. She has the formal opportunity prior to each committee meeting to meet with the chair and deputy chair of the Audit and Governance Committee.
- 5.3 The independence of the head of internal audit is further safeguarded by ensuring that her remuneration and performance assessment are not inappropriately influenced by those subject to audit.
- 5.4 All auditors make an annual declaration of their interests and update this during the year as necessary, and where any auditor has a real or perceived conflict of interest this is managed to maintain the operational independence of the service as a whole. If independence or objectivity are impaired in fact or appearance, then the nature of the impairment is disclosed as appropriate. The head of internal audit makes an annual declaration that the internal audit function is operationally independent.

6 Reporting lines and relationships

- 6.1 The head of internal audit reports functionally to the Audit and Governance Committee and organisationally to the director of legal and democratic services. Both officers have direct access to the director of governance, finance and public services, who is also the council's statutory monitoring officer and a member of the council's Management Team. The head of internal audit has similarly direct access to the director of financial resources, who is the council's finance officer under s.151 of the Local Government Act, 1972, and to the chief executive.
- 6.2 The head of internal audit has, in addition, regular access to the chair of the Audit and Governance Committee which meets at least four times each year, and the head of internal audit reports to each meeting of that

committee under its terms of reference. The Audit and Governance Committee is responsible for approving the annual audit plan.

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

7 Access to information

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

8 Internal audit resources

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

regard to the relative risks accepted, and levels of assurance required, by Lancashire County Council.

- 8.4 The county council's performance and development review scheme is applicable to all staff within the Internal Audit Service, which supports continuous staff performance appraisal and development.

9 Quality assurance and improvement

- 9.1 The head of internal audit operates a quality assurance and improvement programme that both monitors the on-going performance of internal audit activity and periodically assesses the Internal Audit Service's compliance with the *PSIAS*. This includes both internal and external assessments and is set out in a separate *Quality Assurance and Improvement Programme*.
- 9.2 The results of the quality assurance and improvement programme including any areas of non-conformance with *PSIAS* are reported annually to the Management Team and the Audit and Governance Committee.

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

- 10.1 The *PSIAS* recognises that the Internal Audit Service may go beyond the work needed to meet its assurance responsibilities and provide services to support management, including consultancy services or assistance with the investigation of suspected fraud or corruption. Such services apply the professional skills of internal audit and contribute to the overall assurance opinion.
- 10.2 The Internal Audit Service operates the council's whistle-blowing helpline and, where appropriate investigates instances of suspected or actual fraud, corruption or impropriety. It also facilitates the council's participation in the National Fraud Initiative, which matches data from the council's information systems with information held by other bodies to identify potentially fraudulent activity.
- 10.3 The Internal Audit Service is not responsible for the prevention or detection of fraud and corruption. Managing the risk of fraud and corruption is the responsibility of management. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that fraud and corruption may have occurred. Internal audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.
- 10.4 The head of internal audit should be informed of all suspected or detected fraud, corruption or impropriety and will consider the implications for her opinion on the adequacy and effectiveness of the relevant controls, and the overall internal control environment.

Responsibilities in relation to the internal audit function

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

The Management Team will:

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

The Audit and Governance Committee ('the board')

The Audit and Governance Committee will:

- Consider and approve the Internal Audit Charter, including the internal audit function's purpose and authority;
- Consider and approve the risk-based internal audit plan;
- Make appropriate enquiries of the Management Team and the head of internal audit to determine whether there are inappropriate scope and/ or resource limitations to the internal audit function;
- Receive reports from the head of internal audit on the Internal Audit Service's performance and audit findings, including the head of internal audit's annual report and overall opinion for the year;
- Consider and approve the scope and form of the external assessments undertaken as part of the quality assurance and improvement programme;
- Receive and consider the results of the quality assurance and improvement programme, including areas of non-conformance with *PSIAS*;
- Consider and approve any significant consulting services not already included in the audit plan, in light of any potential impairments to the auditors' independence or objectivity.

Audit and Governance Committee

Meeting to be held on Monday, 9 May 2016

Electoral Division affected: (All Divisions);
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Internal/ external audit protocol

(Appendix A refers)

Contact for further information:

Ruth Lowry, Head of Service – Internal Audit,

ruth.lowry@lancashire.gov.uk

Executive Summary

This protocol sets out how Lancashire County Council's internal Audit Service and Grant Thornton as its external auditor work together, and establishes a framework for coordination, cooperation and exchange of information.

The full protocol is included as Appendix A to this paper.

Recommendation

The committee is asked to note this information.

Background and Advice

In the interests of value for money it is important that the council's internal and audit auditor operate together efficiently and effectively. This protocol sets out the relationship between the two sets of auditors for the Audit Committee's information.

Consultations

The audit director and manager of Grant Thornton LLP, the council's external auditor, have been consulted and the document has been agreed with them.

The director of governance, finance and public services has also reviewed this document.

Implications:

This item has the following implications, as indicated:

Risk management

None.

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

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

Appendix A

Protocol for the relationship between Grant Thornton and Lancashire County Council's Internal Audit Service

April 2016

Introduction

- 1 This protocol sets out how Lancashire County Council's Internal Audit Service and Grant Thornton UK LLP, as its external auditor, work together, and it establishes a framework for coordination, cooperation and exchange of information.

External audit responsibilities

- 2 External audit responsibilities are set out in the Code of Audit Practice, as developed by the National Audit Office. Under this code the external auditors are responsible for:
 - Expressing an opinion on the council's financial statements; and
 - Reviewing whether the council has made proper arrangements for securing financial resilience and economy, efficiency and effectiveness in its use of resources.
- 3 In addition, the external auditor may be required to certify some claims and returns for grants or subsidies paid by the government departments and public bodies to Lancashire County Council.
- 4 When completing its work on the financial statements the external auditor is required to comply with International Standards on Auditing (ISA), as adapted for application in the UK and Ireland. The external auditor is required by these ISAs, amongst other things, to:
 - Gain an understanding of the information systems that are relevant to producing material figures in the accounts;
 - Gain an understanding of the way transactions in these systems are initiated, recorded, processed and reported;
 - Identify the risks of material misstatement in the financial statements whether arising from fraud or error; and
 - Plan and carry out tests of controls and/ or detailed transactions to address those specific risks as well as the underlying inherent risks.

Internal audit responsibilities

- 5 The Chartered Institute of Public Finance and Accountancy (CIPFA) is the relevant standard setter for internal audit in local government and, with the other standard setters for the public sector in the United Kingdom, it has adopted a common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2013. The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors' International Professional Practices Framework, comprising:
 - Definition of Internal Auditing

- Code of Ethics
- International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).

6 Internal Auditing is defined as:

'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.

7 The Internal Audit Service is therefore required to formulate an annual risk-based plan of work. This is directed to providing assurance over, amongst other internal controls, the systems that produce material figures in the council's financial statements: these systems control areas of significant financial risk to the council. The Internal Audit Service is similarly obliged to provide an annual opinion to the council on its risk management, control and governance arrangements, which will inform the external auditor's work.

8 There is therefore a natural alignment of internal audit work with external audit.

9 The PSIAS set out the professional standards the council's Internal Audit Service is required to meet in relation to, amongst other things, independence and ethics, due professional care, and planning, undertaking and reporting internal audit work.

The external and internal audit relationship

10 In the interests of overall efficiency and effectiveness, Grant Thornton seeks to maximise its reliance on the work of the council's Internal Audit Service, most commonly in relation to the council's financial systems, but also in other areas where this is possible. The Internal Audit Service seeks to provide whatever support is necessary and appropriate to Grant Thornton as the council's external auditor.

11 ISA 610 refers specifically to 'considering the work of internal audit' and requires external auditors to:

- Review the Internal Audit Service to confirm that it meets, as a minimum, the requirements of the PSIAS, to provide assurance that its work can be relied on to inform external audit conclusions;
- Review whether the Internal Audit Service is effective;
- Review (and seek to place reliance on) specific pieces of internal audit work, where that work covers areas relevant to their external audit objectives; and
- Evaluate the work of the Internal Audit Service, where external auditors intend to use internal audit work to inform their conclusions. This may involve re-performance of a sample of work, testing similar items or observing internal audit work in progress.

12 When Grant Thornton undertakes a formal review of the Internal Audit Service, it will discuss its findings with the Head of Service, Internal Audit and provide a report to the council.

- 13 The Internal Audit Service will take account of the work undertaken by Grant Thornton in assessing the framework of assurance available to the council.
- 14 Both sets of auditors share with each other their risk assessments of the council and their related work programmes. This informs both risk assessments and helps to identify opportunities for reliance on work planned to be carried out by the Internal Audit Service.
- 15 Regular liaison meetings are programmed to facilitate this and both sets of auditors share working papers and reports as needed.
- 16 In undertaking work that Grant Thornton may wish to use to support its external audit opinion on the council's financial statements, the Internal Audit Service will provide access to the working papers and supporting documentation necessary for the external auditor to assess this work in detail.
- 17 Both internal and external audit will ensure that whenever documentation is obtained from the other auditor will be returned promptly and, if used in any published document, will be appropriately cited.

Audit and Governance Committee

Meeting to be held on Monday, 9 May 2016

Electoral Division affected: (All Divisions);
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Internal Audit Quality and Assurance Improvement Programme

(Appendix A refers)

Contact for further information:

Ruth Lowry, Head of Service – Internal Audit,
ruth.lowry@lancashire.gov.uk

Executive Summary

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

The relevant standard setters, responsible for defining proper practices in terms of the Accounts and Audit Regulations have issued Public Sector Internal Audit Standards (PSIAS) with effect from 1 April 2013, that require the Internal Audit Service to establish and implement a quality assurance and improvement programme. This is attached at Appendix A.

Recommendation

The committee should consider and note the Internal Audit Service Quality Assurance and Improvement Programme.

Background and Advice

The Internal Audit Service Quality Assurance and Improvement Programme formalises the arrangements in place to ensure the quality of internal audit work across the county council.

Consultations

The audit director and manager of Grant Thornton LLP, the council's external auditor, has been consulted.

Implications:

This item has the following implications, as indicated:

Risk management

There is a risk that, if this document is not implemented, the council's Internal Audit Service will not comply with the professional standards that underpin its statutory operation.

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

Paper	Date	Contact/Tel
PSIAS	April 2013	Ruth Lowry, 01772 5 34898

Reason for inclusion in Part II, if appropriate

Not applicable.

Appendix A: Relevant standards within *PSIAS*

Appendix A

Lancashire County Council

Internal Audit Service Quality Assurance and Improvement Programme

April 2016

1 Introduction

- 1.1 Lancashire County Council's Internal Audit Service aims to serve the council effectively and efficiently, to meet its professional obligations under applicable professional standards and to continuously improve. Accordingly this quality assurance and improvement programme enables the Internal Audit Service to evaluate and demonstrate its conformance with the *Public Sector Internal Audit Standards* ('PSIAS') published by the Chartered Institute of Public Finance and Accountancy (CIPFA). It also assesses the efficiency and effectiveness of the Internal Audit Service's work and identifies opportunities for improvement.
- 1.2 It will be subject to periodic review by the Head of Service – Internal Audit ('head of internal audit') and presented to the council's Management Team and Audit and Governance Committee for approval.
- 1.3 Where the Internal Audit Service provides either the full internal audit function or ad hoc assurance for organisations external to the county council its work for those organisations will be subject to the same quality assurance and improvement set out in this programme.

2 Relevant professional standards and interpretation

- 2.1 The Accounts and Audit Regulations 2015 refer to "public sector internal auditing standards or guidance". The Chartered Institute of Public Finance and Accountancy (CIPFA) is the relevant standard setter for internal audit in local government in the United Kingdom and has published *Public Sector Internal Audit Standards* ('PSIAS') which encompass the mandatory elements of the Global Institute of Internal Auditors' International Professional Practices Framework.
- 2.2 The *PSIAS* sets out the requirement for a quality assurance and improvement programme:

"The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity."

PSIAS 1300 Quality Assurance and Improvement Programme
- 2.3 A number of other subsidiary standards follow from this that establish clear requirements of any quality assurance and improvement

programme. The *PSIAS* also adds further interpretations and requirements for the public sector under the following standards:

- 1310: Requirements of the quality assurance and improvement programme;
- 1311: Internal assessments;
- 1312: External assessments;
- 1320: Reporting on the quality assurance and improvement programme;
- 1321: Use of “conforms with the *International Standards for the Professional Practice of Internal Auditing*”;
- 1322: Disclosure of non-conformance.

2.4 The *PSIAS* refers to the 'chief audit executive' who, under Lancashire County Council's Internal Audit Charter, is deemed to be the Head of Service – Internal Audit, or 'head of internal audit'.

2.5 CIPFA has also published a *Local Government Advisory Note* setting out additional interpretation and guidance for local government within the United Kingdom. The quality assurance and improvement programme set out in this document has been designed in accordance with applicable professional requirements, as well as supporting the Internal Audit Service's own drive for continuous improvement.

3 The framework for quality assurance and improvement

3.1 The *PSIAS* standards referred to above require that all aspects of internal audit activity are considered by a combination of ongoing internal monitoring, periodic self-assessments or internal assessments by others with sufficient knowledge, and independent external review at least once every five years.

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

4 The quality assurance and improvement programme

4.1 Following this framework, the quality assurance and improvement programme consists of internal ongoing monitoring of audit assignment quality, periodic internal assessment of the professional and operational framework, and external review.

Internal ongoing monitoring of audit assignment quality

"Ongoing monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to

manage the internal audit activity and uses processes, tools and information considered necessary to evaluate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*."

PSIAS 1311: Interpretation – Internal assessments

- 4.2 The Internal Audit Service has designed procedures and an audit methodology that conform with *PSIAS* and are regularly reviewed. Every auditor in the team is required to comply with these or document the reasons why not, and to demonstrate this compliance on every audit assignment. The team meets regularly and routinely considers any technical issues arising through its work, both to ensure that individual interpretations of our procedures and methodology are consistent, and to identify any technical areas that should be reconsidered.
- 4.3 The Internal Audit management team ensures that audit work is allocated to staff with the appropriate skills, experience and competence. Ongoing monitoring and supportive coaching is built into the planning, execution and completion of every audit assignment through the managers' supervision and structured review of working papers and reports. Feedback is sought from auditees as each assignment is completed.
- 4.4 The Internal Audit management team routinely assesses the team's performance against its performance targets, which are set out at Appendix B. Any matters arising from the periodic self-assessment and external assessment processes are considered and promptly addressed.

Periodic internal assessment of the professional and operational framework

"Periodic assessments are conducted to evaluate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*."

PSIAS 1311: Interpretation – Internal assessments

- 4.5 The Internal Audit Service operates to a *Charter* that mandates compliance with relevant professional standards and specifically the *Definition of Internal Auditing*, the *Code of Ethics* and the *PSIAS* and is regularly reviewed.
- 4.6 Reports on progress against the annual audit plan are presented to each meeting of Lancashire County Council's Audit and Governance Committee, and to the audit committees of each external client.
- 4.7 The head of internal audit assesses the Service, and specifically its conformance with *PSIAS*, at least annually. This is considered by the Internal Audit management team and shared with the whole team to ensure that all understand where any changes or improvement are necessary. The outcome of this review, and progress against any improvement plans, are included in the head of internal audit's annual report to the Audit and Governance Committee.

External review

"External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive must discuss with the board:

- The form of external assessments;
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest."

PSIAS 1312: External Assessments

4.8 Lancashire County Council's Internal Audit Service has joined the peer review process operated by a group of 20 local authorities across the North West of England. The Internal Audit Service will therefore be subject to external review by a team of at least two other heads of internal audit (one reviewer and at least one moderator), working under a memorandum of understanding that sets out a methodology that has been piloted and agreed by the North West Chief Audit Executive's Group. This methodology addresses the following areas:

- The Internal Audit Service's purpose and positioning within the organisation;
- Structure and resources;
- Execution of internal audit assignments;
- The impact of the Internal Audit Service's work on the organisation's governance, risk and control environment.

4.9 Under *PSIAS*, external assessments can take the form of a full external assessment or a self-assessment with independent external validation and this second option has been adopted by the North West Chief Audit Executive's Group. The first external review of Lancashire County Council's Internal Audit Service under this methodology will be undertaken by 31 March 2018.

Each of the relevant standards within *PSIAS* is set out in full below.

1310: Requirements of the quality assurance and improvement programme

The quality assurance and improvement programme must include both internal and external assessments.

1311: Internal assessments

Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity; and
- Periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices.

Interpretation:

Ongoing monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools and information considered necessary to evaluate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*.

Periodic assessments are conducted to evaluate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*.

Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.

1312: External assessments

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive must discuss with the board:

- The form of external assessments;
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

Interpretation:

External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation.

A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.

An independent assessor or assessment team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs.

Public sector requirement:

The chief audit executive must agree the scope of external assessments with an appropriate sponsor, eg the Accounting/Accountable Officer or chair of the audit committee as well as with the external assessor or assessment team.

1320: Reporting on the quality assurance and improvement programme

The chief audit executive must communicate the results of the quality assurance and improvement programme to senior management and the board.

Interpretation:

The form, content and frequency of communicating the results of the quality assurance and improvement programme is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.

Public sector requirement:

The results of the quality and assurance programme and progress against any improvement plans must be reported in the annual report.

1321: Use of “conforms with the *International Standards for the Professional Practice of Internal Auditing*”

The chief audit executive may state that the internal audit activity conforms with the *International Standards for the Professional Practice of Internal Auditing* only if the results of the quality assurance and improvement programme support this statement.

Interpretation:

The internal audit activity conforms with the Standards when it achieves the outcomes described in the *Definition of Internal Auditing*, *Code of Ethics* and *Standards*.

The results of the quality assurance and improvement programme include the results of both internal and external assessments. All internal audit activities will have the results of internal assessments. Internal audit activities in existence for at least five years will also have the results of external assessments.

1322: Disclosure of non-conformance

When non-conformance with the *Definition of Internal Auditing*, the *Code of Ethics* or the *Standards* impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the non-conformance and the impact to senior management and the board.

Public sector requirement:

Instances of non-conformance must be reported to the board. More significant deviations must be considered for inclusion in the governance statement.

Appendix B: Internal Audit Service performance targets

Quality

- Achieve 90% satisfaction with the overall quality of the audit process in questionnaires completed by auditees.
- Achieve positive feedback overall from the Management Team and Audit and Governance Committee regarding the value of internal audit work.

Productivity

- Achieve 85% of the *Strategic internal audit plan: 2015/16, 2016/17 and beyond* by 31 March 2017, by number of reviews completed.

Compliance

- Achieve full compliance with the *Public Sector Internal Audit Standards*, demonstrated through annual self-assessment and five-yearly external assessment.

Operational

- Deliver an internal audit service to Lancashire County Council within the agreed budget.
- Fully comply with any other operational requirements determined by the county council.

Audit and Governance Committee

Meeting to be held on 09 May 2016

Electoral Division affected: None

External Audit – Lancashire County Council Audit Plan 2015/16

(Appendix A refers)

Contact for further information:

Karen Murray, Grant Thornton UK LLP, 0161 234 6364, Director

Karen.l.murray@uk.gt.com

Executive Summary

The Annual Audit Plan sets out the nature and scope of work that the Authority's external auditor will carry out to discharge its statutory responsibilities, compliant with the Local Audit & Accountability Act 2014 (the Act) and the Code of Audit Practice for Local Government.

This audit plan is specific to the financial year 2015/16 and sets out in broad terms the programme of work required to:

- give a financial opinion on whether the financial statements:
 - give a true and fair view of the financial position of the County Council as at 31 March 2016 and of its expenditure and income for the year then ended;
 - have been prepared in accordance with proper accounting practice; and

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

Recommendation

The Committee is asked to agree the External Audit plan for the audit of the Lancashire County Council for 2015/16, and the fees therein.

Background and Advice

Attached at Appendix 'A' is the external auditor's Annual Audit Plan for the audit of the Lancashire County Council. The plan sets out the main risk areas which the audit will focus on, and Karen Murray, Engagement Lead, will attend the meeting to present the report and answer any questions.

Consultations

The report has been agreed 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/Tel
N/A		
Reason for inclusion in Part II, if appropriate		
N/A		

The Audit Plan for Lancashire County Council

Year ending 31 March 2016

May 2016

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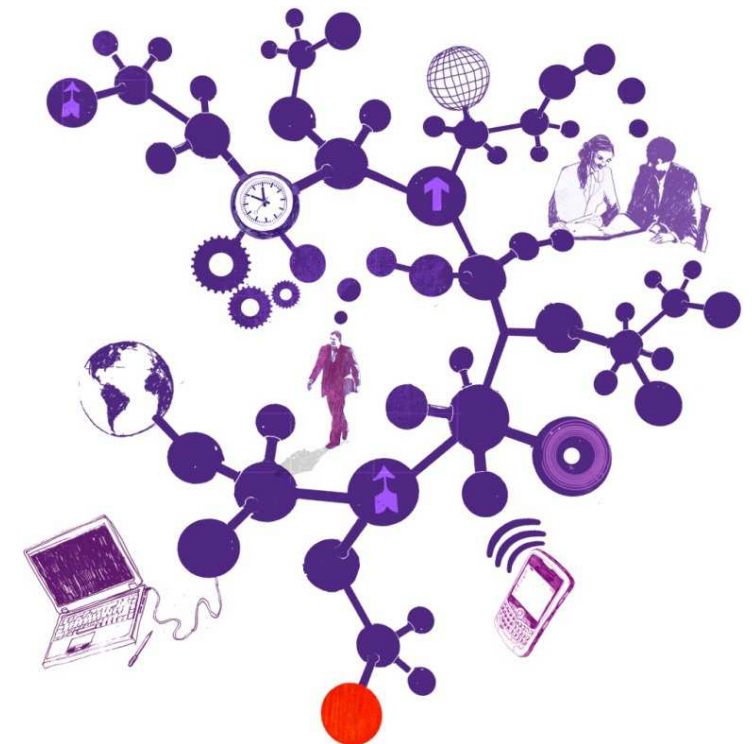
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council 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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9 May 2016

Dear Members of the Audit and Governance Committee

Audit Plan for Lancashire County Council for the year ending 31 March 2016

This Audit Plan sets out for the benefit of those charged with governance (in the case of Lancashire County Council, the Audit and Governance Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

Yours sincerely

Karen Murray
Engagement Lead

Chartered Accountants

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A. Action plan

Understanding your business

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

Challenges/opportunities

1. Autumn Statement 2015 and financial health

- The Chancellor proposed that local government would have greater control over its finances, although this was accompanied by a 24% reduction in central government funding to local government over 5 years.
- Despite the increased ownership, the financial health of the sector is likely to become increasingly challenging.

2. Devolution

- The Autumn Statement 2015 also included proposals to devolve further powers to localities.
- In Lancashire there is a movement towards a combined authority and the Council has already considered reports on the progress with this.

3. Integration with health sector

- Developments such as the increased scope of the Better Care Fund and transfer of responsibility for public health to local government are intended to increase integration between health and social care.
- The Council is involved in several schemes as part of its involvement in its Better Care Fund arrangements with local Clinical Commissioning Groups

4. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 May and 31 July respectively by the 2017/18 financial year.



Our response

We will:

- consider the Council's plans for addressing its financial position as part of our work to reach our VFM conclusion.

We will:

- consider your plans as part of the local devolution agenda as part of our work in reaching our VFM conclusion.
- provide support and challenge to your plans, if appropriate, based on our knowledge of devolution elsewhere in the country.

We will :

- consider how the Council has reflected changes to its responsibilities in relation to public health and how it is working with partners, as part of our work in reaching our Vfm conclusion
- review the governance arrangements in place for BCF
- review the Council's proposed treatment of entries relating to the Better Care Fund in its financial statements

We will :

- work with you to identify areas of your accounts production where you can learn from good practice in other authorities.
- complete all substantive work in our audit of your financial statements by 31 July 2016 as a 'dry run'

Developments and other requirements relevant to your audit

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

Developments and other requirements

1. Fair value accounting

- A new accounting standard on fair value (IFRS 13) has been adopted and applies for the first time in 2015/16.
- This will have a particular impact on the valuation of surplus assets within property, plant and equipment which are now required to be valued at fair value in line with IFRS 13 rather than the existing use value of the asset.
- Investment property assets are required to be carried at fair value as in previous years.
- There are a number of additional disclosure requirements of IFRS 13.

2. Corporate governance

- The Accounts and Audit Regulations 2015 require local authorities to produce a Narrative Statement, which reports on your financial performance and use of resources in the year, and replaces the explanatory foreword.
- You are required to produce an Annual Governance Statement (AGS) as part of your financial statements.

3. Highways Network Assets

- Although you are not required to include Highways Network Assets until 2016/17, this will be a significant change to your financial statements and you will need to carry out valuation work this year.

4. Joint arrangements and ventures

- Councils are involved in a number of pooled budgets and alternative delivery models (ADMs) which they need to account for in their financial statements.
- The Council will need to consider the requirement to produce group accounts in respect of some of these ADMs.

5. City Deal

- Lancashire County Council is the accountable body for the City Deal.
- The scheme is a long term scheme driving significant infrastructure investment

Our response

We will:

- keep the Council informed of changes to the financial reporting requirements for 2015/16 through ongoing discussions and our technical update workshops.
- discuss this with you at an early stage, including reviewing the basis of valuation of your surplus assets and investment property assets to ensure they are valued on the correct basis.
- review your draft financial statements to ensure you have complied with the disclosure requirements of IFRS 13.

We will:

- review your Narrative Statement to ensure it reflects the requirements of the CIPFA Code of Practice when this is updated, and make recommendations for improvement.
- review your arrangements for producing the AGS and consider whether it is consistent with our knowledge of the Council and the requirements of CIPFA guidance.

We will :

- discuss your plans for valuation of these assets at an early stage to gain an understanding of your approach and suggest areas for improvement.

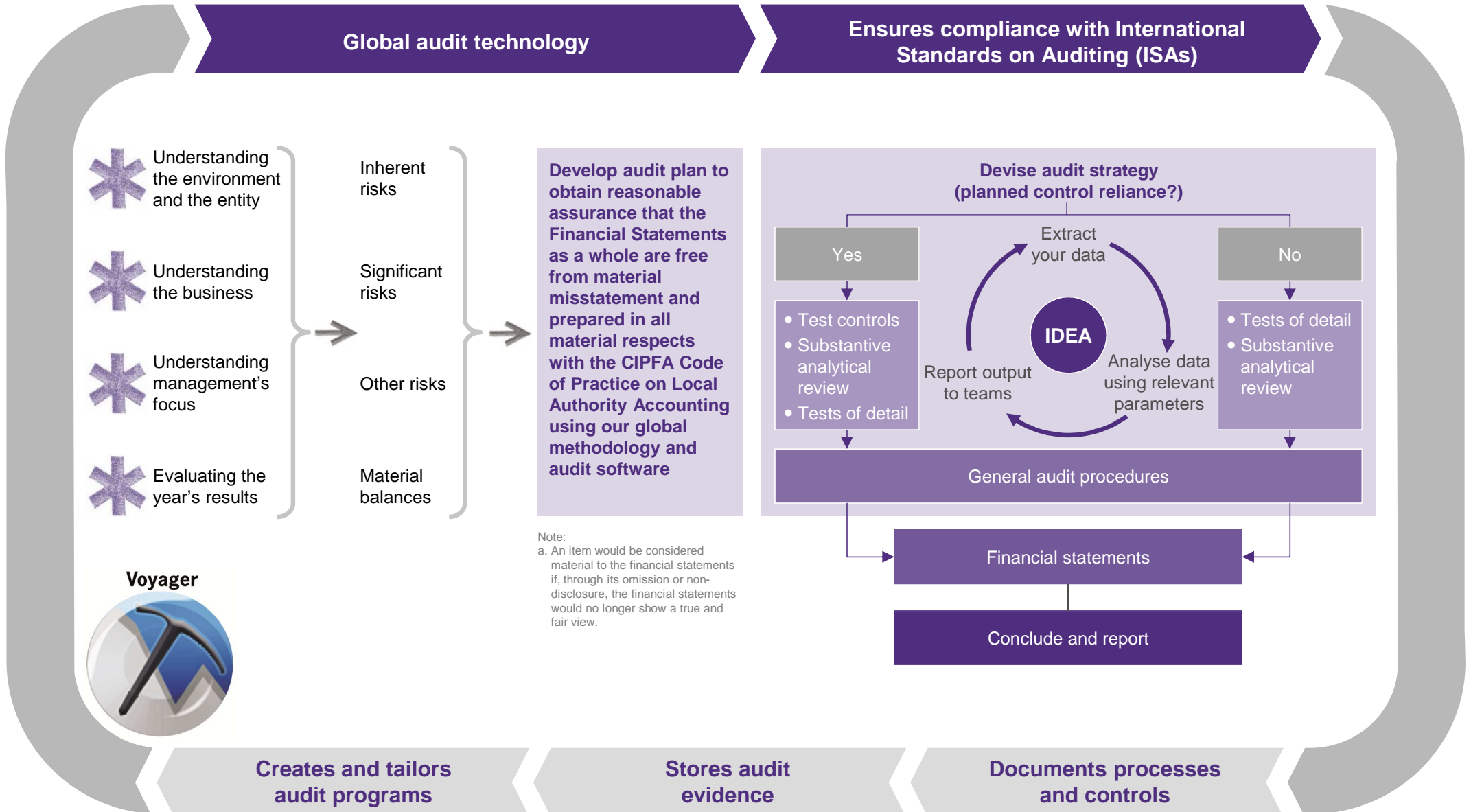
We will

- review your proposals for accounting for these arrangements against the requirements of Financial Reporting Standards and the CIPFA Code of Practice.

We will

- review the transactions reflected in the Council's accounts to ensure they are properly classified.

Our audit approach



Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in public sector entities, we have determined materiality for the statements as a whole as a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £32m (being 1.5% of gross revenue expenditure). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

In the previous year, we determined materiality to be £32m (being 1.5% of gross revenue expenditure).

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £1.61m.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have identified the following items where we would expect the disclosures in the accounts to be correct.

Balance/transaction/disclosure	Explanation
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.
Disclosures of transactions with related parties	Due to the public interest in these disclosures.

Significant risks identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315). In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing - ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. We have concluded that there is no risk identified relating to the income from taxation, grants and the fees and charges of the Council.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Lancashire Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted in relation to income from taxation, grant income and income for fees and charges, because: <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Lancashire County Council, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.	Work planned: <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions

Significant risks identified (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to date and the work we plan to address these risks.

Significant risk	Description	Substantive audit procedures
Valuation of Property Plant and Equipment - in respect of the waste plants owned by the Council.	<p>The Executive Scrutiny committee received a report on 19 February 2016 which set out several recommendations about the future use of the plants and the changes to the services delivered from these sites.</p> <p>The decision to "mothball" elements of the waste provision at the two waste recovery parks potentially has an impact on the valuation of the assets held by the Council.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> discussed the timeline of the plans with officers. <p>Further work planned:</p> <ul style="list-style-type: none"> consideration of the impact of these plans on the Council's valuations for the sites. assess the information used by the valuer to value the assets and the qualifications of the valuer in making the valuations required. review the valuations undertaken and confirm these have been accounted for correctly in the financial statements. assess the qualifications of the valuer review the proposed accounting treatment for these assets.
Valuation of pension fund net liability	The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.	<p>Work planned:</p> <ul style="list-style-type: none"> identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. gain an understanding of the basis on which the valuation is carried out. undertake procedures to confirm the reasonableness of the actuarial assumptions made. review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.
Social care income and expenditure	The Council's social care system integrates directly with the financial systems to produce information for the statement of accounts. This has not operated as intended but the Council has undertaken work on this to ensure the accounts are materially correct.	<p>Work planned:</p> <ul style="list-style-type: none"> Identification of controls in place and walkthrough of the system. Testing of transactions processed through the system.

Other risks identified

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

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

Other risks	Description	Audit approach
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p>Work planned:</p> <ul style="list-style-type: none"> • Identification of controls and walkthrough of the operating expenses system. • Substantive testing of a sample of expenditure transactions. • Review of managements processed to raise accruals and ensure that accruals recognised are materially complete. • Substantive testing of a sample of creditor balances and accruals recognised in the year end balance sheet. • Testing of 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.
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<p>Work planned:</p> <ul style="list-style-type: none"> • Identification of controls in place and walkthrough of the payroll system. • Early sample testing of payroll transactions. • Review of the reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems and interfaces. • Sample testing of payroll transactions to cover the full financial year. • Trend analysis and risk identification for monthly payroll costs.

Other risks identified (continued)

Other material balances and transactions

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

- Intangible assets
- Heritage assets
- Assets held for sale
- Investments (long term and short term)
- Cash and cash equivalents
- Borrowing and other liabilities (long term and short term)
- Provisions
- Usable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Schools balances and transactions
- Segmental reporting note
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Private Finance initiative disclosures

Other audit responsibilities

- We will undertake work to satisfy ourselves that disclosures made in the Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We will give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts

Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Planned audit approach
Lancashire County Developments Limited (LCDL)	No	Targeted	This is the first time these accounts have been consolidated into the financial statements for the Council. We will review the process by which this has been undertaken and ensure the Council has made all required disclosures.	We are the auditor for the Company. We will make arrangements to undertake sufficient work to give our opinion on the Group Accounts alongside our work on the main audit.

Value for Money

Background

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

The NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single 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.

This is supported by three sub-criteria as set out below:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> Acting in the public interest, through demonstrating and applying the principles and values of good governance Understanding and using appropriate cost and performance information to support informed decision making and performance management Reliable and timely financial reporting that supports the delivery of strategic priorities Managing risks effectively and maintaining a sound system of internal control
Sustainable resource deployment	<ul style="list-style-type: none"> Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions Managing assets effectively to support the delivery of strategic priorities Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none"> Working with third parties effectively to deliver strategic priorities Commissioning services effectively to support the delivery of strategic priorities Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for Money (continued)

Risk assessment

We completed an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies, including the Care Quality Commission and Ofsted.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We have identified significant risks which we are required to communicate to you. The NAO's Code of Audit Practice defines 'significant' as follows:

A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.

We have set out overleaf the risks we have identified, how they relate to the Code sub-criteria, and the work we propose to undertake to address these risks.

Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
<p>Financial position, planning and service transformation projects</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>This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</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>Internal control</p> <p>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.</p> <p>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>This links to the Council's arrangements for managing risks effectively and maintaining a sound system of internal control, demonstrating and applying the principles and values of good governance</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>Ofsted inspection of children's services</p> <p>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>This links to the Council's arrangements for ensuring resource deployment to deliver its strategic priorities.</p>	<p>We will continue to liaise with officers and review update reports from Ofsted as they become available.</p>

Value for money (continued)

Significant risk	Link to sub-criteria	Work proposed to address
<p>Better care fund 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>This links to the Council's arrangements for working effectively with third parties to deliver strategic priorities, managing risks effectively and maintaining a sound system of internal control.</p>	<p>We will review the arrangements for ensuring the governance of the Better Care Fund.</p>
<p>Waste plant 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>This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</p>	<p>We will establish the full decision making process the Council has followed to understand that members considered all relevant information to make their decision.</p>

Reporting

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

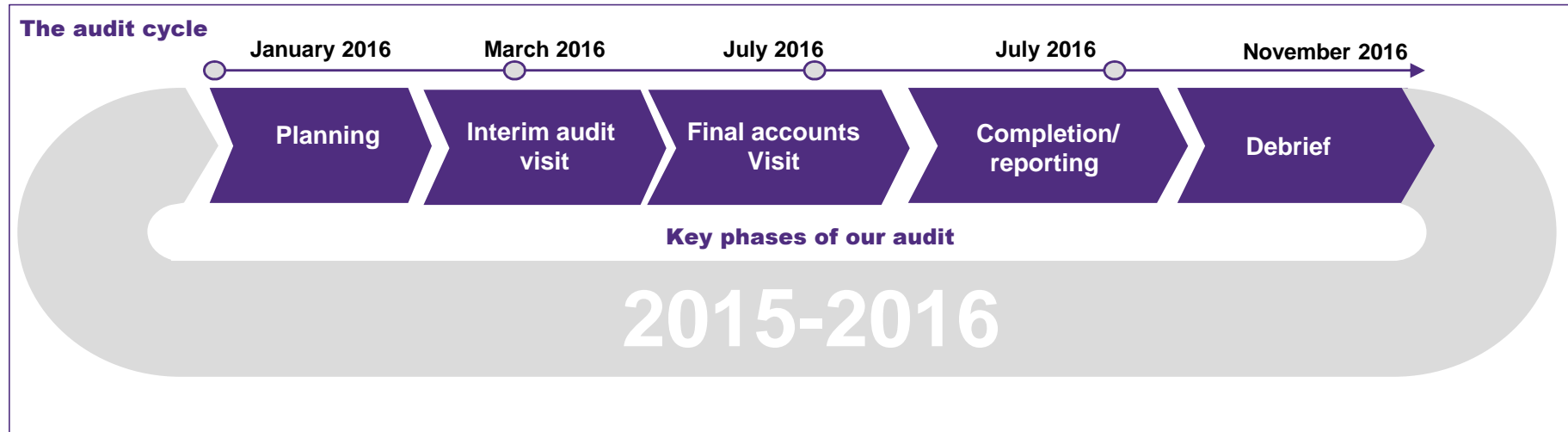
We will include our conclusion as part of our report on your financial statements which we will give by 30 September 2016.

Results of interim audit work

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

	Work performed	Conclusion
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements.</p> <p>Our work has identified the following issues which we wish to bring to your attention:</p> <ul style="list-style-type: none"> • Internal audit have delivered only a limited plan of work for the 2015/16 financial year. • The focus of the planned work has been on the core financial systems only. <p>As a result, the work of internal audit is not sufficient to support a Head of Internal Audit opinion on the Council's overall framework for internal control. This has been reported to the Audit and Governance Committee as those charged with governance during the year.</p>	<p>Overall, the internal audit service has not provided a full service to the Council. It is therefore unable to properly contribute to an effective internal control environment.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>
Early substantive testing	<p>We have begun some early testing on your payroll and operating expenditure populations.</p>	<p>We still have some queries outstanding on the work which we are continuing to discuss with officers. We will also undertake testing as part of our final accounts visit which will cover the rest of the financial year.</p>

Key dates



Date	Activity
January 2016	Planning
March 2016	Interim site visit
May 2016	Presentation of audit plan to Audit and Governance Committee
June and July 2016	Year end fieldwork
July 2016	Audit findings clearance meeting with finance team.
September 2016	Report audit findings to those charged with governance (Audit and Governance Committee)
September 2016	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	£112,995
Total audit fees (excluding VAT)	£112,995

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list.
- The scope of the audit, and the Council and its activities, have not changed significantly.
- The Council will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Grant certification

- There are no grants prepared by the Council which fall under the remit of Public Sector Audit Appointments Limited
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Service	Fees £
Audit related services:	
• 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
Risk management workshop	3,684

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter

Independence and ethics

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

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

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

The risk management workshop delivered in April 2015 was delivered by a team separate to our audit team.

Communication of audit matters with those charged with governance

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

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings Report will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

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

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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Audit and Governance Committee

Meeting to be held on 09 May 2016

Electoral Division affected: None

External Audit

Lancashire County Pension Fund Audit Plan 2015/16

(Appendix A refers)

Contact for further information:

Karen Murray, Grant Thornton UK LLP, 0161 234 6364, Director

Karen.l.murray@uk.gt.com

Executive Summary

The Annual Audit Plan sets out the nature and scope of work that the Authority's external auditor will carry out to discharge its statutory responsibilities, compliant with the Local Audit & Accountability Act 2014 (the Act) and the Code of Audit Practice for Local Government.

This audit plan is specific to the financial year 2015/16 and sets out in broad terms the programme of work required to:

- give a financial opinion on whether the financial statements:
 - give a true and fair view of the financial position of the Pension Fund as at 31 March 2016 and of its expenditure and income for the year then ended; and
 - have been prepared in accordance with proper accounting practice.

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

Recommendation

The Committee is asked to agree the External Audit plan for the audit of the Lancashire County Pension Fund for 2015/16, and the fees therein.

Background and Advice

Attached at Appendix 'A' is the external auditor's Annual Audit Plan for the audit of the Lancashire County Pension Fund. The plan sets out the main risk areas which the audit will focus on, including:

- the two default risks as highlighted in ISA+315 applicable to all audits on the revenue cycle includes fraudulent transactions and management override of controls;

- the risk of incorrect valuations on Level 3 investments, which by their nature require a significant degree of judgement to reach an appropriate valuation at year end; and
- other key risks areas around member data, investments, contributions and benefits payable.

The fee for the audit of the pension fund has been set at £34,169, which is the scale fee set by the Audit Commission. A fee of £1,737 is set to cover the IAS19 assurance work which is subject to separate approval from the Public Sector Audit Appointments Limited. Please note the total audit fee is the same as that charged in 2014/15.

(Note: The scale fee set previously by the Audit Commission for pension fund audits is based on a formula linked to the size of the net assets of the fund and has no specific risk factors linked to it).

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

Consultations

The report has been agreed with the Interim 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/Tel
N/A		
Reason for inclusion in Part II, if appropriate		
N/A		

The Audit Plan for Lancashire County Pension Fund

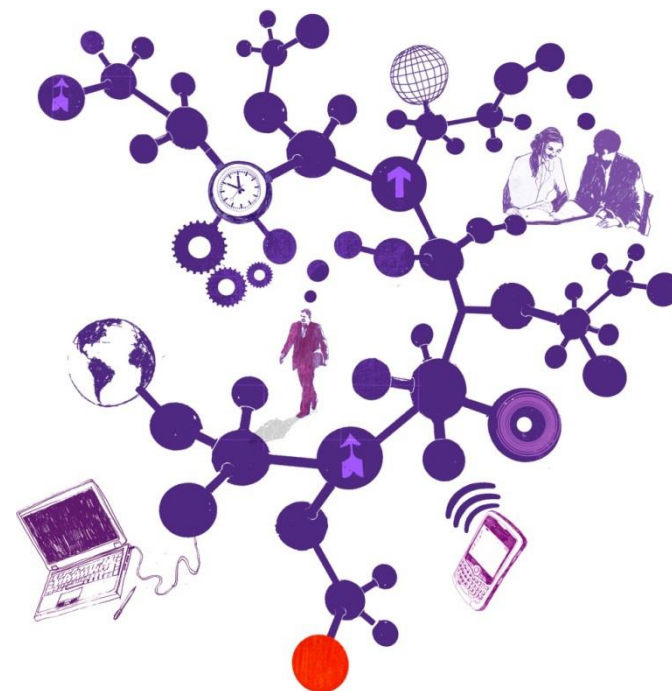
Year ending 31 March 2016

May 2016

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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 the Pension Fund 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.

Lancashire County Pension Fund
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9 May 2016

Dear Members of the Audit and Governance Committee

Audit Plan for Lancashire County Pension Fund for the year ending 31 March 2016

This Audit Plan sets out for the benefit of those charged with governance (in the case of Lancashire County Pension Fund, the Audit and Governance Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Pension Fund and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Fund's financial statements
- give an opinion on the Pension Fund Annual Report.

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

Yours sincerely

Karen Murray
Engagement Lead

Chartered Accountants

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Understanding your business

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

Challenges/opportunities

1. Pooling of Investments

- As part of the summer budget 2015 the government has invited LGPS administering authorities to submit proposals for investing their assets through pools of at least £25 billion, with the intention of reducing investment management costs and potentially improving returns.
- The government anticipates that this will improve both capacity and capability to invest in large scale infrastructure projects.
- Initial proposals are to be submitted to DCLG by mid February, with final plans agreed by 15 July 2016.

2. Changes to the investment regulations

- In November 2015 DCLG published draft proposals in relation to the investment regulations governing LGPS funds.
- The proposals seek to remove some of the existing prescribed means of securing a diversified investment strategy and instead give funds greater responsibility to determine the balance of their investments and take account of risk.

3. Governance arrangements

- Local pension boards have been in place since April 2015, and were introduced to assist with compliance and effective governance and administration of the scheme.
- There remains a continued focus on the affordability, cost and management of the scheme, and as such it remains critical that appropriate governance arrangements are in place for the fund.

4. Local Government Outsourcing

- As many Councils look to outsourcing and the set up of external companies as a more cost effective way to provide services, the impact on the LGPS fund needs to be considered.
- Funds need to carefully consider requests for admission to the scheme and where possible mitigate any risks to the fund.
- An increased number of admitted bodies may increase the risks for the fund in the event of those bodies failing. It is also likely to increase the administration costs of the scheme overall.

5. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require fund's to bring forward the approval of draft accounts and the audit of financial statements to the 31 May and 31 July respectively by the 2017/18 financial year.



Our response

- We will continue to discuss with officers their plans for asset pooling and the implications that this will have on both the investment policy and governance arrangements of the fund.

- We will discuss with officers their plans to respond to these changes and consider the impact on the fund's investment strategy and its risk management approach to investments.

- We will continue our on-going dialogue with officers around their governance arrangements, particularly in light of their proposals for pooling investments.
- We will continue to share emerging good practice with officers.

- Through our regular liaison with officers we will consider the impact of any planned large scale TUPE transfers of staff and the effect on the fund.

- We will work with you to identify areas of your accounts production where you can learn from good practice in others.
- We aim to complete all substantive work in our audit of your financial statements by 31 July 2016 as a 'dry run'.

Developments and other requirements relevant to your audit

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

Developments and other requirements

1. Financial Pressures

- Pension funds are increasingly disinvesting from investment assets to fund cash flow demands on benefit and leaver payments that are not covered by contributions and investment income.
- Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of the investment markets

2. Financial Reporting

- There are no significant changes to the Pension Fund financial reporting framework as set out in the CIPFA Code of Practice for Local Authority Accounting (the Code) for the year ending 31 March 2016, however the Pension Fund needs to ensure on going compliance with the Code.

3. LGPS 2014

- Funds have implemented the requirements of LGPS 2014 and moved to a career average scheme.
- This will continue to increase the complexity of the benefit calculations and the arrangements needed to ensure the correct payment of contributions.
- In addition, this places greater emphasis on the employer providing detailed information to the scheme administrator, while also requiring the scheme to have enhanced information systems in place to maintain and report on this data.

4. Accounting for Fund management costs

- There continues to be a spotlight on the costs of managing the LGPS, and in particular investment management costs.
- Last year CIPFA produced guidance aimed at improving the transparency of management cost data and suggested that funds should include in the notes to the accounts a breakdown of management costs across the areas of investment management expenses, administration expenses and oversight and governance costs.
- This guidance is currently being updated.



Our response

- We will monitor any changes to the Pension Fund investment strategy through our regular meetings with management.
- We will consider the impact of changes on the nature of investments held by the Pension Fund and adjust our testing strategy as appropriate.

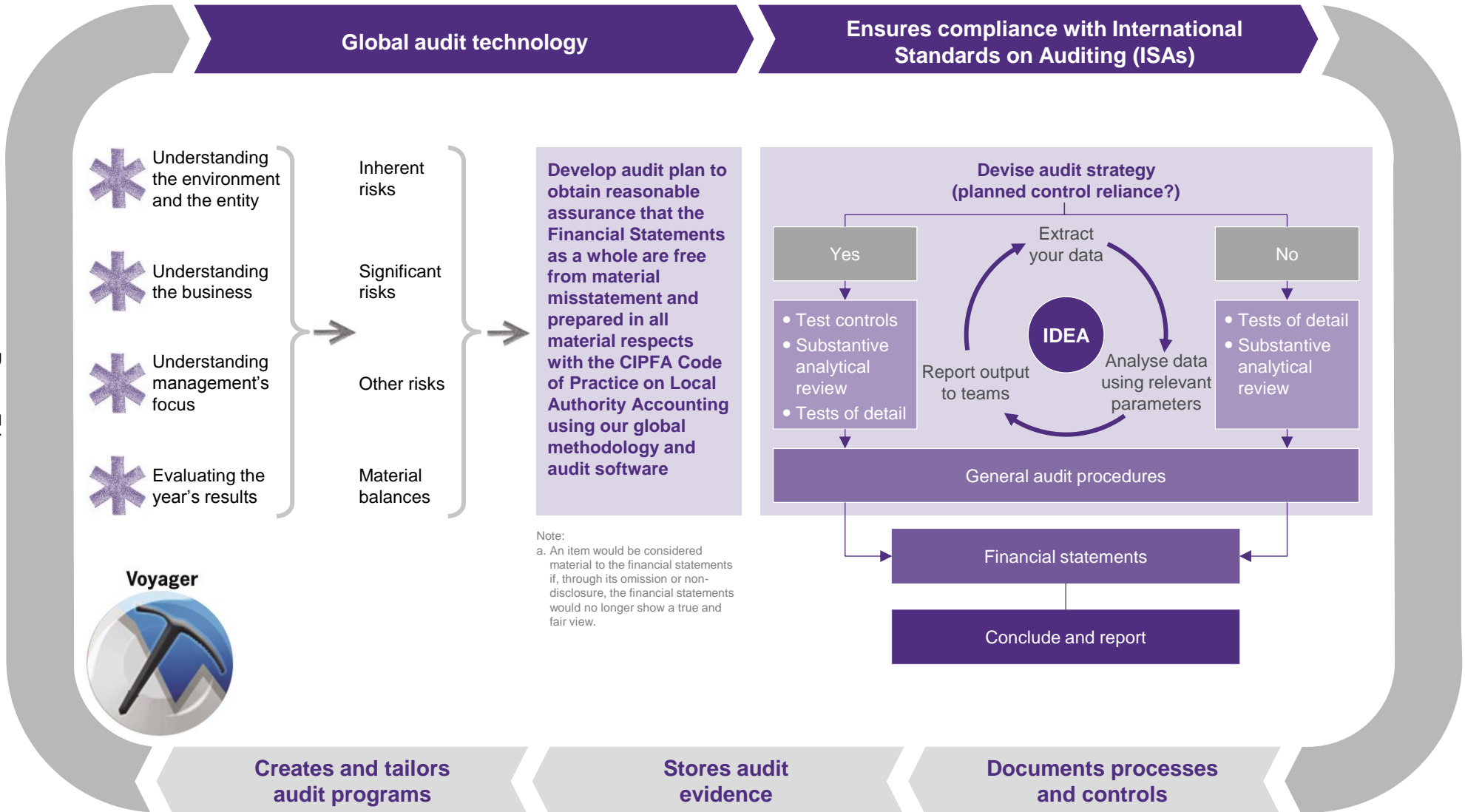
- We will ensure that the Pension Fund financial statements comply with the requirements of the Code through our substantive testing.

- We will continue to review the arrangements that the fund has in place for the quality of its' membership data.

- We will continue to discuss with officers their plans for increasing the level of transparency associated with the costs of managing the fund.

Our audit approach

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Note:
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in pension schemes, we have determined materiality for the statements as a whole as a proportion of net assets for the fund. For purposes of planning the audit we have determined overall materiality to be £58.307m (being 1% of net assets). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £2.937m.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have identified the following items where separate materiality levels are appropriate.

Balance/transaction/disclosure	Explanation
Related party transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.
Audit fees	Due to public interest in these disclosures and the statutory requirement for them to be made.

Significant risks identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315). In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing - ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at 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"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Lancashire County Council as the administering authority, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.	<p>Work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions

Significant risks identified (continued)

Significant risk	Description	Substantive audit procedures
<p>Fair value measurements priced using inputs not based on observable market data not correct.</p> <p>Valuation is incorrect (Valuation Net)</p>	<p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • We have updated our understanding and discussed the system processes and controls with relevant personnel from the team during the interim audit. • We have performed walkthrough tests of the controls identified in the system. <p>Further work planned:</p> <ul style="list-style-type: none"> • For a sample of investments, test valuations by obtaining and reviewing the audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31st March with reference to known movements in the intervening period. • Review the qualifications of the 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. • Review the competence, expertise and objectivity of any management experts used.

Other risks identified

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

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

Other risks	Description	Audit approach
Investment Income	Investment activity not valid / Investment income not accurate. (Valuation – Gross / Accuracy)	<p>Work planned:</p> <ul style="list-style-type: none"> We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances Complete a predictive analytical review for different types of investments For direct property investments rationalise income against a list of properties for expected rental income
Investment purchases and sales	Investment activity not valid. (Valuation – Gross)	<p>Work planned:</p> <ul style="list-style-type: none"> We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances , Test a sample of purchases and sales to ensure are appropriate
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	Valuation is incorrect. (Valuation net)	<p>Work planned:</p> <ul style="list-style-type: none"> We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances Test 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 For direct property investments agree values in total to valuer's report and undertake steps to gain reliance on the valuer as an expert

Other risks identified (continued)

Other risks	Description	Audit approach
Contributions	Recorded contributions not correct (Occurrence)	<p>Work completed to date:</p> <p>We have carried out procedures and walkthrough reviews, sufficient to understand the pension fund's arrangements for gaining assurance over recorded contributions.</p> <p>Further work planned:</p> <ul style="list-style-type: none"> • Controls testing over occurrence, completeness and accuracy of contributions • Rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	<p>Work completed to date:</p> <p>We have carried out procedures and walkthrough reviews sufficient to understand the pension fund's arrangements for gaining assurance over benefit payments.</p> <p>Further work planned:</p> <ul style="list-style-type: none"> • Controls testing over, completeness, accuracy and occurrence of benefit payments • We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained
Member Data	Member data not correct. (Rights and Obligations)	<p>Work completed to date:</p> <p>We have carried out procedures and reviews sufficient to understand the pension fund's arrangements for gaining assurance over the accuracy of member data.</p> <p>Further work planned:</p> <ul style="list-style-type: none"> • Controls testing over annual/monthly reconciliations and verifications with individual members • Sample testing of changes to member data made during the year to source documentation

Other risks identified (continued)

Other material balances and transactions

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

- Transfers in & out
- Management and Administration Expenses
- Cash deposits
- Financial Instruments
- Funding Arrangements Note
- Actuarial Present Value of Promised Retirement Benefits Note

Other audit responsibilities

We will read the Narrative Statement and the Annual Report, check that they are consistent with the statements on which we give an opinion, and that disclosures are in line with the requirements of the CIPFA Code of Practice.

Results of interim audit work

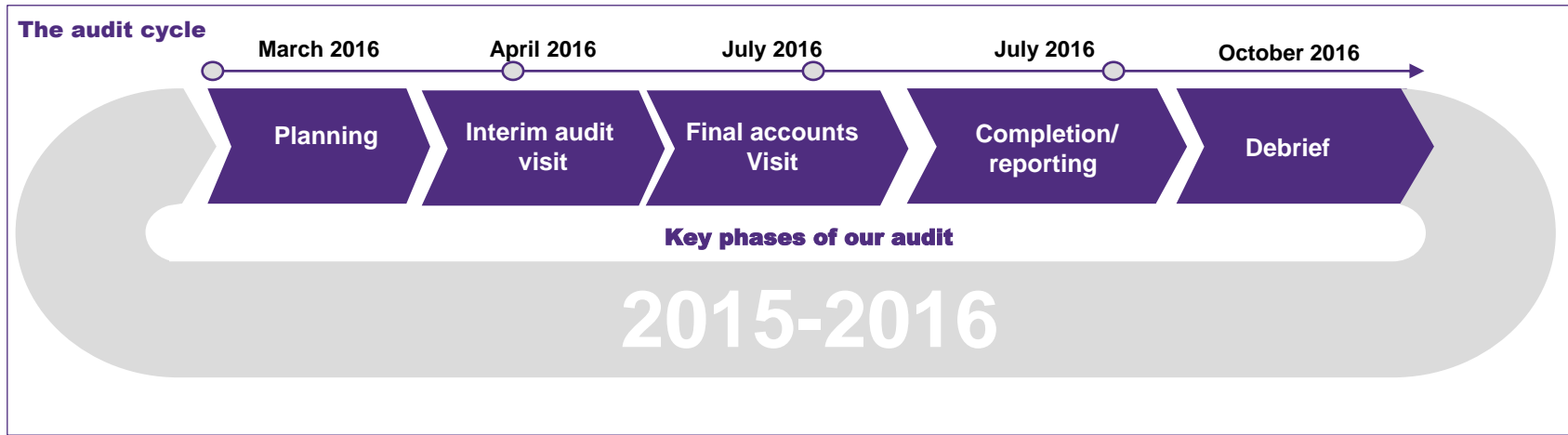
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusion
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements in relation to the operation of the Fund. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Funds key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Fund.</p> <p>We have not identified any significant weaknesses impacting on our planned audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	<p>Our work has identified no material weaknesses which are likely to adversely impact on the fund's financial statements.</p>

Results of interim audit work (continued)

	Work performed	Conclusion
Walkthrough testing	<p>We have completed walkthrough tests of the Fund's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Fund in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
Journal entry controls	<p>We have reviewed the Fund's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Fund's control environment or financial statements.</p>	<p>Our review of journal policies and procedures has not identified any issues.</p> <p>We will carry out additional work including testing on journals transactions for the full year, by extracting 'unusual' entries for further review.</p>

Key dates



Date	Activity
March 2016	Planning
April 2016	Interim site visit
May 2016	Presentation of audit plan to Audit and Governance Committee
June - July 2016	Year end fieldwork
July 2016	Audit findings clearance meeting with finance team
September 2016	Report audit findings to those charged with governance (Audit and Governance Committee)
September 2016	Sign financial statements opinion

Fees and independence

Fees

	£
Pension Fund Scale Fee	34,169
Proposed fee variation – IAS 19 Assurances	1,737
Total audit fees (excluding VAT)	35,906

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list.
- The scope of the audit, and the Fund and its activities, have not changed significantly.
- The Fund will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Fees for other services

Service	Fees £
Facilitation of self –assessment of governance arrangements	4,500

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and the Annual Audit Letter of the Administering Authority.

Independence and ethics

Ethical standards and International Standards on Auditing (ISA) 260 require us to give you full and fair disclosure of matters relating to our independence. In this context, we disclose the following to you:

- the Assistant Manager of our team has a family member who works within the Fund's benefits administration team. To avoid any potential conflicts, this member of our team does not undertake and work on the benefits payable elements of the accounts and is not responsible for the planning or supervision of such work.

We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

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

Communication of audit matters with those charged with governance

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

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings Report will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

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

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the fund is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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Audit and Governance Committee

Meeting to be held on 9 May 2016

Electoral Division affected: N/A

External audit – audit update

(Appendix A refers)

Contact for further information:

Karen Murray, 0161 234 6364, Director, Grant Thornton

karen.l.murray@uk.gt.com

Executive Summary

Update report including progress to date with the 2015/16 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 Audit & Governance Committee is asked to note the update report.

Background and Advice

Karen Murray, Engagement Lead, will attend the meeting to present the report 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/Tel
N/a		
Reason for inclusion in Part II, if appropriate		
N/a		

Lancashire County Council

Audit and Governance Committee Progress Report and Update Year ended 31 March 2016

May 2016

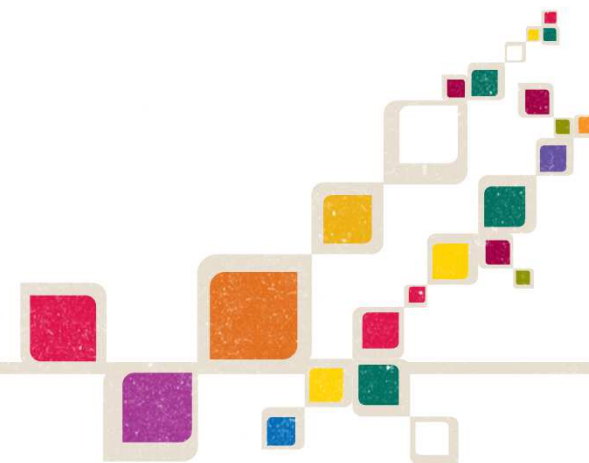
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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.



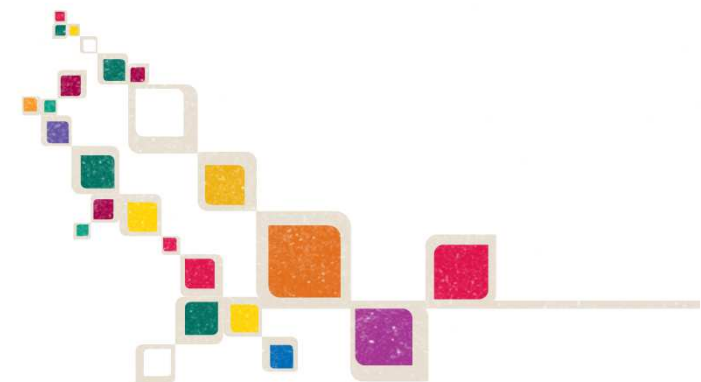
Introduction

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

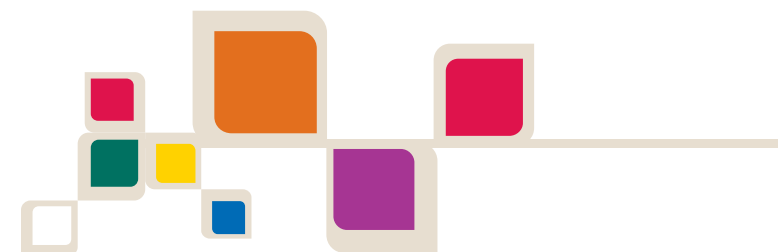
Members of the Audit and Governance Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

- Innovation in public financial management (December 2015); www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/
- Knowing the Ropes – Audit Committee; Effectiveness Review (October 2015); www.grantthornton.co.uk/en/insights/knowing-the-ropes--audit-committee-effectiveness-review-2015/
- Making devolution work: A practical guide for local leaders (October 2015) www.grantthornton.co.uk/en/insights/making-devolution-work/

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 April 2016



2015/16 work	Planned Date	Complete?	Comments
<p>Fee Letter</p> <p>We are required to issue a 'Planned fee letter for 2015/16' by the end of April 2015</p>	April 2015	Yes	The 2015/16 fee letter was issued in line with the published timetable.
<p>Accounts Audit Plan</p> <p>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 and the Pension Fund's 2015-16 financial statements.</p>	May 2016	Yes	Our audit plans have been produced and agreed with management and are both included as a separate agenda item for the Audit Committee to consider.
<p>Interim accounts audit</p> <p>Our interim fieldwork visit plan included:</p> <ul style="list-style-type: none"> • updated review of the Council's control environment • updated understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • Value for Money risk assessment. 	February and March 2016	Yes	Our interim audit work concluded at the end of March. This included early audit testing where practical to support a more efficient final accounts audit.
<p>Final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2015-16 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion • review of the Council's disclosures against the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 	June and July 2016	Not started	We are planning to complete our audit by 31 st August. as part of the transition to the earlier closedown and audit cycle from 2018.

Local Government Accounting and other issues



IFRS 13 'Fair value measurement

The 2015/16 Accounting Code applies IFRS 13 'Fair Value Measurement' for the first time. The standard sets out in a single framework for measuring fair value and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date.

There is no public sector adaptation to IFRS13 but the Treasury and therefore the Code has adapted IAS 16 Property, Plant and Equipment so that operational assets (providing service potential) are no longer held at fair value but current value. As such IFRS 13 does not apply to operational assets. This new definition of current value means that the measurement requirements for operational property, plant and equipment providing service potential have not changed from the prior year.

However, surplus assets will need to be measured under the new definition of fair value, reflecting the highest and best use from the market participant perspective.

Other areas affected by the new standard include investment property, available for sale financial assets and those items where fair values are disclosed - for example, long term loans and PFI liabilities. IFRS 13 also introduces extensive disclosure requirements.

Local Authorities need to:

- review their classification of surplus assets and investment properties
- discuss IFRS 13 with their property valuers and treasury advisers to ensure that fair values provided are produced in line with the new standard
- update accounting policies and disclosures to reflect the new standard.



Highways Network Asset

CIPFA announced at the recent Local Government Accounting Conferences some key messages with regards to changes in accounting for the Highways Network Asset form 2016/17. These included:

- Transport Infrastructure Assets will now be referred to as single asset, the Highways Network Asset (HNA);
- this will be measured at Depreciated Replacement Cost (DRC) using the Modern Equivalent Asset (MEA) basis of valuation from 1 April 2016 and will be applied prospectively rather than requiring a full retrospective restatement; and
- the new requirements only apply to authorities with assets meeting the definition of a single HNA asset.

CIPFA expects that the transport infrastructure assets held by district councils/ non-highways authorities will be scoped out of the new requirements as assets are unlikely to form a single interconnected network. However, district councils will need to consider the nature of their transport infrastructure assets to assure themselves and evidence that their transport infrastructure assets are not part of an interconnected network.

The 2016/17 Accounting Code which will include further details on these announcements is expected to be published in Spring 2016. Grant Thornton has produced a short briefing on these announcements which is available from your Engagement Lead and Engagement Manager and will provide further briefings as further details become available requirements.

CIPFA guidance

Audit Panels

In December 2015 the Chartered Institute of Public Finance and Accountancy (CIPFA) published its guidance on the establishment of auditor panels.

Under the Local Audit and Accountability Act 2014 'relevant authorities' are able to appoint their own local auditors via an auditor panel. The Secretary of State for Communities and Local Government has decided to implement a phased introduction of the new local audit framework, with all health bodies and smaller local government bodies moving to the new framework as planned on 1st April 2017 and larger local government bodies a year later, on 1st April 2018. In practice, this means that smaller local authorities must have appointed their local auditors by 31st December 2016 and larger principal authorities by 31st December 2017.

The guidance sets out the options available to local authorities in England for establishing an auditor panel; what form such a panel can take; the operation and functions of the panel; and the main task of the panel – that is, advising the authority in connection with the appointment of the local auditor

Better Care Fund

The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Healthcare Financial Management Association (HFMA) have issued a joint report examining the progress that has been made six months into the implementation of the government's £5.3bn Better Care Fund (BCF) arrangements. While the report points out that the fund has already begun to produce improved working relationships between NHS bodies and local public services, it highlights that more needs to be done to ensure the success of the BCF. The report is based on the results of a CIPFA and HFMA joint finance staff survey of NHS bodies and local authorities representing almost a third of BCF sites, and is available from the CIPFA website - <http://www.cipfa.org/about-cipfa/press-office/latest-press-releases/better-care-fund-struggling-with-red-tape>.

National Audit Office publications

Council accounts: a guide to your rights

The NAO has published an updated version of Council accounts: a guide to your rights on its website. The guide has been updated to reflect the new requirements of the Local Audit and Accountability Act 2014, and applies to 2015-16 accounts. The document provides information on how people can ask questions and raise objections about the accounts of their local authority.

<https://www.nao.org.uk/code-audit-practice/council-accounts-a-guide-to-your-rights/>

Arrangements for the exercise of public rights:

The Accounts and Audit Regulations 2015 set out new arrangements for the exercise of public rights from 2015/16 onwards. A key implication of the Act is that the final approval of the statement of the accounts by an authority prior to publication cannot take place until after the conclusion of the period for the exercise of public rights. As the thirty working day period for the exercise of public rights must include the first ten working days of July, authorities will not be able to approve their audited accounts or publish before 15th July 2016.

Smaller authorities must also wait until the conclusion of the thirty working day period for the exercise of public rights before publishing their accounts and the auditor's report.

Grant Thornton Publications



Reforging local government: Summary findings of financial health checks and governance reviews

The recent autumn statement represents the biggest change in local government finance in 35 years. The Chancellor announced that in 2019/20 councils will spend the same in cash terms as they do today and that "better financial management and further efficiency" will be required to achieve the projected 29% savings. Based on our latest review of financial resilience at English local authorities, this presents a serious challenge to many councils that have already become lean.

Our research suggests that:

- the majority of councils will continue to weather the financial storm, but to do so will now require difficult decisions to be made about services
- most councils project significant funding gaps over the next three to five years, but the lack of detailed plans to address these deficits in the medium-term represents a key risk
- Whitehall needs to go further and faster in allowing localities to drive growth and public service reform including proper fiscal devolution that supports businesses and communities
- local government needs a deeper understanding of their local partners to deliver the transformational changes that are needed and do more to break down silos
- elected members have an increasingly important role in ensuring good governance is not just about compliance with regulations, but also about effective management of change and risk
- councils need to improve the level of consultation with the public when prioritising services and make sure that their views help shape council development plans.



Our report is available at <http://www.grantthornton.co.uk/en/insights/reforging-local-government/>, or in hard copy from your Engagement Lead or Engagement Manager.

CFO Insights – driving performance improvement

CFO insights is an online analysis tool that gives those aspiring to improve the financial position of their local authority instant access to insight on the financial performance, socio- economy context and service outcomes of every council in England, Scotland and Wales.

The tool provides a three-dimensional lens through which to understand council income and spend by category, the outcomes for that spend and the socio-economic context within which a council operates. This enables comparison against others, not only nationally, but in the context of their geographical and statistical neighbours. CFO Insights is an invaluable tool providing focused insight to develop, and the evidence to support, financial decisions.

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We are happy to organise a demonstration of the tool if you want to know more.

Innovation in public financial management

In December 2015 we issued a report, which drew on a survey of almost 300 practitioners worldwide, also includes insights from experts at the International Consortium on Governmental Financial Management (ICGFM) and the Massachusetts Institute of Technology's Centre for Finance and Policy.

The report is the latest in a decade-long series jointly published by Grant Thornton and the ICGFM and it covers four major topics that, globally, will impact on the future of public financial management:

Changing practices: Our research showed that the biggest issue ahead will be finding the political commitment to support more difficult innovations on the agenda – such as increasing public engagement.

The right PPP formula: 90% of respondents felt that substantial investment in infrastructure was required to drive economic growth. In this age of austerity, most governments are also seeking ways to attract outside investment – with the majority using some form of public-private partnership (PPP). Many countries remain inexperienced with such arrangements and the results of

their application have been mixed. There has been little improvement since our 2011 survey, which shows that it takes a long time to develop the requisite skills and experience to make PPPs work.

Transparency with technology: Public financial managers are convinced of the importance of enhancing transparency and most are trying to be innovative in this area. However, most are using outdated digital tools. Fewer than half use social media to enhance openness. Even among the best, most transparency efforts are focussed on releasing data sets than data insights.

The new normal: Public financial management remains weighed down by the effects of the global financial crisis, but respondents also focussed on important developments since 2008, such as the Eurozone problems and the collapse of commodity prices. This suggests that public financial management is having to come to terms with not just the lessons one major financial crisis, but with how governments can live with less over the long term.

Our report, Innovation in public financial management, can be downloaded from our website: <http://www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/>

Grant Thornton reports



2016 Transparency Report

Grant Thornton's commitment to quality underpins all that we do and this is reflected in our 2016 Transparency Report.

We have more than 42,000 people in over 130 countries and this report is a public statement of our commitment to provide high-quality services to businesses and organisations operating throughout the world.

It is designed to help clients, audit committees, regulators and the public, who make up our many stakeholders, understand us better.

The report covers the three key aspects of our business, namely:

- Audit and assurance;
- Taxation; and
- Advisory services.

The report provides information on our audit methodology and sets out how we monitor the quality of our work and engage with external regulators.

It also covers our arrangements for governance and management and sets our most recent financial information.

The report can be downloaded from our website:

www.grantthornton.global/globalassets/1.-member-firms/global/grant-thornton-global-transparency-report-2016.pdf

Alternatively, hard copies can be provided by your Engagement Lead or Audit Manager.

Grant Thornton reports



Transparency report 2016
Our commitment to brighter futures





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(NOT FOR PUBLICATION: By virtue of paragraph(s) 1, 7 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered that all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information)

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