

Lancashire County Council

Audit and Governance Committee

Monday, 26th June, 2017 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Agenda

Part I (Open to Press and Public)

No.	Item
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|------------|--|-------------------|
| 1. | Apologies | |
| 2. | Constitution: Membership; Chair and Deputy Chair; Terms of Reference | (Pages 1 - 4) |
| 3. | Disclosure of Pecuniary and Non-Pecuniary Interests

Members are asked to consider any Pecuniary and Non-Pecuniary Interests they may have to disclose to the meeting in relation to matters under consideration on the Agenda. | |
| 4. | Minutes of the Meeting held on 3 April 2017
To be confirmed, and signed by the chair. | (Pages 5 - 10) |
| 5. | Treasury Management Activity 2016/17 | (Pages 11 - 22) |
| 6. | Lancashire County Council - Treasury Management Investment Policy | (Pages 23 - 34) |
| 7. | The Council's Annual Governance Statement 2016/17 & Code of Corporate Governance | (Pages 35 - 74) |
| 8. | Liquid Logic System Update | (Pages 75 - 82) |
| 9. | Internal Audit Charter | (Pages 83 - 92) |
| 10. | Internal Audit Annual Report 2016/17 | (Pages 93 - 112) |
| 11. | Risk and Opportunity Register Quarter 1 | (Pages 113 - 128) |
| 12. | Internal Audit Plan 2017/18 | (Pages 129 - 152) |

13. Internal/External Audit Protocol (Pages 153 - 158)

14. External Audit Update (Pages 159 - 172)

15. Accounting policies used in the preparation of the Statement of Accounts 2016/17 (Pages 173 - 196)

16. 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.

17. Date of Next Meeting

The next meeting of the Committee will be held on 31 July at 2pm, Cabinet Room B, County Hall, Preston.

Part II (Not open to Press or Public)

18. Whistleblowing, Special Investigations and Counter Fraud Annual Report 2016/17 (Pages 197 - 212)

Not for publication – exempt information as defined in Paragraphs 1 and 7 of Part 1 of Schedule 12 to the Local Government Act 1972.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 interest in disclosing the information

I Young
Director of Governance,
Finance and Public Services

County Hall
Preston

Audit and Governance Committee

Meeting to be held on Monday, 26 June 2017

Electoral Division affected: None;

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

Contact for further information:

Paul Bond, Head of Service Legal and Democratic Services, (01772) 534676

paul.bond@lancashire.gov.uk

Executive Summary

This report sets out the constitution, membership and terms of reference of the Audit and Governance Committee for the municipal year 2017/18.

Recommendation

The Committee is asked to note:

- i. the new Membership of the Committee following the County Council's Annual Meeting;
- ii. the appointment of Chair and Deputy Chair of the Committee; and
- iii. the Terms of Reference of the Committee
- iv. further revision of the Terms of Reference to be submitted to Full Council in July for approval

Background and Advice

The County Council at its annual meeting on 25 May 2017, approved the constitution of the Committee on the basis of 5 members of the Conservative Group and 3 members of the Labour Group. The following members were appointed by their respective groups:

County Councillor:

E Nash	P Williamson
J Shedwick	A Vincent
J Berry	A Schofield
E Lewis	M Parkinson

Councillors A Schofield and E Nash have been appointed as Chair and Deputy Chair of the Committee.

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

Consultations

NA

Implications:

This item has the following implications, as indicated:

Risk management

NA

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

Paper	Date	Contact/Tel
Full Council agenda	25 May 2017	Dave Gorman, Democratic Services, (01772) 534261

Reason for inclusion in Part II, if appropriate

NA

Audit and Governance Committee

Purpose

The Audit and Governance Committee provides independent oversight of the adequacy of the council's governance, risk management and internal control framework, and oversees the financial reporting process.

Membership

The members of the Audit Committee shall comprise eight councillors.

Terms of Reference

Governance

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

Audit

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

Financial statements

13. To consider and approve the audited financial statements of the county council and its group subsidiaries and associates.

14. To consider and approve the audited financial statements of Lancashire County Pension Fund.

Treasury management

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

16. To consider periodic reports of treasury management activity.

Meetings

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

Lancashire County Council

Audit and Governance Committee

Minutes of the Meeting held on Monday, 3rd April, 2017 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Present:

County Councillors

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

1. Apologies

Deputy Chair (County Councillor Darren Clifford) welcomed members and apologies were noted from County Councillor Terry Brown.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

There were no declarations of interest at this time.

3. Minutes of the Meeting held on 30 January 2017

Item 3 Minutes of the Meeting held on 26 September 2016

The following update on the Liquid Logic system from Lisa Kitto, Director of Corporate Services was reported to members:

'The initial scoping work for Project Accuracy for Adults is underway and being supported by Newton Europe. Two initial workshops have been held involving a number of key services including adult's social care, core systems, care navigation, procurement, finance and learning and development. A steering group has been established and will be chaired by the deputy Chief Executive, the first meeting of which will take place in April. A number of workstreams will report to the group including; social care practice and processes, design of 'to be' processes, data cleaning, system changes, training and commissioning. All of these will have detailed workplans and timescales against which the project will be monitored'.

Members were assured that a full update would be provided at the next meeting of the Committee.

Item 4 Update on Treasury Management Activity

Members were advised that the transitional arrangements that had been in place since the establishment of LPP had now been terminated and an agreement for the provision of Treasury Management Services by LPP to the Council was now in place. It was intended that detailed requirements would be finalised in the next two weeks and it was confirmed that a full report would be presented to the next meeting of the Committee.

Item 8 Internal Audit progress report

It was confirmed that the Corporate Director for Operations and Delivery attended the February meeting of the Scrutiny Committee (minutes from this meeting was circulated to members) to provide an update on the issues in adult services highlighted in the audit progress report. At this meeting, it was confirmed that the number of team managers had increased and would have responsibility for a maximum of 10 social workers to ensure sufficient oversight of social work practice. In addition, weekly case progression meetings had been introduced. Members were assured that the Scrutiny Committee was satisfied that the situation was being addressed and had requested a further report in six months.

It was confirmed that both the Scrutiny Committee and the Audit and Governance Committee would be kept informed.

Resolved: That the minutes of the meeting held on the 30 January 2017 be confirmed and signed by the Deputy Chair.

4. Risk and Opportunity Register - Quarter 4

Paul Bond, Head of Legal and Democratic Services, presented the Quarter 4 report of the Risk and Opportunity Register to the Committee.

It was reported that additional information had been included in CR1 to reflect the additional funding for social care over the next three years. It was confirmed that for Lancashire, this would equate to a total of £48m - £25m in 2017/18, £15m in 2018/19 and £8m in 2019/20.

CR24 Troubled Families – the risk score has increased due to the inability to achieve the National Troubled Families Unit targets. It was reported that this was as a result of a six month delay to the service commencing.

CR27 Homecare Framework – the procurement process was reported to be underway and at the evaluation stage. It was confirmed that the transition would be over a 12 month period to minimise disruption to service users.

Members were advised that at the last meeting of the Shadow Combined Authority it had been agreed that whilst Government had not yet confirmed their position on the establishment of a Combined Authority for Lancashire, the councils which were part of the shadow Combined Authority had agreed to

continue to work together as they considered that this was in the best interests of the people of Lancashire

In relation to the PwC report, it was confirmed that a final report had not yet been received but that a meeting of the Political Governance Working Group meeting would be arranged in June to consider the matter.

Resolved: That the Quarter 4 Risk and Opportunity Register be noted.

5. 2016/17 Statement of Accounts Update

Khadija Saeed, Head of Service Corporate Finance, presented the report on the 2016/17 Statement of Accounts. The report outlined the early closedown timetable for 2016/17 in preparation for the earlier statutory deadline (to be implemented in 2017/18) to support members of the Committee in carrying out their role.

Resolved: That the report be noted.

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

Khadija Saeed, Head of Service Corporate Finance, provided an overview of the report circulated to members in relation to the proposed response to the letter received from Grant Thornton.

Resolved: That;

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

7. Internal Audit progress report

Ruth Lowry, Head of Internal Audit Service, presented the report circulated to the Committee which highlighted key issues that the Audit and Governance Committee should be aware of in fulfilling its role of providing independent oversight of the adequacy of the County Council's governance, risk management and internal control framework.

In relation to the information in the report on inappropriate access to systems, it was confirmed that there was no evidence that access was retained and used. In addition, members were advised that management team were aware of the issue and would be considered as part of a wider development of ICT systems.

Members raised concerns around the information contained in the report on the payroll processing by BTLS and the incidents of salary overpayments. It was confirmed work was ongoing to recover overpayments and to take steps to

improve processes to reduce future risk. It was confirmed that the Committee would be updated on progress.

Resolved: That;

- a) The Internal Audit Service Progress report for the period to mid-March 2017 be considered.
- b) An update to the Committee on the concerns raised on the payroll processing by BTLS be provided

8. Internal Audit Planning for 2017/18

Ruth Lowry, Head of Internal Audit Service, presented the Internal Audit Planning report which outlined the approach to establishing the plan of work to be undertaken by the County Council's Internal Audit Service for 2017/18. It was confirmed that the next meeting of the Committee in June 2017, would include a full plan of audit work.

Resolved: That the process by which the Internal Audit Service annual plan will be prepared for 2017/18 be considered.

9. External Audit Update Report

Karen Murray, Director at Grant Thornton, provided an update to members on the External Audit which included progress to date with the 2016/17 audit of the accounts, Value for Money (VfM) conclusion and other work.

Resolved: That the report be noted.

10. External Audit - Lancashire County Council Audit Plan 2016/17

Karen Murray, Director at Grant Thornton, presented the Lancashire County Council Audit Plan 2016/17 to members which set out the nature and scope of work that the Authority's external auditor would carry out to discharge its statutory responsibilities, compliant with the Local Audit and Accountability Act 2014 (the Act) and the Code of Audit Practice for Local Government.

It was highlighted to members that as a result of the CIPFA 'Telling the Story' project, there would be significant changes to the presentation of the accounts and as a result this has been identified as a risk area.

Resolved: That the External Audit plan for the audit of Lancashire County Council for 2016/17, and the fees therein be agreed.

11. External Audit - Lancashire County Pension Fund Audit Plan 2016/17

Karen Murray, Director at Grant Thornton, presented the Lancashire County Pension Fund Audit Plan for 2016/17, which set out the nature and scope of work that the Authority's external auditor would carry out to discharge its statutory

responsibilities, compliant with the Local Audit and Accountability Act 2014 (the Act) and the Code of Audit Practice for Local Government.

Resolved: That the External Audit plan for the audit of the Lancashire County Pension Fund for 2016/17, and the fees therein, be agreed.

12. Urgent Business

There were no items of urgent business.

13. Date of Next Meeting

The next meeting of the Committee will be held on Monday 26 June at 2pm, Cabinet Room B, 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, 26 June 2017

Electoral Division affected: (All Divisions);
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Treasury Management Activity 2016/17

(Appendix 'A' refers)

Contact for further information:

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

Neil.Kissock@lancashire.gov.uk

Executive Summary

The report set out at Appendix 'A' is a review of the County Council's Treasury Management activities in 2016/17. Management activities are regulated by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice and it is best practice to review treasury management activities on a regular basis.

This review includes:

- A review of the economic conditions during 2016/17
- Borrowing activity
- Investment activity
- Actual results measured against 2016/17 Prudential Indicators and Treasury Management Indicators

Recommendation

The Committee is asked to note the review of treasury management activities for 2016/17.

Background and Advice

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

At Appendix 'A' is a review of the County Council's Treasury Management activities in 2016/17. This report outlines a review of the borrowing and lending activity during 2016/17 and sets this activity against the economic background including risk

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

Consultations

External consultants Arlingclose Limited provide advice on treasury management to the Council.

Implications:

This item has the following implications, as indicated:

Risk management

The Council's Treasury Management Strategy and review set out a policy in respect of borrowing and lending activity. Risks associated with these activities in 2016/17 are referred to in this report.

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

Paper	Date	Contact/Tel
Treasury Management Policy and Strategy 2016/17	February 2016	Paul Dobson 01772 534740
CIPFA TM Code of Practice	2011	

Reason for inclusion in Part II, if appropriate

N/A

Review of Treasury Management Activity 2016/17

Introduction

The County Council's Treasury Management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires authorities to produce Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity annually. The Code also recommends that members approve a treasury management report after the end of each financial year.

Economic Summary 2016/17

Treasury Management activity is influenced by the actual and forecast economic position. The economic situation in the year was largely dominated by the uncertainty about the short and medium term implications of the decision in June 2016 to leave the European Union. In response to the risk of reduced economic growth the Bank of England Monetary Policy Committee initiated substantial monetary policy easing at its August meeting. This included a cut in Bank Rate to 0.25%, further gilt and corporate bond purchases (QE) and cheap funding for banks (Term Funding Scheme) to maintain the supply of credit to the economy.

The year has seen steady economic growth although the final quarter is at a lower rate with the quarterly rates being:

Quarter ended :	GDP growth (%)
June 2016	0.6
September 2016	0.5
December 2016	0.7
March 2017	0.2

Inflation remained low in the first half of 2016 but there has been signs of this increasing towards the end of the year with inflation as measured by RPIH being at 2.3% at March 2017. However, since the referendum vote the value of sterling has fallen and this is a significant factor behind the increase in inflation. The unemployment rate dropped to 4.7% in February, its lowest level in 11 years.

The year has seen significant volatility in the financial markets as a result of both the UK vote to leave the European Union and Donald Trump being elected as President of the USA. As a consequence of the uncertainty Gilt yields fell, Fitch and Standard & Poor's downgraded the UK's sovereign rating to AA and the value of sterling fell. The impact of the negotiations to leave the European Union will be a source of on-going uncertainty.

Interest Rate Environment

Short term interest rates continue to be at historically very low levels. As referred to above in response to a potential reduction in economic growth the Bank of England reduced the base rate from 0.5% to 0.25% in August 2016, a level it remained at throughout the rest of the year. The expectation during the year was that interest rates

would remain low for the rest of the financial year and beyond. This is still the case with the Council's Treasury Management advisers, Arlingclose, not forecasting an increase to June 2020.

Treasury Management Strategy 2016/17

The Treasury Management activity is undertaken in accordance with the Treasury Management Strategy. Full Council approved the 2016/17 Treasury Management Strategy at its meeting on 11 February 2016. The Council's stated investment priorities were:

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

The Council policy, which has been in place for a number of years, is a deliberate "low credit risk" investment policy, using bonds issued by governments, government agencies, government guaranteed bodies, supranational bodies and covered or collateralized corporate bonds. The County Council's policy is not to invest in banks, other than call accounts and therefore it is substantially insulated from the effects of an individual or systemic banking "credit event". This control of credit risk was a key driver in the investment activity in 2016/17. However, with the predicted reduction in reserves moves were made to reduce long term investment holdings to reduce market risk.

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

The Council's stated borrowing strategy was to take advantage of historically low short term interest rates by borrowing short term in the money markets rather than financing capital expenditure through long term Public Works Loan Board (PWLB) loans. Since this strategy was first implemented in 2010/11 the Council has taken advantage of low interest rates to reduce the cost of financing current and former years' capital programmes. This strategy continued to be implemented in 2016/17 and will continue to be the most cost effective financing method until there is a significant increase in interest rates.

The Director of Financial Resources can report that all Treasury Management activity undertaken during the financial year complied with the *CIPFA Code of Practice* and the relevant legislative provisions.

Treasury Management Activities in 2016/17

In summary the holdings were:

	31/3/17	31/3/16
	£m	£m
Long term borrowing	582.4	581.4
Short term borrowing	457.3	392.2
Total Borrowing	1,039.7	973.6
Long term investments	399.9	552.8
Short term investments	174.6	24.7
Total Investments	574.5	577.5

Borrowing Activity 2016/17

During the year borrowing was undertaken to finance new capital investment, to replace maturing debt and to cover short term cash-flow variations. With the low interest rates anticipated to continue the Council maintained its policy of taking short term market borrowing and this is reflected in the activity during the year and the structure of the debt at 31 March 2017. This is illustrated in the table and graph as follows.

Analysis of Borrowing Outstanding

Debt 31/03/2016		Borrowing	Repayments	Debt 31/03/2017	
£m	%	£m	£m	£m	%

Fixed Rate Funding

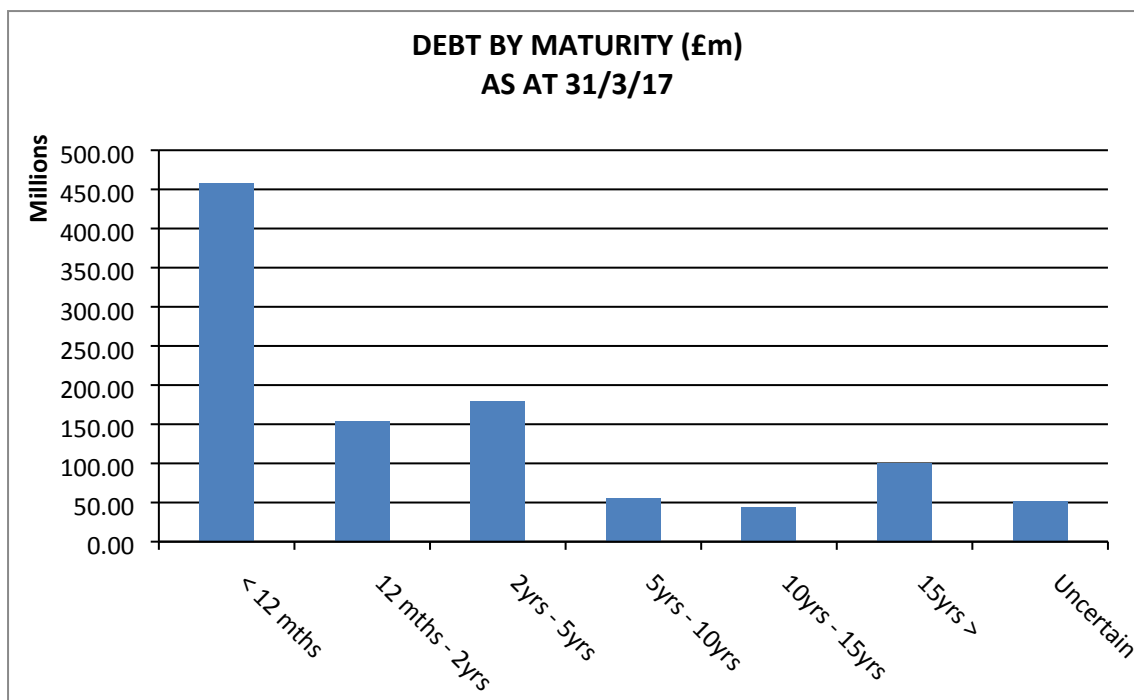
Public Works Loan Board	213.1	21.9	-	-	213.1	20.5
LOBO*	50.0	5.1	-	-	50.0	4.8
Market Borrowing	522.4	53.7	545.5	-477.9	590.0	56.7
Total Fixed Rate Funding	785.5		545.5	-477.9	853.1	

Variable Rate Funding

Public Works Loan Board	125.7	12.9	-	-	125.7	12.1
Shared Investment Scheme	62.4	6.4	512.9	-514.5	60.8	5.9
Total Variable Rate Funding	188.1		512.9	-514.5	186.5	

Total Loan Debt	973.6	100.0	1,058.4	-992.4	1,039.6	100.0
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*Lender option borrower option



With short-term interest rates being lower than long-term rates, it was more cost effective in the short-term to borrow short-term loans from the market, mainly from other local authorities. Whilst such a strategy is most likely to be beneficial over the next year as official interest rates remain low, it is unlikely to be sustained in the medium-term. The Director of Financial Resources will, in conjunction with Arlingclose, continue to closely monitor interest rate forecasts in order to establish when long term interest rates might be expected to rise and adjust the strategy accordingly.

Overall the average rate of interest paid in 2016/17 on the debt administered by the County Council was 2.12% per annum compared with an average rate of 2.03% in 2015/16, 2.07% in 2014/15 and 2.48% in 2013/14.

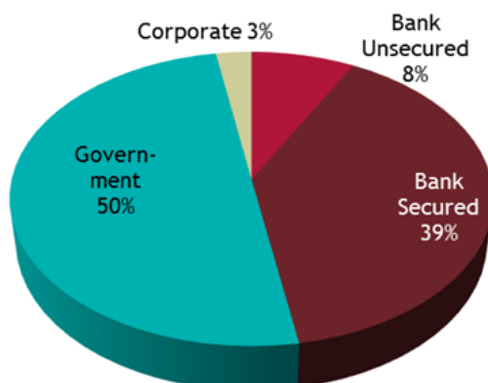
Other Debt

The County Council did not enter into any new other long term liability arrangements in the year. The outstanding PFI liability at 31 March 2017 was £162.4m.

Investment Activity

In undertaking investments, consideration is given to the risk and liquidity within the portfolio. The maturity of the investment, the asset type, the country invested in and the credit rating are also considered.

Total investments analysed by asset type (March 2017)

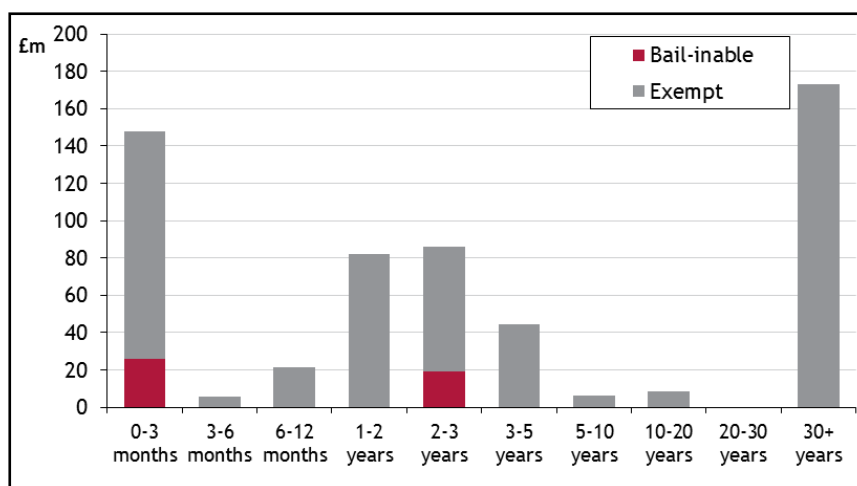


The total amount of investments (excluding fair value adjustment) held by the County Council at 31 March 2017 was £574.53m. This is £2.99m lower than at 31 March 2016. The table below shows the holding of investments:

Investments by Maturity

Maturity Range	Position as at 31/3/16 £m	2016/17 Movement £m	Position as at 31/3/17 £m
Call, Money Market Funds & Under 1 year	20.71	126.99	147.70
Bank Deposit 1-2 years	-	36.50	36.50
Bank & Local Authority Deposits 2-3 years	36.50	-36.50	-
Bank Deposit 5 years +	10.00	-	10.00
Local Authority Bonds	36.45	-0.60	35.85
UK Government and Supranational Bonds	473.86	-129.38	344.48
Total	577.52	-2.99	574.53

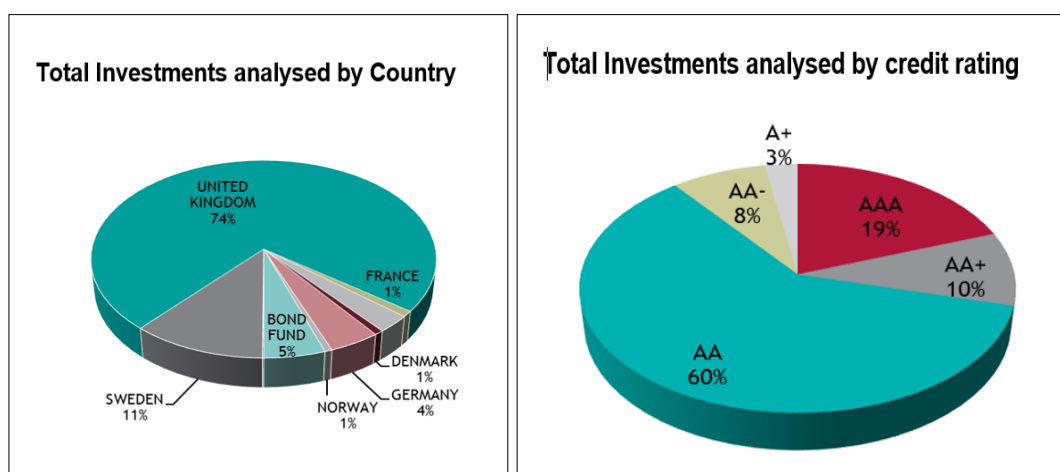
The graph below shows the maturity dates of assets against their exposure to bail-in risk in the event of a bank default (i.e. the risk that the investment may be lost or the principal repaid significantly reduced). The Council has been moving away from unsecured bank deposits as an asset class and apart from on-call balances they no longer form an allowable investment class under the 2016/17 Treasury Management Policy.



Investments are considered very secure, with over 29% rated AAA or AA+, with the others rated at A or above. The average credit score of 2.46/AA+ is well within the policy limit of 5/A+.

Security of capital remained the County Council's main investment objective. This was maintained by following the County Council's Counterparty Policy, as set out in its Treasury Management Strategy Statement for 2016/17. This defined "high credit quality" organisations as those having a minimum long-term credit rating of A+. In practice the average credit rating in 2016/17 was higher at AA.

Investments with banks were held in call accounts only. Any longer term deposits have been restricted to other local authorities. As at March 2017:



Liquidity Management

In keeping with the DCLG's Guidance on Investments, the Council maintained a minimum level of primary liquidity through the use of 'call accounts'. The Council also has bond portfolios which are available for sale, at current market prices, if needed as "secondary" liquidity.

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

Yield

The rates of return on the Council's short-dated money market investments reflect prevailing market conditions and the Council's objective of optimising returns commensurate with the principles of security and liquidity.

Overall the investment portfolios returned an average rate of 4.66% in 2016/17 which can be attributed to the categories as follows:

Maturity Range	Investment £m	Average Rate
Call, MMF & Under 1 year	147.70	0.54%
Bank & Local Authority Deposits 1-2 years	36.50	1.44%
Bank & Local Authority Deposits 2-3 years	0.00	0.00%
Bank & Local Authority Deposits 3-5 years	0.00	0.00%
Bank & Local Authority Deposits 5 Years +	10.00	2.95%
Local Authority Bonds	35.85	3.67%
UK Government & Other Bonds	344.48	5.71%
	574.53	4.66%

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

The table below shows a net underspend of £23.425m against the budget for financing charges. As outlined, the markets saw some volatility in the year principally as a result of the referendum to leave the EU. The increase in the price of Gilts enabled some core Gilt holdings to be sold resulting in the overall net gain. This level of volatility was unexpected and therefore no provision for surplus on sale of assets was included in the budget.

Financing Charges 2016/17 – End of Year Position

	Budget 16/17	Year End Position	Variance
	£m	£m	£m
MRP	19.970	20.046	0.076
Interest Paid	24.280	22.340	-1.940
Interest Received/surplus on sale	-11.670	-33.231	-21.561
Total	32.580	9.155	-23.425

Treasury Management and Prudential Indicators 2016/17

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

A comparison of the actual position at 31 March 2017 compared to the revised 2016/17 indicators set in the Treasury Management Strategy for 2016/17 is set out as follows:

Prudential Indicators

1. Adoption of CIPFA Treasury Management Code of Practice	Adopted
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	£m 2016/17 Indicator	£m 2016/17 Actual
2. Authorised limit for external debt		
The Authorised Limit is a prudent estimate of debt which reflects the Authority's capital expenditure plans and allows sufficient headroom for unusual cash movements.		
Borrowing	1,100.0	1,039.7
Other long term liabilities (PFI schemes)	200.0	162.4
TOTAL	1,300.0	1,202.1

3. Operational boundary for external debt		
The Operational Boundary is a prudent estimate of debt but has no provision for unusual cash movements. It represents the estimated maximum external debt arising as a consequence of the County Council's current plans.		
Borrowing	1,050.0	1,039.7
Other long term liabilities (PFI schemes)	170.0	162.4
TOTAL	1,220.0	1,202.1

4. Capital Financing Requirement to Gross Debt		
The Capital Financing requirement is the underlying need to borrow for capital purposes. This is the cumulative effect of past borrowing decisions and future plans. This is not the same as the actual borrowing on any one day, as day to day borrowing requirements incorporate the effect of cash flow movements relating to both capital and revenue expenditure and income.		
Capital Financing Requirement	1,006.0	990.1
Gross debt	1,010.0	1,033.6
Debt to Capital Financing Requirements	1.00	1.04

Gross borrowing appears higher than the capital financing requirement because the shared investment scheme is accounted for as borrowing, but it does not form part of the capital financing requirement calculation. Adjustments are also required for Premiums, long term debtor and transferred debt. The adjusted gross debt is slightly above the CFR which represents borrowing in advance for capital and is within the Code.

	2016/17 Indicator	2016/17 Actual
5. Council Tax Indicators		
Ratio of financing costs to the net revenue stream	4.64%	1.28%

The County Council confirms that it has complied with its Prudential Indicators for 2016/17, which were approved as part of the County Council's Treasury Management Strategy.

Treasury Management Indicators	Upper Limit	Actual
	£m	£m
1. Interest Rate exposure		
The limit measures the County Council's exposure to the risk of interest rate movements. The one year impact indicator calculates the theoretical impact on the revenue account of an immediate 1% rise in all interest rates over the course of one financial year.		
Net Interest Payable – Fixed Rate	50.4	10.4
Net Interest Payable – Variable Rate	5.0	2.5
1 year impact of a 1% rise	10.0	1.3
2. Maturity structure of debt		
The limit on the maturity structure of debt helps control refinancing risk.		
Under 12 months	75	44
12 months and within 2 years	75	15
2 years and within 5 years	75	17
5 years and within 10 years	75	5
10 years and above	100	19
3. Investments over 364 days		
The limit on the level of long term investments helps to control liquidity, although the majority of these investments are held in available for sale securities.		
Total invested over 364 days	450.0	399.9
4. Minimum Average Credit Rating		
	Benchmark	Actual
To control credit risk the County Council requires a very high credit rating from its treasury counterparties.		
Average counterparty credit rating	A+	AA+

Audit and Governance Committee

Meeting to be held on Monday, 26 June 2017

Electoral Division affected: (All Divisions);
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Lancashire County Council - Treasury Management Investment Policy (Appendix 'A' refers)

Contact for further information:

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Executive Summary

The County Council's Treasury Management Investment Policy is developed to be in line with the County Council's forecast cash-flows for current and future years. In particular, the ability to hold long term investments is determined by the estimated level of long term assets, principally reserves, held on the balance sheet. The latest Medium Term Financial Strategy (MTFS) of the County Council shows that the level of reserves are due to reduce significantly over the next three years.

The report at Appendix 'A' sets out a review of the current Treasury Management Investment Policy to consider whether the type of investments currently held are still the most appropriate given the future anticipated levels of resource and economic context.

Recommendation

That the Audit and Governance Committee recommend Full Council to agree to a change to the Treasury Management Strategy allowing investment in property and equity investment funds of up to £50m in each category as set out in the report.

Background and Advice

The report at Appendix 'A' sets out a review of the County Council's current Treasury Management Investment Policy to consider whether the type of investments currently held are still the most appropriate given the future anticipated levels of resource and economic context.

Consultations

Treasury Management advisers Arlingclose and LPPI have been consulted on the review undertaken.

Implications:

This item has the following implications, as indicated:

Risk management

Financial

Property Fund:

Investment in a property fund should generally be viewed as an illiquid asset. Although the funds do allow for the investors to withdraw money it can be subject to the fund's ability to sell a property and losses could be incurred. With the exception of the CCLA fund, property funds are classified as capital expenditure.

However, this option has the advantage of giving access to specialist professionals and giving a share in a wide range of properties allowing a level of diversification. Over the last few years these funds have made high returns but performance will be linked to the overall economy and property market and therefore there will be times when returns are low.

Equity Fund:

Shares in an equity fund can be purchased as investments and not treated as capital expenditure. Like other types of fund they also give the advantage of access to specialist investment managers but the value of any fund will be subject to stock market fluctuations. Traditionally over a long period of time returns have been good, though low returns in the short term are possible. If the authority needed to redeem its holding then a loss could be incurred.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Tel
Treasury Management Policy and Strategy 2017/18	9 February 2017	Khadija Saeed, Head of Corporate Finance, 01772 536195

Reason for inclusion in Part II, if appropriate

N/A

Review of Treasury Management Investment Policy

Introduction

The Treasury Management Investment Policy is developed to be in line with the forecast cash-flows for current and future years. In particular, the ability to hold long term investments has been determined by the estimated level of long term assets, principally reserves, held on the balance sheet. The latest Medium Term Financial Strategy (MTFS) of the County Council shows that reserve levels are due to reduce significantly over the next three years. The planned level, and actual holding, of long term investments has already been reduced in response to this. However, it is necessary to review the current policy to see whether the type of investments currently held, and the allocation to investment categories, is still appropriate for the anticipated level of resource available for investment in future and the economic context.

Economic Context

Interest rates are at historically low levels with the Bank of England base rate being at 0.25%. Recent months has seen continued economic growth in the UK and an increase in inflation which has risen above the Bank of England target of 2%. This has led to some demands for an increase in interest rates. At the March meeting of the Bank of England Monetary Policy Committee (MPC) which sets the base rate one member voted for an increase in interest rates while the other 8 members voted for it to remain unchanged. There is significant uncertainty in the UK economy. Real term income is falling which will result in reduced spending and the Brexit negotiations will have an unknown impact on both business investment and consumer spending plans. The last quarters' economic growth was 0.3% which was the lowest for the year and below the Bank of England expectations. Therefore, the movement in interest rates is uncertain. The current forecast of Arlingclose, the County Council's treasury management advisers, is that the base rate will remain unchanged until at least June 2020. Even if rates do increase it is anticipated that the increases will be gradual therefore the anticipation is that the low interest rate environment will continue.

In addition, the MPC has aimed to stimulate the economy by 'Quantitative easing'. In effect this has meant that the Bank has been buying both government and corporate bonds. This will increase the demand for the bonds and will impact on the price. Although there has been no recent change in the policy, a change in response to changing economic conditions is a possibility.

Current Policy

In developing the current policy the County Council has adhered to guidance issued by CIPFA and DCLG, both of which require the priorities to be:

- (a) The security of capital, and
- (b) The liquidity of investments

The County Council also aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. In order to give priority to

security, the counterparty credit rating is a fundamental part of the Investment Policy with the table below showing the current approvals.

Instrument	Minimum Credit Rating (blended average)	Maximum individual Investment (£m)	Maximum total Investment (£m)	Maximum Period
UK Government Gilts, Treasury Bills & bodies guaranteed by UK Govt	UK Government	500	1,300	50 yrs
Sterling Supranational Bonds & Sterling Sovereign Bonds	AA-	150	500	50 yrs
Corporate Bonds (Short Term less than 1yr to maturity)	P1/A1/F1	40	200	1yr
Corporate Bonds (Medium term up to 5 years)	AA- P1/A1/F1	100	500	5yrs
Corporate Bonds (Long term)	AA P1/A1+/F1+	50	250	50yrs
Government Bond Repurchase Agreements (Repo/ Reverse Repo)	UK Government	500	500	1yr
Repurchase Agreements (Repo/ Reverse Repo)	Other AA-	200	200	1yr
Bond Funds with weighted average maturity maximum 3 years	AA Rated weighted average maturity 3yrs	100	250	These investments do not have a defined maturity date.
Bond Funds with weighted average maturity maximum 5 years	AAA Rated	100	250	These investments do not have a defined maturity date.
Collateralised lending agreements backed by higher quality government or local government and supra national sterling securities.	AA- with cash or AA- for any collateral	250	500	25yrs
Call accounts with UK and Overseas Banks (domiciled in UK)	P1/A1/F1 Long term A Government support	100	100	Overnight in line with clearing system guarantee (currently 4 years.)

At 31 March 2017 the investment holding was:

Investments	£m
Fixed rate deposits with other local authorities	78.0
Local Authority Bonds	35.9
Supra-national bond	0.6
Gilts	173.2
Corporate Bonds	170.8
Call Account	26.0
Bond Fund	30.0
Reverse REPO	60.0
TOTAL	574.5

In recent years the County Council has focused its long term investments in Gilts and covered bonds. This has proved to be a successful strategy. It has provided a portfolio with a high level of security and it has enabled the County Council to take advantage of major volatility in the markets to sell the investments at a surplus. However, there is no guarantee that a surplus can be made as the potential is highly dependent upon market movements and as bond yields are close to record lows the scope for making such gains may be reduced. The position over the years has been:

	Year Ended 31/03/12 £m	Year Ended 31/03/13 £m	Year Ended 31/03/14 £m	Year Ended 31/03/15 £m	Year Ended 31/03/16 £m	Year Ended 31/03/17 £m
Gilts	-48.741	-8.514	-2.309	-62.793	-16.408	-19.580
LA Bonds	0	-0.429	0	0	0	0
Other bonds	-4.892	-2.730	2.586	-9.126	0.292	-5.090
Total Gain(-)/Loss	-53.633	-11.673	0.277	-71.919	-16.116	-24.670

However, over this time the County Council has had a very positive cash-flow and therefore it has been able to hold sufficient investments which are not subject to major price volatility to cover its liquidity needs. Therefore it has not been in a position whereby it has had to sell the Gilts for liquidity purposes with sales and purchases then being in response to market factors. If this had not been the case significant losses could have been incurred. For example at 31 March 2017 the market value of the Gilt portfolio was £17.4m less than it was purchased for.

This market risk has always been a significant factor in considering the holding of Gilts. With the reducing level of reserves and balances it is becoming a more significant risk. It is with this position in mind that the S151 Officer received advice to sell all or a significant proportion of the Gilts, even though this would incur a loss, as it was

anticipated that the losses in the future could be greater if liquidity needs led to a forced sale.

Clearly then in assessing the suitability of holding Gilts or any other alternative investment the forecast of cash-flows is essential.

Cash Flow Forecast

The recent policy has been based on having resources to back long term investments of £600m which within the Council's Prudential Indicators has been reduced to £450m for 2017/18. There is an expectation that this will be reduced further in subsequent years. The current forecast of the balance sheet is as follows:

	Actual	Provisional Actual	Forecast	Forecast	Forecast
	31/03/2016	31/03/2017	31/03/2018	31/03/2019	31/03/2020
	£m	£m	£m	£m	£m
County Fund	36.000	36.000	36.000	36.000	36.000
Revenue reserves	278.647	223.556	114.939	17.020	17.025
School Reserves	86.022	79.200	76.962	73.062	73.062
Capital receipts	17.696	22.700	15.000	10.000	10.000
Capital grant unapplied	70.740	62.500	40.000	40.000	40.000
Provisions	31.239	28.600	30.000	30.000	30.000
Receipts in advance	10.641	8.300	10.000	10.000	10.000
TOTAL	530.985	460.856	322.901	216.082	216.087
Shared Investments	75.000	60.815	60.000	60.000	50.000
TOTAL	605.985	521.671	382.901	276.082	266.087

From the table above it would seem that the County Council will be able to support a long term investment pool of c£260m. However, the key risks in this forecast are:

- School balances will fall faster than anticipated, especially if there is an increase in the number of schools converting to academies
- Authorities leave the shared investment scheme
- Capital expenditure is such that no resources are carried forward at the end of any given year

Taking a more pessimistic view of these movements would lead to a forecast balance sheet by 31 March 2020 of some £125m. However, in addition to cash-flows generated by balance sheet items the County Council usually has the ability to make short term investments with income generally being received in advance of expenditure.

As such, a long term investment portfolio of £200m seems reasonable.

Investment Options

In reviewing the investment alternatives the key concepts to consider are the levels of credit risk and market risk. The credit risk is the likelihood of the investment being lost. The market risk is the possibility that a loss will be incurred if it needs to be realised for liquidity purposes. The sections below give an indication of the relative risks of the different types of investments.

Gilts

A Gilt is a UK Government bond denominated in sterling, issued by HM Treasury and listed on the London Stock Exchange. The term "Gilt" or "gilt-edged security" is a reference to the primary characteristic of Gilts as an investment: namely their high security. This is a reflection of the fact that the British Government has never failed to make interest or principal payments on Gilts as they fall due. As the Gilts are traded the price of them can fluctuate significantly even over short periods of time. Therefore if the Gilt needs to be sold before its maturity date a loss could potentially be incurred. For example at 31 March 2017 the market value of the County Council's holding was less than it was purchased for and if sold would have resulted in a loss of £17.4m.

In constructing an overall Treasury Management Investment portfolio consideration should be given to whether Gilts are being held with the expectation that there will be a degree of trading or whether they are being held for a long time and potentially to maturity.

As referred to above the main benefit of the Gilts is the very low credit risk. However, if the intention is to obtain Gilts and hold them to maturity the yield is expected to be low. Although the yield will vary between different Gilts current expectations of a Gilt with 10 years to maturity would be a yield of around 1.2%. The gains that have been made in the past have mainly been derived from the opportunity to sell Gilts in response to changes in the market. Although this presents a liquidity risk, it could be mitigated by creating a volatility reserve.

Investment in other local authorities

Lending to other local authorities on the basis of a fixed term deposit are a low credit risk given the current anticipated level of government support. However, the market may be limited and there is no guarantee of future government support. In the past year some authorities which have a separate credit rating have seen these reduced. Therefore, Arlingclose, the County Council's Treasury Management advisers, state that they are "comfortable with clients making loans to UK local authorities for periods up to four years, subject to this meeting their approved strategy. For periods longer than four years we recommend that additional due diligence is undertaken prior to a loan being made." These do form part of the current investment policy but the opportunities for long term investments giving a suitable yield are limited. Currently it would be anticipated that a yearlong investment would yield around 0.6%. However, this category is and is likely to continue to be an important source for short term investments.

Non-Government Bonds

There are a variety of options with respect to bonds which have varying degrees of risk and potential returns. Some of these already form part of the current investment policy. The County Council only invests in high credit worthy instruments. Some of the types of bonds that the Council invests in are:

Covered Bonds- these are long-term secured investments with a bank. They are secured on the bank's residential mortgages and are tradeable. Bonds are over collateralised and therefore usually have an AAA credit rating.

Supranational bonds- with multi- national institutions. These are very highly rated and therefore have a low credit risk.

Corporate bonds- bonds issued by private companies, including major multi-national companies. The bonds need to have a credit rating of at least AA for the County Council to hold them. There are many bonds available on the market with a lower rating.

Under the current policy the credit risk of holding these bonds is low but there is a market risk. However, due to the type of bonds held, the volatility in the price is generally not as high as Gilts. Current yields are expected to be around 0.5%.

The policy on the level of credit risk could be changed to encourage additional returns but this would likely involve reducing the credit ratings allowable of bonds held. Unless this was very carefully constructed it could be seen as not meeting the key criteria of ensuring security of the investment.

The County Council has invested in a bond fund which holds a range of bonds. A wide variety of bond funds exist with different duration and credit risk. If the County Council was to make greater use of these for long term investments a re-assessment of the credit risk may be required.

Reverse repurchase agreements (REPO)

A reverse REPO is when the authority buys bonds, usually from a bank, on one date and agrees to sell them at an agreed price on an agreed date. These are a very low credit risk investments as the County Council actually takes ownership of the bonds and therefore has an asset should the bank default. Typically this is used for short term investments and the current yield is around 0.2%. It is anticipated that this investment option will continue to be used to ensure short term cash is invested securely.

Other potential areas of investment which are not currently within the approved Treasury Management Strategy are:

Fixed Term Deposits in banks and building societies

For many local authorities, deposits with banks and building societies represent the majority, if not all, of their investment holding. According to DCLG statistics at 31 March

2016 some 42% of local authority investments are deposits with banks or building societies. However, with the exception of a call account at Svenska Handelsbanken and the ability to keep a small sum with the County Council's bank, investment in banks and building societies do not form part of the Council's investment policy.

Although the yields achievable are probably marginally higher than from other local authorities they represent a credit risk. Legislation, referred to as the 'bail-in', means that local authority deposits with banks are some of the least secured if an institution looks as if it is becoming insolvent. In this instance the authority would lose some, if not all, of its capital. The maximum duration of an investment recommended by Arlingclose is 13 months for the strongest banks and significantly less for other banks and building societies.

Property

Some authorities have been undertaking direct investment in property. These are often retail opportunities and have the potential to make good returns, although the actual return will vary significantly from property to property. However, there needs to be careful consideration in entering into property as an investment class namely:

- If the property is in Lancashire, is it purely an investment or is there an economic regeneration factor behind the transaction? Although both are valid reasons for an authority to invest in a property, if a factor in making the purchase is to promote economic development then the transaction may not be the most beneficial investment.
- There are many uncertainties, including: Will the rental income always be available, what happens in a recession, or if a key tenant pulls out? Some of these risks could potentially be mitigated by holding a range of properties.
- The asset is relatively illiquid. If cash is required the authority may need to take a substantial loss on any sale depending upon the property market at the time.
- All property expenditure would be categorised as capital expenditure. This will mean capital resources would need to be applied to meet the investment or funding needed from the minimum revenue provision. This will involve an annual charge to the revenue account.

Given the number of authorities moving into direct property investment there have been a number comments made in the national press. There has been concern of the risk being taken by local authorities and in November 2016 the public accounts committee of the House of Commons produced a report expressing concern over local authorities understanding the risks involved and the oversight from DCLG.

Pooled Funds

In addition to direct investment and the bond funds referred to above, there are opportunities to invest in other types of pooled funds. The main types of fund available are:

- **Property Funds**

An alternative to holding direct property is to buy a share in a property fund. This has the advantage of having access to specialist professionals and having a share in a wide range of properties. Over the last few years these funds have made high returns. However, performance will be linked to the overall economy and property market and therefore there will be times when returns are low. It would also have to be viewed as an illiquid asset. Although the funds do allow for the investors to withdraw money it can be subject to their ability to sell a property and potential losses could be made. With the exception of the CCLA fund, property funds are also classified as capital expenditure.

- **Equity Funds**

If a local authority was to purchase shares in a company these would be treated as capital expenditure. However, shares in an equity fund are classed as investment. Like other types of fund this does also give the advantage of access to specialist investment managers but the value of any fund will be subject to stock market fluctuations. Traditionally over a long period of time returns have been good however, there is the potential for low returns in the short term and again if the authority needed to redeem its holding then a loss could be incurred.

- **Multi asset Fund**

Some investment managers offer multi asset funds. These are formed by a mix of equities, bonds and cash. The mix and ability to switch between categories will differ from fund to fund. The availability and suitability of these for a local authority would need to be carefully examined.

The yield from any pooled funds (equity, property, bond or multi asset) would be very dependent upon the make-up and management of the individual fund and probably even more importantly the overall performance of the economy.

Reduce borrowing

The County Council has tended to borrow externally to meet the borrowing needs arising from its capital investment. It has undertaken this approach on the understanding that the return on investments was likely to exceed the cost of borrowing. An alternative approach would be to use internal cash to fund the capital programme thereby reducing the available cash for investment. As the County Council has a significant holding of short term borrowing the potential is available to not renew these. To replace the borrowing would involve taking on new loans which are currently at low rates (0.5% or less for short term borrowing) therefore there would not be a significant saving.

Treasury Management Adviser's Comments

The County Council has sought advice from Arlingclose and LPPI in respect of the options. Arlingclose have reviewed the cash flow forecasts and see an investment portfolio of some £200m as reasonable. They view that the current portfolio is highly exposed to market risk and the potential impact of increases in interest rates. They

recommend moving a proportion of the Gilt portfolio into property and equity funds to provide a more diversified fund and minimise the fall in investment income. Although not a guaranteed relationship the advisers note that property and equity market movement is generally in the opposite direction to the movement in Gilts. They also suggest reducing the borrowing.

LPPI as the Council's treasury management advisers have suggested that any investment is aligned with the Council's risk tolerance and that given the market environment the risks within the long duration Gilt market are material.

Conclusion

The Investment Policy followed by the County Council has worked well and has been effective in both keeping credit risk very low and enabling a good rate of return to be achieved. It would seem reasonable to maintain the Gilt and corporate bond holdings as a key part of the Policy to help maintain the low credit risk. However, there is a potential for increases in interest rates and change in quantitative easing which would lead to an increase in the market risk of holding Gilts and corporate bonds. This allied to the reduced level of reserves and balances would suggest that some diversification of the portfolio would be beneficial. Therefore, it is proposed that the Treasury Management Strategy is modified to allow investment in property and equity funds of up to £50m in each category.

The intention would be to move towards a long term investment portfolio which limits the investment to:

	£m
Gilts/long duration bond funds	100
Equity pooled funds	50
Property pooled funds	50

It will be important to consider the potential pools carefully before entering into any agreement. It is not anticipated that the whole allocation will necessarily be included in one pool but could be spread over three or four pools. Therefore there does need to be some flexibility in implementation both in terms of the timing of taking on new investments and reacting to the speed at which reserves are reduced.

It is proposed that the portfolio should be managed so that the sum of the Gilts/long duration bond funds, property funds and equity funds does not exceed £200m unless agreed by the S151 officer. Pooled funds do not tend to have credit ratings, since they do not promise to repay the sum invested and therefore cannot default. Individual funds will need to be assessed based on a number of factors including their investment strategy (e.g. UK or Global), the perceived risk appetite of the fund as measured by volatility and past performance. Before entering into any fund, advice will be sought from the Council's treasury management advisers.

Investment requirements in excess of this, which are likely to be of a relatively short term, can be met from the high credit rated corporate bonds, short dated bond funds, reverse repo, investments with other local authorities and call accounts.

Audit and Governance Committee

Meeting to be held on 26 June 2017

Electoral Division affected: All

The Council's Annual Governance Statement 2016/17 & Code of Corporate Governance

(Appendices 'A' & 'B' refer)

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Executive Summary

The County Council is required to produce and approve an Annual Governance Statement (AGS) which will be included in its Annual Statement of Accounts for 2016/17.

A draft AGS is presented for the Committee's consideration at Appendix 'A'.

In addition, Full Council in July 2016 approved a new Code of Corporate Governance for the County Council that reflected new CIPFA/Solace guidance. Full Council also agreed that the Code would be reviewed on an annual basis.

Therefore, the Committee is asked to consider the updated Code of Corporate Governance and whether it wishes to make any changes to recommend to Full Council.

The updated Code is presented for the Committee's consideration at Appendix 'B'.

Recommendation

The Committee is asked to:

1. Consider and approve the draft Annual Governance Statement for 2015/16 for inclusion in the draft Statement of Accounts.
2. Note that the Annual Governance Statement will be signed by the Chief Executive and Leader of the Council and published on the Council's website following the final approval of the Statement of Accounts.
3. Consider the updated Code of Corporate Governance and any amendments it wishes to make for recommendation to Full Council for approval.

Background and Advice

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

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

The Committee is asked to consider and approve the draft Annual Governance Statement presented at Appendix 'A' to be included within the Council's Annual Statement of Accounts for 2015/16.

The final AGS will be signed by the Chief Executive and Leader of the Council and published on the Council's website following the final approval of the Statement of Accounts.

In July 2016 the Full Council approved a new Code of Corporate Governance for the County Council and agreed that the Code would be reviewed by the County Council every year. The Code is based on new CIPFA and the Society of Local Authority of Chief Executives (SOLACE) best practice guidance, and should articulate and be consistent with the expected standards, principles and values by which Lancashire County Council Officers and Members will operate. There should be clear links between the seven new principles within the Code, and the governance framework of strategies, policies and procedures which underpin it. The Code is also in a format that includes sources of evidence providing clarity for Members, Officers and stakeholders about how the organisation uses the principles of the Code in practice.

Therefore, the Code now presented for approval at Appendix 'B' has been updated and includes new sources of evidence. This is because the Code has been updated to reflect the outcome of a recent Internal Audit review of the County Council's governance framework. The outcome of the review (substantial assurance) was presented to this committee in January 2017. The Code of Corporate Governance action plan as set out below incorporates the recommendations of the Internal Audit review.

Code of Corporate Governance Action Plan

Action	Responsibility
<p>1. Each document that forms part of the council's constitution will be identified and incorporated into an information governance framework that will, on each document and on a central register:</p> <ul style="list-style-type: none"> • Assign and record its owner; • Determine and record the frequency of its review; • Record the date of its last review where known; • Record the date and nature of its approval within the council's constitution and/ or wider governance framework; • Enable the Democratic Services team to continue to prompt reviews of each document in accordance with the agreed timeframe. <p>Residual risk addressed: Medium</p>	Democratic and Member Services Manager
<p>2. An assessment will be made of other documents that should be treated in the same manner and the same information governance framework will be applied to them.</p> <p>Residual risk addressed: Low</p>	Head of Democratic and Legal Services and Democratic and Member Services Manager
<p>3. The Democratic Services team will be directed to oversee the register of documents produced by actions 1 and 2 above, and prompt their owners to review them as their review dates become due.</p> <p>Residual risk addressed: Medium</p>	Democratic & Members Services Manager
<p>4. Responsibility for publishing and publicising documents, and deleting older versions as they are revised will be agreed between the Democratic Services and Communications teams.</p> <p>Residual risk addressed: Medium</p>	Head of Democratic and Legal Services and Democratic and Member Services Manager

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

Good governance enables an authority to pursue its vision effectively as well as underpinning that vision with sound arrangements for control and management of risk. An Authority must ensure that it has a sound system of internal control which includes effective arrangements for the management of risk. Failure to publish an AGS means the County Council would be negligent in its responsibilities for ensuring accountability and the proper conduct of public business.

Legal Implications

The County Council must adopt a Code of Corporate Governance which has been produced to the standards prescribed in the best practice guidance in order to prepare the AGS. The best practice guidance is recognised as the CIPFA/SOLACE Framework: Delivering Good Governance in Local Government (2016).

Financial Implications

Good governance leads to good management, good performance and good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. However, there are costs associated with embedding and continuing good governance practices, and as the Council's organisational structures develop, the costs associated with governance need to be monitored to ensure they remain proportionate.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Service/Tel
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N/A		
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Reason for inclusion in Part II, if appropriate		
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N/A		
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ANNUAL GOVERNANCE STATEMENT FOR THE FINANCIAL YEAR 2016/17

THE PURPOSE OF THE ANNUAL GOVERNANCE STATEMENT

Local authorities are required by the Accounts and Audit Regulations 2015 to prepare an Annual Governance Statement (AGS) which reviews the effectiveness of their system of internal control and to include this within their Statement of Accounts.

The Regulations stipulate that the AGS "*must be prepared in accordance with proper practices in relation to accounts*" which requires the AGS to be in accordance with the Framework prepared by CIPFA/Solace "*Delivering Good Governance in Local Government*" (2016 edition). The Framework defines the principles that should underpin the governance of each local authority.

The AGS is a public statement of the extent to which a local authority complies with its Code of Governance, which is in turn consistent with the good governance principles set out in the Framework. The process of preparing the AGS is intended to add value to the effectiveness of the governance and internal control framework and is an opportunity to explain to the community and stakeholders how the controls that are in place manage the risks of failure in delivering outcomes; it should reflect the local authority's particular features and challenges.

In particular the AGS should include:

- How issues raised in the previous year's AGS have been resolved;
- An acknowledgement of responsibility for ensuring that there is a sound system of governance (incorporating the system of internal control) and reference to the local authority's Code of Governance;
- Reference to and assessment of the effectiveness of the key elements of the governance framework and the role of those responsible for the development and maintenance of the governance environment;
- An opinion on the level of assurance that the governance arrangements can provide and that the arrangements continue to be regarded as fit for purpose;

- An agreed action plan showing actions taken, or proposed, to deal with significant governance issues; and
- A commitment to monitoring implementation as part of the next annual review.

GOVERNANCE ISSUES IN 2015/16

At its meeting held on 30 June 2016 the Audit and Governance Committee considered and approved the AGS for 2015/16 and at its meeting held on 26 September 2016 approved an updated version of the AGS for inclusion in the Council's Statement of Accounts.

The External Auditor's Annual Audit Letter for the year ended 31 March 2016 concluded that the Council had in place proper arrangements to ensure economy, efficiency and effectiveness except for the following matters, resulting in the External Auditor's value for money conclusion being qualified:

Ofsted inspection of Children's Services

In November 2015 Ofsted published its report on the outcome of its inspection of Children's Services, rating the services overall as "inadequate". An Improvement Notice was subsequently issued by Ofsted and an Improvement Board established with an independent Chair, responsible for developing an Improvement Plan which was subsequently approved by the Department for Education.

The Improvement Board meets on a monthly basis to consider progress against the Improvement Plan. Having initially appointed an Interim Director of Children's Services, shared with Blackburn with Darwen Borough Council, a new full time Director of Children's Services was subsequently appointed, starting in post in February 2017.

In addition to the Improvement Board, the Council has established a Children's Services Scrutiny Committee and a 0-25 Board. Significant extra resources for Children's Services have been agreed by the Council's Management Team.

Since the judgement as inadequate by Ofsted in autumn 2015, there has been a strong commitment to improve services quickly and to ensure that children are safe, protected and supported.

A significant range of activity has been implemented and will continue to be built upon until practice is consistently good and outcomes for children are improved. Below is a high level summary of some of the work that has been undertaken since the last AGS to improve services for vulnerable children in Lancashire.

Strategic direction, leadership governance and oversight

- **Permanent Director of Children's Services Appointment** – Amanda Hatton has now been in post since February. Linda Clegg continued in her role in Lancashire to the end of March to ensure a seamless transition of responsibilities and is now working one day per week to provide additional leadership capacity.
- **12 Week Improvement Plan** – the Council's approach is to focus on short term priorities delivered at pace. The fourth 12 week plan has been agreed by the Improvement Board and will prioritise support for Children Looked After and care leavers

Demand management and sufficiency

- **Resource Panels** – have been established in each locality since February 2017. Chaired by social care Heads of Services, the panels consider all new placement decisions, placement changes and placements due for review to ensure a consistency of approach and appropriate challenge to decision making.
- **Access to Resources Team** – the team has been in place since February 2017 and provides capacity in terms of placement finding, placement costs, effective commissioning and market management.
- **Reshaping the in house provision** – piloting a four bed Adolescent Support Unit to provide respite/short breaks for teenagers on the edge of care, alongside crisis units and complex needs units.
- **Residential Outreach** – recently agreed to increase capacity of this team to specifically support Section 20 children and young people based in external placements.

- **Family Group Conferencing** – exploring proposals to increase Family Group Conferencing (FGC) capacity, building on an existing FGC team with a strong track record in achieving improved outcomes for children and families.

Participation and recognition

- **PROUD Awards** – this annual celebration/recognition event was held on 3 March 2017 for Children Looked After and Care Leavers who received awards for their achievements from the Chief Executive, elected members and senior leaders.
- **LINX (Children in Our Care Council)** – have recently inspected Grange Avenue and Eden Bridge and also the central fostering team. Through LINX the young inspectors have also been involved in Child Sexual Exploitation (CSE) prevention week, inspected a real CSE case and reported back to the police their findings.
- **Takeover 2016** - in November over 140 children and young people took part in our annual Takeover month event which originated here in Lancashire. Highlights included young people 'taking over' the Improvement Board, a Takeover meeting with the Children's Commissioner Anne Longford and our annual CSE conference.
- **Participation awards** – children and young people supported by the County Council have won three of the four awards on offer at the national British Youth Council Awards. The Inspiring Project Award – won jointly by the Fostering and Adoption team and the Children with Disabilities Council; the Make a Difference Award - won by Will Rainford and the Youth-led Award – won by LINX, the Children in Care Council.
- **Diana Award** - 20 members of LINX and POWAR were awarded a prestigious Diana award for their work in the community with Young Inspectors. The group was recognised for their commitment to making a change for the better in organisations that provide a service to children and young people in care and/or with special educational needs and disabilities.

Workforce recruitment, retention and development

- **Risk sensible** – a "risk sensible" model, that assesses risk rather than simply seeking to avoid it entirely, continues to be implemented and over 250 staff have now been trained. Plans are now also in place to train staff in the Wellbeing, Prevention and Early Help service and partner organisations are also interested in understanding and practicing in line with the risk

sensible approach and funding has been agreed by the Lancashire Safeguarding Children Board (LSCB) to facilitate this.

- **Recruitment drive** - a recruitment campaign has been ongoing since the summer 2016 and has been successful in recruiting to various roles in children's services. To date more than 188 permanent posts have been recruited to including social workers, team managers and independent reviewing officers.
- **Workforce Strategy** – at the April 2017 Improvement Board a two year workforce strategy was agreed. Within this a number of developments will be progressed including the establishment of a social work academy, a health and wellbeing strategy, improved support and training for managers and clear career pathways. The areas of Fylde, Wyre and Lancaster will provide a specific focus for this work given the particular recruitment and retention difficulties in the north of the county. A comprehensive performance dashboard is being established and targets set that will be monitored through the Operational Improvement Group.
- **Aide Memoires** – the Operational Improvement Group produced a simple guide to some of the core tasks that social workers undertake. The purpose of the guide was to describe these tasks in a simple and straight forward way but also to articulate why these tasks are undertaken. The original intention was that the aide memoires would be a useful reference tool for newly qualified social workers but they have also proved useful for partners to understand social work practice and have been shared through the LSCB and incorporated into the schools safeguarding training programme.

Capacity

- **Framework agreement** – Skylakes are no longer taking on new work and assessments on behalf of children's social care and robust plans were implemented to ensure that the increased work coming into social care as Skylakes stepped back was effectively managed.
- **Child Sexual Exploitation** – the support provided to children at risk of sexual exploitation has been reviewed and through this some areas for improvement were identified. As a result a new approach has been implemented for working with these vulnerable children that is based on national research, inspection findings and effective practice in other local authorities. A multi-agency action plan has been agreed through the LSCB to drive forward improvements

and the County Council has invested an additional £600k to fund 19 new posts to support this plan.

- **Caseloads** - all parts of the social care workforce have shown reducing caseloads over the last few months. And these caseloads are now within the agreed thresholds that have been set by the Improvement Board as 'good' or 'outstanding'.
- **Front door** – an additional seven qualified social workers began working in CART in January 2017 to focus on 0 – 10 day statutory assessments. Further to this, a temporary resource of three qualified social workers and one business support has recently been agreed to address some identified issues at the front door regarding some cases experiencing delay and some cases not being appropriately signposted.

Communication and engagement

- Director of Children's Services (DCS) briefings – in April 2017 over 350 staff across children's services participated in the third round of staff briefings led jointly by Amanda Hatton and Linda Clegg. The purpose of these staff briefings is to ensure the workforce is fully aware and able to inform improvement and to share and discuss the key priorities moving forwards. The evaluation feedback from these briefings has been extremely positive and 95% reported a better understanding about the progress in delivering the improvement plan and 96% had a better understanding of our current and future priorities.
- **DCS Blog** – Amanda Hatton has recently begun sending out a weekly blog to all staff to highlight recent news, information and developments and keep people posted on what she has been doing.

Better understanding of ourselves

- **Project Accuracy** – after two waves of project activity since April 2016, significant improvement to the accuracy of information in the Lancashire Children's Services (LCS) system has been achieved and in March 2017, all of the metrics under review were measured by Practice Managers at 90% accurate or above. There has been an effective project handover from Newton Europe to the County Council and a Performance Management Framework has been agreed and implemented and weekly/monthly reports are made available to inform service developments.

- **Audit Framework** – work continues to embed the audit tools with a particular focus on 'closing the loop' through weekly reporting via an audit tracker. The framework has now been rolled out across the Special Educational Needs and Disabilities service with a revised tool developed, staff trained and a first cycle of full audits took place across the service in March 2017. An implementation schedule has also been agreed to roll the framework out across fostering and adoption services and the first set of audits is expected to take place in June 2017.
- **Improvement Performance subgroup** – this multi-agency sub group of the Improvement Board continues to meet on a monthly basis to analyse and scrutinise key performance data. The group has recently agreed the following set of themes for future focus and the Improvement Board dashboard has been refreshed and framed around these new themes. These themes include: Early Action/Early Help; Front Door – Multi Agency Service Hub/CART; Practice thresholds; Sufficiency/Adoption / Permanence; and Workforce.

Practice Improvement Model (PIM)

- **Fylde and Wyre** – the PIM is an opportunity to test out new processes, systems and ways of working to improve outcomes for children and families. There are five areas in the PIM Project Plan: Improving and embedding quality practice; Management and staffing; Keeping services local; Working in partnership, and Improving systems and processes.
- **Evaluation** – a full evaluation of the PIM is now underway, identifying the learning and impact from the development of new ways of working
- **Roll out** – following evaluation, a clear plan will then be developed that describes how the key developments and learning from the PIM can be embedded across the rest of the county. It is expected that this roll-out begins in early June.

More information and plans relating to the improvement journey can be found at [Lancashire Children's Services Improvement Board](#)

The work of internal audit being insufficient to provide an opinion on the overall system of internal control at the Council

The Head of Internal Audit was unable to provide an overall opinion on the Council's system of internal control in both 2014/15 and 2015/16 because of the limited nature of the internal audit plan for those years.

The reasons for this has been dealt with in each year's AGS and in January 2016 the Audit and Governance Committee approved the "Internal Audit Plan 2015/16, 2016/17 and beyond". The AGS for 2015/16 noted that this Plan, if delivered, would enable the Head of Internal Audit to reach an overall conclusion on the system of internal control and Management Team gave an unequivocal assurance that sufficient audit work would be undertaken to ensure that this was the case.

In her Annual Report for 2016/17 the Head of Internal Audit provides her opinion that the Council's overall frameworks of governance, risk management and control can be given only limited assurance. The reasons for this overall opinion are set out in her report but the particular governance issues that it identifies continue to be the outcomes of the Ofsted inspection and the Council's continuing financial challenges. This report provides an update on the present position in respect of both issues and considers the implications of each issue for 2017/18.

SIGNIFICANT GOVERNANCE ISSUES IN 2016/17

The AGS for 2015/16 identified a number of continuing or emerging risk areas. All of these risk areas have been the subject of detailed reports to Cabinet and/or committees or Full Council. Table 1 provides an update in relation to each area.

Table 1

No.	Issue	Action	Update
1.	The establishment of the Local Pensions Partnership (LPP)	<p>Full Council approved the establishment of the joint venture in March 2016.</p> <p>The Employment Committee have subsequently approved pay proposals in relation to senior staff in LPP, a Remuneration Policy and proposals in relation to the transformation of the Administration Business.</p> <p>Regular shareholder meetings have also now been established</p>	<p>Agreement has now been reached with LPP in relation to the transfer of the Council's Treasury Management work to LPP. However, in view of the reduced levels of funding available to the Council which can be invested for Treasury Management purposes the Director of Financial Resources is to propose a revised approach which will be presented to the Audit and Governance Committee for consideration.</p> <p>Preparatory work is also being undertaken in relation to the potential for an additional shareholder to join the company</p>
2.	Waste Management – valuation of waste plants and cost saving measures	In February 2016 the Council's waste company was requested to change how it delivers various waste processing operations at the two waste recovery parks in Farington and Thornton. These changes were intended to realise an £8.5 million per annum reduction in waste processing costs and necessitated a major restructuring of the company; along with works to preserve any redundant assets in anticipation of a long term strategic review of waste processing requirements.	<p>Waste processing changes have been successfully implemented at the two waste recovery parks and the transformation of the waste company completed. The anticipated cost reductions as a result have been achieved.</p> <p>Separately a soft market testing exercise has been conducted to consider future processing options and trials are underway to review different operating methods. The council is in the process of seeking markets for the supply of refuse derived fuel (an outcome of the current process) to reduce disposal costs further.</p>

	<p>In September 2016 the Committee received a report from the Director of Financial Resources concerning the valuation of the waste plants, an issue identified by the External Auditor as requiring clarification.</p> <p>It was reported that an independent review of the valuation of the plants had concluded that there would be a reduction in accounting valuation through the change in use proposed but that this was not material and did not therefore require a change to be made to the Statement of Accounts.</p> <p>A review of the council's Household Waste Recycling Centre and Transfer Station services was conducted in 2016 in order to consider options for their delivery beyond the expiry of the current operating contracts in March 2018.</p>	<p>In March 2017 the Deputy Leader and Cabinet Member for Environment, Planning and Cultural Services agreed decisions relating to the future operation of HWRCs and waste transfer services including the recommissioning of these services on the basis of the in-house provision of the site operations and the separate procurement of services for transport and waste processing. The change of operating model will involve the TUPE transfer of staff to the Council of staff currently engaged in the delivery of the service.</p> <p>The re-commissioning from 1 April 2018 is on the basis of the current level of service provision in terms of the current network of sites, staffing levels and existing opening hours.</p>
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<p>3.</p>	<p>The Council's financial position</p>	<p>In September 2016 a report provided by PricewaterhouseCoopers (PwC) validated the work previously undertaken by officers in relation to the Council's budget gap for the years to 2020/21.</p> <p>The report concluded that the Council is forecasting a cumulative deficit of £398 million by 2020/21 and that even if the Council were to reduce its level of expenditure to the lowest quartile cost for all services it would still face an in-year deficit of £79 million and a cumulative deficit of £227 million by 2020/21.</p> <p>The report also concluded that the current funding model for the Council is disproportionately contributing to the funding gap. As a result the Council has continued to lobby government and stakeholders regarding the extreme financial challenges facing the Council.</p>	<p>The Statement of Accounts for 2016/17 include a narrative statement highlighting the most significant financial issues for the year.</p> <p>The narrative report sets out the outturn position on the Council's revenue and capital budgets, noting that the revenue underspend of £19.542 million was largely due to the achievement of agreed in-year savings targets and additional income of c£23 million from treasury management activities.</p> <p>The report also confirms capital expenditure for the year of £144.7 million, c93% of budgeted spend.</p> <p>The financial challenge facing the Council continues to be the key governance issue for 2017/18.</p>
<p>4.</p>	<p>Organisational transformation</p>	<p>Phase 2 of the Council's transformation process has been in progress throughout the year with service structures being subject to consultation, agreement and implementation procedures.</p> <p>Employment Committee has agreed a revised Compensation Payment Policy which provides 12 months' pay protection for staff suffering a detriment in</p>	<p>Consultation with recognised trade unions is ongoing and a new HRT1 has been served on them, recognising the need for further compulsory/voluntary redundancies to achieve necessary budget savings.</p> <p>Following agreement to a new Compensation Payments Policy it has been agreed with the trade unions that further discussions will commence later this year to consider what</p>

		pay as a result of transformation	arrangements will apply after transformation is complete. S.188 consultation meetings continue to be held on a 2 weekly basis
5.	Health and Social Care integration	<p>In February 2017 Full Council received an interim draft report from PwC in relation to a potential Public Service Delivery Model for Lancashire, setting out a vision for integrated and sustainable public service delivery.</p> <p>It was reported that whilst the principles underlying the proposals have been, in the main, supported by the NHS, concerns have been expressed by some NHS organisations regarding specific proposals in the report.</p>	<p>Full Council agreed to refer the report back to PwC asking them for their final report so that it can be given meaningful consideration and proper consultations can take place with other interested parties.</p> <p>Cabinet will now be consulted on how they wish to proceed with possible models for integration</p>

6.	A Combined Authority for Lancashire	<p>In March 2016 Full Council agreed that the Council become a constituent Member of a Lancashire Combined Authority and that in the interim agree to form a shadow Combined Authority. It was also agreed that any future proposals for a devolution deal be brought back to Full Council for approval</p>	<p>Following the March 2016 decision the constituent members have awaited a response from government confirming that the necessary draft Order establishing the Combined Authority could be laid before Parliament.</p> <p>However, no formal response from government has been received and at the last meeting of the Shadow Combined Authority it was also accepted by all local authority leaders present that it was unlikely that all of the constituent members would be able to secure approval to the proposals such that the draft Order could be laid.</p> <p>It was however agreed that there remained significant benefit in continuing to meet on a pan-Lancashire basis and the constituent members would therefore continue to meet on a regular but informal basis.</p> <p>Cabinet will now be consulted on how they wish to proceed.</p>
7.	Implementation of the Council's Property Strategy	<p>On 26 September 2016 Cabinet agreed to the implementation of the proposed Property Strategy, involving in particular the closure of identified children centres and libraries. The former Deputy Leader of the Council subsequently agreed in principle to the community asset transfer of a number of premises, some of which were to be established as independent community libraries.</p>	<p>Following the change in the Council's political control on 5 May 2017, the new Administration have confirmed their commitment to re-open some libraries that have closed and will review proposed asset transfers, therefore any pending transfers have been put on hold.</p>

8.	ICT Strategy, systems development and data quality	<p>In September 2015 the Ofsted report on Children's Services raised concerns about the Liquid Logic system and its ability to produce reliable information on which decision making could be based.</p> <p>A report was presented to the Audit and Governance Committee in September 2016 informing the Committee of the progress that had been made in improving the system and processes for recording and maintaining accurate data within the system. Many of these new arrangements have been reflected across all of the council's main systems and include:</p> <p>Process for reflecting changes in hierarchies and staffing changes in all systems developed and implemented;</p> <p>Development and implementation of system roadmaps that set out planned system changes and timescales.</p> <p>Governance process for approving new developments and monitoring progress.</p> <p>Creation of a systems team to support and deliver system development and provide ongoing support to users.</p>	<p>Learning from the working group in relation to Children's Services will now be applied to the Liquid Logic Adults systems.</p> <p>An update report to the Audit and Governance Committee at its meeting on 26 June 2017 provides a further update on progress made and challenges.</p> <p>In summary good progress has been made in cleansing data that affects payments to providers. The underlying data also influences other key activity including financial planning and forecasting. A programme of work has also been developed to ensure that changes resulting from new commissioning arrangements are managed at an early stage and do not present problems once the new frameworks are launched.</p> <p>The operating model has also been changed to ensure that the Council has a sustainable model for creating and maintaining accurate data within the adults system.</p> <p>More work is needed on the wider accuracy agenda and a small working group is being established to oversee this programme of work.</p> <p>Other systems are under development for the 2017/18 financial year including:</p>
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	<p>A working group chaired by the Deputy Chief Executive to oversee and drive improvement in data recording was also set up. This group also focused on the development of key performance reports required in order to meet statutory and service requirements.</p> <p>It was reported that significant progress had been made and this had been acknowledged by Ofsted but that a continued programme of improvement and governance was still required to ensure that a culture of accountability for systems and data becomes an embedded part of social care.</p> <p>A number of other key systems were implemented and went live in 2016/17 including;</p> <ul style="list-style-type: none"> - Genesys (replacement to the Council's telephony system) - Property Asset Management - Highways Asset Management - Project and Programme Management system (PPMS) <p>These systems replace existing ones that were end of life. The Highways Asset Management System has replaced 24 existing systems with one solution.</p>	<ul style="list-style-type: none"> - Early Help module - Education, Health and Care Plans - Education Management System (including a new online school admissions system) - Police integration (Early Action) <p>Given the scale of these projects and the impact on service delivery, separate project boards have been established to oversee the implementation process.</p>
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THE HEAD OF INTERNAL AUDIT'S OVERALL OPINION FOR 2016/17

The Head of Internal Audit's overall opinion as set out in her Annual Report is that she is only able to provide limited assurance overall regarding the adequacy of design and effectiveness in operation of the organisation's framework of governance, risk management and control for 2016/17. There are a number of areas of the Council's operation where managers have accepted that they are unable to themselves provide assurance over the effectiveness of controls and therefore audits have been deferred until managers are themselves satisfied that improvements have been made. That position, taken with the continuing financial challenges facing the Council and the Ofsted judgement in relation to Children's Services, means that she could provide only limited assurance overall.

However, the Head of Internal Audit has also reported that, despite the instability arising from the changes taking place across the Council, there are some areas where strong control is exerted over the services being provided and systems operated, and the Internal Audit Service has provided substantial assurance in relation to a number of the Council's systems and services.

THE COUNCIL'S SYSTEM OF GOVERNANCE – THE CODE OF CORPORATE GOVERNANCE

Corporate governance is about the systems, processes and values by which councils operate and by which they engage with, and are held accountable to, their communities and stakeholders.

The Council has adopted a Code of Corporate Governance which follows the CIPFA/Solace guidance "*Delivering Good Governance in Local Government*" (2016) which defines the seven core principles that should underpin the governance framework of a local authority:

- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law;
- Ensuring openness and comprehensive stakeholder engagement;
- Defining outcomes in terms of sustainable economic, social and environmental benefits;
- Determining the interventions necessary to optimise the achievement of the intended outcomes;

- Developing the Council's capacity, including the capability of its leadership and the individuals within it;
- Managing risks and performance through robust internal control and strong public financial management; and
- Implementing good practices in transparency, reporting and audit to deliver effective accountability

The Code of Governance is reviewed annually and the outcome reported to the Audit and Governance Committee. It sets out the requirements underpinning these principles and how the Council ensures that it meets them along with the evidence base used to assess their effectiveness.

THE EFFECTIVENESS OF THE GOVERNANCE FRAMEWORK

The Council's review of the effectiveness of its governance framework is informed by the work of senior officers who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's updates and annual report, including her overall opinion, and the observations from the External Auditor and other inspectorates.

The regular and ongoing processes that have been applied to maintain, review and improve the effectiveness of the framework include:

- Regular review of the Council's Constitution and ethical governance arrangements by the Monitoring Officer;
- Reviews of financial controls by the Director of Financial Resources;
- Reviews and updates of the Corporate and service Risk Registers;
- The work of Internal Audit and the outcome of individual audits of services;
- The work of the Council's scrutiny committees and the Audit and Governance Committee;
- The opinions and recommendations of the External Auditor and other inspection and review agencies and peer reviews;
- The consideration by the Cabinet Committee on Performance Improvement of regular quality of service reports;

- Assurance provided by Management Team in respect of the internal controls for which they have responsibility, in particular their scrutiny of regular budget and performance reports including the delivery of savings targets within the Medium Term Financial Strategy;
- Regular briefings on key corporate governance issues to directors and heads of service.

GOVERNANCE CHALLENGES IN 2017/18 AND ACTIONS TO BE TAKEN

The County Council's elections in May 2017 resulted in a change of political Administration from a minority Labour Administration to a Conservative Administration with an overall majority.

The change in Administration will undoubtedly result in revised Council policies across a wide range of service delivery areas, for example in relation to the Council's current Property Strategy where decisions made to close a number of libraries will be reviewed.

The new Administration have also confirmed that they intend to review the Council's current Corporate Strategy with a view to a report being considered by Full Council in February 2018.

On a wider policy front the new Administration's approach will involve policy development sessions with the Cabinet, Lead Members and Management Team addressing key strategic issues such as health and social care integration. Cabinet will also be fully briefed as a priority on the Council's budget and financial position.

The Council's financial position

Notwithstanding the scale of the financial challenge facing the Council, it has a statutory duty to set a legal, balanced budget. The Director of Financial Resources, as the Council's "s.151 officer" who is responsible for the financial management of the Council, is required by s.114 of the Local Government Finance Act 1988 to report to Full Council if he considers that the Council's expenditure is likely to exceed its resources. In these circumstances the Council must then consider the report within 21 days and decide what action, if any, it proposes to take in response.

If the situation is unresolved and the Council is unwilling or unable to set a balanced budget then the External Auditor may intervene and has powers to issue an Advisory Notice if she considers that the Council is about to take a decision which involves, or would involve, the Council incurring

expenditure which is unlawful. If the situation is not resolved to the satisfaction of the External Auditor she has the power to apply for judicial review of the decision or a failure to act and would seek an order prohibiting the decision being taken or requiring it to be reconsidered.

It is in that context that the financial challenge facing the Council identified in the Director of Financial Resources' Narrative Report must be regarded. It follows that one of the key priorities of the Council in 2017/18 will be to identify ways in which the Council can deliver statutory services within a much reduced budget.

This will be a key focus of the Council's new Administration and it is anticipated that the need to achieve budget savings will be a primary consideration in future policy decisions. The previous Administration had requested Management Team to identify the potential impact on service delivery, and the level of savings that would be achieved, if all services were funded at the lowest quartile of benchmark authorities' costs. The outcomes of this work will now be considered by the new Cabinet to assist them in formulating policy decisions and identify where savings can be achieved.

Governance challenges cover all aspects of this process, some of which are highlighted here:

- In bridging the financial gap, the Council must ensure appropriate governance is in place to provide assurance that the impacts of policy decisions do not disproportionately affect parts of the community. Extensive work will be undertaken to consult with the public on proposed changes and respond to the concerns raised.
- Successive years of funding reductions may now mean that budget saving will in future look to areas of service that support statutory provision that are already under significant demand pressure. Even when funding flexibility decreases and demand for services is rising, the Council is obliged to ensure that the legal rights of citizens to receive services are protected. The legal risks posed by each policy option will be made clear to decision makers.
- Whilst policy options may be developed and agreed, delivering significant service transformations or even ceasing services can present huge logistical, legal and financial challenges requiring a great deal of specialist expertise to implement in the required timeframes. Performance management protocols will be put in place to oversee the process including oversight by Management Team.
- Because reserves continue to be used to support areas where budget savings require additional time for implementation or further funding, their levels are expected to diminish by

2018/19. The Council's financial controls will be updated to address the implications, providing clarity on the Council's procedures for authorising investment decisions funded by reserves, the adequacy of provision for unexpected events, and liquidity.

- Although budgets are agreed annually, the Medium Term Financial Strategy has formed the backbone of the Council's financial considerations for a number of years; indeed, it is over this timeframe that the financial position presents a radically different challenge in terms of the scale of the savings to be achieved. The Council will work with partners in district councils and the NHS to identify areas where joint benefits can be derived, without creating unnecessary bureaucracy.

Delivery of the Ofsted improvement plan

The focus for improvement activity will continue to be driven through the Improvement Plan and the cycle of 12 Week Improvement Plans. The following are some key priorities for the future:

Getting the basics right - working with staff to ensure that there is a clear understanding of the expectations for every child's case and that this understanding is consistent across the workforce. Every case should have a timely assessment, the child should be seen regularly and these visits should be purposeful, there should be a SMART plan in place and this should be outcome focused and informed by the child and recording on LCS is up to date.

Management oversight - further work needs to be done to ensure that strong and effective management oversight is embedded consistently across the county.

Leadership – ensure that the transition to new post holders at DCS and Head of Service level is seamless and enables a continued focus on existing improvement plans, priorities and strategies.

High numbers of social workers with low levels of experience – whilst we have managed to significantly increase capacity across children's social care it has been extremely challenging to recruit experienced social workers. A 12 month plan has been developed that will prioritise the development and retention of existing staff to build their skills and experience.

North Lancashire – there are ongoing challenges in recruiting and retaining qualified and experienced social workers in Fylde, Wyre and Lancaster. As part of the above 12 month workforce plan we will implement a bespoke approach for north Lancashire to address the specific issues found in this part of the county.

Caseloads – whilst average countywide caseloads are good there are still particular teams and specific parts of the county where caseloads are higher than we would like.

Residential Strategy – ensure implementation at pace of the recently agreed two year strategy including the development of a reshaped in-house provision.

MASH/CART Redesign – working with partners to improve access to services that are more effective in ensuring that vulnerable children can quickly receive the right support and protection they need.

Practice Improvement Model – identify and roll out across the county the improved ways of working that have been developed and will have maximum impact.

Risk sensible model – continue to embed a risk sensible approach across practice and through the LSCB begin the roll out of the risk sensible model to partners.

Audit activity in fostering and adoption – the existing audit model is being revised to ensure that by June 2017 fostering and adoption cases will be more effectively audited: tools are being amended and training is planned for all fostering and adoption managers.

Health and social care integration

Health and social care integration is seen as one of the key drivers for public sector reform whilst also providing a means by which the demand pressures experienced by Health and Social care can be managed within constrained budgets.

Collaborative working must be underpinned by appropriate strategic alignment across all the relevant organisations that can lead change. However, the organisational landscape in Lancashire is complex, with six Clinical Commissioning Groups (CCG) and other health economies that overlap into the County Council's responsibilities.

The Better Care Fund (BCF) continues to be supported by government to provide a formal platform from which some aspects of funding can be pooled and services jointly managed. The County Council will continue to be the host partner for the fund in 2017/18. A new Better Care Fund Plan will be required for 2017-19 (this will now be a 2 year plan). The plan will need to be based on national planning guidance, which has not yet been produced, however there are indications of what will be required and these are being used to help develop a draft plan. This involves working in partnership with all of the CCGs. The plan will need to ultimately be agreed by the Health and Wellbeing Board.

BCF resource will be focused around those programmes that can deliver the greatest amount of change to enable successful programme delivery and maximise integration benefits. There is a recognition that the government expects to see High Impact Change Programmes form part of new BCF plans, and this will be prioritised through the Council's contribution to the Better Care Fund Steering Group with emphasis placed on projects that have clear and quantifiable objectives.

The Council's approach to health and social care integration will be considered by Cabinet in the context of the Sustainability and Transformation Plans for Lancashire and South Cumbria and the developing government agenda.

MONITORING IMPLEMENTATION

The key governance challenges facing the Council in 2017/18 are identified risks in the Council's Corporate Risk and Opportunity Register.

The governance arrangements relating to the Register involve its review by Management Team which is then reported in turn to the Cabinet Committee on Performance Improvement and then the Audit and Governance Committee.

The Register identifies risks, the current controls that apply and the mitigating actions to be taken, producing a risk score and a residual score after mitigating actions have been applied as well as the direction of travel.

Regular updates of these key risks will reflect the implementation of the new Administration's policies. It is anticipated that this will initially involve amending the Council's current budget to deliver manifesto commitments. Subsequently Cabinet will consider how it wishes to address the financial challenge facing the Council and it is expected that Cabinet will propose an emergency budget in Autumn 2017.

Delivery of the Ofsted Improvement Plan will continue to be overseen by the Improvement Board and will also be monitored through ongoing Ofsted inspections and peer review.

Code of Corporate Governance 2017/18

What is Corporate Governance?

Corporate governance is about the systems, processes and values by which Councils operate and by which they engage with, and are held accountable to, their communities and stakeholders.

Lancashire County Council is committed to the principles of effective corporate governance and has therefore adopted a Code of Corporate Governance which follows the latest guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE), entitled "Delivering Good Governance in Local Government (2016)"

The guidance defines the seven core principles, each supported by sub-principles that should underpin the governance framework of a local authority.

- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rules of law.
- Ensuring openness and comprehensive stakeholder engagement.
- Defining outcomes in terms of sustainable economic, social and environmental benefits.
- Determining the interventions necessary to optimise the achievement of the intended outcomes.
- Developing the Council's capacity, including the capability of its leadership and the individuals within it.
- Managing risks and performance through robust internal control and

strong public financial management.

- Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.

What are the benefits of having a Code of Corporate Governance?

Good governance leads to good management, good performance, good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. It enables the Council to pursue its vision effectively as well as underpinning that vision with mechanisms for control and the management of risk.

Lancashire County Council has a robust governance framework in place. The documents and arrangements which comprise the framework demonstrate that the Council continually seeks to ensure it is and remains, well governed, through integration of with the core principles of the CIPFA/SOLACE framework into all aspects of the Council's conduct and operation.

The Monitoring Officer is responsible for ensuring the Code is reviewed annually, and the outcome of the review, along with adoption of any revision to the Code is reported annually to the Audit and Governance Committee for approval.

Lancashire County Council Code of Corporate Governance (Principle 1)

Principle 1: Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rules of law:		
Supporting Principles	To meet the requirements of this Principle, Lancashire County Council will;	This will be evidenced by:
<ul style="list-style-type: none"> • Behaving with integrity • Demonstrating strong commitment to ethical values • Respecting the rule of law 	<ul style="list-style-type: none"> • Maintain shared values (Fair, Trustworthy, Ambitious, to have belief in people) both for the County Council and its officers. These are defined in the draft corporate strategy and reflect public expectations about the conduct and behaviour of individuals. • Use shared values as a guide for decision making and as a basis for developing positive and trusting relationships within the County Council. We demonstrate this by adherence to the constitution. • Have adopted formal codes of conduct defining standards of personal behaviour for Members and officers. • Maintain the Audit and Governance Committee to raise awareness and take the lead in ensuring high standards of conduct are embedded within the County Council's culture. • Have put in place arrangements to ensure that Members and staff of the County Council are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders. We have put in place appropriate processes to ensure that these arrangements are workable including declaration of interests and anti-corruption policies. • Ensure that systems and processes for financial administration and control together with protection 	<ul style="list-style-type: none"> • Draft Corporate Strategy • The Constitution which includes : <ul style="list-style-type: none"> ➤ Financial Procedure Rules ➤ Contract Procedure Rules ➤ Anti-Fraud and Corruption Strategy ➤ Anti-Bribery Policy ➤ Rules relating to Members External Interests ➤ Rules relating to Gifts and Hospitality ➤ Codes of Conduct for Members and Employees ➤ Scheme of Delegation ➤ Procedural Standing Orders ➤ Register of Interests ➤ Terms of reference • Information Security Policy

	<p>of the County Council’s resources and assets, comply with ethical standards; and are subject to monitoring of their effectiveness.</p> <ul style="list-style-type: none">• Ensure that professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making if appropriate. Officers will actively recognise the limits of lawful activity placed on them but also strive to utilise their powers to the full benefit of their communities.• Officers will observe all specific legislative requirements placed upon the Council as well as the requirements of general law, and in particular integrate the key principles of administrative law – rationality, legality and natural justice into the procedures and decision making.• Have put in place effective systems to protect the rights of staff. We ensure that policies for whistle-blowing which are accessible to staff and those contracting with the Council, and arrangements for the support of whistle-blowers, are in place.• Have established an information governance group (CIGG) with the remit of collecting assurance information across all council functions.• Publish an Annual Governance Statement, signed by the Leader of the Council and the Chief Executive to confirm that we are satisfied that we have effective governance arrangements in place.	<ul style="list-style-type: none">• Information Governance Policy• Money Laundering Policy• Whistleblowing Policy• Annual Governance Statement• External inspections of accounts• Members induction• Complaints Policy• Partnership Protocol• Job descriptions and Person Specifications• Clearance of committee reports
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Lancashire County Council Code of Corporate Governance (Principle 2)

Principle 2: Ensuring openness and comprehensive stakeholder engagement:		
Supporting Principles	To meet the requirements of this Principle, Lancashire County Council will;	This will be evidenced by:
<ul style="list-style-type: none"> • Openness • Engaging comprehensively with institutional stakeholders • Engaging with individual citizens and service users effectively 	<ul style="list-style-type: none"> • Ensure that the Council's vision, strategic plans, priorities and targets are developed in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated. • Maintain a culture of accountability so that Members and Officers understand to whom they are accountable and for what. • Strive to engage with stakeholders on an individual and collective basis to demonstrate that we deliver services and outcomes that meet the needs and expectations of the public. These arrangements will recognise that different sections of the community have different priorities and establish robust processes for dealing with these competing demands. • Publish reports giving information on the County Council's strategies, plans and financial statements as well as information about outcomes, achievements. • Deliver effective scrutiny of the County Council's business as appropriate and produce an annual report on the activities of scrutiny function. • Ensure that the Council as a whole is open and accessible to the community, service users and staff and we are committed to openness and transparency in all dealings. 	<ul style="list-style-type: none"> • Annual Governance Statement • Annual report on members allowances • Annual pay Policy Statement • Freedom of Information Publication Scheme • Research and Consultation Strategy • Research and Consultation Database • Service Specific consultations • Living in Lancashire Panel • Communication Strategy • Constitution • Scheme of Delegation • Money Matters Budget reports • Lancashire Health & Wellbeing Strategy

	<ul style="list-style-type: none"> • Attempt to publish all committee agenda items under “part 1” unless there is the need to preserve confidentiality (where it is proper and appropriate to do so). 	<ul style="list-style-type: none"> • Community Safety Agreement • Director of Public Health Annual Report • Children's and Young Peoples Plan • Statement of Accounts • Scrutiny Reports • County Council Website • Property Strategy (Neighbourhood Centres) Consultation • Joint Strategic Needs Assessment • Strategic Assessment of Crime & Anti-Social behaviour
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Lancashire County Council Code of Corporate Governance (Principle 3)

Principle 3: Defining outcomes in terms of sustainable economic, social and environmental benefits:		
Supporting Principles	To meet the requirements of this Principle, Lancashire County Council will;	This will be evidenced by:
<ul style="list-style-type: none"> Defining outcomes Defining outcomes benefits 	<ul style="list-style-type: none"> Make a clear statement of the Council's purpose and vision and use it as a basis for corporate and service planning. Publish annual reports to communicate the Council's activities and achievements, its financial position and performance. Ensure that those making decisions are provided with financial and non-financial information that is fit for the purpose – relevant, timely and gives clear explanations of technical issues and their implications. Identify and monitor service performance indicators which demonstrate how the quality of service for users is to be measured. Maintain a prudential financial framework, balance commitments with available resources; and monitor income and expenditure levels to ensure this balance is achieved. Ensure compliance with the CIPFA codes regarding a Prudential Framework for Capital Finance and Treasury Management. 	<ul style="list-style-type: none"> Draft Corporate Strategy Money Matters Budget Reports Director of Public Health Annual Report Reports to Audit & Governance Committee Quality of Service Reports Performance reports to CCPI Monthly budget monitoring reports Statement of Accounts External Auditors letter & reports External Inspections Approach to Risk & Opportunity Treasury Management Strategy Capital Investment Strategy

Lancashire County Council Code of Corporate Governance (Principle 4)

Principle 4: Determining the interventions necessary to optimise the achievement of the intended outcomes		
Supporting Principles	To meet the requirements of this Principle, Lancashire County Council will;	This will be evidenced by:
<ul style="list-style-type: none"> • Determining interventions. • Planning interventions • Optimising achievement of intended outcomes 	<ul style="list-style-type: none"> • Make a clear statement of the Council's purpose and vision and use it as a basis for corporate and service planning. • Have risk management arrangements in place including mitigating actions to support the achievement of the Council's intended outcomes. • Ensure that there are effective arrangements in place to monitor service delivery • Put in place effective arrangements to deal with a failure in service delivery and explore options for improving service delivery and outcomes for our residents. • Have prepared contingency arrangements including a disaster recovery plan, business continuity plan and arrangements for delivering services during adverse weather conditions. • Provide senior managers and Members with timely financial and performance information. • Ensure that budget calculations are robust and reserves are adequate. • Align financial and performance data to provide an overall understanding of performance. 	<ul style="list-style-type: none"> • Draft Corporate Strategy • Our approach to Risk & Opportunity Management • Corporate Risk & Opportunity Register • Quality of Service Reports • Highlight Reports • Business Continuity Plans • Emergency Plan • Money Matters Budget Reports • Social Value Policy & Framework

Lancashire County Council Code of Corporate Governance (Principle 5)

Principle 5: Developing the County Council's capacity, including the capability of its leadership and the individuals within it.		
Supporting Principles	To meet the requirements of this Principle, Lancashire County Council will;	This will be evidenced by:
<ul style="list-style-type: none"> Developing the County Council's capacity Developing the capability of the County Council's leadership and other individuals 	<ul style="list-style-type: none"> Through the constitution set out a clear statement of the respective roles and responsibilities of the Council's Executive Committee and the Members individually. Set out a clear statement of the respective roles and responsibilities of the Council's other committees and senior officers. Have developed protocols to ensure effective communication between Council Members and officers in their respective roles. Have developed protocols to ensure that the Leader and Chief Executive negotiate their respective roles early in their relationship and that a shared understanding of roles and objectives is maintained. Set out the terms and conditions for remuneration of Members and officers and publish an Annual Pay policy statement in accordance with the requirements of the Localism Act 2011. Have determined a scheme of delegated and reserved powers within the constitution and ensure that the scheme is monitored and updated when required. Ensure that effective management arrangements are in place at the top of the organisation. Ensure the Chief Executive is responsible and accountable to the Council for all aspects of operational management. Ensure the S151 Officer is the Director of Financial resources and is a member of the Council's Management Team, with access to the Chief Executive and other members of the 	<ul style="list-style-type: none"> Constitution Annual Pay Policy Scheme of Delegation Interim Structures agreed Member Development Leadership Development Programme Personal Development Appraisals Member Development Programme Member Induction Working Group Ofsted Post Inspection Improvement Plan Scheme of delegation to officers Induction programme Health & Wellbeing Policy

	<p>leadership team.</p> <ul style="list-style-type: none"> • Ensure the Section 151 Officer is responsible to the County Council for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control. • Have appointed a professionally qualified and experienced Director of Financial Resources, who will lead the promotion and delivery of good financial management, safeguarding public money and ensuring appropriate, economic, efficient and effective use of funds; together with professional accountability for finance staff throughout the County Council • Ensure the Monitoring Officer is responsible to the County Council for ensuring that the constitution is adhered to. • Assess the skills required by Members including the understanding of financial systems. We will agree a personal development plan to develop skills and address any training gaps, to enable roles to be carried out effectively. • We will assess the skills required by officers through the appraisal process and address any training gaps, to enable roles to be carried out effectively. • We will develop skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed. • We will ensure that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the Council. • We provide the Director of Financial Resources with the resources, expertise and systems necessary to perform the 	
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	<p>role effectively within the County Council.</p> <ul style="list-style-type: none">• We will provide the Corporate Director Operations and Delivery with the resources, expertise and systems necessary to perform the role effectively within the Council and respond to the last Ofsted inspection.	
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Lancashire County Council Code of Corporate Governance (Principle 6)

Principle 6: Managing risks and performance through robust internal control and strong public financial management.		
Supporting Principles	To meet the requirements of this Principle, Lancashire County Council will;	This will be evidenced by:
<ul style="list-style-type: none"> • Managing risk • Managing performance • Robust internal control. • Managing data. • Strong public financial management 	<ul style="list-style-type: none"> • Maintain an effective Audit & Governance Committee which is independent of the executive and scrutiny functions. • Enable the Director of Financial Resources to bring influence to bear on all material decisions and provide advice on the levels of reserves and balances to be retained. • Ensure that risk management is embedded into the culture of the County Council, with Members and managers at all levels recognising that risk management is part of their job. • Ensure our arrangements for financial and internal control and management of risk are formally addressed within the annual governance reports. • Ensure effective internal control arrangements exist for sound financial management systems and processes. • Ensure that a Corporate Performance Summary is presented to the Cabinet Committee for Performance Improvement on a quarterly basis • Ensure that quarterly Quality of Service and highlight reports are produced and used to hold Cabinet Members and officers to account 	<ul style="list-style-type: none"> • Audit & Governance Committee • Money Matters Budget Reports • Approach to Risk Management and publication of a quarterly Corporate Risk & Opportunity Register • Annual Governance Statement • Performance reports presented to CCPI • Internal Audit Reports • Quality of Service Reports • Project Accuracy • O&S arrangements • Information Governance Strategy • Data Protection Policy

Lancashire County Council Code of Corporate Governance (Principle 7)

Principle 7: Implementing good practices in transparency, reporting and audit to deliver effective accountability		
Supporting Principles	To meet the requirements of this Principle, Lancashire County Council will;	This will be evidenced by:
<ul style="list-style-type: none"> • Implementing good practice in transparency • Implementing good practices in reporting • Assurance and effective accountability 	<ul style="list-style-type: none"> • Comply with the local government transparency code and publish all required information in a timely manner. • Have established a medium term business and financial planning process in order to deliver - a financial strategy ensuring sustainable finances, a robust annual budget process ensuring financial balance and an adequate monitoring process; all of which are subject to regular review. • Put in place effective transparent and accessible arrangements for dealing with complaints. • Maintain an effective scrutiny function which encourages constructive challenge and enhances the Council's performance overall. • Maintain an effective Audit Committee which is independent of the Executive and Scrutiny committees. • Ensure an effective internal audit function is resourced and maintained. • Maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based. • Attempt to publish all committee agenda items under "part 1" unless there is the need to preserve confidentiality where it is proper and appropriate to do so • Put in place arrangements for whistle-blowing to which staff and all those contracting with the County Council have access. 	<ul style="list-style-type: none"> • MTFS • Complaints Procedures • Scrutiny Committees • Audit & Governance Committee • Constitution • Modern.Gov • Whistle-blowing Policy • Monthly budget monitoring reports • Annual Pay Policy • Statement of Accounts • External Audit Reports • Annual Governance Statement

	<ul style="list-style-type: none"> • Produce clear, timely, complete and accurate information for budget holders and senior officers relating to the budgetary and financial performance of the Council. • Maintain effective arrangements for determining the remuneration of senior staff and publish an Annual Pay Policy statement in accordance with the requirements of the Localism Act 2011. • Publish annually details of County Councillors remuneration and expenses 	
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Audit and Governance Committee

Meeting to be held on Monday, 26 June 2017

Electoral Division affected: N/A

Liquid Logic System Update

Contact for further information:

Lisa Kitto, Director of Corporate Services, (01772) 534757

Lisa.kitto@lancashire.gov.uk

Executive Summary

The Audit and Governance Committee received a report in September 2016 that set out the improvements made to the Liquid Logic system following the Ofsted report of September 2015 and also the proposed next steps for the system and the new governance arrangements for system developments and implementations. At the request of the Committee, this report sets out what action was being taken in relation to the Liquid Logic adults system.

Recommendation

The Audit and Governance Committee is requested to note the progress to date.

Background and Advice

Since its implementation, there have been issues surrounding the Liquid Logic systems. The 2015 Ofsted report highlighted some of these, many of which were found to be related to working practices and processes rather than the technical solution itself. Nevertheless, the council's significant investment in its systems and the need to manage the business effectively, means that ensuring our systems work effectively is an ongoing priority.

Significant improvements in the Liquid Logic Children's (LCS) system have been made and have been reported to the Committee. Since then further developments are underway and change management processes and overall governance have been significantly improved. The learning and the discipline brought about within the children's system have been replicated across all of the council's main systems including Liquid Logic Adults (LAS).

In addition to this, there has been a focus on data that affects payments to provider. Historically the County Council has been unable to deal with queries from providers quickly and where these have not been resolved, payments have not been made. Targeted work has been carried out to deal with issues, clear backlogs and to ensure that a sustainable position is maintained going forward that prevents further

payments issues from developing. This includes looking at the delivery model, defining and agreeing end to end processes and ensuring staff have the appropriate training to carry out their roles.

- **System ICT Implementation**

Liquid Logic is used successfully by many different local authorities so the choice of the system itself was not an issue. LAS has not been customised to the same extent as the LCS system had and therefore, no major re-configuration works have been required. In addition to this, LAS has been kept up to date with latest versions installed with relatively few problems.

The following issues that were common to both LAS and LCS have been completed:

- Some work processes were not moving through the system and were therefore not being authorised/actioned etc. This was largely due to the fact that there were no processes in place to ensure that changes to staffing hierarchies, i.e. as staff moved within the organisation or joined or left, were reflected in the Liquid Logic system. This meant that social workers could not move tasks on or could not have a clear view of what work was left in their worktrays to action. A significant piece of work was undertaken to ensure that the actual social work structure, authorisation levels etc. were updated in the system and processes have been defined and implemented to ensure that they remain up to date in the future. This has required a significant amount of work by Children's Social Care service as well as HR, BTLS and the Core Systems team. As a result of this, transactions are now flowing through the system in the way that they should and social workers have worktrays that only contain the outstanding tasks that they need to carry out.
- System changes were being requested by a range of individuals in the service and control and ownership of the system was not clear. Without this, some changes were contradictory, impacted on reporting and meant that resources within BTLS and other teams were not always focussed on priorities. The need to instil enhanced governance, discipline and control was established as being vital to overcome these as well as giving overall visibility of system changes to senior managers. New governance arrangements have been agreed and are set out later in the report that ensure that timescales and impacts are understood, resources identified and crucially that changes are implemented in such a way as to give a period of stability within the service. This implementation is multi-disciplinary as it will often include: systems, transformation, service, business intelligence and training support. The need for these core services to work together is paramount and this is now being achieved through a crosscutting system review group that has been set up. There will always be changes needed to systems, but the uncontrolled process that previously existed no longer exists.

Data Cleansing (Payments)

Although the LAS system is a case management system, there has to be a clear link to services that are commissioned and ultimately paid for. This enables the County Council to review what is being commissioned and the cost. From this, the County Council will be able to forecast costs with greater certainty and will be able to look at trends etc. This data is captured and recorded on what is known as a CPLI (Client Purchase Line Item). CPLI lines should be created for all commissioned activity. This has not always happened in the past and the quality of CPLI lines could not be relied on to provide the management information needed or to pay providers. Issues have arisen due to the fact that;

- CPLI lines are not always created
- Lack of consistency in creating CPLI lines
- CPLI line has not always ceased at date of death
- Rates at which services are commissioned are not controlled and can be over-ridden

This has caused many problems for the council and for providers, particularly as it means that payments are 'stuck' in the system. Although processes are in place for providers to raise queries with the council so that they can be resolved, a significant backlog developed that there was never any quick resolution of the problems. Significant improvements have been achieved as set out below:

- ***Backlog***

Temporary data cleanse teams were established in the Care Navigation and Core Systems teams. These teams have worked collaboratively in clearing the backlog of queries from providers. To resolve some of the more difficult issues, resource from the Care Navigation team has been co-located with the systems team. The initial backlog of 2,200 CPLI lines has been reduced to 1,300 (of which 300 were received only in the last week and of the remaining 1,000 lines;

- 300 need further information from social workers
- 700 need further information from providers

Senior management support has been identified to work with social workers to provide the information quickly. The Core Systems team are actively contacting providers to obtain the required information to validate the other 700 lines. Over 150 lines have been cleared in 2 days and it is anticipated that the rest will be cleared by the end of w/c 12 June.

The fact that the backlog has now largely been cleared means that the Care Navigation Data Cleanse team are now fully focussed on dealing with new queries submitted through the Care Portal and also 8 providers that have been submitting their invoices manually and have been flagged as requiring further assistance. Feedback from providers and the number of queries received by the Care Navigation team has already improved significantly.

- ***LD Sleeping-In Uplift***

The contractual commitment to pay an uplift on LD sleeping-in allowances from 1 April 2016 is now being made in full. Previously this was not possible due to the fact that the commissioning approach had changed without any reference to the structure of the data in the system. To resolve the problem, 3700 CPLI lines have been unpicked and restated on the systems so that individual elements are identifiable. All providers are now being paid the uplift in accordance with the contract. The exercise of restating the commissioned activity on the system identified overstated commissioned package costing the County Council c£1m per annum. These have now been set up correctly and the overpayments recouped.

Previously social workers had a choice of rates or could create a new rate. This practice has ceased and rates have been 'locked down' in the system to prevent any similar issues arising in the future. The operating model has also been reviewed and changed to ensure consistency of practice in data input. This is set out later in the report.

Discussions are taking place with colleagues in commissioning to determine a best practice approach to future contracts and changes that may affect payments. In the past new commissioning arrangements have been agreed and put in place without consulting the system teams on whether it is possible and feasible to make payments on the new basis. Timescales for system changes now have to be factored into the commissioning cycle.

- ***Date of Death***

Business Intelligence has provided details of over 1,200 dates of death that had not been recorded in LAS. These have been input and a process established within the core systems team to ensure that notifications are received on a weekly basis and input into the system (if this has not already been done). A best practice guide is currently being rolled out to social workers so they understand what action they need to take when notified of a death. In addition to this, a mechanism is being developed to pull together date of death information held by the County Council and health to provide a 'backstop' should deaths not be input by the social worker. This will be co-ordinated and actioned by Business Intelligence and Core Systems staff.

BUSINESS AS USUAL ACTIVITY

Operating Model

Whilst the above actions have dealt with the backlog, there is an absolute need to ensure that across the system, consistency is achieved and that there is sufficient resource to carry out the activity of creating and maintaining CPLI lines. To do this, the operating model has been reviewed and changed - when LAS was implemented, it was envisaged that, as well as creating and maintaining the case management files on LAS, social workers would also create the CPLI lines. In reality, social

workers either didn't have the time to input data late or, when they did, input in an inconsistent manner.

In addition to this, there was a lack of consistency in the way in which individual elements of a care package was entered on the system. This meant that, as an example, when uplifts were applied to specific elements only, the system was unable to differentiate these from the full cost and could not make the payment accurately.

The operating model was not therefore effective and did not provide a sustainable model going forward. In recognition of all of this, the Care Navigation function has been extended to take on the role of inputting all CPLI lines. Many of the social care teams have now transferred this element of the work to the Care Navigation function and a clear map of targeting the remaining services has been set out and will be completed over the next few weeks. Clear processes have also been defined and set out so that a consistent approach to inputting is achieved, and one which will enable specific elements to be identified. This will assist in planning, forecasting as well as uplifting individual elements should it be required. Close working with the systems team to identify any inconsistencies or problems is also in place and, where necessary, corrective action is taken.

Despite all of the above, it is recognised that there will always be changes to commissioned packages and therefore it is felt that the temporary data cleanse team is required on a permanent basis as a data management team. A proposal is being developed for consideration by Management Team. Continuous monitoring of changes will also be undertaken to identify areas of practice that could be improved/made consistent to reduce the number of changes/queries to a minimum.

Paper invoices

There are a small number of providers that are still sending in invoices manually, i.e. in paper format. This is largely due to a lack of confidence in the system and the belief that payments will be processed more quickly. This creates additional pressure on the Accounts Payable team. Ideally, all providers should be sending in invoices electronically however this will only happen if we can gain the trust and confidence of providers. It is therefore proposed that once all queries have been resolved with providers, a joint approach with Care Navigation, Core Systems and finance is proposed to work with them to submit invoices electronically. Acceptance of paper invoices will then be stopped. This will not only contribute towards the council's ambitions of reducing paper and of matching invoices electronically with more efficiently and cost-effective mechanisms but will also support providers in our ability to pay them more quickly.

NEXT STEPS

Although positive steps have been taken and accuracy is improving, there remains a significant amount of cleansing work to be undertaken. Some of this will be undertaken as part of planned commissioning cycles, and other activity will be scheduled over a period of time. The scale of the changes still to be made mean that this work will take place over a number of months. To give an indication of scale, the following changes have already been identified and more will emerge:

Bulk Data Cleanse

There is still a considerable amount of bulk data cleansing to be carried out – in particular in relation to the new framework contracts that are being drawn up. This will avoid any future issues as a result of changes to the way in which we commission and pay for services. Discussions are underway with the Commissioning Service to plan activity and this work will be undertaken by the Core Systems data Cleanse Team. The work identified to date is;

Description	CPLI Lines	Status/Plan
Supported Living sleep In Allowances	1700	Providers have been contacted and data cleanse work planned for mid-June to mid-July.
Supported Living Block	900	Work to take place mid-July to early August
Homecare Framework	8,000	Work to take place September and October for those CPLI lines that are estimated to be affected immediately with the new framework in November.
Homecare Framework	8,000	CPLI lines will need adjusting throughout the year as and when assessments are completed.
Total	18,600	

As part of this work, rates will be 'locked down' so that data inputters are not able to create services on different rates. A process for over-riding rates in exceptional circumstances, and with appropriate authorisations, will however need to be developed by the service and communicated to all staff.

Care Portal Systems Plan

A systems roadmap for LAS has already been developed and agreed with senior managers within adult's social care. This process will continue. A workshop to look at the care portal has also been set up and will be attended by various key stakeholders. From this, a roadmap of system enhancements and developments will be drawn up to deal with specific issues/problems that are currently being experienced by providers and staff in dealing with queries to payments, CPLI lines etc. The review will also include input from providers to look at the customer experience and how this can be improved.

Governance Arrangements

Strong governance arrangements are now in place and the Director of Adult's Services is required to sign off all changes to the system. To support this;

- System ownership for all systems has been transferred to the Core Systems/Transformation team with dedicated, named resource attached to the system. This first line of contact will be crucial in ensuring a line of sight for the Director of Adult's Services on all system related activity.

- Roadmaps have been developed for some systems and are being developed for others and will set out timelines for changes, resource requirements etc. This will be a key monitoring document for senior managers within the service.
- Best practice guidance for all system implementations has been developed and will be followed in all cases. The Core Systems/Transformation team will be responsible for carrying out the 'gatekeeper' role for all changes.
- A series of working groups will meet on a regular basis, chaired by senior staff, and will report to the Adults Senior Management Team on a regular basis. Sign-off and approvals are required, in most instances, by the Director of Adult's Services to ensure that senior oversight of these issues remains as part of the ongoing 'business as usual' processes.

Other Data

The approach set out above will improve significantly the data quality for CPLI lines but it will take time before the full impact is delivered seen. The focus of the work to date has been on payments and commissioning information. There may also be other data cleanse requirements in relation to other aspects of the service which are in the process of being identified. To oversee this, a 'project accuracy' approach is to be adopted that will also look at reporting etc. in the same way as for Children's Social Care. This work is being led by the Deputy Chief Executive and early work has already commenced. The scope of the work and the associated plans are currently in the process of being developed and it is anticipated that the group will have met by the end of June.

Consultations

N/A

Implications:

Financial Implications

There will be an ongoing financial cost to the organisation of maintaining resource to manage the data within the LAS system. The requirements are currently being defined.

Risk management

None. The report updates the Committee on progress made to date.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Tel
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N/A

Audit and Governance Committee

Meeting to be held on Monday, 26 June 2017

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

(Appendix 'A' refers)

Contact for further information:
Ruth Lowry, Head of Internal Audit
ruth.lowry@lancashire.gov.uk

Executive Summary

The Internal Audit Service is a key element of the County 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), revised from 1 April 2017, that require the Internal Audit Service to establish and periodically review a charter. The current Internal Audit Charter was approved in June 2016: a revised document is attached at Appendix A and is submitted for the Committee's consideration and approval.

Recommendation

The Committee is recommended to consider and approve the Internal Audit Charter.

Background and Advice

The Internal Audit Charter establishes the framework within which Lancashire County Council's Internal Audit Service operates to best serve the County Council and to meet its professional obligations under applicable professional standards. It defines the purpose, authority and responsibility of internal audit activity, establishes the Internal Audit Service's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

The appendix to the charter sets out the Audit and Governance Committee's responsibilities in respect of the Internal Audit Service.

Consultations

The Director of Governance, Finance and Public Services has reviewed this revised Internal Audit Charter.

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	1 April 2017	Ruth Lowry, 01772 5 34898

Reason for inclusion in Part II, if appropriate

NA

Lancashire County Council

Internal Audit Service Charter

April 2017

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 *Mission of Internal Audit* and the mandatory elements of the Global Institute of Internal Auditors' International Professional Practices Framework (the *Core Principles for the Professional Practice of Internal Auditing*, the *Code of Ethics*, the *Standards* and the *Definition of Internal Auditing*). These documents are therefore mandatory for internal audit in local government in the United Kingdom, and they are supplemented within *PSIAS* by additional public sector interpretation and guidance. CIPFA has also published a *Local*

Government Advisory Note setting out sector-specific requirements for local government within the United Kingdom.

- 2.3 Lancashire County Council's Internal Audit Service therefore operates in accordance with this mandatory definition, code, standards and advice.
- 2.4 Section 151 of the Local Government Act 1972 states that every local authority in England and Wales should "make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs". In its *Statement on the Role of the Chief Financial Officer in Local Government* CIPFA has defined 'proper administration' as including compliance with the statutory requirements for accounting and internal audit. It also requires the 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, 2017*

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

- 3.3 *PSIAS* define the board as:

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

Public Sector Internal Audit Standards, 2017

- 3.4 Within Lancashire County Council the board is defined as the Audit 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 *PSIAS* also refer to the 'chief audit executive' who, at Lancashire County Council, is deemed to be the head of internal audit.

4 Responsibilities

- 4.1 The Regulations set out that the county council must ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective; and includes effective arrangements for the management of risk.
- 4.2 It is the role of the Internal Audit Service to provide independent assurance that these risk management, control and governance processes are adequately designed and effectively operated. *PSIAS* make 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 *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 *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 in all their work, whether on audit work or investigations.
- 5.2 The Internal Audit Service's work programme and priorities are determined in consultation with the 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 *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. This report will include information regarding:
- The scope and frequency of both the internal and external assessments.
 - The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest.
 - Conclusions of assessors.
 - Corrective action plans.

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

- 10.1 *PSIAS* recognise 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, the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework;
- 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, 26 June 2017

Electoral Division affected: (All Divisions);
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Internal Audit Annual Report 2016/17

(Appendices 'A' to 'C' refer)

Contact for further information:

Ruth Lowry, Head of Service – Internal Audit

ruth.lowry@lancashire.gov.uk

Executive Summary

The annual report to Lancashire County Council is appended to this report. The Committee has considered periodic reports of progress throughout the year that support this overall report and the conclusion that limited assurance can be provided over the County Council's systems of internal control and governance. This report summarises the work that the Internal Audit Service has undertaken during 2016/17 and the key themes arising in relation to internal control, governance and risk management across the County Council.

Recommendation

The Committee is requested to consider the Internal Audit Service's annual report for 2016/17 and the information it provides to support the County Council's annual governance statement for the year.

Background and Advice

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

Consultations

The findings presented in this report have been discussed with the County Council's senior managers and directors, and specifically with the Director of Governance, Finance and Public Services.

Implications:

This item has the following implications, as indicated:
NA

Risk management

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

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

Paper	Date	Contact/Tel
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NA

Reason for inclusion in Part II, if appropriate

NA

Lancashire County Council Internal Audit Service

Annual report for the year ended 31 March 2017

1 Introduction

Purpose of this report

- 1.1 This report summarises the work that the county council's Internal Audit Service has undertaken during 2016/17 and the key themes arising in relation to internal control, governance and risk management across the council.
- 1.2 In January 2016 the Audit and Governance Committee considered and approved a strategic internal audit plan for 2015/16, 2016/17 and beyond. Small amendments to the plan have been considered by the committee during the course of the year but the work is now complete and is reported here.

The role of internal audit

- 1.3 The Internal Audit Service is an assurance function that provides an independent and objective opinion on the adequacy and effectiveness of the council's control environment. The Public Sector Internal Audit Standards (PSIAS) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA) require the head of internal audit to provide an opinion on the council's control environment and a written report to those charged with governance, timed to support the annual governance statement. This report presents my opinion based upon the work the Internal Audit Service has performed during 2016/17.
- 1.4 The scope of our work, management and audit's responsibilities, the basis of my assessment, and access to this report are set out in Appendix C to this report.

Interim reports

- 1.5 This report builds on the matters reported throughout the year that have been the subject of discussions with members of the Management Team and their senior management teams.
- 1.6 I have provided summaries of individual pieces of audit work completed throughout the course of the year in my progress reports to each meeting of the Audit and Governance Committee. Short summaries of each audit are provided here at Appendix B and the full reports will be provided to any members on request.

Ruth Lowry
Head of Internal Audit
Lancashire County Council

2 Summary assessment of internal control

Overall opinion

- 2.1 On the basis of our programme of work for the year, I can provide limited assurance overall regarding the adequacy of design and effectiveness in operation of the organisation's framework of governance, risk management and control.
- 2.2 In forming my opinion I have considered the work undertaken by the Internal Audit Service throughout the year as well as, to a more limited extent, the work of external assurance providers. As explained in the plan for the year, there are a number of areas of the council's business where management continued to make service and control improvements during 2016 and 2017 and these were therefore excluded from the scope of audit work for the year. Some of these areas are significant and have therefore affected the assurance I am able to provide overall.
- 2.3 Descriptions of the work we have done are set out below and an explanation of the levels of assurance the Internal Audit Service provides are set out in Appendices A and C. Appendix B provides a table of each assurance assignment the team has undertaken during the year and the level of assurance we have provided for each.

The council's control framework

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

A framework for governance, risk management and control	
Governance and democratic oversight corporate governance framework, democratic processes	
Business effectiveness risk management, performance monitoring, organisational design, working with other organisations	
Service delivery children's, adult's, community, public health & wellbeing services, corporate commissioning, economic development, emergency planning	
Service support programmes & project management, design & construction, communications, business systems, customer access	
Business processes financial processes, investment, payroll, human resources, ICT, procurement, business continuity, health & safety	

Summary of assurance provided by the Internal Audit Service

- 2.5 A summary of all the assurance we have provided during the year is provided in the table below. This includes each internal audit assignment directed to providing controls assurance, but it excludes work for example on the certification of grant funding claims and participation in working groups, which has not been directed at providing controls assurance.

Assignments relating to:	Total audits	Assurance			
		Full	Substantial	Limited	None
Governance and democratic oversight	1		1		
Business effectiveness	4		3	1	
Service delivery	16	1	14	1	
Service support	1		1		
Business processes	9	2	5	2	
Total	31	3	24	4	0

Wider sources of assurance available to the county council

- 2.6 The reports provided by Ofsted and PricewaterhouseCoopers during the year are key sources of external assurance available to the committee and Council.
- 2.7 In September 2016 PricewaterhouseCoopers' report on the council's financial position (the 'Statutory Services Budget Review') was considered by the Cabinet and is available through the following link (the last 'accompanying document'):
<http://council.lancashire.gov.uk/ieDecisionDetails.aspx?ID=11159>
- 2.8 In February 2017 Ofsted provided the following letter to the Council:
https://reports.ofsted.gov.uk/sites/default/files/documents/local_authority_reports/lancashire/054_Monitoring%20visit%20of%20LA%20childrens%20services%20as%20pdf.pdf

Management's responses to our findings

- 2.9 Each of the issues I have raised during the year has been discussed with the relevant service managers as well as with members of the council's Management Team. Action plans have been agreed and actions are already being implemented; the Internal Audit Service will follow up our findings during the course of 2017/18 and provide support to managers to develop and implement pragmatic solutions to the control issues identified.

3 Key issues and themes

- 3.1 The committee's attention has previously been drawn to the existence of a number of areas of the council's operations that are subject to too much turbulence to be audited, and areas where managers could not themselves provide assurance over the adequacy and effectiveness of controls. It has also been made aware of the limited assurance effectively provided by both PricewaterhouseCoopers (in respect of the council's financial position and capacity to make the necessary financial savings) and Ofsted (in respect of children's social care). The Internal Audit Service's own work has generated some positive assurance, but also only limited assurance over a key control in adult social care – professional supervision – and key areas of financial control – accounts receivable and debt management, and accounts payable.
- 3.2 One common theme across a number of areas is inappropriate access to systems available to officers who no longer need it, or whose roles do not require it. This issue is known to the council's management and it is being considered as part of the council's wider development of improved ICT systems.
- 3.3 However as has been noted during the year, despite the instability arising from the changes taking place across the council, there are some areas where strong control is exerted over the services being provided and systems operated. In particular, we have provided full assurance over the provision of school places, treasury management, and over BT Lancashire Services Limited's (BTLS) processing of the council's payroll. Whilst the process is still developing, the Council has also begun more explicitly to demonstrate its management of risk at both the corporate level and within individual service areas.

4 Implications for the annual governance statement

- 4.1 In making its annual governance statement the council considers the head of internal audit's opinion in relation to its internal control environment, risk management processes and corporate governance. The Council's annual governance statement should therefore reflect the continuing challenges presented by its financial position and projections; its continuing drive to make extremely challenging cost reductions, involving ongoing restructures of many of its services; and the effects of continuing restructuring and cost reductions on the Council's ability to operate adequate and effective controls to properly manage the risks to its objectives.
- 4.2 More positively, the Council could also reflect its improvement in demonstrable risk management and the improvements being made that, whilst they have been temporarily disruptive, are expected eventually to support improvements to both services and internal controls. There is considerable work ongoing to make improvements in both adult and children's social care services, and the introduction of improved asset management systems and the development of a wider strategic plan for the development of the council's ICT systems as a whole are also good examples.

5 Organisational independence

- 5.1 The Internal Audit Service has access to and support from the council's Management Team but is able to operate independently within the organisation and is therefore properly able to fulfil its responsibilities. In accordance with its charter the 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.
- 5.2 The Internal Audit Service's work programme and priorities are determined in consultation with the Management Team, the council's senior managers and the Audit and Governance Committee, but remain decisions 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.

6 Internal audit performance

- 6.1 Following a review of resourcing and confirmation of the structure of the service during the year a number of recruitment exercises were successfully completed and the service's establishment is currently fully staffed. However this was achieved only by the end of March 2017 and the service operated with a number of vacancies during the year.

Completion of the internal audit plan 2016/17

- 6.2 The outputs of our audit work have been reported in detail to the senior management teams of individual service areas, and the key themes arising for them and for the council as a whole are set out above.
- 6.3 We have completed 31 individual audit assignments, as well as a number of other pieces of work that have not resulted in assurance opinions, and these are set out in Appendix B.

Internal audit quality assurance and improvement programme

- 6.4 A self-assessment of the Internal Audit Service carried out in June 2017 confirmed that the service substantially meets the requirements of PSIAS. A more detailed assessment will build on this in 2017/18 and a full external assessment of the Internal Audit Service's self-assessment of its compliance with PSIAS will take place during November 2017. The chair of the Audit and Governance Committee will be invited to participate in this process, and the results will be reported to the committee. The outcome of that review will be used to inform a revised quality assurance and improvement programme if necessary.
- 6.5 The Internal Audit Service has requested feedback from its auditees throughout the year as each audit assignment has been completed. This has provided very positive feedback about the conduct of our audit work and some helpful indications of practical matters for the team to consider in conducting its work.

A Audit assurance levels and classification of residual risks

Audit assurance

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

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

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

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

Classification of residual risks requiring management action

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

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

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

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

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

B Assurance provided by internal audit assignments in 2016/17

Service area	Operational area	Audit work	Findings	Assurance
Governance and democratic oversight				
Corporate governance framework	Documentation of the council's governance arrangements: the framework that addresses the council's constitutional decision-making and delegation of powers	Review of the ownership, completeness and currency of documentation the council is required to hold, publicise and periodically review setting out its governance arrangements for decision-making and delegation of powers.	All of the documentation that would be expected to be in place to underpin constitutional decision-making and delegation of powers exists, as does most of the wider documentation required by the CIPFA/ SOLACE publication 'Good governance in local government: framework 2016'.	Substantial
	Operation of the scheme of delegation to officers	Review of the introduction of the revised scheme of delegation and its operation in practice.	This work will continue into the audit plan for 2017/18.	Not applicable
	Effective oversight of corporate governance by the Audit and Governance Committee	Assessment of the constitution and operation of the Audit and Governance Committee against professional guidance and current best practice.	An assessment has been made and revised terms of reference for the committee will be taken to Council in July 2017.	Not applicable
Business effectiveness				
Risk management	Preparation and use of the corporate risk register	Assessment of the principles and practical operation of risk management arrangements to produce a corporate risk register and respond to the issues it records.	The process by which the corporate and service risk registers are prepared is still relatively new and, although there are differences in the extent to which it is understood by individual services, the arrangements are operating as intended overall.	Substantial
Financial governance	Delivery of the council's financial strategy and	Risk and control assessment of the measures in place to monitor and	On the basis of PricewaterhouseCoopers' report dated 23 September 2016 the	Limited

Service area	Operational area	Audit work	Findings	Assurance
	budget reductions	achieve planned budget reductions.	committee can take no more than limited assurance that the risks to delivery of the council's financial strategy and budget reductions have been adequately mitigated.	
	Oversight of the Lancashire Pension Fund	Assessment of the governance framework to achieve corporate oversight by the council of the Fund, whose assets are owned by the council.	Oversight of the pension fund is well controlled, and we found no significant areas of concern.	Substantial
Performance monitoring	Corporate performance monitoring	Support to management in establishing a revised framework for monitoring and managing achievement of the council's key strategies.	A draft corporate strategy dashboard was produced in August 2016 and has been used to establish a suite of performance indicators and targets. These are reported to senior managers, Management Team and the Cabinet Committee on Performance Improvement, but will need to be revisited as the new corporate strategy is approved.	Substantial
Service delivery				
Children's services	Escalation of matters of strategic or political importance through to the Operations and Delivery management team and beyond if appropriate	Compliance testing of the escalation as appropriate of issues arising within individual caseloads or social care teams. This work could be replicated in other service areas but will be piloted here first.	The risk and control framework developed has been discussed with the Operations and Delivery management team and this work will be developed further in 2017/18, in particular addressing communication with staff across Operational and Delivery Services.	Not applicable

Children's	Identification of, and	Assessment of the potential sources	This audit focussed on two separate	Substantial
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Service area	Operational area	Audit work	Findings	Assurance
services	responses to, external feedback on children's services and schools	of feedback and operational services' responses to these including escalation of the information to senior management.	control frameworks relating to the county's schools and children with special educational needs or disabilities, and the processes in both cases are effective.	
	Oversight of schools' financial management	Risk and control evaluation of the arrangements to oversee schools' financial management.	There is a clear audit trail of funding from the Education Funding Agency through to its distribution to schools. The Schools Forum is properly established and operated, and its remit regularly reviewed, and the School Improvement Challenge Board manages all funding decisions to support schools in financial difficulty in accordance with the policy agreed by Schools Forum. However whilst checks are made to ensure that all schools return their Schools Financial Value Standard returns, no checks are made that the returns accord with expectations and that action plans are in place to address any deficiencies.	Substantial
	Certification of claims made under the Working Together with Families Programme	Testing to certify that central government's grant funding requirements have been met. We are required to test 10% of the claims submitted.	Claims were submitted in January, February and March 2017 amounting to a total of 338 cases. We have undertaken testing of 48 cases to confirm that the claims were made in accordance with the funding requirements.	Not applicable

Adults' services	Data held on LAS (Lancashire Adult Services)	Assessment of staff training, error correction mechanisms and system	A significant amount of development work is still being undertaken in relation to LAS	Substantial
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Service area	Operational area	Audit work	Findings	Assurance
	system provided by Liquidlogic) – access, training, and support	access controls.	to address issues of data quality and to support the new ways of working being introduced across Adult Social Care. This in turn affected the scope of our review. However, in relation to system access, training and support we found a number of areas of good practice although we also identified instances of helpdesk requests being closed rather than resolved, and leavers not always being deleted from the system on a timely basis.	
	Case management: supervision and support to front-line social workers to ensure safeguarding of service users	Risk and control evaluation of supervision and support arrangements under the new team management arrangements, with full compliance testing.	The service's managers were already aware that current supervision arrangements are not complied with; they are onerous and no longer reflect the new staff structure and the revised operational framework for adult social care. New policies and procedures have been drafted and are being piloted, and the Audit and Governance Committee was informed at its meeting in April 2017 that the Corporate Director for Operations and Delivery had updated the Scrutiny Committee regarding resolution of the issues.	Limited

Adults' services continued	Case management: other areas	Controls assessment of the assignment of officers to cases; timely	As noted above the Adult and Social Care Service is still subject to considerable	Substantial
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Service area	Operational area	Audit work	Findings	Assurance
		completion of action to statutory and advisory deadlines; and delegation of responsibilities to accredited social workers.	change. However the social care case management process appears to be well controlled across a number of different teams (although at this point we have assessed only the adequacy of controls and not their effectiveness in operation). There are some areas of good practice including comprehensive training and support for all staff; efficient review of work trays and case progression by team managers; improved performance monitoring and reporting; and adoption of new ways of working developed through the Passport to Independence programme.	
Public health and wellbeing services	Commissioning and oversight of commissioned public health service provision	Risk and control evaluation of joint working with the NHS and voluntary sector to provide services within Lancashire.	Controls to oversee contracts for the provision of public health services are in place and operating effectively.	Substantial
	Operation of the Health and Wellbeing Board	Assessment of the constitution and operation of the Board against professional guidance, local requirements and current best practice,	The Lancashire Health and Wellbeing Board has been appropriately constituted and is acting in accordance with its terms of reference.	Substantial
with Corporate commissioning	Operation of the Better Care Fund	Including assessment of the governance arrangements for the council's use of the Better Care Fund.	The procedures operated within the council to administer the fund are adequate and effective.	Substantial
Corporate commissioning	Commissioning, design and monitoring of the capital programme	Risk and control evaluation of the revised procedures to oversee the whole capital programme, including elements managed by the council for	A risk and control framework has been documented and agreed with management, and has been assessed as adequate. Detailed testing of its effectiveness will be undertaken during	Substantial

Service area	Operational area	Audit work	Findings	Assurance
		the Lancashire Economic Partnership.	2017/18.	
	Provision of school places	Risk and control evaluation of the provision of school places.	Effective controls are operated to ensure that the council's statutory responsibilities are fully met.	Full
	Certification of claims made through the Challenge Fund to the Department for Transport	Testing to certify that central government's grant funding requirements have been met.	The council's use of £5.1 million of grant funding for M65 motorway infrastructure and £5 million for its lighting under the Challenge Fund has been certified as meeting the conditions of that funding.	Not applicable
Economic development	Lancashire Economic Partnership (LEP): governance and accountability	Assessment of the constitution and operation of the Partnership against guidance and local requirements, to ensure the success of the partnership and the effective use of its individual funding streams (Lancashire Enterprise Zone, City Deal, Boost Business Lancashire, Growing Places Fund, Growth Deal Programme).	The operation of the LEP is heavily circumscribed by central government and the council is compliant with those requirements.	Substantial
		Establish and assess the assurance framework for the programme, including assurance available from other areas of audit work and any work by other organisations.	The assurance framework for the LEP was audited by the North West office of the former Department for Business and Skills and by the Government Internal Audit Office, both of which identified only minor administrative points.	Substantial
Economic development continued	Local Growth Fund certification	We have certified that the Department for Communities and Local Government's requirements in respect of Growth Deal funding have been met.	The council's use of £39.35 million of grant funding under the Local Growth Fund has been certified as meeting the conditions of that funding.	Not applicable
Emergency	Adequacy of the plans in place to address	Risk and control evaluation of the adequacy of emergency planning,	There are good practices in place to ensure that emergency response plans	Substantial

Service area	Operational area	Audit work	Findings	Assurance
planning	emergencies and civil contingencies	including involvement of appropriate partners and adequacy of testing.	are effective, viable, and up to date. There are also areas where action is still required to enhance compliance with the Civil Contingencies Act, but these areas have already been identified and action is being taken or is planned for 2017.	
Pension fund administration	Administration of the fund to serve its members	Risk and control evaluation, with annual compliance testing, whilst the council has no other source of assurance over this.	Control over the administration of the pension fund is good, and we found no major areas of concern.	Substantial
	Accounting for the fund	Risk and control evaluation, with annual compliance testing, whilst the council has no other source of assurance over this.	There are no significant issues in relation to accounting for the transactions of the Pension Fund, although officers retaining inappropriate access to the council's financial system is a common theme across a number of systems.	Substantial
	Fund investment management	Assessment with management of the assurance framework and available assurance over the Fund's investments, including follow-up of actions agreed in relation to monitoring the performance of the Pension Fund's investments.	Management of the pension fund's investments is well controlled, and we found no significant areas of concern.	Substantial

Service support				
Business systems	Monitoring of the contract with BTLS	Risk and control evaluation of contract monitoring, with compliance testing.	Monitoring of the contract within the council is effective.	Substantial
Business processes				
Financial	Treasury management and	Risk and control evaluation of the controls in place, with annual	The Council approves a treasury management strategy annually that adopts	Full

Service area	Operational area	Audit work	Findings	Assurance
processes	investment	compliance testing.	the prudential code for capital finance in local authorities and the relevant code of practice. The investments we sampled were fully compliant with this strategy.	
	Oracle general ledger	Risk and control evaluation of the controls in place, with annual compliance testing.	We found no issues other than officers retaining inappropriate access to the system.	Substantial
	Accounts receivable and debt management: central controls	Risk and control evaluation of the controls in place, with annual compliance testing.	Since the remedial action agreed by the Finance Team was scheduled to be implemented during 2016/17 we have not undertaken any further work (including follow-up of the agreed actions).	Limited
	Accounts receivable and debt management: feeder system controls	Risk and control evaluation of the controls in place, with annual compliance testing of a sample of feeder systems.	The work above on the central controls supporting the accounts receivable system and debt management also addressed the main feeder system, Controcc, which supports adult social care. Testing also incorporated samples from the Symology, CART and MICE systems and the local arrangements within the services that use them (highways assets, transport and street lighting).	Not applicable
Financial processes continued	Cash and banking: central controls including checks over completeness and compliance in other locations	Risk and control evaluation of the controls in place, with annual compliance testing.	The income identification and allocation process is effective and has been improved by greater automation in recent years. However we noted issues in the operation of the Streamline system we tested at three locations around the county, and also in the operation of the ParentPay system in three schools.	Substantial
	Oversight of payroll	Risk and control evaluation of the	Controls to oversee the processing by	Substantial

Service area	Operational area	Audit work	Findings	Assurance
	payments	council's monitoring and oversight of BTLS's processes, with annual compliance testing.	BTLS of payroll transactions on behalf of the council are effective.	
	Accounts payable: central controls	Risk and control evaluation of the controls in place, with annual compliance testing.	<p>Whilst it is appropriate that officers are able to incur expenditure on behalf of the council, at the time of our audit there were 1,280 officers who could raise and approve requisitions. Of these, 48 officers could self-approve expenditure up to £25,000; nine up to £125,000; one up to £1.7 million; and one up to £10 million. Although we found that no inappropriate purchases had been made, there are clearly weaknesses in the permissions granted to officers.</p> <p>We also identified 23 officers with access to process and transmit BACS files, of whom four had left the council's or BTLS's employment and seven others no longer required this access. Similarly we identified a number of users who had retained other access they no longer required.</p>	Limited
Financial processes continued	VAT	Risk and control evaluation of the controls in place, with periodic compliance testing.	Controls over accounting for VAT are generally good, and we found no significant areas of concern.	Substantial
Procurement	Central procurement: compliance with legislation, financial regulations and standing orders	Risk and control evaluation with annual compliance testing.	The Procurement Service has established procedures to ensure that all procurement exercises follow the council's procurement rules and strategy, and the control exerted by that central team is effective.	Substantial

Service area	Operational area	Audit work	Findings	Assurance
Payroll processing	Processing of payments by BTLS, using information supplied by LCC	Risk and control evaluation, with annual compliance testing.	We found no control issues in the process operated by BTLS to process payroll payments to the council's staff.	Full
Human resources (and finance)	Amendments to the council's establishment: completeness, accuracy and currency of records	Risk and control evaluation to ensure that the staff establishment, hierarchies and budgets are aligned, with full compliance testing.	Work has begun and will continue into 2017 as the systems are further developed.	Not applicable
ICT	Possible work may include general IT controls, IT security and continuity planning, and application controls.	External advice is required, including discussions with BTLS, to properly assess the ICT audit work that is appropriate and achievable.	Discussions with Corporate Services and BTLS are progressing into 2017/18, but some assurance over the controls operated on the council's behalf to manage the risks around the use of ICT systems is available and has been provided through BTLS's ISO 9001:2008 certification, Public Sector Network compliance, and compliance with the NHS Code of Connection.	Not applicable

C Scope, responsibilities and assurance

Approach

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

Responsibilities of management and internal auditors

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

Basis of our assessment

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

Limitations to the scope of our work

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

Limitations on the assurance that internal audit can provide

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

controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks which may arise in future.

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

Access to this report and responsibility to third parties

- C.10 This report has been prepared solely for Lancashire County Council. It forms part of a continuing dialogue between the Internal Audit Service, the chief executive, Audit and Governance Committee and management of the council. It is not therefore intended to include every matter that came to our attention during each internal audit assignment.
- C.11 This report may be made available to other parties, such as the external auditors and BT Lancashire Services Ltd. However no responsibility is accepted to any third party who may receive this report for any reliance that may be placed on it and, in particular, the external auditors must determine the reliance placed on the work of the Internal Audit Service.

Audit and Governance Committee

Meeting to be held on Monday, 26 June 2017

Electoral Division affected: (All Divisions);
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Risk and Opportunity Register Quarter 1

(Appendix A' refers)

Contact for further information:

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Executive Summary

This report provides an updated (Quarter 1) Risk and Opportunity Register for the Committee to consider and comment upon.

Recommendation

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

Background and Advice

Following the corporate approach to reporting on risk and opportunity the quarter 1 Risk and Opportunity register was recently reported to Management Team. Following this committee the Register will be presented to Cabinet Committee for Performance Improvement (CPPI) on 27th June 2017. An updated Risk and Opportunity Register is attached at Appendix A and the Committee is asked to comment upon it.

The key highlights in the register include:

- for this quarter there is one addition (CR28) to the register;
- allowing for mitigating actions, the residual risk score for the following entries remain 12 or above so the issue remains on the register:

Risk Identification Number (RIN)	Risk Description
CR1	Failure to implement the county council's MTFS. Residual risk score remains unchanged.
CR2	Risk to the on-going financial viability of the county council. Residual risk score remains unchanged.
CR4	Delivering Organisational Transformation. Mitigating actions added but residual risk score remains unchanged.
CR5	Inability to adequately protect and safeguard children. Further mitigating actions added. Residual risk score remains unchanged.
CR6	Failure to comply with statutory requirements and duties relating to CLA, children in need and children leaving care. Further mitigating actions added.
CR7	Failure to recruit and retain experienced staff within Children's services. Residual risk remains unchanged
CR8	Reputational damage and risk of direct intervention by DFE. Residual risk remains unchanged.
CR12	Inability to implement/maintain systems that produce effective management information. Further mitigating actions added but residual score remains the same.
CR16	Management of the County Council's assets. Further mitigating actions added but residual score remains the same.
CR20	Transforming care (Winterbourne). Controls updated but residual score remains at 12.
CR21	Service user/customer risk associated with the inability to influence behaviour change in demand and expectations continue to rise. Controls and mitigating actions updated but residual score remains at 12.
CR24	Failure to achieve targets with National Troubled Families Unit. Remains unchanged.
CR25	Failure to implement and meet the statutory requirement to children and young people with special educational needs and/or disabilities remains unchanged.
CR26	Proposed museums closures. Further mitigating actions added but residual score remains the same.
CR27	The mobilisation of the home care framework and subsequent service transfer process. Mitigating actions are being put in place but the residual score remains the same.
CR28	Risk of not fulfilling our statutory duty in relation to Court of Appeal applications. Controls and mitigating actions have been put in place but the residual score means this is an addition to the register.
CO1	Developing a new model for public service delivery in Lancashire. Further updates added.
CO2	Delivering economic growth. Further maximising actions added.
CO3	Opportunities through delivering the corporate strategy and property strategy. No change – awaiting policy review by new administration.
CO4	Health & Social Care Integration. Narrative no change

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

Good governance enables an authority to pursue its vision effectively as well as underpinning that vision with sound arrangements for control and management of risk. An Authority must ensure that it has a sound system of internal control which includes effective arrangements for the management of risk. Failure to develop and maintain a Corporate Risk & Opportunity Register means the Council would be negligent in its responsibilities for ensuring accountability and the proper conduct of public business

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Tel
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NA

Reason for inclusion in Part II, if appropriate

NA

Appendix A: Corporate Risk & Opportunity Register Q1 2017/18

Risk Identification Number (RIN)	Risk Description	Risk Type	Possible Consequences	Current Controls	Risk Score	Mitigating Actions	Residual Score	Risk Owner	Direction of Travel
CR1	Failure to implement fully the councils medium term financial strategy including the delivery of planned budget reductions	Economic	Financial Savings not achieved resulting in in-year overspends with pressure on following year budget and reserves depleted more quickly than planned. Reductions in service and/or drop in quality of delivery leading to JR and damage to Council's reputation. New legislative requirements not being met and uncertainty over being able to deliver and/or implement future large projects. Potential for infrastructure to deteriorate.	<ul style="list-style-type: none"> Monthly budget monitoring processes for Heads of Service and Directors with particular focus on agreed savings delivery. Ensure key programmes of activity (particularly linked to savings / downsizing) are adequately resourced. Quarterly Money Matters budget monitoring reports, MTFs, reserves and Treasury Management reports presented to members (includes capital). Management Team actions to monitor key areas of expenditure and consider remedial courses of action to address budgetary pressures. Robust Medium Term Financial Strategy and Plan, updated to reflect variations to resource and demand assumptions. Reserves regularly monitored and reviewed. Resources allocated to Base Budget Review. Rebalance budget savings via an ongoing risk assessment. 	25	<ul style="list-style-type: none"> Recommendations from Zero Based Budget Review agree by Full Council on 9th February 2017. Improve commercial and financial acumen. Continuously revalidate budget assumptions. PWC interim draft report 'Lancashire Public Service Delivery Model' presented to Political Governance Working Group and then full Council on 23rd February to allow time for reflection. Full Council resolved to refer the report back to PwC asking them for their final report so that it can be given meaningful consideration and proper consultations can take place with other interested parties. Development of response to the Treasury and DCLG regarding the implementation of business rate retention and future needs assessment/allocation formula. Communicating with stakeholders to ensure an understanding of the council's financial position and need for change. Communicating specific proposals and service developments in the context of the financial scenario. Programme Office supporting services to deliver savings and bring forward savings wherever possible. An additional £2 billion to councils over the next 3 years to spend on adult social care services. £1 billion to be provided in 2017-18. Work being undertaken to identify lowest quartile offer as part of budget savings 	16	Section 151 Officer	As time progresses the risk to some extent reduces. However, the risk cannot be fully mitigated until all the necessary enabling decisions have been taken and the relevant budget options have been realised.
CR2	Risk to the ongoing longer-term Financial Viability of the County Council	Economic/ Political/Social	Problems stored up for the future as a combination of delivery issues in CR1 and further national funding reductions causing minimum reserve position not to be maintained with the risk of not being able to set a balanced legal budget in future years.	<ul style="list-style-type: none"> Base Budget Review has identified the risk of the County Council not being able to meet statutory obligations by 2018/19. The actual timing of when this situation may occur will be identified from the various monitoring and review process outlined in CR1 above 	25	<ul style="list-style-type: none"> Risk of the county council not being able to meet its statutory obligations by 2018/19 validated by PWC Zero Based Review activity (focus on lower quartile) will determine the scope for additional savings in all remaining services within the County Council (ongoing). Links to Combined Authority work including Healthier Lancashire programme with the NHS as to any opportunities / additional pressures (ongoing). Lobbying – Treasury and DCLG by utilising ongoing existing networks MP's / Members, LGA, CCN, SCT (ongoing) Development of response to the Treasury and 	25	MT	Level

						<p>DCLG of future needs assessment/allocation formula.</p> <ul style="list-style-type: none"> Communicating with stakeholders to ensure an understanding of the councils financial position and need for change Communicating specific proposals and service developments in the context of the financial scenario. An additional £2 billion to councils over the next 3 years to spend on adult social care services. £1 billion to be provided in 2017-18. 			
CR4	Delivering organisational transformation including capacity, capability and resilience	Organisational	<p>The failure to clearly implement the draft corporate strategy that sets out our vision, aims and priorities could result in a lack of purpose, direction and have an impact on service delivery and produce an adverse external audit report. The new structure that seeks to provide the ability to join up our services in a new way may not be fit for purpose. Ineffective employee engagement and buy in. A fall in staff morale could increase sickness absence and stress. Loss of knowledge and skills due to turnover puts demand on remaining staff which can expose the council to key person dependency and the risk of poor resilience. Failure to deliver sizeable saving programmes</p>	<ul style="list-style-type: none"> The draft corporate strategy has now been amended to reflect the consultation outcomes and has been to full council. The draft corporate strategy is being used to inform the development of the property review and proposed neighbourhood plans. As part of the base budget review process options for service delivery and redesign have been developed including proposals to stop some services. Management Team approval of all new appointments and cessation of temporary staff contracts. Senior Management Development programme implemented. Positive employee communication and engagement. Wellbeing initiatives and support for managers and employees. Introduced a new scheme of delegation for heads of service. Existing change/programme management support already committed and risk of slowing down this delivery if divert to other major change opportunities including LD. P2I programme has highlighted the need for extra capacity and skill to drive and direct large scale programmes and for the organisational need to build that skill and expertise and augment with external recruitment. 	16	<ul style="list-style-type: none"> Interim structures to reflect the base budget review options are being developed and implemented. Independent challenge See specific actions in relation to other risk entries i.e. Ofsted inspection Use of transformation reserves to fund temporary staffing Implementation of recruitment and retention strategies Defining new service models across the organisation Children's service transformation – pilot programme in Fylde & Wyre - ongoing Extensive information is made available through the councils website which is also used by the customer service centre as a core council information resource Promoting recognition and benefits of working at the council Capitalise on the support and expertise that is currently available via Newton Europe to start the identification and skill development of key personnel to a transformation type team and look to use apprenticeship levy to fund training and support 	12	MT	Level
CR5	Failure to adequately protect and safeguard children	Social	<p>Children are put at risk of harm.</p>	<ul style="list-style-type: none"> MASH (Multi-Agency Safeguarding Hub) to ensure appropriate multi-agency response where there are safeguarding concerns about a child. Serious incident reporting to ensure appropriate management oversight. Quarterly Safeguarding Report, including LSCB. Serious Case Review learning shared 	25	<ul style="list-style-type: none"> Peer Challenge. LGA Peer Review scheduled for October 2017 Implement and monitor actions of the improvement Board Regular monitoring from Ofsted Continued DCS support Additional capacity 0-25 Board introduced 	16	Director of Children's Services	Level

				<ul style="list-style-type: none"> to improve safeguarding practice. Case file audits to promote learning. Multi-agency inspections. Sector led Peer Review. Challenge undertaken. Supervision with HOS. Performance monitoring - action taken to address areas of underperformance. 					
CR6	Failure to comply with statutory requirements and duties relating to children looked after, children in need and children leaving care.	Legal/Political	LA is legally and possibly financially liable, judicial review. Further OFSTED intervention.	<ul style="list-style-type: none"> Corporate legal oversight. Quarterly Safeguarding Report. Serious incident reporting to ensure appropriate management oversight. Serious Case Review learning shared. Peer Review and Challenge. Stronger management oversight in Districts. Advanced Practitioners in post. Case file audits check compliance and quality of practice. Multi-agency inspections. Sector led Peer Review. Performance monitoring - action taken to address areas of underperformance. 	25	<ul style="list-style-type: none"> Monthly compliance recording of Strategy Meetings and S47 Enquiries. LSCB have established new QA system including multi-agency case file audits. Revised Audit Framework launched on 13 May 2016 has strengthened management grip and quality assurance of practice. LGA Peer Review scheduled for October 2017. Back to basics SW practice training. Implementation of Risk Sensible Model Locality Practice Improvement Meetings. Developed Professional Permanent Adviser Teams. Compliance reporting shows multi-agency Strategy Meetings are taking place in the majority of cases. Improved performance - management reports launched with first line managers. Leaving care performance indicators show improvement. IRO oversight of practice has been strengthened as highlighted in Ofsted Monitoring Visits. 12 week Improvement Plan (May to July) This includes a focus on basic practice, demand management, workforce development, vulnerable groups and audit. Residential strategy to be progressed within this timeframe. Development of staff understanding of the role of the corporate parent, sessions to be delivered by senior managers and Advanced Practitioners. 	16	Director of Children's Services	Level
CR7	<p>Failure to recruit and retain experienced Social Work staff</p> <p>Failure to recruit and retain Independent Reviewing Officers.</p> <p>Failure to recruit and retain experienced BSO staff.</p>	Organisational	Inability to deliver effective services. High caseloads. Lack of management oversight. Increased staff turnover. Increased agency spend.	<ul style="list-style-type: none"> Vacancy monitoring. Children's Services Workforce Development Strategy and scorecard developed to improve recruitment & retention of staff. Quarterly Safeguarding Report. 	25	<ul style="list-style-type: none"> Additional funding envelope. Enhanced recruitment including children's services recruitment evenings and use of social media. Weekly monitoring of SW workforce position and social work caseloads. External agency contract to look at CiN cases and work following MASH. Newton Europe pathway review. Increased focus on retention and conditions Appointment of 12 Advanced Practitioner posts to support staff retention with a particular focus on ASYE's. Improving SW recruitment is now at the levels within the original funding envelope prior to the 	16	Director of Children's Services	Level

						<p>£5m and recruitment is continuing.</p> <ul style="list-style-type: none"> • Specific Recruitment and Retention Strategy for the North. • Challenges remain ongoing in Fylde and Wyre. Management Team agreement to pursue agency social work team to undertake statutory responsibilities in F&W in order to bridge the gap. • Permanent recruitment remains ongoing with county recruitment event taking place on the 24/05/2017. • Proposal for peripatetic social work team in development. • Additional temporary capacity has been agreed for MASH. All posts filled by end of May 2017. Timetable in place for Advanced Practitioners (who have been supporting the North) to return to their original Locality. 			
CR8	<p>Reputational damage and risk of Direct Intervention by DFE.</p> <p>Negative media exposure.</p>	Reputational	<p>DFE manages services directly and removes them from the LA. Commission arrangements brought in.</p> <p>Loss of reputation. Impact on partner agencies.</p>	<ul style="list-style-type: none"> • Safeguarding and Audit arrangements. Direct management oversight of services. • Media planning around key issues and Serious Case Reviews. Scrutiny of key reports and information. Communication with Comms Team. 	25	<ul style="list-style-type: none"> • Implement actions of Post Improvement Inspection Board. • 12 Week Improvement Plan developed with a clear focus on the consistent delivery of good basic practice. • Peer Challenge. LGA Peer Review scheduled for October 2017. • External consultant audit exercise. 	16	Director of Children's Services	Level
CR12	<p>Failure to implement/maintain systems that produce effective management information</p> <p>Failure to improve quality of data in Liquid Logic's systems (LCS/LAS)</p> <p>Operational failure in the main IT Computer Suite (T101)</p>	Organisational	<p>Ineffective collection, collation and input of data</p> <p>Ineffective use of business intelligence, resulting in the inability to identify and respond to changing trends and inform strategic decisions. Impact on strategic planning, understanding and management demand e.g. around demographics and ageing population profile</p> <p>Ineffective reporting arrangements.</p> <p>Statutory returns will be compromised, so incorrect performance will be reported nationally. OFSTED/CQC/LGA and other external organisations will be using inaccurate information to judge performance. Service planning and management will be severely compromised.</p> <p>Reliance on uninterrupted</p>	<ul style="list-style-type: none"> • Information management strategy. Data Quality processes. Oracle. Local Information Systems. Corporate performance information. JSNA and other needs assessments • Weekly provision of information to operational managers. Monthly Performance Books or dashboards provided to Start Well Management Team and Adults Leadership Team. Use of exception reports to flag up data quality issues. • Over £200k has been invested to improve the back-up services for T101 to improve reliability. However, there are still potential risks regarding A/C cooling, maintenance of UPS units and insurance requirements regarding fire alarm links 	15	<ul style="list-style-type: none"> • External support to focus on Children's Services data issues. Introduction of new governance arrangements for children's services. Introduce a new performance management framework that is aligned to draft corporate strategy. Agree performance, financial data and intelligence required for all levels within the County Council. Agree milestones and metrics (ongoing) • Joint working of Children's Services, Business Intelligence, System Control Team and Programme Office to establish an Accuracy Working Group (relating to Children's services). • Accuracy Working Group and performance management framework ensuring continued use of management reports within children's social care were established in November 2016. Roll out of a 'Project Accuracy' style approach to YOT, SEND, FARY now underway. • Continued monitoring of data within LCS. Programme of work rolled out to LAS. New system roadmaps developed to provide more control over system changes. Governance Boards established for Early Help Module, Education, Health and Care Plans module and the Education Management System. • 'Project Accuracy' for Adults Services focussing on 	12	MT /Head of Corporate Services /Head of Business Intelligence	Level

			operation of T101 cannot be over emphasised. Power up following an uncontrolled failure takes 5 times longer than after a controlled shutdown. Impact on service delivery			<p>procedures and data quality is being planned.</p> <ul style="list-style-type: none"> Developing improvement plan that includes culture and assurance. The plan will include systems such as Controcc and LAS Performance sub-group reporting the Improvement Board Chair Additional temporary resource employed within Business Intelligence to provide reports for Project Accuracy 2. Multimillion pound refurbishment programme including upgrading the electrical infrastructure of county hall complex - to improve the reliability of the IT Suite. 'Passport to Independence' reporting work stream incorporating exception reporting. 'P2P' (Process to Pay) project focussing on procedures and data quality. 			
CR16	Management of the County Councils Assets	Organisational	<p>Failure to maintain council owned assets and buildings.</p> <p>Inability to deliver in the timescale required and impact on organisational ability to achieve savings</p> <p>Failure to timely deliver a smaller more affordable property portfolio and associated savings. Inability to deliver service plans and savings effectively within required timescales, risks to service delivery across a number of services. Due to the high profile of Property Strategy (Neighbourhood Centres) delayed delivery could have reputational effect. Legal or public challenges.</p>	<ul style="list-style-type: none"> Effective planning and programming method of delivery. Management of organisational transition and effective engagement with operational services Manage health and safety risks of customers and staff and ensure budgets are managed effectively to maintain assets to a satisfactory standard. Consider and manage risks associated with redundant properties. Planned maintenance approach. Risk assessments and regular H&S inspections. Presently undertaken by various operational service areas. Delivery of Property Portfolio Rationalisation Programme (PPRP) is being managed by the programme board. Asset Management Service are working to specific timescales for the public consultation and delivery of recommendations to Cabinet. Office rationalisation is ongoing and is being managed by the PPRP team as a whole. Risks for each part of the project are registered and reviewed by the PPRP team and Board on a regular basis, reporting 	16	<ul style="list-style-type: none"> Asset Management Strategy and accommodation review and planned programme of conditions based work Short-medium term facilities management strategy defined to deliver the spike in resource demand during the organisational transition period Cabinet approval sets out the portfolio of buildings to be retained as Neighbourhood Centres. Ongoing work to develop design briefs for retained buildings requiring works and enable continuing community asset transfer of surplus buildings where appropriate. Communicating with stakeholders to ensure an understanding of the councils financial position and need for change Communicating specific proposals and service developments in the context of the financial scenario The Library service now has a community library manager in post helping to support a number of different organisations to develop their own community library and manage the effective transition of an LCC building to a community library. The previous deputy leader has agreed in principle to the establishment of seven independent community libraries and there are a further 7 organisations which the service is working with on developing an independent community library/book offer. The risk and opportunity register will be reviewed 	12	Head of Asset Management/Head of facilities Management	<p>Level – In relation to assets the trend is downwards as the Premises Compliance Team improve strategic premises management activity</p> <p>Property strategy – risks are significant but currently managed</p>

				<p>to Management Team separately.</p> <ul style="list-style-type: none"> • Communications strategy for property strategy • A community asset transfer policy was approved by the Deputy Leader on the 15 July 2016. A report has been submitted to and agreed by cabinet on the 6 October 2016 outlining where business cases have been submitted by community organisations expressing an interest in running surplus County Council buildings. This process is ongoing and is being co-managed by the service with colleagues from commissioning, asset management and estates teams. The DCMS has written to the County Council to advise that it will be treating representations made about the library closures as a formal complaint. • A further letter has been received by the Department for Culture, Media and Sport (DCMS) on behalf of the secretary of state explaining that the minister is minded to order an enquiry into the changes to library service provision but that the opportunity will be provided for all interested parties to make further representations before a decision is made. Information must be sent in by the 9 June 2017. 		<p>and updated at the services extended leadership team meetings on a quarterly basis.</p> <ul style="list-style-type: none"> • A reply to the DCMS has been issued by the Director of Governance, Finance and Public Services and meetings have been held with the DCMS and Senior Officers of the County Council. The DCMS will report back in due course. 			<p>Following the change in the Council's political control on 5 May 2017, the new Administration have confirmed their commitment to re-open any libraries that have closed and will review proposed asset transfers</p>
CR20	Transforming Care (Winterbourne)- the accelerated discharge of the population of adults with a Learning Disability from secure hospital in-patient beds into community houses	Economic/ Political/Social	Increased pressure on the adult social care budget. Resettlement from hospital to community health and social care packages shifts the funding responsibility from solely NHS to a shared responsibility between CCG's and LA's to fund these high cost intensive health and social care packages. LCC may not be able to afford these new packages of care in the current financial climate. There is a National Plan to facilitate discharge therefore there is a reputational and political	<ul style="list-style-type: none"> • There is a governance structure for the Fast Track programme through the Fast Track Steering Group with representation from LCC Director Adult Social Care and HoS Commissioning working alongside SRO's from NHS and CCG's in order to achieve agreement on financial issues including the dowry and any future agreement for a pooled budget. There are identified work streams each with a defined action plan with leads identified from commissioners across Lancs. Work streams are monitored by the Steering group in addition to oversight by NHS England. The trajectory for possible discharge Sept 15- Mar 19 is to be carefully 	16	<ul style="list-style-type: none"> • Improved engagement with procurement colleagues to ensure due process is followed operationally in meeting the needs of this population. • Lancashire's Fast track plan identifies the implementation of a revised model of care for people with LD improving crisis support through multi-disciplinary teams. • This approach is aimed at reducing admissions and supporting providers to maintain a person's tenure in their chosen house rather than re-enter hospital. • The plan commits to securing improved and alternate care and housing solutions for this population with the aim of creating shared tenancies with back ground support, rather than 	12	Director of Adult Services	<p>↑the direction of travel is increased as these are new service users entering the social care system from the NHS, the risk is constant from a financial perspective as the cost will be high and require providing for life. (although there are plans to mitigate costs through a dowry system and improved commissioning solutions and the decision taken by Management Team</p>

			<p>risk in not achieving as Lancashire is identified as a National Fast Track programme for this work due to the high number of Lancashire residents currently in in-patients LD hospitals. The closure of Calderstones hospital is part of this national plan. Failure to agree locally a reasonable figure for a dowry that is planned to follow a person from hospital (NHS) to LA's is a further financial risk.</p>	<p>monitored so appropriate development and procurement of suitable housing and care can be planned for.</p> <ul style="list-style-type: none"> Development of a pooled budget between health and social care currently being developed. Still an interim agreement in place that funding for discharges comes 100% from health until the development of the pooled budget. Management Team have taken a position that all discharges will be funded by CCGs not by the Local Authority for the immediate future. Management Team have also committed to the development of a Pooled Budget with the NHS. 		<p>the current single tenancy model currently used, which will be more cost effective. There are plans to stimulate the provider market to inform innovative solutions to providing for these peoples care and an interim framework has been put in place.</p> <ul style="list-style-type: none"> STP budget considerations The financial risk had been negotiated with the CCG and immediate pressures remain offset whilst negotiations around the pooled budget take place. 			re-funding discharges
CR21	Service user/Customer risk associated with the inability to influence demand whilst expectations continue to rise	Reputation al/social/economic/political	<p>Demand and expectations continue to rise against a backdrop of reduced resources, thus leading to service failure and an increase in complaints. Failure to integrate health and social care to reduce pressures on demand and expectations as a result of ageing population. Unacceptable waiting times for assessment and reviews including occupational therapy, safeguarding and social care reviews.</p>	<ul style="list-style-type: none"> Consultation and engagement with service users and customers. Co-ordination of communications. Changes and impacts communicated to stakeholders. Impact assessments. Alternative delivery options being explored as part of base budget review option development. Learning from complaints and oversight at CCPI. 	16	<ul style="list-style-type: none"> Alternative delivery options being explored as part of base budget review option development In relation to adult and children's social care Newton Europe have been partly been engaged in this area of work See opportunities entry on Healthy Lancashire Early help and prevention investment in integrated wellbeing services Children's demand management strategy Additional capacity is being secured in key areas such as social work and occupational therapy Realignment of management capacity in adult social care to provide improved focus on operational priorities Clear triaging/prioritisation schemes at Customer Access Centre Work with Newton Europe is underway to improve productivity Working with health partners to improve arrangements around discharges from hospital Communicating with stakeholders to ensure an understanding of the councils financial position and need for change Communicating specific proposals and service developments in the context of the financial scenario Financial management board monitoring budget pressures 0-25 Board work ongoing Adults demand assumptions – independent scrutiny and challenge by LGA Partnership event focussing on risk and demand within children's services 	12	MT	↓ Downwards.

CR24	<p>Failure to achieve targets agreed with National Troubled Families Unit team due to the specific requirements of the programme.</p> <p>Failure to provide robust data to evidence the impact on outcomes for those families engaged with the programme</p>	Economic Political	<p>Failure to accrue maximum income from the programme for the authority</p> <p>Possible reputational risk as a result of failing to meet the national target.</p> <p>Risk of additional scrutiny of Lancashire's response to the programme</p>	<ul style="list-style-type: none"> Robust tracking processes in development with view to maximising payment by result claim opportunities. Improvement plan implementation to ensure that 'attached' cases meet national TFU principles with operational staff. Ongoing data matching to identify new eligible families Business case to recruit to staffing vacancies approved. 	20	<ul style="list-style-type: none"> Development of reporting processes to ensure monthly progress checks against targets Business case to request additional resources to support tracking and claiming processes Redesigning of outcomes plan to set more achievable/realistic targets Exploration of systems that can be used to undertake the necessary analysis for Lancashire's response to the programme. Establishment of multi-agency "engine room" to drive multi-agency partnership working. Workforce development ongoing for CAF and LP working. Revised CAF documentation, Quality Assurance and processes to assist in meeting requirements. 	16	Head of Wellbeing, Prevention and Early Help	Upwards
CR25	Failure to implement and meet the statutory requirement to children and young people with special educational needs and/or disabilities.	Organisational	Not providing adequate service to SEND leading to inspection failure. Lack of appropriate IT platform. Failure to recruit and retain staff. Commissioning arrangements with health not consistent.	<ul style="list-style-type: none"> Self-assessment completed against new framework N/W regional peer support group established 	16	<ul style="list-style-type: none"> Implementation of the early help (IT) module. Recruitment of qualified staff funded by the SEND reform grant. Commissioning arrangements with Health being reviewed. 	12	Head of Special Education Needs and Disability	Level
CR26	Proposed museum closures	Organisational/political/reputational/financial/legal	<p>The proposal to close five museums has attracted negative publicity nationally, regionally and locally due to the national importance of the sites and collections</p> <p>Impact on staff leading to sickness absence</p> <p>Financial risk associated with not being able to close buildings because of the statutory responsibility to provide the service</p>	<ul style="list-style-type: none"> Regular contact is being maintained with colleagues in the commissioning team, asset management, equality and diversity, communications and business intelligence as and when required. Decisions on process continue to be cleared through legal services and cabinet member where appropriate. Expressions of interest have been invited for interested parties who can show that they have the resources and expertise to continue operating the museums and ensuring their collections continue to be made accessible to the public. English Heritage have indicated that they will not submit an offer following discussions aimed at the transfer of ownership of Helmsford and Queen Street Mills. There are, however, ongoing discussions with Historic England regarding these two 	16	<ul style="list-style-type: none"> Public consultation has taken place to help inform the service design and future strategy of the museum service. Equality Impact Assessments detailing mitigating actions have been undertaken. Information has been circulated to assist all staff with issues which may impact upon their health and wellbeing as a result of the proposals to close buildings. LMCR Head of service and senior service managers communicates changes to all staff on a weekly basis. The risk and opportunity register will be reviewed and updated at the services extended leadership team meetings on a quarterly basis. 	12	Head of Libraries, museums, culture & registrars	Level

				<p>sites.</p> <ul style="list-style-type: none"> Fleetwood Museum will reopened on Good Friday, 14 April 2017 and the county council will manage the museum until the formal transfer to Fleetwood Museum Trust as the new operator is completed, expected to be no later than the start of June 2017. Negotiations are continuing with regard to the future operation of The Judges Lodgings and Museum of Lancashire. 					
CR27	The mobilisation of the home care framework and subsequent service transfer process	Organisational/political/reputational/financial/legal	<p>Risk of legal challenge to the tender process</p> <p>Risk of significant increased costs to the Council</p> <p>Risk of challenges in the mobilisation and transition</p> <p>Capacity issues within teams to support the mobilisation and transition to the home care framework and ensuring that the Council's systems are able to support the requirements of the home care framework structure.</p> <p>Challenges relating to providers</p> <p>Potential disruption caused to service users.</p>	<ul style="list-style-type: none"> Staff and County Councillor briefing notes have been shared. Steering group established. Mobilisation workshop with services who will be required to support the project. Evaluation of the implications for services have been identified through a self-evaluation form completed by each service who will be impacted. Work has already been undertaken around systems. Council services who have been engaged have a good understanding of the implications and what needs to be done. 	16	<ul style="list-style-type: none"> Transforming Social Care in Lancashire Board to oversee the mobilisation of the home care framework and subsequent service transfer process and that the Home Care Mobilisation Steering Group should report to this Board for decision making. Project directly linked to the Passport to Independence Programme and involve Newton Europe in the development of the mobilisation plan. 	12	Director of Commissioning	
CR28	Risk of not fulfilling our duty in relation to Court of Protection (COP) applications		<p>The financial risk to the LA of failing to make a COP application and having to pay damages & costs depends on the type of breach. A substantive breach can attract a damage claim in the tens of thousands.</p> <p>It is estimated that 3150 people in Lancashire now need a COP Deprivation of Liberty application on an annual basis to meet the Cheshire West Acid Test. This does not take into</p>	<ul style="list-style-type: none"> Newton's have taken current activity on COP work into account, but not the potential 'backlog', so current resources (social work, legal and admin) are insufficient to meet the extra demands of COP work. One-off Government Grant to address the back log created by 'Cheshire West' is insufficient to deal with the pressure of additional work. A legal challenge lead by 3 LAs has failed 	16	<ul style="list-style-type: none"> To approve the implementation of the COP Prioritisation Tool Report to June Cabinet to establish interim policy position 	12	Director of Adult Services	

			account service users waiting for a social care review, nor any increase in demand.						
Opportunity Identification Number	Opportunity Description	Opportunity Type	Possible Benefits	Progress to date	Opportunity Score	Maximising Actions	Residual Opportunity Score	Opportunity Owner	Direction of Travel
C01	Establishing a new model for public service delivery in Lancashire	Political	The establishment of a Lancashire Combined Authority and securing a devolution deal with central government. A Combined Authority is an accountable body in its own right – this means it is a single point of decision making on agreed functions (quicker and simpler decisions); has powers delegated to it from Government and the individual local authorities (subject to local discussion and determination); can hold substantial amounts of Government and European funding. In relation to transport, greater co-operation will allow improvements to the region's public transport network.	<ul style="list-style-type: none"> Shadow Combined Authority established and meeting monthly, having received endorsement from all participating authorities. Lead Members identified for work streams and regular update reports to the Shadow CA indicate good progress. Discussions around the establishment of a Public Services Board are well developed, to be finalised in Jan / Feb 2017, to enhance engagement with other public sector partners. Initial discussions on a possible devolution deal for Lancashire underway. Successful bid for One Public Estate funding, and Property Board being established. 	12	<ul style="list-style-type: none"> PWC presented an overview of their proposals for a new public service delivery model to the Combined Authority. At the meeting of the Shadow Combined Authority it was agreed by all local authority leaders present that it was unlikely that all of the constituent members would be able to secure approval to the proposals such that a draft Order could be laid before Parliament. It was therefore agreed that there remained significant benefit in continuing to meet on a pan-Lancashire basis and the constituent members would therefore continue to meet on a regular but informal basis Continue to engage with councillors within individual member authorities to ensure understanding and support for the proposals, identifying benefits already gained (eg OPE, better relationships, links to LEP and growth Deal outcomes). Leader's workshop and separate Chief Execs workshop took place in January 2017 to take stock and consider the necessary next steps. 	16	Chief Executive	↑ Upwards
C02	Delivering economic growth	Economic	Continued successful delivery of the LEP's current strategic economic growth programmes. Successfully secured new resources for Lancashire to support job and business creation, housing growth and the delivery of strategic transport infrastructure linking to drive economic growth and regeneration, linking residents and businesses with economic opportunities.	<ul style="list-style-type: none"> Lancashire Enterprise Partnership has secured almost £1 billion of national resources to deliver a transformational programme of economic growth which see the delivery of new jobs, business and housing growth and strategic transport infrastructure. Key programmes/projects secured include the Preston, South Ribble and Lancashire City Deal, Growth Deal, three Enterprise Zones, Growing Places Funding, Boost Business Lancashire and Superfast Broadband. 	12	<ul style="list-style-type: none"> Work with local authority partners on the establishment of a Combined Authority for Lancashire and in securing a Devolution Deal with Government to ensure national resources to support economic growth and regeneration are secured. Maximise the support from key local and national public and private sector stakeholders outside of the County Council. EDRF project 'Boost' has secured grant funding agreement until end of 2018 Recent Growth Deal settlement of circa £70m will provide resource for six key projects to advance over the next three years. We are now looking to the consultation on the Industrial Strategy 	16	Director of Economic Development	↑ Upwards

						Green Paper, including the NPIF, to identify how the resource which lies behind this programme might effectively be targeted within Lancashire.			
CO3	Opportunities through delivering the draft corporate strategy and property strategy	Economic/Social	This strategy seeks to ensure we continue to meet the immediate needs of our communities while shaping the council into an organisation that is sustainable and able to deliver successfully against its goals for years to come. It sets out what we will be doing to achieve that balance, along with our commitment to securing the best outcome for our citizens, communities and for Lancashire. The strategy will help to ensure that we deliver on the following strategic outcomes: <ul style="list-style-type: none"> - To live a healthy life - To live in a decent home in a good environment - To have employment that provides an income that allows full participation in society 	<ul style="list-style-type: none"> A draft Corporate Strategy, has been produced and has been subject to Consultation. Cabinet considered the Strategy document and the approach contained within it at its meeting of the 26 November 2015. The Strategy was submitted to full Council on the 17 December 2015. The Strategy was debated and amendments agreed. It was resolved that the Corporate Strategy, as now amended, be approved subject to the section 'Our approach to service delivery' being referred back to Cabinet for further consideration. That review process is ongoing 	12	<ul style="list-style-type: none"> Policy review to be undertaken in the context of a new administration 	16	MT	↑ Upwards
CO4	Health and Social Care Integration	Organisational	The principle of the separate organisations working together to align plans, strategies and budgets will involve the development of new delivery models and ways of working, to avoid duplication and focus activity where it is needed, recognising that current models of service delivery are unsustainable. Integration would provide the best opportunity to minimise the impact of funding reductions as well as providing a better offer for service users	<p>Participation in the Healthier Lancashire programme building upon the "Alignment of the Plans" work undertaken</p> <p>Sustainability and Transformation Plan (STP).</p> <ul style="list-style-type: none"> Influencing and shaping the process to take account of Combined Authority objectives if and where appropriate. Aligning, where appropriate with existing work at a pan Lancashire level, and within individual health economies. Consideration of new models of delivery and potential new funding arrangements, such as pooled budgets where appropriate. 	12	<ul style="list-style-type: none"> Recognise the need for: an ambitious vision, robust partnerships, clear and credible delivery plans, and strong leadership and governance arrangements at a pan-Lancashire level. Lead the integration agenda, recognising the need for an ambitious vision, robust partnerships, clear and credible delivery plans. Strong leadership and governance arrangements at a pan-Lancashire level. 	16	MT	Level

Key to Scores

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

Audit and Governance Committee

Meeting to be held on Monday, 26 June 2017

Electoral Division affected: (All Divisions);
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Internal Audit Plan 2017/18

(Appendix 'A' refers)

Contact for further information:

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Executive Summary

This report explains the approach to establishing the internal audit plan for 2017/18, and the work proposed that will support the head of internal audit's overall opinion for the year on the council's framework of governance, risk management and control. Appendix 'A' sets out the audit planning process and the plan itself in more detail.

Recommendation

The Committee is asked to consider and approve the internal audit plan 2017/18 as set out in Appendix A.

Background and Advice

Appendix A sets out the background and context to this report.

Consultations

The work set out in this strategic plan has been discussed with members of the Management Team both collectively and individually, and with other directors across the organisation.

Implications:

Not applicable

Risk management

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

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

Paper	Date	Contact/Tel
NA	-	-

Reason for inclusion in Part II, if appropriate
Not applicable

Internal audit plan 2017/18

1. Introduction

- 1.1. This report sets out the internal audit plan for 2017/18. The Audit and Governance Committee is asked to consider and approve it under the committee's terms of reference.
- 1.2. A paper was considered by the committee at its last meeting that explained how the audit plan would be constructed, but the committee did not consider the plan itself. This paper set out the planning principles, the information required, and how potential areas of audit work would be assessed to prioritise them taking account of the Internal Audit Service's resources. Some of the material in that paper has been repeated below for the new committee members' information and to support their consideration of the plan.

2. The purpose of the audit plan

- 2.1. The council is responsible for a wide range of services across the county, and its members and senior management should be aware both of the risks to achieving their service objectives and the risks inherent in their work. Each of these risks should be managed by controls designed to reduce the risk to a corporately acceptable level, and which operate effectively and consistently in practice. The chief executive, Audit and Governance Committee, and ultimately the Council, need assurance that these controls have been adequately designed and are operating effectively. At the end of the financial year the chief executive and the leader of the council jointly sign an annual governance statement that is published with the council's financial statements.
- 2.2. The head of internal audit is required by professional standards to provide an opinion addressing governance, risk management and control and thereby to provide assurance that the risks to the council's objectives are being adequately and effectively controlled. The Audit and Governance Committee is required by its terms of reference both to consider the Head of internal audit's annual report and opinion and to review and approve the council's annual governance statement. The committee should therefore consider and approve an internal audit plan designed to provide the assurance that the Council, committee, leader and chief executive of the council need.
- 2.3. Because the overall opinion covers a twelve month period, the evidence to support it must relate to the controls in operation for that period. The plan therefore chiefly addresses work for just one year, but projections may be made into audit requirements for future years. The work in any annual plan will rarely be fully complete at the end of the year but we will report on the year's work by the time the council prepares its annual governance statement shortly after the year end.

3. Context

- 3.1. The Council continues to face an unprecedented period of financial constraint and has set a budget for 2017/18 which requires the use of approximately £57 million of reserves to meet the gap between available funding and planned expenditure; the equivalent gap in 2018/19 is £88 million; and is £118 million in 2019/20. The director of financial resources has reported in accordance with his statutory obligations that it is critical that significant savings are identified and delivered to minimise the scale of reserves required to support the revenue budget.
- 3.2. The impact of this on the council cannot be predicted in detail at this point but is likely to be fundamental. Even if the financial position is secured for 2018/19, the effect of the impending deficit will be felt throughout the council during 2017/18 as further cuts are made across the organisation, and potentially to its statutory services.
- 3.3. The turbulence of recent years will therefore continue and will affect almost all of the council's services. Although service restructures are ongoing, at this point only a small number of areas of the council have wholly completed the process. In particular, adults' social care services are currently subject to restructuring as well as to significant process changes; and children's social services are subject to ongoing improvement and review by Ofsted.

4. Outline audit plan for 2017/18

- 4.1. A broad outline of the plan for the year is set out in the table below, following the planning requirements and principles described in this report.

Control area	Service area	Audit areas in outline
Governance and democratic oversight	Democratic Services	Decision making.
		Policy setting.
Business effectiveness	Risk Management	Risk management.
	Financial Management	Delivery of financial strategy and budget reductions.
	Corporate Finance	Oversight of the Pension Fund.
	Business Intelligence	Corporate performance monitoring.
	Operations and Delivery	Communications with staff.
Service delivery	Operations and Delivery	Contract monitoring within services.
	Adults' Services	Supervision and support to front-line social workers.
		Care package construction, management and monitoring.
	Adults' Services and Exchequer Services	Direct payments to service users and carers.

Control area	Service area	Audit areas in outline
Service delivery continued	Children's Services	Service improvement.
		Safeguarding through recruitment.
		Personal budgets and direct payments.
		Transition from children's services to adulthood.
	Community Services	Provision of transport for children.
		Operation of the new asset management systems.
	Customer Access Service	Management oversight and assurance.
		Blue badge applications.
	Public Health and Wellbeing	Partnership working.
		Quality assurance improvement programme.
		Emergency planning: centrally and within services.
	Schools	Governance and financial controls within schools.
	Commissioning	Commissioning and monitoring of the capital programme.
Service support	Programmes and Project Management	Support to the new asset management systems.
	Corporate Services	Staff recruitment.
Business processes	BTLS	ICT controls: to be determined.
	Financial systems: various service areas	Oracle user access controls.
		Accounts payable system.
		Accounts receivable and debt management.
		Other financial systems.
	Procurement	Compliance with legislation and financial regulations.
	Health and Safety	Health and safety of staff.
	Legal Services	Compliance with information governance legislation.

4.2. A more detailed listing of each audit in the plan is provided at Appendix B to this report.

5. Statutory and professional requirements relating to internal audit

- 5.1. Internal audit's function is established by the Accounts and Audit Regulations 2015, which are supported by professional standards for internal audit in the public sector and an advisory note specifically for local government in the United Kingdom. The key requirements of the regulations and of the Public Sector Internal Audit Standards (PSIAS) are set out below.

Relevant regulations

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

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

Regulation 6. (1)
Accounts and Audit Regulations 2015

Definition of internal auditing

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

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

"Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organisation's control processes."

Public Sector Internal Audit Standards, 2017
published by the Relevant Internal Audit Standard Setters

- 5.2. The regulations therefore establish the requirement for an internal audit function and its provision of an opinion on the council's governance, risk management and control processes, following public sector internal auditing standards. Professional standards likewise mandate the provision of such an opinion. They also recognise that internal audit involves the provision of both assurance and consultancy services, but assurance is its primary function and any consultancy work must inform the assurance opinion.

6. Planning principles

- 6.1. Having identified the requirement to provide an overall opinion on governance, risk management and control process, a number of principles guide the decisions regarding the work to include in the annual audit plan. These are set out below and address the practical interpretation and application of professional requirements within the county council.

Internal audit coverage to support an annual overall opinion

- 6.2. An internal audit plan designed to provide the evidence necessary to support an opinion on governance, risk management and control should arguably encompass the following:
- Coverage of the key components of each part of the opinion: aspects of the council's governance, risk management and control.
 - Sufficient coverage of controls across the council's operations as a whole, so that a fair assessment may be made across the organisation.
 - Coverage of the controls that serve to mitigate the council's most significant risks to an acceptable level, and particularly those that operate most widely across the council.
 - Assessment of the actions being taken to develop improved controls in the areas of greatest unmitigated risk.
- 6.3. It will therefore be necessary as a minimum to audit aspects of the council's governance and risk management processes, as well as a range of control processes.
- 6.4. A control framework applicable to the council's governance, risk management and control is shown in the diagram shown below. The internal audit plan will be designed to address, proportionately, the coverage required across this controls framework to cover the whole organisation. Where the council achieves its objectives in conjunction with partners we will also seek assurance over the work of those key partnerships.

A framework for governance, risk management and control					
Governance and democratic oversight					
Corporate governance framework	Decision-making	Oversight and scrutiny	Policy setting		
Business effectiveness					
Risk management	Performance monitoring and management	Organisational design	Financial governance and planning	Working in partnership with others	
Service delivery					
Development and corporate services	Commissioning	Operations and delivery			
		Adult services	Children's services	Community	Public health
Economic development Design & construction Planning & environment	Asset management	Social care Learning disabilities & mental health	Social care Adoption & fostering SEN & disability Traded services	Highways Public & integrated transport Waste management	Health equity, welfare & partnerships Wellbeing, prevention & early help Emergency planning
Service support					
Legal services	Core business systems development	Programme management	Business intelligence	Customer contact	
Business processes					
Financial systems and processes	Procurement	Facilities management	Human resources		
Budget monitoring	Contract monitoring and management	Information management	Payroll processing		
Investment		Business continuity	ICT systems		

Relationship to the risk management process

- 6.5. A risk-based audit plan will take into consideration the risks assessed as most significant by the organisation's managers, and should seek to provide assurance over the operation of the controls that serve to reduce the most significant risks to the greatest degree.

- 6.6. Using risk registers prepared by individual services and working with the council's managers, we have sought to identify the areas with the greatest inherent risk, where these risks are regarded as having been effectively mitigated by strong controls. These are the controls on which the council is placing the greatest reliance and over which it therefore needs the greatest assurance.
- 6.7. The outcome of our audit work is primarily assurance that controls are adequately and effectively designed to mitigate risks to the council's objectives, but also pragmatic action plans intended to enable managers to act where the council remains exposed to an unacceptable degree of risk. The judgement regarding what degree of risk is acceptable is for the council rather than the Internal Audit Service to make. Where action plans have been agreed we will follow them up and assure the committee that action is being taken.
- 6.8. The audit plan is therefore focussed on the key areas of risk to the council, although these may alter during the course of the year. It will be flexible and individual assignments may be added to it, or removed from it over time.
- 6.9. The corporate risk register provides a snapshot at any point in time of the matters that present the greatest unmitigated risks to the council. They are therefore matters that the council's Management Team will be working most actively to manage but they will not yet be regarded as adequately or effectively controlled. These may be more appropriately subject to advisory input from the Internal Audit Service rather than assurance work.

The audit response to significant risks known to be not acceptably mitigated

- 6.10. The requirement for audit assurance arguably depends on whether or not risks are regarded by management as being mitigated to an acceptable degree. An internal audit function would normally aim, as a minimum, to substantiate assertions by management that an organisation's risks are adequately and effectively controlled but, where a management team is unable to make such an assertion it is highly unlikely that internal audit work would conclude any more positively. Similarly, where risks are recorded on the corporate risk register as being inadequately mitigated they are by definition subject to focussed effort by the organisation's most senior managers and any internal audit assurance work is unlikely to conclude that the service, system or process is as yet subject to adequate or effective control.
- 6.11. Therefore, where management is unable to provide positive assurance, the Internal Audit Service does not plan to undertake any other assurance work, but this will inform the head of internal audit's overall opinion. Rather than assurance the Internal Audit Service may plan to provide advisory support to the organisation and its managers in these cases, as set out in paragraph 7.4 below.
- 6.12. There are a number of areas where management will continue during 2017 and 2018 to make further control improvements. The plan will therefore need to be flexible and may be amended during the year. Significant areas of the council that are subject to further improvement include:

- actions to stabilise and secure the council's financial position, including further cost-cutting measures and service reductions;
- children's social care, as action is taken in response to on-going monitoring visits by Ofsted;
- adults' social care, as the service works with Newton Europe to reconfigure the way it operates, and is restructured;
- recording and managing the financial transactions associated with both children's and adult's social care, using the ContrOCC system;
- the transition of service users between children's and adult's social care support services;
- implementation and operation of the council's ICT strategy;
- asset management, following the implementation of new systems to manage highways and property assets; and
- improved financial systems, in particular the council's income and debt collection, and payments to suppliers of social services.

The council's 'lines of defence' and other sources of assurance

- 6.13. The Internal Audit Service is only the council's third line of defence in a model that represents management as the first line, responsible for directly assessing, controlling and mitigating risks; and any in-service compliance activity that confirms these controls as the second. For example the social care services impose independent compliance checks on front-line staff and their managers to ensure that social work is adequately supervised and its quality regularly checked. Where such 'second line' compliance functions are available, we focus our audit work on assessing the control exerted by them rather than on repeating their work.
- 6.14. There may be other sources of assurance available to the Council from external organisations, for example the external auditor or Ofsted, and when we become aware of such assurance we will not duplicate work in that area but will take it into account if it is relevant to the overall opinion on governance, risk management and control. We will ensure as far as possible that the committee is made aware of such assurance.

Internal audit sponsorship and auditors' engagement with management

- 6.15. We need to direct our audits to senior individuals who are able to sponsor the work and take responsibility for any remedial actions required to mitigate any unacceptable risks: these will normally be the council's directors. We therefore need to work with the council's directors, but also the heads of service and key managers, to scope our work and agree the audit outcomes.
- 6.16. Where the council's risks are managed by controls that are operated by BT Lancashire Ltd (BTLS) then, by agreement, we will work with the relevant directors within BTLS to provide assurance in the same way as if the controls were operated by the county council itself.
- 6.17. Some business processes are the responsibility of more than one service area and, where processes span more than one service, we may plan a short series of individual but connected audits. These may in turn require

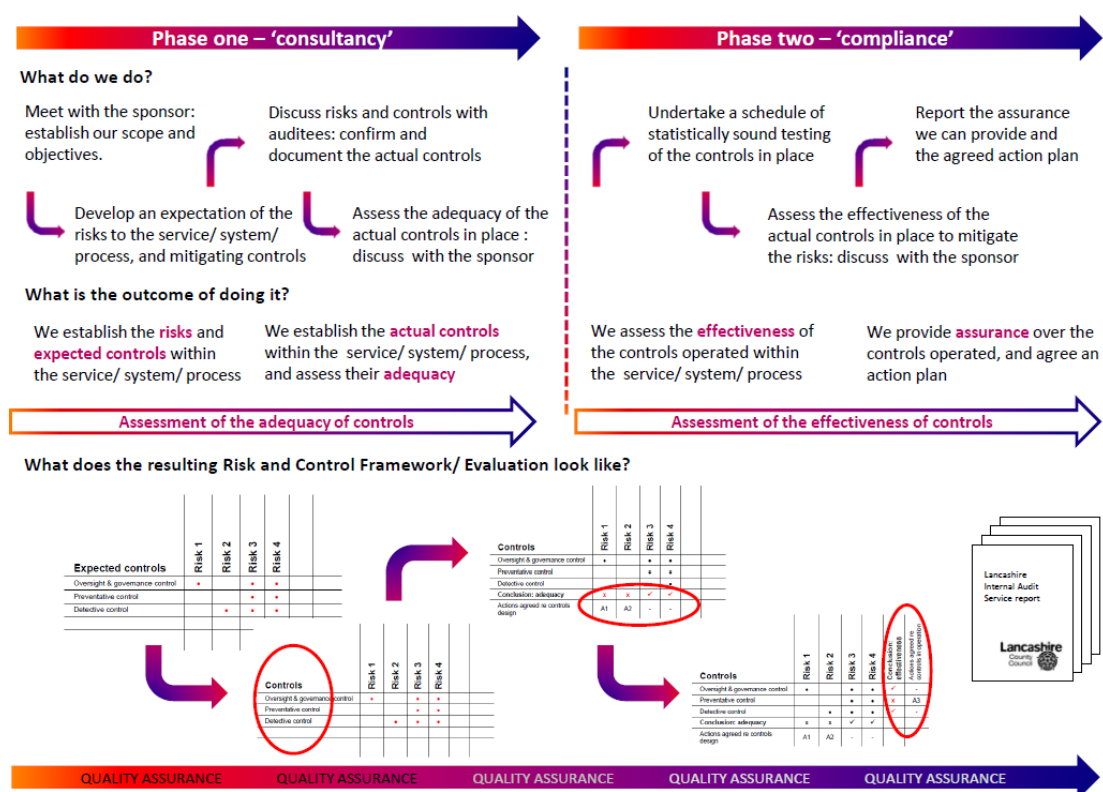
sponsorship at a more senior level within the organisation and we will consult the Management Team on the best way to approach such work.

- 6.18. The Internal Audit Service has no specific in-house expertise in the specialist area of technical ICT audit work. We are working with the director of corporate services and BTLS to identify appropriate sources of assurance.

7. The audit approach adopted by the county council's Internal Audit Service

- 7.1. The Internal Audit Service follows a risk-based audit methodology, working closely with the council's managers to understand the risks to the service, system or process being audited and then testing the controls in place. The audit process therefore involves two phases: establishing a framework of risks and controls, and then testing those controls. During the first phase we work closely with the service's managers to document a risk and control framework for a service, system or process, which enables us to assess the adequacy of the controls designed to mitigate the risks identified. During the second phase we test the effectiveness of the controls in operation. This approach is shown diagrammatically below.

A risk-based audit methodology in two phases



- 7.2. The way this approach is applied to any audit varies depending on what assurance can firstly be given by the council's managers that risks are adequately and effectively mitigated.

Full audit including both phases of work: risk and control evaluation

- 7.3. Where assurance is required over a control system that has not previously been audited in its present form, for example because it is new or has been recently changed, but its managers believe that the risks are adequately and

effectively controlled, we undertake a full review including both audit phases. We will provide an opinion on the basis of this work.

Work on phase one only: consultancy

- 7.4. Where the managers of a service, system or process are aware that there are matters to address and are unwilling to assert that risks are adequately and effectively controlled, they may seek support to design and implement appropriate controls. The first phase of any audit may be regarded as advisory work or consultancy as we work with a service's managers to consider the controls they operate to manage the risks to their service's objectives. This analysis can be undertaken at any time, particularly whilst a service is in the process of transformation, and can assist managers to design effective procedures. We can use this approach to add value to the organisation without providing any further assurance but, although it would need to be checked and revised, this work may serve as the first phase of a full audit at a later date, perhaps in the following year. See paragraph 6.11 above.

Work on phase two only: compliance

- 7.5. The second phase of an audit is intended to provide assurance over the effective operation of control systems that have already been assessed as being adequately designed. This may follow immediately after the first phase as part of a full audit, or we may undertake compliance testing annually of systems we have previously audited because they are fundamental to the council's overall control.
- 7.6. Where the service, system or process has been audited before but is of such significance to the council that further assurance is required over its continued effective operation, we will undertake repeated compliance testing of key controls.

Follow-up work

- 7.7. Where managers can confirm that action has been taken as agreed during a previous audit to mitigate any high or medium risks identified we will seek evidence to support this, but we will not generally follow up actions designed to mitigate only low risks.

Degrees of assurance

- 7.8. The assurance we provide falls into four categories: full, substantial, limited and none.
- Full assurance: there is a sound system of internal control which is designed to meet the service objectives and controls are being consistently applied.
 - Substantial assurance: there is a generally sound system of internal control, designed to meet the service objectives, and controls are generally being applied consistently. However some weakness in the design and/ or inconsistent application of controls put the achievement of particular objectives at risk.

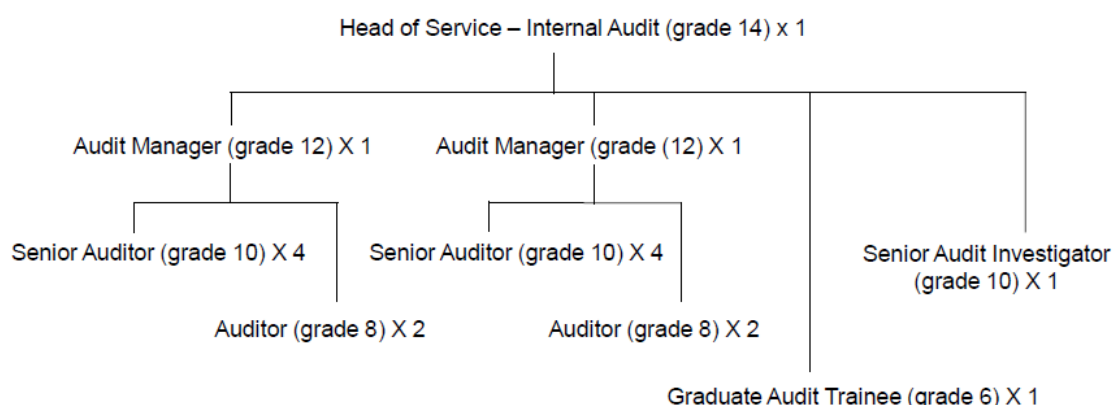
- Limited assurance: weaknesses in the design and/ or inconsistent application of controls put the achievement of the service objectives at risk.
- No assurance: weaknesses in control and/ or consistent non-compliance with controls could result/ have resulted in failure to achieve the service objectives.

8. Inputs to the planning process

- 8.1. Members of the Internal Audit Service have consulted members of the council's Management Team, directors and heads of service to ensure a reasonable understanding of the risks to the council's services and the areas that will be most appropriately subject to detailed audit work.
- 8.2. The Internal Audit Service has regular access to Management Team's agendas and papers, and access on request to the papers of the council's other management teams, including service risk registers. Management Team regularly considers financial reports from the director of financial resources which set out the expenditure in each of the council's services, and these provide an indication of the scale of the services as well as the council's financial position. Information from the new team set up to monitor and control the council's staff resources has also been obtained and likewise provides an indication of the scale of the council's services in terms of the numbers of staff employed, identifying the services that are inherently the most significant to the council in terms of their budgets and numbers of staff.
- 8.3. During the last year the council's risk management process has been formalised and risk registers are now routinely available for each of the council's services, as well as being prepared at a corporate level. These have been reviewed and have supported discussions with directors and managers. They have identified the risks that individual services assess as most significant and the controls that mitigate these.

Audit resources

- 8.4. The plan takes account of the internal audit resources available and, for the first time in some years, the service will start the year with all the posts in its establishment filled. Having been restructured, the service now employs 17 staff as follows:



- 8.5. The Internal Audit Service also provides an out-sourced internal audit function to the Office of the Police and Crime Commissioner and Lancashire Constabulary, Lancashire Fire and Rescue Service and Rossendale Borough Council, as well as some additional support to some of the other district councils. This work accounts for a little more than three full-time equivalent staff although it is undertaken by individuals across the service.

9. Funding and grant certification work

- 9.1. The Internal Audit Service is required as part of the funding requirements of certain central government departments to certify certain aspects of the way funding has been spent. This provides little direct assurance to the county council but is necessary to secure elements of its funding.
- 9.2. The Department for Work and Pensions has imposed testing requirements on its Troubled Families Programme and are working with the Wellbeing Prevention and Early Help Service to process the council's funding claims under this programme.
- 9.3. We are also aware of the need to certify funding claims in relation to capital improvements to the county's highways and various strands of economic development. However although we seek to understand what funding may be subject to such certification, new requirements occasionally emerge during the year and these will be accommodated.

10. The Internal Audit Service's responsibilities in relation to fraud and investigations

- 10.1. In addition to our audit work, the Internal Audit Service provides support to the council's management team in managing the risk of fraud. It provides a small investigatory service (one senior audit investigator) to support management in responding to instances of suspected fraud or impropriety, and also undertakes proactive work to identify and pursue indications of potentially fraudulent activity, both through corporate systems testing and through additional testing of other areas particularly susceptible to fraud.
- 10.2. There are some synergies in the skills required of both internal audit and investigations work, and the information arising around the investigation of allegations of fraud or impropriety may also indicate potential lapses in controls or of the culture of the organisation, which are of interest to internal auditors.
- 10.3. Our audit plan integrates our assurance work (specifically our compliance testing) with our proactive counter fraud testing, particularly in areas susceptible to fraud and misappropriation of assets.

The work set out below is intended to obtain the evidence required to support an overall opinion on the council's governance, risk management, and control processes for 2017/18. Individual elements within the plan may be amended but, taken as a whole, the resulting plan is designed to address the principles set out above.

The type of work is shown as: '1' for phase one/ consultancy work; '2' for phase two/ compliance testing; 'F' for follow-up work.

Service area	Operational area of activity	Audit work	Type
Control framework: governance and democratic oversight			
Democratic Services	Decision-making within the corporate governance framework by elected members under delegated powers.	Assessment of the council's measures to ensure compliance with its procedures, authority and timescales for proper decision-making by members, including compliance testing.	1+2
Democratic Services	Decision-making within the corporate governance framework by officers under delegated powers.	Assessment of the council's measures to ensure compliance with its procedures, authority and timescales for proper decision-making by officers under the scheme of delegation. (This work will be continued from 2016/17).	1+2
Democratic Services	Effective oversight of corporate governance by the Audit and Governance Committee.	Re-assessment under the new administration of the constitution and operation of the Audit and Governance Committee against professional guidance and current best practice.	1+2
Democratic Services	Operational policy setting.	Understanding the way in which the new administration will establish policies for the organisation and review its current policies.	1
Control framework: business effectiveness			
Risk management	Preparation and use of the corporate risk register, after its first year of operation.	Re-assessment after the first year in use of the principles and practical operation of risk management arrangements to produce a corporate risk register and respond to the issues it records. This will include compliance testing of the processes in place across the council's services.	1+2
Financial Management	Delivery of the council's financial strategy and budget reductions.	Understanding the council's financial position and the controls that will ensure that sufficient, or planned, savings will be made in addition to those already achieved under the three-year plan that will end 2017/18.	1+2
Corporate Finance	Obtaining and understanding the	Assessment of the assurance proposed and, in due course, provided	1

Service area	Operational area of activity	Audit work	Type
	assurance provided by the Pension Fund's own internal auditors.	by Deloitte LLP over the Lancashire Pension Fund's administration and investment operations outsourced to the Local Pensions Partnership.	
Corporate Finance	Oversight of the Lancashire Pension Fund.	Assessment of the council's governance framework to achieve corporate oversight of the Lancashire Pension Fund.	1+2
Corporate Finance	Oversight of the Lancashire Pension Fund.	Audit of the custodianship of the assets of the Lancashire Pension Fund.	1+2
Corporate Finance	Oversight of the Lancashire Pension Fund.	Audit of the council's accounting for the Pension Fund through its general ledger.	2
Business Intelligence	Corporate performance monitoring.	Follow-up of the actions agreed following our review of this area in 2016/17.	F
Financial Management	Oversight and alignment of the council's establishment and staffing budget.	Continuation of the work begun in 2016/17 to review the process to capture workforce planning decisions and ensure that the council's establishment is properly supported by matching budgets, and that HR and financial records are aligned, complete, accurate and current.	1+2
Control framework: service delivery			
Operations and Delivery	Communication with staff across the council.	Testing the dissemination of information up and down the management chain, to ensure that all staff understand the council's priorities and operating procedures and to ensure the escalation of matters of strategic or political importance.	1+2
Adult Services	Supervision and support to front line social workers and other social care support workers.	Work to build on the audit undertaken in 2016/17, with further assessment and compliance testing of supervision and support to front-line social workers and other social care support workers across a sample of geographical areas and services.	1+2
Adult Services	Panel decision making processes.	Audit of the panel decision making process specifically in relation to clients with learning disabilities and mental health issues, including compliance with approval thresholds and delegated responsibilities.	1+2
Adult Services	Case management: occupational	Assessment of compliance with the arrangements in place over the	1+2

Service area	Operational area of activity	Audit work	Type
	therapy services.	referral process, timeliness of the assessment and agreement of packages of care, delivery of services, oversight and supervision arrangements.	
Adult Services	Direct payments to service users and their carers.	Assessment of compliance with the processes underpinning decisions to support care users with direct payments, the development and approval of the associated support plans.	1+2
Exchequer Services	Service user financial assessments.	Assessment of the timeliness and accuracy with which service user's financial assessments are conducted, and then revised as changes are made to approved packages of care.	1+2
Exchequer Services	Direct payment reviews.	Audit of the scope, frequency and timeliness of reviews undertaken to determine that direct payments are being spent only on items identified in the support plan and that unspent funds are being effectively clawed back.	1+2
Adult Services	Contract monitoring: reablement service.	Audit of the system to monitor contracts for the provision of the reablement service.	1+2
Adult Services	Contract monitoring: crisis support service.	Audit of the system to monitor contracts for the provision of the crisis support service.	1+2
Adult Services	Use of the care portal by external care providers to claim payments for services provided to service users.	Audit of the system to manage payments to external care providers, focussing on information flows from providers and checks that ensure payments are accurate and valid.	1+2
Adult Services	Development of the workforce (training and guidance for staff across Adult Services).	Consideration of the arrangements to ensure mandatory and corporate training is properly undertaken by relevant staff, and that both training and broader guidance material are adequate.	1+2
Children's Services	Safeguarding through recruitment: selection and vetting procedures.	Audit of the recruitment and vetting of staff, including agency workers, in a sample of service areas across Children's Services, in particular to ensure that credentials are confirmed and individuals are properly vetted to address the risks around safeguarding.	1+2
Children's Services	Service improvement.	Understanding the framework in place and the actions being taken to support improvement across Children's Services so that we will be	1

Service area	Operational area of activity	Audit work	Type
		better placed to provide support and to plan future assurance work. This work will specifically include activity supporting effective casework management and supervision.	
Children's Services	Escalation of matters of strategic or political importance.	Follow-up of actions agreed in 2016/17.	F
Children's Services	Identification of, and responses to, external feedback on children's services and schools.	Follow-up of the actions agreed relating to the responses to feedback on children's services and schools.	F
Children's Services	Information security within parts of Children's Services.	A number of data losses have been experienced in the Fostering and Adoption Service and Minute Taking Team so, working with those teams and the Information Governance team, we will assess the risks and controls in place to manage information.	1
Children's Services	Contract monitoring: external residential placements.	Audit of the Access to Resources Team's system to monitor external residential placement contracts.	1+2
Children's Services	Personal budgets for service users and direct payments to their carers.	An overview of the process by which personal budgets are established and reviewed, and direct payments are made to service users and carers including third party service providers.	1
Children's Services	Transition from children's to adult services.	Initial assessment of the controls to ensure service users' needs continue to be met as they make the transition from Children's to Adults' services. This work will include compliance testing in the Special Educational Needs and Disabilities Service.	1
Community Services	Provision of transport for children.	Audit of the arrangements made to safeguard children being transported by the council to educational or other facilities.	1+2
Community Services	Contract monitoring.	The council agrees numerous contracts with external suppliers each year. This review will focus on one area of service or supply contracts that require monitoring to ensure proper contract delivery by the supplier and appropriate payment by the council.	1+2
Community Services	Operation of the Highways Asset Management System (HAMS).	First assessment of the operation of the system since its introduction to replace a number of other systems during 2016/17. Mapping of the	1

Service area	Operational area of activity	Audit work	Type
		system into a risk and control framework.	
Community Services	Waste management arrangements	Work to understand arrangements for managing waste.	1
Community Services	Pre planning application advice service.	Assurance over the traded service recently introduced and offered to developers to improve the quality of their planning applications.	1+2
Community Services	Registrars' income.	Audit of service delivery including arrangements for charging and income collection.	1+2
Customer Access Service	Customer Access Service management assurance processes.	Assurance over the service's activity to ensure the quality of its service delivery including monitoring responses, follow-up action, data system input, and treatment of any feedback or complaints.	1+2
Customer Access Service	Blue badge applications.	Assurance over the applications process and compliance with policy, including charging and accounting for income.	1+2
Public Health & Wellbeing	Commissioning and oversight of public health service provision.	Assessment, with the service, of the effectiveness of its commissioning to achieve outcomes.	1
Public Health & Wellbeing	Commissioning and oversight of public health service provision.	Follow-up of actions agreed in 2016/17.	F
Public Health & Wellbeing	Quality Assurance Improvement Programme: residential care and nursing homes.	Consideration of the adequacy and effectiveness of the quality assurance programme at driving improvements in service delivery across the regulated care sector.	1+2
Public Health & Wellbeing	Making Safeguarding Personal.	Assessment of the council's framework for ensuring compliance with its statutory requirements under the Care Act 2014.	1
Public Health & Wellbeing	Contract monitoring.	The council agrees numerous contracts with external suppliers each year. This review will focus on one area of service or supply contracts that require monitoring to ensure proper contract delivery by the supplier and appropriate payment by the council.	1+2
Public Health & Wellbeing	Planning to address emergencies and civil contingencies: central planning.	Follow-up of the work completed by the Emergency Planning Team since the audit in 2016/17 to understand the team's progress in completing its action plan.	F

Service area	Operational area of activity	Audit work	Type
Public Health & Wellbeing	Planning to address emergencies and civil contingencies: planning within services.	Audit undertaken through the Emergency Planning Service of operational services' resilience plans and the work to both support these and to integrate them across the council's work.	2
Schools' Financial Management	Oversight of schools' financial management.	Follow-up of the actions agreed in 2016/17.	F
Schools' Financial Management	Schools Financial Value Standard (SFVS) self-assessments.	Review of a sample of SFVS self-assessments submitted by schools for 2016/17 to ensure that their assertions are supported by adequate evidence.	2
Schools' Financial Management	Financial and governance controls within the county's schools.	Following work to understand the council's central oversight of the county's schools in 2016/17 and the outcome of our audit of SFVS self-assessments, we will carry out a thematic audit in a sample of schools across the county of policies, processes and compliance in a specific area.	1+2
Financial Management	Recovery of costs/ available income from partner organisations.	Assessment of controls across a sample of service areas to address the risk that the council does not fully recoup appropriate costs or income from partner organisations, including NHS contributions to care packages, or else takes on their roles at its cost.	1+2
Corporate Commissioning	Commissioning, design and monitoring of the capital programme.	The first phase of this audit was undertaken in 2016/17 and will be continued in 2017/18, with compliance testing of the controls in place as they become embedded during the year.	1+2
Corporate Commissioning	Health and safety of the council's properties.	Assurance over the process to ensure that statutory and other necessary checks on the health and safety of the council's properties are carried out. This will include compliance with corporate strategy, policies and procedures and the use of the new Property Asset Management System.	1+2
Corporate Commissioning	Better Care Fund.	Maintaining a watching brief over the governance arrangements for the council's use of the improved Better Care Fund.	1
Economic Development	The framework of economic development across Lancashire.	We will gain an understanding of the work of the Economic Development team so that we are better able to support the service	1

Service area	Operational area of activity	Audit work	Type
		and, in due course, provide appropriate assurance over its operation.	
Economic Development	Lancashire Enterprise Partnership: governance and accountability	Follow-up of the actions agreed during 2016/17.	F
Control framework: service support			
Corporate Services	Core systems for managing capital projects – PPMS, PAMS, HAMS.	Work to understand the core system central controls supporting management of the council's assets: Programme & Project Management System (PPMS), Property Asset Management System (PAMS), Highways Asset Management System (HAMS). This work will be closely linked with work on the capital programme and in Community Services.	1
Corporate Services	Monitoring of the contract with BTLS.	Follow-up of the actions agreed in 2016/17.	F
Corporate Services	Recruitment: the process from start to finish to bring new staff productively into the council.	An overview of the recruitment process from start to finish to document the steps and timeline to recruit and equip new staff. This will involve a number of different services and will be undertaken in conjunction with work that Corporate Services staff are also undertaking.	1
Corporate Services	Children's Services' LCS system helpdesk.	Audit of the provision by the helpdesk of advice and guidance to social workers in the use of the LCS system, and correction of their errors on request, to ensure data on LCS is accurate.	1+2
Corporate Services	Amendments made to both the LAS and LCS systems (for adults' and children's services respectively) to support changes to working practices.	Work to gain an understanding of the system developments made as operational working practices are reassessed and changed, so that we will be better placed to provide support and to plan future assurance work.	1
Democratic Services	Management of surveillance system recorded data.	Assessment of the council's compliance with the council's revised overt surveillance policy (including the use of CCTV) addressing the gathering, storage, use and disposal of data recorded through the surveillance system.	1+2
Programmes &	Apprenticeship Levy.	Initial advice to assist the service to establish the risk and control	1+2

Service area	Operational area of activity	Audit work	Type
Project Management		framework associated with control of use of the Apprenticeship Levy by the council and the schools whose staff is employed by the council, followed by evaluation of compliance.	
Control framework: business processes			
Systems Control	Access controls and system security.	A single audit, across Oracle as a whole, of controls over user access to the council's financial systems, including access by non-LCC staff.	1+2
Systems Control	Accounts payable: central controls.	Audit of the controls in place over the central accounts payable function, including oversight of the accounts payable process as a whole. We will address the system configuration and, as appropriate, controls over feeder file transfers, separation of duties, splitting of orders, receipting, authorisation of requisitions and payments, duplicate payments, changes to masterfile standing data and timeliness of payments.	2
Exchequer Services	Accounts payable: service-based controls.	Audit of the controls in place within up to three separate accounts payable feeder systems (yet to be determined), to ensure that the transactions recorded therein represent charges in relation to valid goods and services received, which have been authorised on a timely basis in accordance with the relevant scheme of delegation.	1+2
Exchequer Services	Accounts receivable and debt management: central controls.	Audit of the controls in place, including system configuration, to support the central accounts receivable and debt management functions, with compliance testing of those controls and follow-up of the actions agreed in 2016/17 where relevant.	1+2
Exchequer Services	Accounts receivable and debt management: service-based controls and feeder systems.	Audit of a sample of up to three services and feeder systems (yet to be determined) to assess their arrangements, including system configuration, to ensure that all income due is raised and collected.	1+2
Exchequer Services	Cash and banking: central controls including checks over completeness and compliance in other locations.	Compliance testing of the key controls over the central cashiers function, and by cashiers over cash taken and held in other locations. The work will include follow up of actions agreed following the 2016-17 audit review in this area.	2

Service area	Operational area of activity	Audit work	Type
Financial Management (Operational)	Management information and budgetary control.	Gaining an understanding of, and confirming by testing, the way key budgets are managed, to connect with the need to achieve cost savings.	1+2
Corporate Finance	Oracle general ledger.	Compliance testing of the key controls, including system configuration.	2
Corporate Finance	Oversight of payroll payments.	Compliance testing of the key controls operated by the council to ensure it properly oversees the processing of transactions on its behalf by BTLS.	2
Corporate Finance	Treasury management.	Compliance testing of the key controls, including system configuration. The review incorporates the following elements - investment management and oversight and compliance with the Treasury Management Strategy. The review will also include follow up of the agreed actions from the 2016-17 audit.	2
Corporate Finance	VAT.	Compliance testing of the key controls, including system configuration. The review will also include follow up of agreed actions from the 2016-17 audit.	2
Health and Safety	Health and safety compliance.	Assessment of the compliance service – the second line of defence – in assuring controls over health and safety across the organisation. This will specifically incorporate testing of arrangements in Highways and Design and Construction.	1+2
ICT systems	Determination of the appropriate areas for audit.	External support is required to work with BTLS as well as Corporate Services to properly assess the ICT audit work that is appropriate and achievable.	n/a
Information management	Information governance.	Assessment of the controls in place to ensure that the statutory requirements of the Freedom of Information Act and Data Protection Act are met, with compliance testing.	1+2
BTLS: payroll processing	Payments on account and over-payments.	Audit of the processes by which payments on account are made, and the ways in which over payments occur.	1+2
BTLS: payroll	Effectiveness of inputs to the system: the inputs required and how	Audit of the revised processes within the council to provide BTLS with	1

Service area	Operational area of activity	Audit work	Type
processing	they are processed.	appropriate inputs to the payroll system, focusing on changes.	
BTLS: payroll processing	Processing of payments by BTLS, using information supplied by the council.	Compliance testing of key controls only, following full assurance over this process in 2016/17.	2
Procurement	Central procurement: compliance with legislation, financial regulations and standing orders.	Follow-up of the actions agreed in 2016/17.	F
Procurement	Central procurement: compliance with legislation, financial regulations and standing orders.	Compliance checks on a selection of key contracts let during the year.	2
Procurement	E-tendering.	Assessment of the ease of use of iSupplier for potential suppliers to inform an understanding whether the council is fully compliant with procurement regulations.	1
Procurement	Purchase cards.	Audit of the use of procurement cards.	1+2
Funding and grant certification			
Economic Development	Growth Hub Grant 2016/17.	Verification that £328,000 BIS funding has been spent in accordance with conditions set by the Department for Business, Innovation and Skills funding.	n/a
Economic Development	Growth Deal 2016/17: Local Growth Fund.	Verification that Growth Deal monies have been spent in accordance with conditions set by the Department for Communities and Local Government.	n/a
Economic Development	Challenge Fund Grant Audit: Severe Weather Fund.	Verification that £2.7 million Challenge Fund Grant monies have been spent in accordance with conditions set by the Department for Transport.	n/a
Economic Development	Challenge Fund Grant Audit: Pothole Fund.	Verification that £4.9 million Challenge Fund Grant monies have been spent in accordance with conditions set by the Department for Transport.	n/a
Public Health and	Verification of claims made under	Testing of 10% of all claims made, as stipulated by the Department for	n/a

Service area	Operational area of activity	Audit work	Type
Wellbeing	the Troubled Families Programme.	Work and Pensions.	

Audit and Governance Committee

Meeting to be held on Monday, 26 June 2017

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.

Recommendation

The Committee is recommended to note the report.

Background and Advice

In the interests of value for money it is important that the County Council's Internal and External Auditor operate together efficiently and effectively. This protocol sets out the relationship between the two sets of auditors for the 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.

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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NA		
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Reason for inclusion in Part II, if appropriate		
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NA		
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Protocol for the relationship between Grant Thornton and Lancashire County Council's Internal Audit Service

June 2017

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 The external auditors are required to perform their audit in accordance with the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office on behalf of the Comptroller and Auditor General in April 2015. Under this code the external auditor must satisfy themselves that:
 - the accounts comply with the requirements of the enactments that apply to them;
 - proper practices have been observed in the preparation of the statement of accounts, and that the statement presents a true and fair view; and
 - the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 3 In addition, the external auditor may be required to certify various claims and returns for grants or subsidies paid by the government departments and public bodies to the council.
- 4 When completing its work on the financial statements the external auditor is required to comply with International Standards on Auditing (UK and Ireland) (ISAs). 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), the latest version of which is applicable from 1 April 2017.
- 6 PSIAS encompasses the mandatory elements of the Chartered Institute of Internal Auditors' International Professional Practices Framework, comprising:

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

7 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."

8 The Internal Audit Service is required to provide an annual opinion on the council's framework of risk management, control and governance, and must 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 and this aspect of the Internal Audit Service's work may therefore inform the external auditor's work.

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

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 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 the external auditor intends 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 If Grant Thornton undertakes a formal review of the Internal Audit Service, it will discuss its findings with the Head of 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 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 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 if requested.
- 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 26 June 2017

Electoral Division affected: All

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

Recommendation

The Committee is asked to note the update report.

Background and Advice

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

Consultations

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

Implications

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper

Date

Contact/Service/Tel

N/A

Audit and Governance Committee Lancashire County Council Progress Report and Update Year ended 31 March 2017

June 2017

Karen Murray

Engagement Lead

T 0161 234 6364

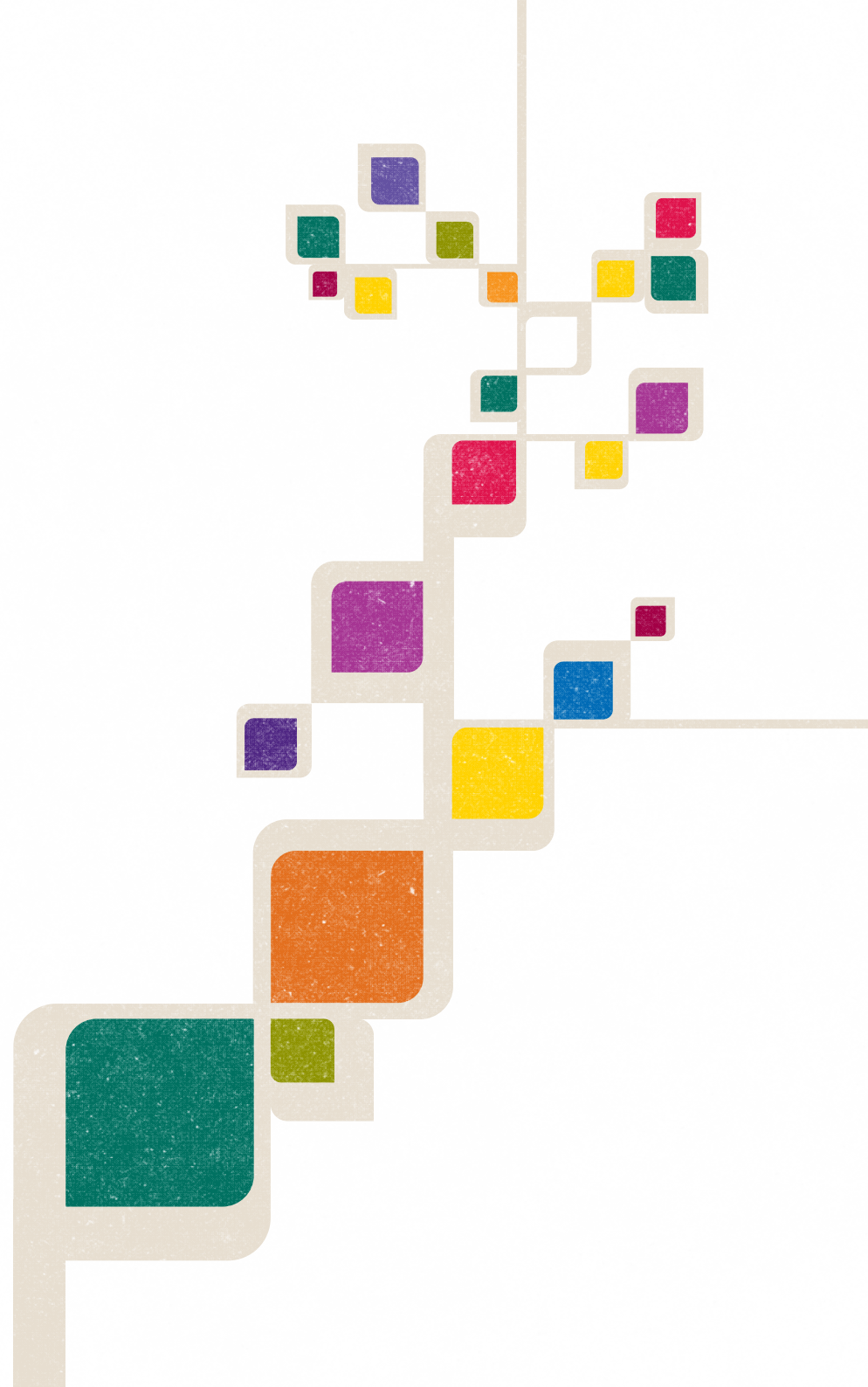
E karen.l.murray@uk.gt.com

Caroline Stead

Senior manager

T 0161 234 6355

E caroline.l.stead@uk.gt.com



Introduction

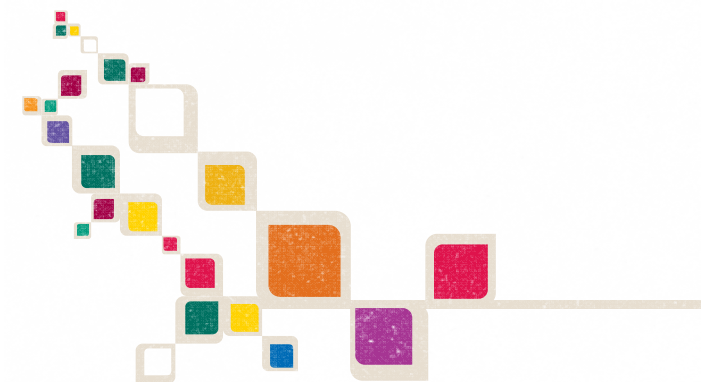
This paper provides the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

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:

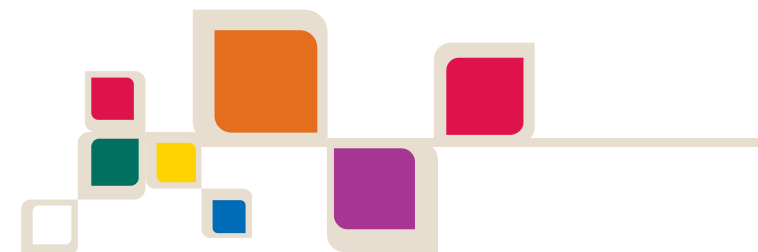
- CFO Insights – reviewing council's 2015/16 spend (December 2016); <http://www.grantthornton.co.uk/en/insights/cfo-insights-reviewing-councils-201516-spend/>
- Fraud risk, 'adequate procedures', and local authorities (December 2016); <http://www.grantthornton.co.uk/en/insights/fraud-risk-adequate-procedures-and-local-authorities/>
- New laws to prevent fraud may affect the public sector (November 2016); <http://www.grantthornton.co.uk/en/insights/new-laws-to-prevent-fraud-may-affect-the-public-sector/>
- Brexit: local government – transitioning successfully (December 2016) <http://www.grantthornton.co.uk/en/insights/brexit-local-government--transitioning-successfully/>

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.

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.

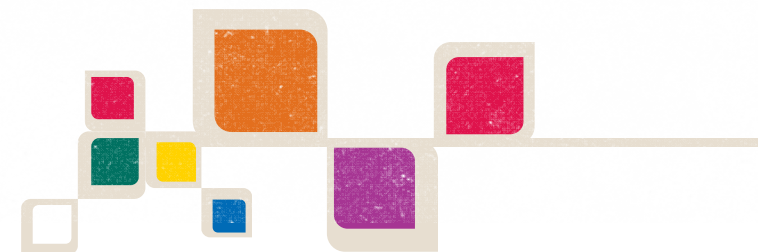


Progress at March 2017



2016/17 work	Planned Date	Complete?	Comments
Fee Letter We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016	April 2016	Yes	The fee letter was sent on 21 April 2016. It confirmed the 2016/17 scale audit fee of £112,995 for Lancashire County Council and the audit fee of £34,169 for Lancashire Pension Fund.
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2016-17 financial statements.	April 2017	Yes	The audit plan was presented to the April Audit and Governance committee.
Interim accounts audit Our interim fieldwork visit plan included: <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 conclusion risk assessment. 	February to March 2017	Yes	We have completed our interim work at the Council. As reported in our audit plan in March, we did not identify any significant issues that we needed to bring to your attention.
Final accounts audit Including: <ul style="list-style-type: none"> • audit of the 2016/17 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion • review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 	July 2017	No	<p>The Audit Findings Report will be presented to the July meeting of the Audit and Governance Committee and the Auditor's Report will be given ahead of the deadline of 30 September.</p> <p>We are working with officers to bring forward the audit of the accounts to the 31 July which will be the deadline for auditing the 2017-18 financial statements.</p>

Progress at March 2017



2016/17 work	Planned Date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work is unchanged to 2015/16 and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".</p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties 	May – July 2017	In progress	<p>We have carried out an initial risk assessment to determine our approach and reported this in our Audit Plan.</p> <p>We will report our work in the Audit Findings Report.</p>
<p>Annual Audit Letter</p> <p>Our Annual Audit Letter summarises the key findings arising from the work that we have carried out for the year ended 31 March 2017.</p>	October 2017	No	We will issue an Annual Audit Letter to the Council in line with specified deadlines after the audit of the 2016/17 financial statements.

Technical Matters



Delivering Good Governance

In April, CIPFA and SOLACE published 'Delivering Good Governance in Local Government: Framework (2016)' and this applies to annual governance statements prepared for the 2016/17 financial year. The key focus of the framework is on sustainability – economic, social and environmental – and the need to focus on the longer term and the impact actions may have on future generations.

Local authorities should be:

- reviewing existing governance arrangements against the principles set out in the Framework
- developing and maintaining an up-to-date local code of governance, including arrangements for ensuring on-going effectiveness
- reporting publicly on compliance with their own code on an annual basis and on how they have monitored the effectiveness of their governance arrangements in the year and on planned changes.

The framework applies to all parts of local government and its partnerships and should be applied using the spirit and ethos of the Framework rather than just rules and procedures

Telling the story – Changes in 2016/17 CIPFA Code

CIPFA has been working on the 'Telling the Story' project, which aims to streamline the financial statements and improve accessibility to the user. This has resulted in changes to CIPFA's 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

The main changes affect the presentation of the Comprehensive Income and Expenditure Statement ('CIES'), the Movement in Reserves Statement ('MIRS') and segmental reporting disclosures. A new Expenditure and Funding Analysis has been introduced.

The key changes are:

- the cost of services in the CIES is to be reported on basis of the local authority's organisational structure rather than the Service Reporting Code of Practice (SERCOP) headings
- an 'Expenditure & Funding Analysis' note to the financial statements provides a reconciliation between the way local authorities are funded and the accounting measures of financial performance in the CIES
- the changes will remove some of the complexities of the current segmental note
- other changes to streamline the current MIRS providing options to report Total Comprehensive Income and Expenditure (previously shown as Surplus and Deficit on the Provision of Services and Other Comprehensive Income and Expenditure lines) and removal of earmarked reserves columns.

Other amendments have been made to the Code:

- changes to reporting by pension funds in relation to the format and fair value disclosure requirements to reflect changes to the Pensions SORP
- other amendments and clarifications to reflect changes in the accounting standards.

Sector issues and developments



Integrated Thinking and Reporting

Focusing on value creation in the public sector

Grant Thornton has seconded staff to the International Integrated Reporting Council on a pro bono basis for a number of years.

They have been working on making the principles of Integrated Reporting <IR> relevant to the public sector and co-authored a recent report by CIPFA and the World Bank: *Integrated thinking and reporting: focusing on value creation in the public sector - an introduction for leaders*.

Around one third of global gross domestic product (GDP) is made up by the public sector and this is being invested in ensuring there is effective infrastructure, good educational opportunities and reliable health care. In many ways, it is this investment by the public sector that is helping to create the conditions for wealth creation and preparing the way for the success of this and future generations.

Traditional reporting frameworks, focussed only on historic financial information, are not fit-for-purpose for modern, multi-dimensional public sector organisations.

Integrated Reporting supports sustainable development and financial stability and enables public sector organisations to broaden the conversation about the services they provide and the value they create.

The public sector faces multiple challenges, including:

- Serving and being accountable to a wide stakeholder base;
- Providing integrated services with sustainable outcomes;
- Maintaining a longer-term perspective, whilst delivering in the short term; and
- Demonstrating the sustainable value of services provided beyond the financial.

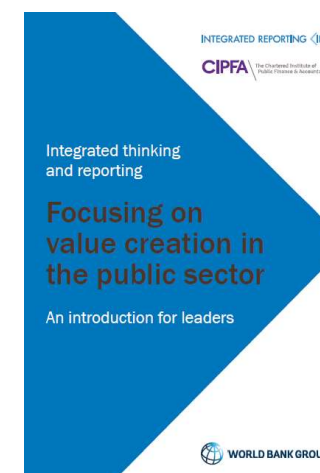
The <IR> Framework is principle based and enables organisations to tailor their reporting to reflect their own thinking and strategies and to demonstrate they are delivering the outcomes they were aiming for.

Integrated Reporting can help public sector organisations deal with the above challenges by:

- Addressing diverse and often conflicting public accountability requirements;
- Focussing on the internal and external consequences of an organisation's activities;
- Looking beyond the 'now' to the 'near' and then the 'far';
- Considering the resources used other than just the financial.

The report includes examples of how organisations have benefitted from Integrated Reporting.

CIPFA Publications



Grant Thornton



The Income Spectrum

Helping local authorities to achieve revenue and strategic objectives to create vibrant economies

Local government is under immense financial pressure to do more with less. The 2015/16 spending review is forecast to result in a £13 billion funding hole by 2020/21 that requires councils to make savings of up to 29 per cent.

Despite this challenge, most councils continue to manage their finances proficiently and have become lean and many local authority chief financial officers (CFOs) are confident they can continue to balance the books.

Income generation is increasingly an essential part of the solution to providing sustainable local services, alongside managing demand reduction and cost efficiency. Our report gives local authorities the tools needed to maximise their ability to do so.

Our latest report shares insights on this evolution process and how and why local authorities are reviewing and developing their approach to income generation.

The report draws on:

- learning from public and private sector stakeholders
- Grant Thornton's own experience as an advisor to local government
- analysis from the Grant Thornton/CIPFA CFO Insights tool
- insight from roundtables we convened on the topic in Leeds, Bristol and Exeter.

The key messages arising from the report are:

- councils are increasingly using income generation to diversify their funding base and are commercialising in a variety of ways. This ranges from fees and charges, asset management and company spin-offs, through to treasury investments
- the ideal scenario is investing to earn with a financial and social return. Councils are striving to generate income in a way which achieves multiple strategic outcomes for the same spend; examining options to balance budgets while simultaneously boosting growth, supporting vulnerable communities and protecting the environment.
- stronger commercialisation offers real potential for councils to meet revenue and strategic challenges for 2020 onwards. While there are examples of good practice and innovation, this opportunity is not being fully exploited across the sector due to an absence of a holistic and integrated approach to corporate strategy development.

Grant Thornton report

Questions to help ensure success

- Have all your options to maximise use of revenue and assets been explored?
- Do you understand what your strengths are and what you are less good at compared to the market place?
- How does each department and service compare on net income and cost recovery against neighbours and peers?
- Is it clear how generating income delivers both a financial and social return that is aligned to your local political priorities?
- Are governance processes robust enough to scrutinise business case proposals for new income generation?



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Audit and Governance Committee

Meeting to be held on Monday, 26 June 2017

Electoral Division affected: (All Divisions);
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Accounting policies used in the preparation of the Statement of Accounts 2016/17

(Appendix 'A' refers)

Contact for further information:

Neil Kissock, Tel: 01772 536154, Director of Financial Resources,
neil.kissock@lancashire.gov.uk

Executive Summary

In preparing the Statement of Accounts, the Chief Finance Officer is responsible for selecting suitable accounting policies and ensuring they are applied consistently.

The accounting policies used in the preparation of the Statement of Accounts 2016/17 are set out in Appendix 'A'.

There are no changes to the substance of the accounting policies from last year, however, the presentation and content of the accounting policies have been reviewed and streamlined in line with guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) on "decluttering the accounts".

Recommendation

The Audit and Governance Committee considers and approves the accounting policies used in the preparation of the Statement of Accounts, as set out in Appendix 'A'.

Background and Advice

The Chief Finance Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper accounting practices, for each financial year ending 31 March. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (CIPFA/LASAAC) supported by International Financial Reporting Standards (IFRS).

In preparing the accounts, the Chief Finance Officer is responsible for selecting suitable accounting policies and ensuring that they are applied consistently.

Accounting policies are the specific principles, bases, conventions, rules and practices applied in preparing and presenting the financial statements.

The accounting policies used in the preparation of the Statement of Accounts for 2016/17 are set out in Appendix 'A'.

There are no changes to the substance of the accounting policies from last year, however, the presentation and content of the accounting policies have been reviewed and streamlined in line with guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

Failure to complete the Statement of Accounts in line with the CIPFA Code of Practice may result in an adverse opinion from the Council's external auditors.

Local Government (Access to Information) Act 1985

List of Background Papers

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

N/A

Accounting Policy

General principles

Accruals of expenditure and income

Capital receipts

Council tax and business rates income

Employee benefits

Events after the reporting period

Financial instruments

Government grants and other contributions

Heritage assets

Leases

Long term contracts

Overheads and support services

Prior period adjustments, changes in accounting policies, estimates and errors

Private finance initiative (PFI)

Property, plant and equipment

Provisions, contingent assets and contingent liabilities

Reserves

Revenue expenditure funded from capital under statute (REFCUS)

Value added tax (VAT)

General principles

The Statement of Accounts summarises the Council's transactions for the financial year and its position at the year end of 31 March 2017. The Accounts and Audit (England) Regulations require the Council to produce an annual Statement of Accounts, prepared in accordance with proper accounting practices. These practices primarily comprise the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom and the CIPFA Service Reporting Code of Practice (SerCOP) supported by International Financial Reporting Standards (IFRS).

The accounts are prepared on a going concern basis and the accounting convention adopted is principally historical cost modified for the valuation of certain categories of non-current assets and financial instruments.

Accruals of expenditure and income

The expenditure and income of the Council is accounted for in the financial year in which the activity it relates to takes place, regardless of when cash payments are made or received. In particular:

- income from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council;
- income from the provision of services is recognised when the Council can measure reliably the percentage completion of the transaction and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council;
- supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the balance sheet;
- expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where

debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Capital receipts

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. These are credited to the capital receipts reserve, and can then be used for new capital investment or be set aside to reduce the Council's underlying need to borrow (the capital financing requirement). From 1 April 2016 capital receipts can be used to fund expenditure on a project where incurring up-front costs will generate ongoing savings.

Council tax and non-domestic rates income

Both council tax and non-domestic rates are collected by the 12 Lancashire district councils (billing authorities) on behalf of the County Council.

The council tax and non-domestic rates income is accounted for on an accruals basis and included in the comprehensive income and expenditure statement within taxation and non specific grant income. Regulations determine the amount of council tax and non-domestic rates that must be included in the Council's County Fund, therefore, the difference between the income included in the comprehensive income and expenditure statement and the amount required by regulation to be credited to the County Fund is charged to the collection fund adjustment account through the movement in reserves statement.

The year end balance sheet includes the Council's share of debtors (arrears and collection fund surpluses), creditors (prepayments, overpayments and collection fund deficits) and provisions (non-domestic rates appeals).

Lancashire has a non-domestic rates pool, established on 1 April 2016, it comprises the County Council and most but not all of the local authorities in Lancashire, with Ribble Valley Borough Council designated as lead authority. Lancashire County Council will receive 10% of the overall retained levy with each district within the pool retaining 90% of their levy.

In the Lancashire non-domestic rates pool each council bears its own risk and takes its own reward under the pool agreement.

The net retained levy for the Council is shown within non-domestic rates retention income in the comprehensive income and expenditure statement, along with the Council's own share of growth achieved in the year.

Employee benefits

Employee benefits payable during employment

Short-term employee benefits including wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit.

The accrual is charged to the surplus or deficit on the provision of services, but then reversed out through the movement in reserves statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis in the comprehensive income and expenditure statement, at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the County Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the movement in reserves statement, appropriations are required to and from the pensions reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

Post-employment benefits

The Council recognises the cost of post-employment benefits in the cost of services when they are earned by employees rather than when the benefits are eventually paid as pensions. However,

statutory provisions require that the charge made against council tax is based on the cash payable in the year, so the real cost of post-employment benefits is reversed out of the County Fund via the movement in reserves statement.

There are three pension schemes for Council staff. They are all defined benefit schemes.

Defined benefit scheme - the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

Pension scheme	Administered by
Teachers' pension scheme	Capita Teachers' pensions on behalf of the Department for Education (DfE)
Local government pension scheme	Lancashire County Council
NHS pension scheme	NHS Business Services Authority on behalf of the Secretary of State for Health

Teachers' pension scheme

The arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. Therefore, the scheme is accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the balance sheet and the education service revenue account is charged with the employer's contributions payable to teachers' pensions in the year.

Lancashire County Pension Fund

The liabilities of the Lancashire County Pension Fund attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method. Liabilities are discounted to their value at current prices using a discount rate.

Projected unit method - an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc. and projected earnings for current employees.

The assets of the local government pension fund attributable to the Council are included in the balance sheet at their fair value:

- quoted securities – current bid price;

- unquoted securities – professional estimate;
- unitised securities – current bid price;
- property – market value.

The change in the net pension liability is analysed into the following components:

Component	Description	Treatment
Service costs		
Current service costs	Measures the future service cost to the employer estimated to have been generated in the year.	Charged to the comprehensive income and expenditure statement to the services for which employees worked.
Past service costs	The increase in liabilities as a result of a current year scheme amendment or curtailment whose effect relates to years of service earned in earlier years.	Charged to comprehensive income and expenditure statement as part of non distributed costs.
Interest costs	The expected increase in the present value of liabilities as members of the plan are one year closer to receiving their pension. The provisions made at present value in previous years for their retirement costs need to be uplifted by a year's discount to keep pace with current values.	Charged to the financing and investment income and expenditure line of the comprehensive income and expenditure statement.
Re-measurements		
Return on plan assets	This is a measure of the return on the investment assets held by the plan for the year.	Charged to the pensions reserve as other comprehensive income and expenditure.
Actuarial gains and losses	These arise where actual events have not coincided with the actuarial assumptions made for the last valuations or the actuarial assumptions have been changed.	Charged to the pensions reserve as other comprehensive income and expenditure.
Contributions		
Contributions paid to the pension fund	Cash paid as employer's contributions to the pension fund in settlement of liabilities.	These are not accounted for as an expense.

Discretionary benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Lancashire County Pension Fund.

Events after the reporting period

Events may occur between the balance sheet date and the date the accounts are authorised for issue which might have a bearing upon the financial results of the past year.

Where an event occurring after the balance sheet date provides evidence of conditions that existed at the balance sheet date, the amounts recognised in the statement of accounts are adjusted.

Where an event that occurs after the balance sheet date is indicative of conditions that arose after the balance sheet date, the amounts recognised in the statement of accounts are not adjusted, but where this would have a material effect, it is disclosed in the notes to the accounts.

Events taking place after the date of authorisation for issue are not reflected in the statement of accounts.

Financial instruments

Financial instruments arise when contracts create financial assets and liabilities, and these are recognised on the Council's balance sheet. Typical financial assets include bank deposits, investments and loans by the Council and amounts receivable whilst financial liabilities include amounts borrowed by the Council and amounts payable.

Financial assets

Financial assets are classified into three types:

Loans and receivables

Assets that have fixed or determinable payments but are not quoted in an active market for example term deposits made with UK domiciled banks.

Loans and receivables are initially measured at fair value and are subsequently carried at their amortised cost.

Annual credits to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest. The amount presented in the balance sheet is the outstanding principal receivable plus accrued interest and the interest credited to the comprehensive income and expenditure statement is the amount receivable for the year in the loan agreement.

Available for sale assets

Assets that have a quoted market price and/or do not have fixed or determinable payments. This includes, for example, investment bonds such as UK local authority bonds and UK Treasury gilt edged securities.

Available for sale assets are initially recognised and carried at fair value.

Where the assets have fixed or determinable payments, annual credits to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the comprehensive income and expenditure statement when it becomes receivable by the Council.

Values are based on the following principles:

- instruments with quoted market prices – the sale or bid market price;
- other instruments with fixed and determinable payments – discounted cash flow analysis and;
- equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value (other than impairment losses) are balanced by an entry in the available for sale reserve and the gain/loss is recognised in the surplus or deficit on revaluation of available for sale financial assets. Where impairment losses have been incurred these are debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement, along with any net gain or loss for the asset accumulated in the available for sale reserve.

If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured against any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited/debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement, along with any accumulated gains or losses previously recognised in the available for sale reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Fair value through profit and loss

Assets which are held primarily for trading or have a recent history of being traded.

Fair value through profit and loss assets are initially recognised on the balance sheet and subsequently measured and carried at fair value.

Any gains or losses that arise on the de-recognition of the assets are credited/debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement. Any unrealised gains and losses are also credited/debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement. Unrealised gains and losses are the amounts that arise through the change in market value of financial instruments before they mature or are sold.

Impairment of financial assets

If assets are identified as impaired because of a likelihood arising from a past event that payments due will not be made, the asset is written down and a charge made to the relevant service or to the financing and investment income and expenditure line in the comprehensive income and expenditure statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Financial liabilities

Financial liabilities are initially recognised on the balance sheet at fair value and carried at their amortised cost. Annual charges to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

The amount presented in the balance sheet is the outstanding principal repayable plus accrued interest and interest charged to the comprehensive income and expenditure statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement in the year of repurchase/settlement. However, where the repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the comprehensive income and expenditure statement is spread over the life of the loan.

Where premiums and discounts have been charged to the comprehensive income and expenditure statement, regulations allow the impact on the County Fund balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid.

Government grants and other contributions

Whether paid on account, by instalments or in arrears, Government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the comprehensive income and expenditure statement until conditions attached to the grant or contribution have been satisfied.

Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the

recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the balance sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or taxation and non-specific grant income (non-ring fenced revenue grants and all capital grants) in the comprehensive income and expenditure statement.

Where capital grants are credited to the comprehensive income and expenditure statement, they are reversed out of the County Fund balance in the movement in reserves statement.

Where the grant has yet to be used to finance capital expenditure, it is posted to the capital grants unapplied reserve. Where it has been applied, it is posted to the capital adjustment account. Amounts in the capital grants unapplied reserve are transferred to the capital adjustment account once they have been applied to fund capital expenditure.

Heritage assets

Heritage assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

The collection has indeterminate life and is subject to appropriate conservation measures, therefore, depreciation is not charged on heritage assets.

The valuation of the Council's heritage assets has included a degree of estimation. With respect to the museum's collection, those assets considered to have a value of £50,000 or over have been identified and valued as separate items. The rest of the collection involves a large quantity of small value items for which is not considered to be economic to value each item separately. Therefore, a sample of items was valued by the museums staff. The resulting value was then used to give an estimated value of the whole collection. It is considered that the result provides a fair reflection of the value of the Council's holding.

The Council has a detailed acquisitions and disposal policy, further information on which can be obtained from the Council. Disposals will not be made with the principal aim of generating funds. It is considered that the collection has a long term purpose and, therefore, there is a strong presumption against disposal. If any items are thought to be appropriate for rationalisation the

Museums Association Code of Practice for the review of collections is followed. This is a lengthy process that allows for efforts to find an alternative home/location of an item before any consideration of final disposal is made.

Leases

Leases are classed as finance leases where the terms of the lease transfer the majority of the risks and rewards incidental to ownership from the lessor to the lessee. All other leases are classified as operating leases.

Finance lease debtors are recognised in the balance sheet on commencement at an amount equal to the net investment in the lease. Finance income in respect of these debtors is recognised at a constant rate of return on the net investment outstanding in respect of that finance lease.

Long term contracts

Long term contracts are accounted for on the basis of charging the surplus or deficit on the provision of services with the works and services received under the contract during the financial year.

Overheads and support services

The total absorption costing principle is used; the full cost of overheads and support services are shared between users in proportion to benefits received, with the exception of:

- corporate and democratic core;
- non-distributed costs.

The bases of allocation used for the main support service costs are outlined in the following table:

Support service	Basis of allocation
Finance management and services (excluding procurement)	Gross expenditure
Procurement	Gross expenditure (excluding payroll)
Legal	Gross expenditure
HR	Full time equivalent staff numbers
Administrative buildings	Full time equivalent staff numbers
IT	Full time equivalent staff numbers

Prior period adjustments, changes in accounting policies, estimates and errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively (i.e. in the current and future years affected by the change) and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Private finance initiative (PFI)

PFI contracts are agreements to receive services, where responsibility for making available the property, plant and equipment needed to provide services passes to the PFI contractor. As the Council is deemed to control the services that are provided under the PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on the balance sheet as part of property, plant and equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operation to pay for the capital investment.

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the comprehensive income and expenditure statement;
- finance cost – an interest charge on the outstanding balance sheet liability, debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement;

- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement;
- payment towards liability – applied to write down the balance sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease);
- lifecycle replacement costs – proportion of the amounts payable is posted to the balance sheet as a prepayment and then recognised as additions to property, plant and equipment when the relevant works are eventually carried out.

Deductions from the unitary payment

The PFI contract provides for deductions from the unitary payment in the case of sub-standard performance or when the facilities are unavailable.

Deductions for sub-standard performance are accounted for as a reduction in the amount paid for the affected services. Deductions arising from unavailability of the property are apportioned pro rata to the proportions of the service and property elements of the unitary payment:

- a reduction for part or all of the property being unavailable for use – this will first be accounted for as an abatement of the contingent lease rentals, then finance costs if contingent rents are insufficient and;
- a reduction in the price paid for services whilst services are not being provided accounted for as a reduction in the amount paid for the affected services.

Deductions of either type are accounted for when the Council's entitlement has been established and it is probable that the Council will be able to make the deduction.

Property, plant and equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or

service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as a revenue expense when it is incurred.

Componentisation

Where a property, plant and equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Measurement

Assets are initially recognised at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Assets that are being constructed by the Council will initially be recognised at cost. The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then carried in the balance sheet using the following measurement bases:

Category	Measurement basis
Infrastructure, community assets, assets under construction	Depreciated historical cost
Surplus assets and investment properties	Fair value
All other assets	Existing use value

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets, principally furniture and equipment, that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the balance sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end, but as a minimum every five years. Each year an estimate of the total fair value of all operational land and building assets is calculated by applying local movement in valuation for similar assets and a range of indices to the carrying amounts of those assets. Indices are used to support market-based evidence that valuations are kept up to date rather than being used to calculate the carrying value of the assets. The revaluation programme is managed so that this estimate is not materially different to the carrying amount in the balance sheet.

Increases in valuations are matched by credits to the revaluation reserve to recognise unrealised gains unless the gain reverses a loss previously charged to a service. Exceptionally, gains might be credited to the comprehensive income and expenditure statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the comprehensive income and expenditure statement.

The revaluation reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the capital adjustment account.

Valuations are undertaken internally by Lancashire County Council's estates service.

The valuations for specialist operational properties are undertaken by external professional valuers. In the case of the waste plant, this has been undertaken by Rushton International.

Impairment

Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the comprehensive income and expenditure statement.

Disposals and non-current assets held for sale

Surplus assets are defined as assets that are not being used to deliver services, but which do not meet the criteria to be classified as either investment properties or non-current assets held for sale. Only when it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction within the coming year, it is reclassified as an asset held for sale.

Depreciation is not charged on assets held for sale.

If assets no longer meet the criteria to be classified as assets held for sale, they are reclassified back to non-current assets and valued at the lower of:

- their carrying amount before they were classified as held for sale. In this case the carrying amount is adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale.
- their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the balance sheet is written off to the other operating expenditure line in the comprehensive income and expenditure statement as part of the gain or loss on disposal. Disposal costs are shown in other operating expenditure in the comprehensive income and expenditure statement. Receipts from

disposal are credited to the same line in the comprehensive income and expenditure statement also as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the revaluation reserve are transferred to the capital adjustment account.

The written-off value of disposals is not a charge against council tax, as the cost of property, plant and equipment is fully provided for under separate arrangements for capital financing.

Depreciation

Depreciation is provided for on property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives.

Depreciation is calculated on the following bases:

Category	Period over which assets are depreciated
Land	Not depreciated
Buildings	Useful life as determined by the valuer
Vehicles, plant and equipment	10 years unless the life of the asset is considered to be less
IT equipment	7-10 years depending upon the nature of the asset
Roads and highways infrastructure	10-120 years depending upon the nature of the asset
Community assets	Not depreciated
Assets under construction	Not depreciated
Investment properties	Not depreciated
Assets held for sale	Not depreciated
Heritage assets	Not depreciated

Depreciation is charged from the month of acquisition until the month of disposal.

Depreciation is also calculated on revaluation gains and is represented by the difference between depreciation calculated at current cost and depreciation calculated at historic cost. The difference between the two values is transferred each year from the revaluation reserve to the capital adjustment account.

Charges to revenue for non-current assets

Services are charged with the following amounts to record the cost of holding property, plant and equipment during the year:

- depreciation attributable to the assets used by the relevant service;

- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the revaluation reserve against which the losses can be written off;
- amortisation of intangible assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual charge to revenue towards the reduction in its overall borrowing requirement which is calculated on a prudent basis determined in accordance with statutory guidance. This contribution is known as the minimum revenue provision (MRP). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the MRP in the earmarked reserves balance by way of an adjusting transaction with the capital adjustment account in the movement in reserves statement for the difference between the two.

Property, plant and equipment not owned by the council

Some voluntary aided and controlled schools are owned by trustees. However, these schools are included within the Council's property, plant and equipment as the Council receives the benefit from using the properties in terms of delivery of services and also meets the costs of service provision.

Provisions, contingent assets and contingent liabilities

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and, a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the comprehensive income and expenditure statement in the year the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the balance sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

Contingent assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the balance sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

Contingent liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that the outflow of resources will be required or, the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the balance sheet but disclosed in a note to the accounts.

Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the County Fund balance in the movement in reserves statement.

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year. The reserve is then appropriated back into the County Fund in the movement in reserves statement so that there is no net charge against council tax for the expenditure.

Certain reserves are held for technical accounting purposes in respect of non-current assets, financial instruments and retirement and employee benefits and do not represent usable resources for the Council. These reserves are explained in the relevant notes.

Revenue expenditure funded from capital under statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the comprehensive income and expenditure statement in the year.

Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the movement in reserves statement from the County Fund to the capital adjustment account reverses out the amounts charged so that there is no impact on the level of council tax.

Value added tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

Agenda Item 18

(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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