

Lancashire County Council

Audit, Risk and Governance Committee

Monday, 20th May, 2019 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
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2.	Disclosure of Pecuniary and Non-Pecuniary Interests
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Members are asked to consider any Pecuniary and Non-Pecuniary Interests they may have to disclose to the meeting in relation to matters under consideration on the Agenda.

3.	Minutes of the Meeting held on 28 January 2019	(Pages 1 - 8)
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To be confirmed and signed by the chair.

4.	Internal Audit Progress Report	(Pages 9 - 28)
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5.	Internal Audit Annual Report 2018/19	(Pages 29 - 42)
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6.	The Council's Annual Governance Statement 2018/19 & Code of Corporate Governance	(Pages 43 - 90)
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7.	Corporate Risk and Opportunity Register Quarter 1 2019/20	(Pages 91 - 106)
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8.	Internal Audit Annual Plan 2019/20	(Pages 107 - 124)
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9.	Grant Thornton's Request for Information from Management	(Pages 125 - 138)
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10.	Grant Thornton's Request for Information from the Committee Chair	(Pages 139 - 152)
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| 11. | External Audit - Audit Progress Report and Sector Update 2018/19 | (Pages 153 - 172) |
| 12. | External Audit - Lancashire County Council Audit Plan 2018/19 | (Pages 173 - 194) |
| 13. | External Audit - Lancashire County Pension Fund Audit Plan 2018/19 | (Pages 195 - 210) |
| 14. | External Audit - Fee Letter for Lancashire County Council and Lancashire County Pension Fund 2019/20 | (Pages 211 - 216) |
| 15. | Neighbourhood Wellbeing Grants Update | (Pages 217 - 220) |
| 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 Monday 29 July 2019 at 2pm at County Hall, Preston.

18. Exclusion of Press and Public

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

Part II (Not open to Press and Public)

19. Whistleblowing, Special Investigations and Counter Fraud Annual Report 2018/19 (Pages 221 - 230)

County Hall
Preston

L Sales
Director of Corporate Services

Lancashire County Council

Audit, Risk and Governance Committee

Minutes of the Meeting held on Monday, 28th January, 2019 at 2.00 pm in Committee Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Present:

County Councillor Alan Schofield (Chair)

County Councillors

L Beavers	T Martin
J Berry	E Nash
S Clarke	A Vincent

County Councillors Lorraine Beavers and Stephen Clark replaced County Councillors Miles Parkinson and Phillippa Williamson respectively.

1. Apologies

Apologies were received from County Councillor John Shedwick.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

None declared.

3. Minutes of the Meeting held on 29 October 2018

Resolved: That the minutes of the Audit, Risk and Governance Committee held on 29 October 2018 be confirmed and signed by the Chair.

6. Accounting Policies used in the Preparation of the Statement of Accounts 2018/19

This item was brought forward with the agreement of the Chair.

Khadija Saeed, Head of Corporate Finance, presented a report outlining the accounting policies to be used in the preparation of the council's 2018/19 statement of accounts. The changes to International Financial Reporting Standards (IFRS) 15 and 9 were highlighted and it was explained that these had been incorporated into the proposed 2018/19 policies.

Resolved: That the accounting policies, as set out in the report now presented, be approved.

7. Treasury Management Activity 2018/19

This item was brought forward with the agreement of the Chair.

Mike Jensen, Director of Investment, presented a report which provided a review of treasury management activity from October to December 2018, including a summary of: economic conditions, borrowing, investments and results measured against treasury management indicators.

The committee's attention was drawn to the following areas of the report:

- The investment activity detailed investments as of 31 December, not 30 September as stated in the report.
- The council had taken advantage of favourable terms to repay the Lender Option Borrower Option (LOBO) loan, reducing the overall level of debt.
- Good progress had been made with regard to treasury management in line with the strategy to follow the lowest credit risk position.
- There may be a potential change to the UK's credit profile dependent on the outcome of the Brexit negotiations.
- The Chair commented that the figures in the report were relevant to the information received in the recent treasury management training session attended by members of the committee.

Thanks were expressed to the Financial Services team for work resulting in the forecast for net financing expenditure for 2018/19 being £21m lower than budget for the end of the financial year.

Resolved: That the report now presented be noted.

8. Treasury Management Strategy and Investment Strategy 2019/20

This item was brought forward with the agreement of the Chair.

Khadija Saeed, Head of Corporate Finance, presented a report proposing the treasury management strategy and the non-treasury investment strategy for 2019/20 for recommendation to the Full Council. It was reported that there were no significant changes to the treasury management strategy compared to 2018/19. A non-treasury investment strategy was also proposed, which is a new requirement under The Ministry of Housing, Communities and Local Government's (MHCLG) investment guidance.

Members commented that it was evident from the report that Lancashire County Council compared favourably to other local authorities as prudent investors in terms of borrowing and lending.

Resolved: That the treasury management strategy and non-treasury investment strategy for 2019/20, as set out in the report now presented, be recommended to the Full Council for approval.

4. External Audit - Audit Progress Report and Sector Update 2018/19

The Chair welcomed Robin Baker, Director and Engagement Lead and Angela Pieri, Engagement Manager, representing Grant Thornton, the county council's external auditors, to their first meeting of the committee.

Robin Baker, Director, Grant Thornton UK, presented the external audit progress report and sector update 2018/19 as of January 2019.

The committee's attention was drawn to the following key areas of the report:

- The audit of the 2017/18 council's financial statements had been completed and the audit opinion including the value for money conclusion had been issued on 28 August 2018.
- The audit of the 2017/18 pension fund had been completed and the unqualified audit opinion had been issued on 31 July 2018.
- The closure certificate from 2012/13 onwards remained outstanding as a result of an ongoing police investigation. Once the investigation had been concluded the auditors would be in a position to assess the implications on the audit of the council.
- Planning for the 2018/19 financial audit had commenced and would be shared with officers and the committee in due course.
- The certification of the Teacher's Pension Return had been completed prior to the deadline date and no significant issues had been identified.
- The external auditors provided a range of workshops, network events and publications and thanks were expressed to the council for facilitating a forthcoming event.

Resolved: That the report now presented be noted.

5. Internal Audit Progress Report

Ruth Lowry, Head of Internal Audit, presented an update on the Internal Audit Service's work including key findings, issues of concern and action being taken up to 31 December 2018.

It was confirmed that the actions raised in the last meeting with regard to potentially including the Minibus Driver Awareness Scheme (MiDAS) within the remit of the audit programme and had confirmed the figure quoted for outcome claims for the Troubled Families programme.

The committee's attention was drawn to the following key areas of the report:

- It was confirmed that the matters arising from internal audit work were for the period to 31 December 2018 (not 2019 as detailed in the report).
- Of the 90 audits planned 36 (40%) were complete or at the point where draft reports were being prepared for discussion with managers.

- The results so far were as expected and 23 (not 22 as specified in the report) out of 27 were favourable, giving substantial or moderate assurance.
- A considerable amount of work had been undertaken in the last year to improve the council's current financial position in terms of sustainability resulting in a projected funding gap for 2019/20 reducing from £60.6 million to £14.6 million. The available reserves would be sufficient to support the council's budget until at least 2022/23.
- Local Pensions Partnership Limited's (LPPL) internal auditor, Deloitte, is still completing an audit of the partnership's investment operations. The outcome of the audit would be reported to this committee at the next meeting in May 2019 in addition to any other audit work completed for 2018/19.
- Medication practices across Disability Services had achieved moderate assurance, not limited as specified in the report.
- With regard to the managers' progress in implementing actions from previous audits, some had been superseded by a review of processes making them no longer relevant.

In response to questions from members the following information was clarified:

- The management structure does not make explicit the fourth of the council's directorates including the one lead by the Chief Executive.
- The audit plan was ambitious, and it is unlikely that all will be delivered by 30 April 2019, but the team is working hard to complete most of the plan.
- In terms of Special Guardianship Orders, the service had more work to do and in due course it was anticipated that further testing in future would give more assurance over the controls now being put in place. Moderate assurance had been given over the controls' design but not yet over their operation in practice.
- The audit of educational off-site visits had been deferred to 2019/20 as the service was making some improvements and had requested more time to put them in to place.

In response to further questions from members, officers clarified the following information:

- Substantial assurance was in place for the Crisis Support Service as the scheme was well controlled, however the budget and its expenditure was within the remit of the service and not a matter for this audit. It was confirmed that the internal audit service provided assurance regarding risks and mitigation within the bounds of clearly defined objectives.
- With regard to contract monitoring that had achieved moderate assurance, there was scope to improve and the action plan would be followed up.

Members commented that the team were to be commended for their work towards achieve the challenging objective of 90 audits in the plan for this financial year and looked forward to the follow up actions from management for those areas with limited assurance.

The Chair referred to a recent event he had attended regarding financial sustainability and resilience and would ask officers to circulate the supporting information to members of the committee.

Resolved: That the report now presented be noted.

9. Corporate Risk and Opportunity Register Quarter 3

Paul Bond, Head of Legal and Democratic Services, presented the quarter 3 corporate risk and opportunity register and highlighted the following areas for comments:

- Corporate risk (CR)13 – increase in demand for Children's Social Care had been added to the register due to an increase in referrals.
- CR14 – intermediate care for older people in a residential setting had also been added. The council was looking at best practice to address this and would be developing a joint action plan with the NHS.
- CR9 – discharge of patients from hospital into their own home or enablement/short term care in a safe and timely manner had been deleted as performance had improved and targets were being met.
- Changes to the level of risk in other areas of the plan were also outlined along with the reasons for change.

Members expressed thanks to the Adult Services team for the work committed to ensure the removal of risk CR9 from the register.

In response to questions from members, officers clarified that the council was reviewing the funding structure in order to develop the apprenticeship strategy to achieve the most effective results and that proposals would be brought forward in due course.

Resolved: That the report now presented be noted.

10. Skills and Development Needs Review

Paul Bond, Head of Legal and Democratic Services, presented the skills and development needs review of the current committee members. The committee was thanked for the 100% response rate and the range of training needs identified was highlighted. In response to the review, individual training plans were to be developed for those with medium to high training needs. Democratic Services would contact individual committee members to discuss their requirements which would include one to one sessions, external training and Bite-Size briefings for medium need training.

The Chair commented on the quick response to the need identified for treasury management.

Resolved:

- (i) That the outcome of the skills and development needs review, as set out in the report, now presented, be noted.
- (ii) That the subject areas for initial training and the preferred training methods, as set out in the report, now presented be confirmed.

11. Protocol for Grants to the Community and Voluntary Sector

Josh Mynott, Democratic and Member Services Manager, presented a protocol for the management and award of grants by the county council to the voluntary, community and faith sector to ensure robust governance. It was explained that the report included a high level summary of the process to be followed and more detailed instructions which included central government guidance.

In response to questions it was clarified that:

- It was clear in the county council's Constitution that, since the current administration took office in May 2017, all decisions were taken collectively by Cabinet. In circumstances of urgency, the Leader was authorised to take a decision, together with the relevant service Cabinet Member, but these instances were rare. Member Champions were not authorised to approve grants as such decisions were taken by the Director of Corporate Services on the recommendation of each Champion.
- The wording of the protocol (page 16) would be amended to make it clear that the senior responsible owner was an officer role, and should read the "senior responsible officer".

In response to further questions and comments by councillors, it was agreed that further efforts would be made to contact the recipients of the Neighbourhood Wellbeing Grants in 2016/17 to request outcomes achieved from receipt of the grant funding. Further information would be shared with members as appropriate. Following a request from the committee, it was also agreed that the photographic information referred to in the auditor's report which had not been reviewed by the police, be forwarded to the police for consideration.

Resolved:

- (i) That the protocol for the administration of grants to the voluntary and community sector, as set out in the report, now presented, be approved.
- (ii) That the Constitution be amended to ensure all grant schemes operated by the county council follow the protocol and that the Director of Corporate Services be authorised to approve the wording to be used in the Constitution.
- (iii) That the amendments to the Constitution be approved by Full Council in due course.

12. Urgent Business

There was no urgent business to be considered.

13. Date of Next Meeting

It was noted that the next meeting of the committee would take place at 2.00pm on Monday 20th May 2019 at County Hall, Preston.

15. Exclusion of Press and Public

Resolved: - That the press and members of the public be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraph of Part I of Schedule 12A to the Local Government Act 1972. It was considered that in all the circumstances the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

14. Lancashire Central - Cuerden

Stephen Young, Executive Director for Growth, Environment, Transport and Community Services presented an update on the Lancashire Central Cuerden project.

Resolved: That the report now presented be noted.

L Sales
Director of Corporate Services

County Hall
Preston

Audit, Risk and Governance Committee

Meeting to be held on Monday, 20 May 2019

Electoral Division affected: (All Divisions);
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Internal Audit Progress Report

(Appendices A and B refer)

Contact for further information:

Ruth Lowry, (01772) 534898, Head of Service – Internal Audit,

ruth.lowry@lancashire.gov.uk

Executive Summary

In the context of the committee's responsibility to consider updates on the Internal Audit Service's work including key findings, issues of concern and action being taken as a result of internal audit work, the committee is asked to consider the internal audit progress report and outcomes of the work for 2018/19 for the period to 30 April 2019.

Recommendation

The committee is asked to consider and note this report.

Background and Advice

This report sets out for the committee the internal audit work performed under the audit plan for 2018/19 approved in April 2018.

Appendix A to this report highlights key issues that the Audit, Risk and Governance Committee should be aware of in fulfilling its role of providing independent oversight of the adequacy of the council's governance, risk management and internal control framework. It highlights the issues arising from the work undertaken during the period to 30 April 2019 under the audit plan for 2018/19.

Appendix B sets out the audit assurance levels and classification of residual risks used by the Internal Audit Service.

Consultations

Each of the directors and/or heads of service who have sponsored the audit work reported here has been consulted.

Implications:

This item has the following implications, as indicated:

Risk management

This report supports the Audit, Risk 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
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N/A		
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Reason for inclusion in Part II, if appropriate

N/A

Matters arising from internal audit work completed during the period to 30 April 2019

1 Introduction

- 1.1 This report highlights issues that the Audit, Risk and Governance Committee should be aware of in fulfilling its role of providing independent oversight of the adequacy of the council's governance, risk management and internal control framework. It provides information about the issues arising from the work undertaken during the period to 30 April 2019 by the Internal Audit Service under the audit plan for 2018/19, and the service's progress against that plan.
- 1.2 The council's managers are asked at the end of each quarter to confirm that all remedial actions arising from audit work have been completed by their due date, or else are incomplete or superseded and these statistics are also reported here.

2 Key issues

- 2.1 Audit work has progressed well against an ambitious plan for the year and it is intended that the remaining audit work will be complete and reported by July 2019. Conclusions have been drawn across a sufficient range of the council's governance, risk management and control frameworks to support an overall opinion at this point, taking into account both work completed and still in draft. Moderate assurance has been given overall and more information about that overall conclusion is provided in the annual report.
- 2.2 Of the 79 audits now on the audit plan, 46, (58%) are complete and 12 (15%) are at the point where draft reports are being prepared and discussed with managers. A further 21 audits are still being progressed and should also be reported to the next meeting of the committee on 29 July 2019. Since January 2019, 11 audits have been removed from the plan.
- 2.3 Nineteen audits have been completed and reported during the last quarter and summaries of the findings from these are reported in section 5 below.
- 2.4 Operational managers are reporting that 73% of the actions agreed to mitigate risks identified through the audit process for 2016/17, 2017/18 and the current year that were due by 31 March 2019 have been completed. Only 3% have been reported as incomplete, although responses are outstanding for a further 11%, amounting to 50 in total.

3 Progress against the internal audit plan

- 3.1 Despite making a number of amendments to the original plan for the year, 79 audits remain on the plan (section 7 below provides more information), which is considerably larger than in the last two years and a 55% increase above the plan for 2017/18. In 2017/18 51 audits were completed, and in 2016/17 31 were completed.
- 3.2 Draft reports are currently being prepared and discussed with managers on:
 - Preparation of the corporate risk register
 - Hospital discharge and the use of short and long term residential care

Matters arising from internal audit work completed to 30 April 2019

- Continuing healthcare funding (formerly reported as Community Health Care funding for the transition from children's to adults services)
- Prevention of child exploitation
- Children's Services improvement plan
- Heavy goods vehicle operator licences: compliance with licence requirements
- Commissioning, design and monitoring of the capital programme
- Contractors' compliance with legislative requirements
- Allowances claimed by officers
- Accounting for capital projects and the integrity of the council's financial statements
- New custodianship arrangements for the Lancashire Pension Fund
- Pension Fund cash flow management

3.3 Discussions are also continuing with Local Pensions Partnership Ltd (LPP) regarding Deloitte's internal audit work and the assurance that can be taken in respect of LPP's administration of the Lancashire Pension Fund.

4 The assurance available from completed audit work

4.1 A brief summary of the assurance provided for each of the audits relating to 2018/19 and completed to final report stage by 30 April 2019 is provided in the tables below.

2018/19 assignments relating to:	Total	Assurance provided			
		Substantial*	Moderate*	Limited	None
Governance	-				
Business effectiveness	2		2		
Service delivery	33	11	16	6	
Service support	4	2	1	1	
Business processes	7	5		2	
2018/19 assignments: total to date	46	18	19	9	-
	100%	39%	41%	20%	-
2017/18 assignments: total	51	5	34	12	0
	100%	10%	67%	23%	-
2016/17 assignments: total	31	3	24	4	0
	100%	10%	77%	13%	-

* For the purposes of comparison, where full assurance has been given in previous years this has been equated to substantial assurance in the current year; and where substantial assurance has been given previously, this is now recorded as moderate.

Matters arising from internal audit work completed to 30 April 2019

- 4.2 It can be seen that, at this point and allowing for the possibility that the change in categorisation of assurance has resulted in a higher proportion of the most favourable opinions being given, a high percentage of audits are providing favourable assurance. The reports currently being drafted are subject to review, but are likely to provide a similarly favourable distribution of assurance as those already reported.
- 4.3 As the report accompanying the audit plan for the year made clear, there are some areas of the council's operations that are still subject to major improvement programmes. However the most significant of these has arguably been children's social care services. Whilst less internal audit work has been undertaken on Children's Services, Ofsted's work and its report in August 2018 indicate that clear improvements have been made. Although further improvement is still regarded as necessary, Ofsted's report has been interpreted as equivalent to 'satisfactory' or, moderate in the Internal Audit Service's classification of assurance.
- 4.4 The table appended to the annual report for 2018/19 provides a full list of the assurance provided during the year to date, and more details of each of the audits completed over the period since the last report to the committee are set out in section 5.
- 4.5 The Lancashire Pension Fund is administered and its pooled assets managed by Local Pensions Partnership Ltd (LPP). LPP has appointed Deloitte as its own internal auditor and, in addition to the work being undertaken by the council's Internal Audit Service, the council may choose to take some assurance from Deloitte's work on the framework of governance, risk management and control operating over the pension fund. Deloitte disclaims any liability to the council for any reliance it may place on this work but has agreed that its conclusions may be reported to the Audit, Risk and Governance Committee.
- 4.6 As reported in October 2018, Deloitte has completed an audit of the organisation's readiness for the introduction of the General Data Protection Regulations. It has now also reported the last audit relating to 2017/18, on investment operations, determining that it is effective with scope for improvement. More recently Deloitte has also given assurance over LPP's compliance with the Markets in Financial Instruments Directive ('MiFID II'), assessing this as effective. This directive is the European Union legislation that regulates firms who provide services to clients linked to financial instruments and the venues where those instruments are traded. It has been revised and took effect in January 2018.
- 4.7 Reports are being prepared and should be ready for July 2019 on the following:
- Core financial controls
 - Benefits administration
 - Cyber security
 - Third party oversight of investments
 - Investments' legal and regulatory compliance
 - LPP transformation project

Matters arising from internal audit work completed to 30 April 2019

- 4.8 Deloitte's classification scheme differs slightly from that used by the Internal Audit Service, and an explanation of the assurance provided by both is set out in Appendix B. Deloitte's classification of 'effective with scope for improvement' might reasonably be regarded as similar to the moderate assurance provided by the Internal Audit Service.

5 Issues arising from completed audit work

- 5.1 The matters arising from each of the completed audits are set out in the narrative below.

Delivery of the council's financial strategy and budget reductions (Moderate assurance)

- 5.2 The council's senior managers and their teams have worked through the year on a 'service challenge process' culminating in £77 million of additional savings proposals being agreed by the Council in February, with some still subject to the outcome of specific consultations with final decisions to be taken at Cabinet. Savings plans previously agreed and relating to 2019/20 and future years amounting to around £43 million are also still being implemented and monitored. A forecast funding gap remains of £30 million in 2020/21 and £47 million by 2022/23, with work progressing on developing savings proposals focussing on cross-cutting areas for consideration by Cabinet later in the financial year.
- 5.3 Although reserves are still being used to support the council's revenue budget, the extent of this support has now fallen. There is therefore some scope for adjustments to savings plans as schemes are implemented, and time to take action if the actual savings made from any given scheme vary from the profile originally agreed.
- 5.4 This work has not taken the usual form of a risk and control assessment and detailed testing, but evidence has been obtained from senior managers to support an assessment that the council is making good progress towards financial sustainability.

Contract monitoring: direct payment support service (Limited assurance)

- 5.5 The Direct Payment Support Service is a countywide service delivered as Lancashire Independent Living Service, a consortium of two providers. This provides assistance to all service users who use direct payments in implementing their support plan as well as offering longer term help. Support can include information and advice about the direct payment user's roles and responsibilities in employing staff, financial issues, legislation, payroll, and managed bank accounts.
- 5.6 The Contract Management Team within the Patient Safety and Safeguarding service ensures that services are delivered in accordance with the providers' contractual obligations and service specifications. However no performance indicators are currently in place and no minimum service levels have been set. Whilst service delivery and compliance with the contract are reviewed each month, this is primarily based on activity reports submitted by the provider and the Contract Monitoring Team undertakes no independent verification to validate the number of service users being supported.

Matters arising from internal audit work completed to 30 April 2019

- 5.7 Service delivery and performance is assessed through feedback from key stakeholders within the council, including operational and commissioning teams, and contract review meetings have been taking place.
- 5.8 Some documents, including the event log and summary usage spreadsheet, that could provide key information in respect of contract usage, service delivery and performance are not routinely completed and are only produced or updated on an ad-hoc basis.

Ordinary residence

(Moderate assurance)

- 5.9 The place where an individual is ordinarily resident determines which local authority is required to meet their eligible care and support needs under the Care Act 2014. In most cases this will be obvious but issues arise when a person moves between two local authorities. Which local authority is responsible is dependent upon whether a person's care and support is being provided under the Care Act or under the Mental Health Act.
- 5.10 The Adult Services team is currently updating its policy and procedures to reflect the Care Act and statutory guidance. A steering group chaired by the director of adult social care transformation has been established and, amongst other things, is working to identify transfers in and out of the county council's area.
- 5.11 The recent work to establish new governance arrangements and revise the policy for ordinary residence has created an appropriate control framework to ensure that historic cases are reviewed at an appropriate level and that adult social care staff have an escalation route for any disputes. However approval of the revised policy has been delayed. No policy is therefore currently available on the intranet, although there is a link to the external care and support statutory guidance which staff can refer to.
- 5.12 The steering group oversees decisions regarding ordinary residence and will scope out the further work required to identify any historical disputes with other authorities. Until this work is complete there is a risk that the council is unable to identify and transfer responsibility to other local authorities where this is justified, potentially resulting in financial loss to the council.
- 5.13 Once a local authority has accepted responsibility to fund a service user's package of care there is no national or regional guidance to determine the effective start date for that responsibility. The steering group has a negotiating strategy and aims to minimise the financial cost to the council. Whilst some of the historic cases are complex, the position is more straightforward for new cases since the introduction of the Care Act. Once they have been published, the new policy and accompanying case studies should be sufficient to enable staff to reach the correct decision, compliant with the Care Act Statutory Guidance.

Third party top-up payments

(Limited assurance)

- 5.14 Under the Care Act 2014 the council has a duty to arrange care and support for those with eligible needs and this includes residential care. However a charge for such care may be imposed, and this is determined under statutory regulations. Charges are restricted to a person's ability to pay, following an assessment of their finances, and may be no more than the costs incurred by the council on their behalf.

Matters arising from internal audit work completed to 30 April 2019

- 5.15 The fees paid to residential and nursing care homes are set by the council but some homes may charge a higher fee and the difference must be paid by the service user, or on their behalf by a third party. The top-up should not be paid by the service user except during the first 12 weeks of residence where they own their own home or where they have been accepted onto the deferred payment scheme. As at April 2019 there are 1,079 third party agreements, amounting to £3.5 million of charges annually.
- 5.16 Since the costs of residential care are generally significant to a service user and their family there should be a clear formal agreement to incur those costs. The Care Act is explicit that the council must provide information and advice to ensure that a person understands the full implications of choosing to pay top-up fees, including that the service user may be moved to an alternative care home if the payments are not made.
- 5.17 Our testing of a sample of 20 relevant service users' records established that in eight cases there was no evidence that they or their families had been supplied with details of the financial implications of moving into a residential home. The arrangements should be subject to an annual review but we could find no evidence of this in 10 of 14 cases we tested. Copies of signed top-up agreements were not held on file in three out of 20 cases we tested, although there are references to the agreements in case notes. In each of the ten cases we tested where service users have entered into a deferred payment agreement a signed agreement was held on file, but in five cases the 12-week timescale set by the Department of Health had not been met.
- 5.18 Service users should be provided with a genuine choice of accommodation, including an affordable option that does not require a top-up. If no suitable accommodation is available within the individual's budget then more expensive care must be provided and funded by the council, and this is an increasing cost pressure. In four of 14 cases we tested there were no records on the system to suggest that a choice of affordable accommodation had been offered.
- 5.19 Several of the issues we identified will be addressed if the pilot scheme currently running within the Care Navigation Team is successful and is rolled out.

Section 17 payments

(Limited assurance)

- 5.20 Payments under section 17 of the Children Act 1989 can be used very broadly on a wide range of solutions to support children in need and their families to prevent family breakdown or admission into care. In 2017/18 the council spent £4.05 million on such payments.
- 5.21 Because the statutory objectives in incurring this expenditure are so wide ranging it is important that there is clear guidance on what expenditure is appropriate. The council's guidance has been reviewed recently and is now subject to further review, but wide disparities remain in culture and practice across the county. Different managers and social workers have different views on the circumstances in which payments should be issued and the type of support that can be given, which are reflected in the different types and amounts of payments made in similar circumstances.

Matters arising from internal audit work completed to 30 April 2019

- 5.22 Managers review and approve expenditure as it is incurred but the information available to them on the Liquidlogic Children's System (LCS) is often insufficient to inform their decisions, and in those cases they cannot review whether the expenditure is appropriate. It is possible that other sources of financial assistance to service users would be more appropriate but no assessment is made, for example of cases involving significant or recurring payments, to consider alternative sources of support. Any attempt to do this would be hampered in any case by the unreliability of the management reports available from LCS because payments are regularly miscoded.
- 5.23 There are occasions when legitimate payments need to be made outside working hours, but until very recently there has been no process to facilitate this. The lack of reliable management information means it is not clear how often this has occurred, but we understand that in some cases social workers have made payments from their own funds before being reimbursed. It has recently been acknowledged that it is unreasonable to require officers to fund these payments themselves in the absence of any other means to do so, and payments can now be facilitated by the Emergency Duty Team.

Commissioning and procurement of expert assessment and therapy provision (Limited assurance)

- 5.24 As part of care planning and pre-proceedings, expert assessments and other services are commissioned to address a child's or their parents' needs, and to inform decisions about future action. The Children and Families Act 2014 introduced more stringent tests on the use of expert witnesses to streamline care proceedings and reduce unnecessary delays. The services commissioned include psychological and psychiatric assessments, cognitive assessment, parenting assessment, testing for alcohol and substance misuse and DNA testing.
- 5.25 In 2017/18 approximately 800 therapies and assessments were purchased at a cost of almost £501,000. A quarter of these by value related to psychological services, and approximately £120,000 was spent by the Child Protection Team on psychological assessments in care proceedings.
- 5.26 The need for assessments and therapy is generally documented on care plans but evidence supporting the specific response was recorded in only 60% of the cases we sampled. In common with our findings on our audit of section 17 payments there is insufficient information to support managers' informed approval for these services. The ongoing need for services, even in cases involving significant spend or reoccurring payments, is not generally monitored. However, since in the majority of cases we reviewed there was evidence of the need for an assessment, the need to use a specific service and/ or provider and of management review, we have given limited assurance rather than none.
- 5.27 The way in which providers are procured breaches the council's contract and procurement financial limits relating to quotations and tenders. The repeated use of known providers and the lack of a framework from which to select them has contributed to more than half of the total expenditure between April and December 2018 being with four providers.

Matters arising from internal audit work completed to 30 April 2019

- 5.28 Accreditation and safeguarding requirements are not reviewed before assessments and therapy providers are selected and services commissioned from them. We found only one reference to a provider's formal statement of experience in a sample of twenty. Disclosure and Barring Service (DBS) checks are not undertaken. Reliance is effectively placed on the social worker's previous experience of working with providers or on their appearance on a court list of approved providers, which we were unable to obtain.

Children's Services' in-service audit framework (Substantial assurance)

- 5.29 Children's Services introduced a quality assurance framework and audit team in 2016 to assess the quality of practice and identify any improvement needs by systematically sampling files. A range of audit activity is undertaken by the audit team, senior managers and independent reviewing officers, using both quantitative and qualitative information.
- 5.30 The Ofsted re-inspection in June 2018 acknowledged that improvements in Children's Services were supported by an increased focus on quality assurance and learning from audits, disseminated across the workforce. Ofsted also acknowledged that the framework was more effective and reliable than previously and that there was a clearer focus on improving outcomes for children and developing purposeful practice.
- 5.31 Guidance is in place to support the quality assurance framework, although it will be reviewed and revised again. Training was provided to managers before the framework was implemented, and further training and support is given by the audit team when required. Targets are set for the number of case audits undertaken and a thematic audit plan is also agreed by senior managers. Feedback on findings and associated actions are recorded and given to the social worker and manager. Implementation of actions is followed up and compliance testing is carried out on a sample.
- 5.32 Management information is gathered by the service's audit manager and distributed to senior managers as well as being reviewed as part of locality practice improvement meetings. Themes of good and bad practice are identified and remedial action is carried out in different ways, including training and a weekly brief produced by the principal social worker.

Child protection pre-proceedings and care proceedings (Moderate assurance)

- 5.33 'Pre-proceedings' are entered into when there are concerns about a child's welfare, to avoid the child being taken into the council's care through court proceedings. However if this preventative action is unsuccessful then effective pre-proceedings streamline the process through the court system. Ofsted has acknowledged that the county's performance has improved but that the quality and timeliness of pre-proceedings work remains inconsistent. To address this, and also to contribute to the service challenge savings, revised pre-proceedings guidance has been introduced with input from both the Child Protection Legal Team and Children's Social Care.

Matters arising from internal audit work completed to 30 April 2019

- 5.34 The guidance was rolled out in February 2019 after a successful pilot. The Child Protection Legal Team has carried out training sessions in each of the Children's Social Care District court teams and these have also sought to improve working practices. More training is due to be carried out later in the year.
- 5.35 The framework of controls has been adequately designed to address the need for very different teams to work together to take cases to court promptly. Although we assessed only the design of the controls framework and not its effectiveness in practice, it is clear that information is not always passed between the teams as quickly as necessary. However information is prepared by the Child Protection Legal Team to enable Children's Social Care managers to track and challenge delays.

Implementation of the Prevent strategy

(Substantial assurance)

- 5.36 The Counter Terrorism and Security Act 2015 imposes a statutory duty on local authorities and other public bodies to support vulnerable individuals and safeguard them from harming themselves or others. The aim is to promote joint working across sectors and institutions to address the risks of radicalisation, and there is a widely drawn multi-agency governance and leadership structure across Lancashire.
- 5.37 The council's Prevent Strategy and Delivery Plan describes how it meets its statutory duties, including actions to understand local risks, build capabilities and partnerships to address them and raise awareness. Roles and responsibilities have been allocated, including to sufficiently senior officers. Quarterly dashboards are reported through the pan-Lancashire structure and an annual self-assessment against the Lancashire Prevent Delivery Partners' checklist is reported to senior management.
- 5.38 Home Office e-learning is mandatory for staff with computer access and those without this are briefed by their managers.

Schools' payroll arrangements

(Substantial assurance)

- 5.39 We visited a sample of 15 schools across the county, including primary, secondary, specialist schools and colleges, to obtain assurance over their payroll arrangements. Overall, the schools we visited have effective procedures in place to support their payroll processes although we found some minor weaknesses in some of the controls operated in individual schools. We have reported these to those schools, and have also produced a best practice guide for publication on the schools' portal.
- 5.40 All schools have pay policies in place, most of which are based on the council's model policy and are reviewed and approved by the schools' governing bodies. Systematic processes are in place for preparing, reviewing and approving staffing budgets which involve key stakeholders and approval by governing bodies. Establishment lists are maintained by secondary schools, as required by the model pay policy, to support payroll reconciliations and the identification of starters and leavers, although most primary schools do not hold them. All schools undertake monthly payroll reconciliations. Most schools use appraisals to inform pay progression and the award of honorariums and these are approved by governors.

Matters arising from internal audit work completed to 30 April 2019

Customer Access Centre business continuity (Moderate assurance)

- 5.41 The Customer Access Service is the first point of contact for all enquiries relating to the council's services, providing customer contact via telephone, e-mail and social media through two separate services: the Social Care Service and the Customer Contact Centre.
- 5.42 A business continuity plan has been produced to ensure that the critical functions of the department continue to operate as normal as far as possible in an emergency, and to facilitate the re-establishment of services following an incident. The plan sets out the actions that will be taken, the decisions that will need to be made throughout the recovery process and the key personnel required to undertake these actions. A business impact analysis prioritises the services to be recovered in the event of an emergency although decisions regarding which services would be delivered will depend on the nature of the incident. Once it has been enhanced and embedded, the plan will provide an adequate framework for business continuity, but it has only recently been updated and is still subject to further improvement.
- 5.43 There is a database of emergency contacts and a business continuity team, but specific responsibilities have not yet been documented. Disaster recovery arrangements, including alternative means to operate whilst ICT is recovered, are not yet documented but will be addressed. An alternative site is available for up to 16 people but no formal arrangements have been made to ensure that staff with the skills to deliver critical services will be accommodated there.
- 5.44 An agreement is in place with BT Lancashire Services (BTLS) dated May 2016 to test the disaster recovery plan annually but, at the time of our review, only partial testing of the disaster recovery functionality had been undertaken. We understand that monthly testing to align the disaster recovery system with the live system is now undertaken, and BTLS have doubled the system storage capacity available, making it more robust.

Highways Asset Management System (HAMS) operational effectiveness (Limited assurance)

- 5.45 HAMS was introduced in April 2017 to deliver a number of ambitious objectives. In particular, as an integrated corporate solution replacing numerous ageing and obsolete systems, it was intended to provide a streamlined end-to-end workflow supporting lean, efficient business processes and good quality data for decision-making.
- 5.46 The key services that use HAMS include the Highways Service, Design & Construction, and Customer Access Service. System support is provided by the Core Systems Team and the Programme Office, which also co-ordinates the development of the system with stakeholders and BTLS.
- 5.47 We have provided limited assurance over HAMS' operational effectiveness and functionality in managing corporate assets, improving service delivery and reducing costs. Although progress has been made since 2017/18, issues remain across a number of areas. Action is still required to address issues with data quality, delivery of the system's functionality including generation of management reports, and the alignment of service processes to functionality. Further, users' knowledge, skills and confidence in using the system are still not adequate.

Matters arising from internal audit work completed to 30 April 2019

If these issues are addressed then HAMS' functionality should enable the council to achieve its objectives as intended.

- 5.48 It is generally recognised by the services using HAMS that data within the system's asset register is not fully up to date. An action plan has been developed to track asset-related issues and their resolution but, until the system contains current asset information, the council's ability to manage its assets and undertake planned and reactive maintenance effectively is at risk.
- 5.49 HAMS' effectiveness depends on users understanding its functionality and complying with agreed processes, and on its functionality working as intended. A schedule of workshops is therefore underway that will develop revised work instructions and process guidance documentation for all users. As at March 2019 training was on schedule and, of the 20 workshops held, revised instructions had been produced and published for three.
- 5.50 The Highways Service has recently met the system's provider to begin to develop improved management information and reports, but until the required reports are available and populated with reliable and accurate information the ability to monitor the service is still at risk.

Highways Asset Management System (HAMS) improvement programme (Moderate assurance)

- 5.51 As noted above, a lot of work is going on to improve the operational effectiveness of the HAMS system. A cross-service governance structure is in place to manage the delivery of the improvement programme, supporting decision-making and monitoring action. Senior and operational managers are represented from the key stakeholder services: Highways, Core Systems, Programme Office and the Customer Access Service.
- 5.52 The Governance Board oversees the separate work-streams of the programme's delivery, covering communications, service controls, training and business as usual. The Review Group has met regularly to manage operational activity, and action is being delivered on data cleansing, training, guidance/ instructions, analysis of informal customer complaints, the external reporting module, and the use of mobile devices. The group is also overseeing the development of the Highways co-ordination function that will eventually monitor the completion of cyclical work and responses to defects, provide performance management information, and monitor compliance with the revised operational processes.
- 5.53 A range of actions have already been delivered and more are planned, but there is a risk to their delivery arising from increasing demands and competing priorities elsewhere in the council, particularly on the Core Systems team.

Highways Service vehicle hire and return (Moderate assurance)

- 5.54 When additional vehicles are required to supplement the council's own fleet they are leased using a framework agreement for the hire of vehicles and plant, following the council's normal procurement and payment processes. In 2018/19 143 vehicles were hired by the Highways Service for an average of 35 days once returned but, of these, the 25 vehicles not returned had been hired on average for 153 days by the year end.

Matters arising from internal audit work completed to 30 April 2019

- 5.55 Checks on vehicle condition are made when vehicles are delivered and returned, although supporting evidence of these is not always held. Vehicles are regularly monitored through the lease period to ensure they are being used and are still required, but the initial and ongoing need for additional vehicles should be more actively challenged to ensure value for money.
- 5.56 Arrangements for securing depots, vehicles and keys are in place and when not in use vehicles are generally stored at a Highways depot.

Business Growth Hubs

(Substantial assurance)

- 5.57 The Boost programme offers growing Lancashire businesses simple access to support and help, so they can achieve their potential, funded jointly by the European Regional Development Fund (ERDF) and the county council (through its subsidiary company, Lancashire County Developments Ltd). It is now in its third phase, operated through contractors procured through an Official Journal of the European Union open procedure, who have agreed the business growth business growth outputs and outcomes required.
- 5.58 We have found nothing that would have a significant adverse impact on the delivery of the programme. Effective budget monitoring and a timely submission of claim forms have ensured that the funding allocated for the second phase of the programme has been properly expended. The Business Growth Boost team has worked closely with Lancashire Procurement Service's category manager (corporate) to ensure that the contract procured for the Boost 3 programme meets the procurement requirements set out by ERDF and are within the council's policies and procedures.

Implementation of the new corporate lone working system

(Substantial assurance)

- 5.59 In January 2017 the Health, Safety and Resilience service raised its concern that there was no standardised approach to the safeguarding of lone workers and a reliance on informal practices and personal relationships that could have left the council open to legal challenge in the event of an incident. Possible solutions were investigated and a system was purchased from an accredited industry expert.
- 5.60 This system is now being implemented and we assessed the control framework established to implement and then operate the new corporate lone working system: we identified no significant weaknesses in the design of the control framework. We will undertake a further audit in 2019/20 to obtain assurance that a number of key operational services comply with the revised working practices.

Treasury management

(Substantial assurance)

- 5.61 At the end of December 2018 the council's total borrowing amounted to £1,176.3 million and it held investments worth £450.7 million in total, consisting of £171.8 million in bank and local authority deposits and £278.9 million in bonds. In the three months from 1 October to 31 December investments worth £766 million matured and £643.2 million was reinvested.

Matters arising from internal audit work completed to 30 April 2019

- 5.62 The council has approved and complies with a treasury management strategy, policy statement and detailed practices. This framework is compliant with CIPFA's code of practice and therefore with statutory proper practice. Treasury management activity is supported by daily forecasts of the council's financial position and decisions are subject to appropriate delegation limits. The director of finance receives regular reports.

Financial processes: general ledger (Substantial assurance)

- 5.63 The council operates Oracle Financials as its corporate accounting system. Inputs to the general ledger are made through both manual journals and interfaces from feeder files, which are processed through the error correction system. Coding errors are posted to suspense accounts for review and are regularly cleared. The general ledger system supports the effective production of the council's financial accounts.

- 5.64 We noted only insignificant issues in demonstrating segregation of duties and approval for action taken, and in retaining evidence supporting journals.

Financial processes: cash and banking (Substantial assurance)

- 5.65 The council's financial regulations, its income and debt management policy, and the Finance team's procedures are clear and comprehensive. Work is undertaken by staff who have a clear understanding of their roles and responsibilities, and there is an operating rota for daily tasks which includes absence cover.

- 5.66 Cash and cheques are receipted and banked promptly, and chequebooks and cheques received are retained securely in safes until the next available deposit with the bank. Income credits relating to invoices raised by the council are identified daily and transactions that cannot be allocated are investigated and resolved. Suspense and control accounts are reconciled monthly in a timely manner and these are verified by a second officer.

- 5.67 The cashier's team allocates bank account credits to remittance advices sent to the team's mailbox, ensuring that income is properly receipted on Oracle. Other income is allocated through different sources, and is registered on maintained documents held by the team. Where supporting information is insufficient to correctly allocate any cash or cheques received, income credits are placed on an 'unallocated register' and investigated regularly by officers interrogating the feeder systems, until the issue is resolved.

6 Managers' progress in implementing actions

- 6.1 At 31 March 2019 363 actions agreed following audit work during 2016/17, 2017/18 and 2018/19 were due for completion. Their current status is set out on the following page.
- 6.2 The process of following up actions during the year has caused some of them to be questioned and rejected, sometimes in favour of an alternative, sometimes as no longer relevant, or occasionally as too ambitious (in particular where they require amendments to software and systems).

Matters arising from internal audit work completed to 30 April 2019

- 6.3 It is creditable that 86% of the actions agreed over the last couple of years have been addressed or have been superseded, but there are some now long-outstanding or unconfirmed actions. Most are intended to address only low and medium risks but six are intended to mitigate high risks, five arising from audit work undertaken more than a year ago. These have generally been recorded as single actions but in practice require significant and senior input to resolve, and they have clearly taken longer than anticipated to implement. They relate to children's direct payments and residential placements, the transition from children's to adults' services, supervision of adults' social workers, adult social care case quality and decision-making, and the capital programme.

Numbers of actions agreed during 2016/17, 2017/18 and 2018/19							
Action status	December 2018		March 2019				
	Total		Total		Risk rating		
					High	Medium	Low
Complete	230	76%	267	73%	18	141	108
Superseded	39	13%	46	13%	7	24	15
Incomplete	16	5%	11	3%	4	6	1
Awaiting responses	17	6%	39	11%	2	21	16
Total	302	100%	363	100%	31	192	140

7 Amendments to the audit plan

- 7.1 The head of internal audit, chief executive and director of resources, and the director of finance, reviewed the council's framework of internal control and the audit plan during the course of the year. As would be expected as the year progressed, a number of audits were added to the plan, removed from it or amended. These changes have been reported through the year and in particular in January 2019.
- 7.2 Since then, the following audits have been removed from the plan:
- The LEP assurance framework. The assurance framework will change again in April 2019 (having been amended for April 2018) so this work will be included in the plan for 2019/20 but may take a different form as the LEP itself is being reconstituted.
 - Corporate performance management. The revised corporate strategy and performance monitoring framework will need time to embed and the audit has been deferred into 2019/20.
 - Contract monitoring: operation of the new homecare contract for domiciliary care services. During the year, the Internal Audit Service has acted as a critical friend to the non-residential contract monitoring team as it has been developing a quality assurance framework to apply to providers on the new homecare contract. This revised assurance framework will supersede the current supplier monitoring arrangements, which have therefore not been audited. An audit of the revised quality assurance arrangements is included in the 2019/20 audit programme.

Matters arising from internal audit work completed to 30 April 2019

- Quality Assurance and Improvement Programmes for residential and non-residential care. As with the audit above, since the frameworks of assurance over the quality of care being provided to adult service users are still being developed this audit has not been undertaken.
- Case management: mental health services. This work was always likely to fall towards the end of the year, but the service has now confirmed that this would be more appropriate in 2019/20, when new end to end case management arrangements have been embedded, following the transfer of mental health service provision back into the council.
- Individual service funds. The council's future policy in relation to this funding is under review and audit work has therefore been deferred until the position is clearer.
- Safeguarding vulnerable adults. Following the commissioning of an external review into the council's safeguarding arrangements, changes are being introduced into the safeguarding adults' processes, which will not become fully embedded until 2019/20. The audit has therefore been deferred and included in the 2019/20 audit programme.
- Highways: health and safety. This has been deferred into 2019/20 when it will become a broader audit than originally planned and will cover transport and waste as well as highways work.
- Teaching partnership: governance and financial arrangements. This audit has been reprioritised and is now no longer required.
- Health and safety of individuals in commercial properties managed by the council. This work was intended to address arrangements to ensure staff and contractors' safety in council-managed, commercially let properties, but has been reprioritised.
- Health and safety of individuals in properties managed by the council. This audit was to focus on the process by which compliance with statutory and other requirements is assured by the newly-established compliance team supported by PAMS across properties managed by the council. However the service has some inherent capacity issues which have been exacerbated by health and other personal issues, and the development of its assurance framework has therefore not progressed as intended. This work has been included in the plan for 2019/20.

Assurance provided by internal audit assignments in 2018/19

Audit assurance levels and classification of residual risks

These definitions were used for the first time in 2018/19, having been reviewed and revised in the previous year.

Audit assurance

Note that our assurance may address the adequacy of the control framework's design, the effectiveness of the controls in operation, or both. The wording below addresses all of these options and we will refer in our reports to the assurance applicable to the scope of the work we have undertaken.

Substantial assurance: the framework of control is adequately designed and/ or effectively operated.

Moderate assurance: the framework of control is adequately designed and/ or effectively operated overall, but some action is required to enhance aspects of it and/ or ensure that it is effectively operated throughout the service, system or process.

Limited assurance: there are some significant weaknesses in the design and/ or operation of the framework of control that put the achievement of the service, system or process' objectives at risk.

No assurance: there are some fundamental weaknesses in the design and/ or operation of the framework of control that could result in failure to achieve the service, system or process' 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: catastrophic loss of the county council's services, loss of life, significant environmental damage or significant 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: failure to achieve organisational objectives, significant disruption to the council's business or to users of its services, significant financial loss, 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: 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: matters that individually have no major impact on achieving the service's objectives, but where combined with others could give cause for concern. *Specific remedial action is desirable.*

Audit, Risk and Governance Committee

Meeting to be held on Monday, 20 May 2019

Electoral Division affected: (All Divisions);
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Internal Audit Annual Report 2018/19

(Appendices A, B and C refer)

Contact for further information:

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Executive Summary

The annual report to Lancashire County Council is appended to this report as Appendix A. The committee has considered periodic reports of progress throughout the year that support this overall report and the conclusion that moderate 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 2018/19 and the key themes arising in relation to internal control, governance and risk management across the county council.

Appendix B sets out the assurance provided by each individual internal audit assignment, and appendix C sets out the scope of internal audit work, management and audit's responsibilities, and the basis of the assurance provided.

Recommendation

The committee is asked to consider and note this report 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 council's senior managers and directors, and specifically with the chief executive and director of resources and director of finance.

Implications:

This item has the following implications, as indicated:

Risk management

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

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/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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Lancashire County Council Internal Audit Service Annual report for the year ended 31 March 2019

1 Introduction

Purpose of this report

- 1.1 This report summarises the work that the county council's Internal Audit Service has undertaken during 2018/19 and the key themes arising in relation to internal control, governance and risk management across the council.
- 1.2 In April 2018 the Audit, Risk and Governance Committee considered and approved an internal audit plan for 2018/19, and small amendments to the plan have been reported to the committee during the course of the year. The work for the year is now sufficiently complete to support the overall opinion on the frameworks of governance, risk management and internal control, although some pieces of work remain to be finalised and will be reported to the next meeting of the committee.

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 2018/19.
- 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 progress reports

- 1.5 I have provided summaries of the individual pieces of audit work completed throughout the course of the year in my progress reports to each meeting of the Audit, Risk and Governance Committee. Any audit reports will be provided to any members if they wish.

Ruth Lowry
Head of Internal Audit
Lancashire County Council

2 Summary assessment of internal control

Overall opinion

- 2.1 I can provide moderate assurance overall regarding the adequacy of design and effectiveness in operation of the organisation's frameworks 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 the work of external assurance providers and information available from less formal sources than planned audit engagements. Audit work has covered the full range of the council's services and each element of the control framework.
- 2.3 As would be the case in any normal organisation, there are still a number of areas of the council's business where further service improvements as well as cost savings need to be made, but there are now plans to make these improvements and savings. Particularly in respect of plans to achieve a financially sustainable position for the council for the longer term, there is also now sufficient time as well as reserves to support some flexibility where necessary.
- 2.4 Descriptions of the audit work we have done are set out below, and an explanation of the assurance provided by internal audit assignments in 2018/19 during the period to 30 April 2019 are set out in Appendix B.
- 2.5 More details about the key issues and themes are provided in section 3 below.

The council's control framework

- 2.6 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		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							
Growth, environment, transport & community services				Children's services & education		Adult services, health & wellbeing	
Economic development & planning	Programmes & project management		Community services	Children's services	School improvement & services	Adult Services	Public health
Service support							
Legal services	Skills, learning & development		Core business systems	Property management	Programme management	Business intelligence	Customer access
Business processes							
Financial systems & processes		Procurement		Facilities management		Human resources	
Budget monitoring		Contract monitoring & management		Information management		Payroll processing	
Investment				Business continuity		ICT systems	

Summary of assurance provided by the Internal Audit Service

- 2.7 A summary of all the assurance provided during the year to the end of April 2019 is set out 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, since this has not been directed at providing assurance.

2018/19 assignments relating to:	Total	Assurance provided			
		Substantial*	Moderate*	Limited	None
Governance	-				
Business effectiveness	2		2		
Service delivery	33	11	16	6	
Service support	4	2	1	1	
Business processes	7	5		2	
2018/19 assignments: total to date	46	18	19	9	-
	100%	39%	41%	20%	-

- 2.8 Audit work in the previous two years was generally directed towards areas that were understood to be subject to relatively few problems. By agreement with the management team at the time, the plan for 2017/18 included some audits that were intended to support managers in making further improvements in high-risk areas that were known to be problematic but without ongoing interventions. In 2016/17 the plan was designed to avoid areas that were regarded as being insufficiently well controlled.

- 2.9 The assurance provided in these two years was as follows:

	Total	Assurance provided			
		Substantial*	Moderate*	Limited	None
2017/18 assignments	51	5	34	12	0
	100%	10%	67%	23%	-
2016/17 assignments	31	3	24	4	0
	100%	10%	77%	13%	-

Wider sources of assurance available to the county council

- 2.10 Some assurance has been taken from the work undertaken by Deloitte LLP over the operation of the Local Pensions Partnership. The firm has completed two audits of various aspects of the partnership's activities in accordance with the plan for the year updated in February 2018, and the last audit under the plan for 2017/18. Six further audits for 2018/19 are still ongoing and the assurance provided by them will be reported when available, along with further work for 2019/20.
- 2.11 The reports provided by Ofsted during the year form important sources of external assurance and may be found on Ofsted's web-site here: <https://reports.ofsted.gov.uk/local-authorities/lancashire>

Management's responses to our findings

- 2.12 Each of the issues raised during the year has been discussed with the relevant service managers as well as with members of the council's Corporate Management Team. Action plans have been agreed and audit work during 2018/19 indicates that the plans agreed in previous years are largely being addressed, although some improvement work is still ongoing.

Numbers of actions agreed during 2016/17, 2017/18 and 2018/19							
Action status	December 2018		March 2019				
	Total		Total		Risk rating		
					High	Medium	Low
Complete	230	76%	267	73%	18	141	108
Superseded	39	13%	46	13%	7	24	15
Incomplete	16	5%	11	3%	4	6	1
Awaiting responses	17	6%	39	11%	2	21	16
Total	302	100%	363	100%	31	192	140

3 Key issues and themes

- 3.1 There have been some considerable changes to the organisation's most senior management team over recent years, and this is now becoming more stable following permanent appointments to each of the most senior and statutory posts during 2018/19.
- 3.2 The council's financial position is also beginning to stabilise. In February 2019 the council set a budget for 2019/20 requiring much less support from financial reserves than in recent years, although reserves of £10.2 million will still be necessary and an overall funding gap of £47.2 million by 2022/23 remains. Although current forecasts indicate that there may be sufficient reserves to bridge this gap, work is under way to reduce the need to use these in 2020/21 and beyond by identifying further savings. Therefore, although significant challenges remain, the council's direction of travel in terms of its financial position is positive.
- 3.3 Likewise after some years of considerable effort, the council's provision of children's social care services has been re-assessed by Ofsted and is no longer deemed to be inadequate. Again, there is still further work to do to consolidate this improvement and extend it to services for children with special educational needs and disabilities, but the direction of travel is positive.
- 3.4 Improvement plans are in place across a number of services and systems and although, for example, controls are still insufficient over the operation of the highways asset management system, we have been able to give favourable assurance over the programme designed to improve this. Other areas that are subject to ongoing improvement include the transition of service users from children's to adults' services, and various aspects of adult social care including quality assurance of both residential and non-residential care.

Annual report for the year ended 31 March 2019

- 3.5 There are still considerable demands on the council's resources that put improvement of its services, systems and process at risk. The need to support service improvements and cost savings with improvements in ICT systems in particular is being closely assessed.
- 3.6 Despite the challenges facing managers across the council the Internal Audit Service has been welcomed and supported in undertaking our work. We have withdrawn from work in some areas where necessary whilst further action has been taken by management to understand the issues and plan the improvements still required but, overall, we have had access to services in every directorate.
- 3.7 The assurance we have provided on the audit engagements we have completed is largely favourable, and our conclusions where reports are still being drafted follow the same pattern.
- 3.8 I have therefore been able to give moderate assurance overall; a more favourable opinion than the limited or no assurance I have given in the previous five years.

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 frameworks of governance, risk management and control. The council's annual governance statement should therefore again reflect the continuing challenges presented by its financial position and projections; its continuing drive to make extremely challenging cost reductions; the effects of cost reductions on its ability to operate adequate and effective controls to properly manage the risks to its objectives and work to improve its core ICT systems.
- 4.2 However more positively, it should also refer to the judgement made by Ofsted during the year arising from its re-inspection of services for children in need of help and protection, children looked after and care leavers. This concluded that children's services in Lancashire require improvement to be good, but which represents a positive improvement from the earlier judgement that these services were inadequate.
- 4.3 It could also reflect the favourable direction of travel in planning and implementing improvement plans in a range of other service areas including adult social care and highways asset management for example.
- 4.4 It could also be noted that the move back to favourable assurance reflects the more normal operation of the Internal Audit Service itself, and a more normal relationship than in recent years with the rest of the organisation. The county council now appears to be operating as would be expected, although like all local authorities it remains under some considerable pressure.

5 Organisational independence

- 5.1 The Internal Audit Service has access to and support from the council's Corporate Management Team and is able to operate independently within the organisation so is 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 Corporate Management Team, the council's senior managers and the Audit, Risk 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 confirmation of the structure of the service during the previous year the service's establishment is currently fully staffed.

Completion of the internal audit plan 2018/19

- 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 As set out at paragraph 2.7 above, at this point we have provided assurance through 46 individual audit assignment reports (2017/18: 51 in total by July 2018), 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. This represents 58% of the current plan after some work has been deferred and removed, and this rises to 73% if the 12 assignments that are currently in draft are also included.
- 6.4 At the same time as work on the audit plan for 2019/20 is begun, the remaining work for 2018/19 will be completed and reported to the committee in July 2019.

Client satisfaction

- 6.5 The Internal Audit Service has requested feedback from its auditees throughout the year as each audit assignment has been completed. This has again provided very positive feedback about the conduct of our audit work and just a few helpful indications of practical matters for the team to consider in conducting its work.
- 6.6 We have received feedback on 46% of the audit engagements completed for the county council, although surveys have only just been sent for the most recently completed audits. We have received 33 surveys relating to 2018/19 (2017/18: 33) from all our auditees including from our external client organisations. Given the number of assignments completed at this point, this number is entirely consistent with the previous year.

- 6.7 Our auditees have told us in every case that, overall, they were satisfied with the way we conducted our work with them. We also seek more detailed feedback in relation to our audit planning, the audit process and reporting, our behaviour, and our management and service to our auditees. Our auditees have judged our performance across all categories to be very good in 48% of our audits (2017/18: 52%), and a mix of very good and good in all other audits with only one exception. We were judged as just fair in one area (reporting) on just one audit (2017/18: 1).

7 Quality assurance and improvement programme

- 7.1 The Internal Audit Service has established and regularly reviews a quality assurance and improvement programme. PSIAS requires that all aspects of internal audit activity are considered by a combination of ongoing internal monitoring, periodic self-assessments or internal assessments by others with sufficient knowledge, and independent external review at least once every five years.

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

- 7.2 Following this framework, the Internal Audit Service's quality assurance and improvement programme consists of internal ongoing monitoring of audit assignment quality, periodic internal assessment of the professional and operational framework, and external review.

External review

- 7.3 The findings of the last external quality assessment undertaken by the Chartered Institute of Internal Auditors were reported to the committee in January 2018. This confirmed that the Internal Audit Service 'generally conforms' to the full range of standards set out in the International Professional Practice Framework, PSIAS and Local Government Application Note. Work has continued to address the few matters raised to improve the operation of the service and an assessment of progress against the action plan will be provided to any member who wishes to see it.
- 7.4 The review confirmed that the Internal Audit Service can say that its work has been in accordance with the International Professional Practices Framework, PSIAS and the Local Government Application Note.

Internal review

- 7.5 The Internal Audit Service has designed procedures and an audit methodology that conform to PSIAS and are regularly reviewed. Every auditor in the team is required to comply with these or document the reasons why not, and to demonstrate this compliance on every audit assignment. The audit managers assess the quality of each audit concurrently as it progresses, and a post-audit file review process has been undertaken. These reviews indicate that there is good evidence of compliance with our audit methodology and input from the audit managers to support the work of the auditors although, like last year, some learning points have been drawn out and shared with the team.
- 7.6 In addition to these periodic file reviews, the service's methodology includes a step which requires the head of internal audit to read each report as it is finalised. This does not entail an additional detailed review and the auditors' reports remain theirs, using their own style and wording, but is intended to ensure that each assignment can be adequately understood and is properly communicated.

Appendix B

Assurance provided by internal audit assignments in 2018/19

Note that our assurance may address the adequacy of the control framework's design, the effectiveness of the controls in operation, or both. The wording below addresses all of these options and we refer in our reports to the assurance applicable to the scope of the work we have undertaken.

These definitions were used for the first time in 2018/19, having been reviewed and revised in the previous year.

Substantial assurance: the framework of control is adequately designed and/ or effectively operated.

Moderate assurance: the framework of control is adequately designed and/ or effectively operated overall, but some action is required to enhance aspects of it and/ or ensure that it is effectively operated throughout the service, system or process.

Limited assurance: there are some significant weaknesses in the design and/ or operation of the framework of control that put the achievement of the service, system or process' objectives at risk.

No assurance: there are some fundamental weaknesses in the design and/ or operation of the framework of control that could result in failure to achieve the service, system or process' objectives.

As at 30 April 2019, the assurance available from completed audit work is as follows:

Control area: 2018/19	Assurance
Business effectiveness	
Delivery of the council's financial strategy and budget reductions	Moderate
Communication with staff across the council	Moderate
Medication practices across Disability Services	Moderate
Supervision and support to front-line in-house day services care providers in Disability Services	Moderate
Supervision and support to front-line social workers in the Patient Safety and Safeguarding Service	Limited
Contract monitoring: reablement service	Moderate
Contract monitoring: crisis support service	Moderate
Contract monitoring: sexual health service	Substantial
Contract monitoring: direct payment support service	Limited
Public Health expenditure	Substantial
Payroll claims and recovery of over/ underpayments to staff in Disability Services	Moderate
Ordinary residence	Moderate
Third party top-up payments	Limited
Service delivery: Education & Children's Services	
Section 17 payments	Limited

Assurance provided by internal audit assignments in 2018/19

Control area: 2018/19	Assurance
Commissioning and procurement of expert assessment and therapy provision	Limited
Children's Services in-service audit framework	Substantial
External residential placements process	Moderate
Contract monitoring: external residential placements	Moderate
Child protection pre-proceedings and care proceedings	Moderate
Special guardianship orders	Moderate
Implementation of the Prevent strategy	Substantial
Schools' payroll arrangements	Substantial
Schools' Financial Value Standard self-assessments	Moderate
Concessionary travel: NOW Card	Substantial
School bus passes	Substantial
Contract monitoring: highways line-marking contract	Moderate
The crisis support scheme	Substantial
Customer Access Service: business continuity	Moderate
Highways Asset Management System (HAMS) operational effectiveness	Moderate
Highways Asset Management System (HAMS) improvement programme	Limited
Lancashire Renewables: governance and decision making	Moderate
Lancashire Renewables: expenditure	Substantial
Highways Service vehicle hire and return	Moderate
Business Growth Hubs	Substantial
Contract monitoring: waste landfill	Substantial
Service support	
Implementation of the new corporate lone working system	Substantial
Recovery of costs/ available income from partner organisations	Limited
'Step up to Social Work' contract	Moderate
Procurement of the new corporate banking contract	Substantial
Business processes	
Information management: information storage and retention	Limited
Information management: compliance with the new General Data Protection Regulations	Substantial
Treasury management	Substantial
Oversight of payroll payments	Limited
Financial processes: general ledger	Substantial
Financial processes: cash and banking	Substantial
Financial processes: VAT processing	Substantial

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, Risk 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.

Scope, responsibilities and assurance

- 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, Risk 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, Risk and Governance Committee

Meeting to be held on Monday, 20 May 2019

Electoral Division affected: (All Divisions);
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The Council's Annual Governance Statement 2018/19 & Code of Corporate Governance

(Appendices A & B refer)

Contacts for further information:

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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 2018/19.

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 Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority of Chief Executives (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 2018/19 for inclusion in the draft Statement of Accounts.
2. Note that the Annual Governance Statement will be signed by the Chief Executive and Director of Resources (S151) 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 2018/19.

The final AGS will be signed by the Chief Executive and Director of Resources (S151) 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 Chartered Institute of Public Finance and Accountancy (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 such as the corporate strategy and Getting to Good Plan.

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

N/A

Draft Annual Governance Statement 2018/19

Executive Summary

The Leader of the County Council (County Councillor Geoff Driver CBE) and Chief Executive and Director of Resources (Angie Ridgwell) both recognise the importance of having good management, effective processes and other appropriate controls in place to run the County Council in delivering services to the communities of Lancashire.

Each year the Council is required to produce an Annual Governance Statement (AGS) which describes how the corporate governance arrangements have been working across the group. To help do this both the Council's Corporate Management Team (CMT) and the Audit, Risk & Governance Committee undertake a review of the Council's governance framework and the development of the AGS.

On the 20 May 2019 the Audit, Risk and Governance Committee considered the content of the proposed governance statement to ensure that it properly reflects how the Council is run.

The final statement is signed by the Leader of the Council and Chief Executive and Director of Resources.

Governance Issues

Overall it can be confirmed that the council has the appropriate systems and processes in place to ensure good governance is maintained. Whilst these generally work well our review has identified the following issues which are currently underway but not yet completed:

Key Delivery/Improvement Area	Lead Officer	To be delivered by
Reshaping the Council <ul style="list-style-type: none"> Through our Peoples Strategy ensuring adequate workforce plans, capacity and skills are in place across the organisation Further embed a focus on service delivery Develop a sustainable financial strategy 	Chief Executive Director of Corporate Services Director of Strategy & Performance Director of Finance	31 March 2020 Autumn 2019 Ongoing
Getting to Good (Children's Social Care)	Executive Director of Education & Children's Services	Ongoing
Response to Special Educational Needs & Disability (SEND) inspection	Executive Director of Education & Children's Services	Ongoing
Supporting disadvantaged families to fulfil their potential (Troubled Families Programme)	Executive Director of Education & Children's Services	31 March 2020

Key Delivery/Improvement Area	Lead Officer	To be delivered by	
Managing major projects	Executive Director of Growth, Environment & Transport	Ongoing	
Intermediate care for older people in a residential setting	Executive Director of Adult Services & Health & Wellbeing	31 March 2020	
Core systems and data	Director of Strategy & Performance	31 March 2020	
Future provision of ICT Services	Director of Finance	31 March 2020	
Recruitment and Retention	Director of Corporate Services	31 March 2020	
<p>Progress made against the issues identified in last year's AGS is reported in this year's statement.</p> <p>We propose over the coming year to address the matters identified and will monitor implementation and operation as part of the performance management role of the Corporate Management Team and the Cabinet. The Audit, Risk and Governance Committee will also help us with independent assurance during the year.</p> <p>----- County Councillor Geoff Driver CBE Leader of the Council</p> <p>----- Angie Ridgwell Chief Executive and Director of Resources</p> <p><i>Signed on behalf of Lancashire County Council</i></p> <p>3</p>			4

Introduction

Local authorities are required by statute to review their governance arrangements at least once a year. Preparation and publication of an Annual Governance Statement in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority of Chief Executives (SoLACE) "*Delivering Good Governance in Local Government Framework*" (2016) (the Framework) helps fulfil this requirement. The Framework requires local authorities to be responsible for ensuring that:

- their business is conducted in accordance with all relevant laws and regulations
- public money is safeguarded and properly accounted for
- resources are used economically, efficiently and effectively to achieve agreed priorities which benefit local people.

The Framework also expects that local authorities will put in place proper arrangements for the governance of their affairs which facilitate the effective exercise of functions and ensure that the responsibilities set out above are being met.

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.

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.

Key elements of the County Council's Governance Framework

Key elements of Lancashire County Council's governance framework are set out below:

Leader, Cabinet & Council	Decision Making	Risk & Performance Management
<ul style="list-style-type: none"> The Leader provides leadership Cabinet develops and sets policy Full Council agrees the annual budget, sets Council Tax and the policy framework including the Corporate Strategy (the cornerstone of our policy framework) 	<ul style="list-style-type: none"> Meetings are held in public and many are webcast Decisions are recorded on the Council's website Scheme of delegation 	<ul style="list-style-type: none"> Risk registers identify both operational and strategic risks Key risks are considered by Corporate Management Team (CMT), Cabinet Committee for Performance Improvement (CCPI) and Audit, Risk and Governance Committee Processes are in place for managing and reporting performance to CMT and members (CCPI) Directors complete assurance statements
Council's Leadership Team	Scrutiny & review	External & Internal Audit and review
<ul style="list-style-type: none"> Head of Paid Service is the Chief Executive who is responsible for all council staff and leading Corporate Management Team Chief Executive is the council's s.151 Officer and is responsible for ensuring the proper administration of the council's financial affairs The Monitoring Officer is the Council's Director of Corporate Services who is responsible for ensuring legality and promoting high standards of public conduct 	<ul style="list-style-type: none"> Scrutiny Committees review council policy, decisions and budget proposals Work to deliver local public sector accountability 	<ul style="list-style-type: none"> External audit provides an opinion on the Council's annual statement of accounts and whether the Council has secured economy, efficiency and effectiveness in the use of its resources Internal Audit provides regular assurance on the governance, risk management and internal control framework External inspections provide an accountability mechanism Peer challenge/reviews highlight good practice and areas for improvement

How do we comply with the CIPFA/SoLACE Framework?

The Council has approved and adopted:

- a Local Code of Corporate Governance
- the requirements of the CIPFA/SoLACE Framework Delivering Good Governance in Local Government Framework 2016
- a number of specific strategies and processes for strengthening corporate governance.

An updated Local Code of Corporate Governance can be found here [\[insert link\]](#). This shows how the County Council has complied with the seven principles set out in the CIPFA/SoLACE Framework. The Code is reviewed annually, and the outcome reported to Audit, Risk and Governance Committee and presented to Full Council for approval. 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.

Managing Risk & Performance

Performance management is a key component of the Council's approach to achieving its outcomes. Part of this process involves identifying and where appropriate, mitigating risks, ensuring that performance and risk management processes are in place throughout the organisation with effective processes to ensure sound financial management. Managing risks is the responsibility of services. All service risks are scored on the same basis and the greatest risks are elevated onto the Corporate Risk Register.

Service risk & opportunity registers are updated regularly, and the Corporate Risk and Opportunity register is reported to Corporate Management Team, Cabinet Committee for Performance Improvement (CCPI) and Audit, Risk & Governance Committee on a quarterly basis. Corporate Management Team have recently reviewed the content of the register. The Corporate Risk & Opportunity register and further information about the approach to risk management can be found here [\[insert link\]](#)

Equality Impact Assessments are used throughout the organisation to assess the impact of service proposals and to inform decision making.

The budget setting process is well established, and services prioritise budgets and spending to achieve intended outcomes. In recent years the budget setting process has inevitably focused on achieving savings whilst still focusing on the priorities of the political administration.

The medium term financial strategy is updated and reported to Cabinet together with relevant resource forecasts and takes full account of the changing regulatory, environmental, demographic and economic factors that impact on the financial environment in which the County Council operates. The quarterly report to the Cabinet, 'Money Matters', includes in-year revenue and capital expenditure monitoring information along with updates on the multi-year capital programme. Financial Monitoring Boards have also been established for service challenge options that have been agreed as part of budget savings.

In February 2019, Full Council agreed a new corporate strategy 'Our Vision for Lancashire' that includes a new set of high-level metrics which will enable the overall success and progress of the strategy to be monitored and demonstrated. Scrutiny Committees will play a key role in year 1 in ensuring that the high-level metrics are the right ones and that the targets are appropriate.

In addition to the high-level metrics relating to the strategy, the CCPI will continue to regularly receive the more detailed, service specific performance metrics which enable members to monitor ongoing service delivery and performance. The reports highlight good performance and areas for improvement (further reports setting out improvement action plans are presented when necessary).

The CMT receives a suite of performance dashboards monthly; these include executive summaries, written by each executive director, which draw attention to concerns with performance, describe recovery plans, and escalate issues for discussion and action by the corporate management team. Any concerns with the quality of the data are highlighted immediately and the recovery plan will focus on improving the data. Once there is confidence in the data, performance concerns are the focus of discussion. This approach requires a deeper understanding of data presented and is driving up the quality of data and reporting across the council.

Managing our resources (Value for Money)

The Council's external auditors, in their assessment of 2018/19, regarded the following as the significant value for money challenges that were faced by the Council during the year:

- Financial sustainability
- Internal Control

The Council ensures that it provides timely support, information and responses to its external auditors – properly considering audit findings and assumptions around what may happen in the future particularly relating to those elements that cannot be directed by the Council.

Financial projections are reported to both the Corporate Management Team and Cabinet in the 'Money Matters' report which forms a regular review point for assessing the effectiveness of financial plans. The current budget strategy remains to use budget savings along with the use of reserves and capital receipts to ensure funding requirements are met.

The forecast will need to be reviewed in light of any central government funding proposals for local government.

Financial Sustainability

Financial sustainability remains the greatest risk facing the County Council. However, whilst the council's financial position has not been fully stabilised, over the course of the last year considerable work has been done to improve it.

As a result, it is anticipated that available reserves will be sufficient to support the council's expenditure until at least 2022/23. Full Council approved in February around £77m of savings, some of which were subject to further consultations. However, a forecast gap in funding of £46m by 2022/23 remains, with work continuing to identify further savings so that a financially sustainable position can be achieved.

For the 2019/20 budget, consultation on budget proposals were undertaken with a variety of stakeholders and partners including discussions with the Trades Unions. A number of savings proposals included within the agreed 2019/20 budget were subject to specific consultation exercises, with decisions to be made at future Cabinet meetings as to their final implementation. Any changes to these proposals resulting from the consultation which reduces the level of savings achievable is planned to be covered by reserves.

The Council regularly monitors its medium term financial forecast. The forecast for future years takes into account anticipated cost pressures (both inflationary and demand led), planned savings and expected resource levels. The forecast is necessarily underpinned by a range of professional estimates.

The financial management arrangements of the Council conform to the governance requirements of the CIPFA Statement on the *Role of the Chief Finance Officer in Local Government*.

How do we know our arrangements are working?

There are a number of ways we do this:

The role of management

The Corporate Management Team oversee the review of the Council's governance arrangements. Following this review, they can confirm that appropriate internal controls for which they have responsibility are in place, in particular their scrutiny of regular budget and performance reports including performance against savings targets within the Medium Term Financial Strategy.

Directors have the day to day responsibility for managing and controlling services – they are accountable for their successful delivery. They set the culture, develop and implement policies, procedures, processes and controls. Directors have completed an 'assurance statement' for 2018/19 that reports on service compliance and they produce in-year quarterly service risk registers that set out appropriate mitigating actions for significant risks. Where the evidence needed to provide full assurance is not available, improvement plans are in place.

The Monitoring Officer regularly reviews the Council's Constitution and ethical governance arrangements and there are regular briefings on key corporate governance issues to Directors and Heads of Service.

The Role of the Audit, Risk & Governance Committee

The Council's Audit, Risk and Governance Committee plays a vital role in overseeing and promoting good governance, ensuring accountability and reviewing the way things are done.

The Committee provides an assurance role to the Council by examining such areas as audit, risk management, internal control, counter fraud, treasury management and financial accountability. The Committee exists to challenge the way things are done, making sure the right processes are in place. It works closely with both Internal Audit and senior management to continually improve the Council's governance, risk and control environment.

In addition to the standard items on the agenda, the committee considered reports on the following:

- Whistleblowing and Counter Fraud
- Overpayment of Salaries
- General Data Protection Regulations
- Delays and Overspends on Major Projects
- Neighbourhood Wellbeing Grants

In July 2018, the Chairman presented his first annual report. The report set out the work the committee had undertaken and provided a means by which it was able to review its own effectiveness. As part of the report the committee agreed a new skills and knowledge framework. Committee members subsequently carried out a skills and development review and as a result training and development opportunities have been put in place.

The role of the Head of Internal Audit

The Head of Internal Audit is required to provide an independent opinion on the Council's governance, risk management and control frameworks and therefore the extent to which the Council can rely on them. The Internal Audit Annual Report and opinion has been considered in the development of the Annual Governance Statement.

Audit work has progressed well against an ambitious plan and 80% of the work completed by the year end has yielded favourable assurance over the design and operation of the services, systems and processes audited.

As a result, the Head of Internal Audit's overall opinion as set out in the Annual Report is that **moderate** assurance can now be given regarding the adequacy of design and effectiveness in operation of the organisation's framework of governance, risk management and control for 2018/19.

External Assurances

The opinions and recommendations of the External Auditor and other inspection and review agencies and peer reviews offer us further assurance.

Information Governance

The council has a comprehensive Information Governance Framework in place, overseen by the Corporate Information Governance Group. The group is attended by the Senior Information Risk Officer and Data Protection Officer.

The General Data Protection Regulation (GDPR) and the Data Protection Act 2018 (DPA 2018) came into force in the UK on 25 May 2018. The legislation makes provision for the processing of personal data. Preparations for GDPR and DPA 2018 began at the start of 2017 with the Information Governance team systematically assessing each part of the legislation and putting controls and processes in place to ensure the authority would be compliant when the legislation came into force on 25 May 2018.

In September 2018 the Internal Audit service carried out an audit of the council's compliance with GDPR and the Data Protection Act 2018. The audit gave the council 'Substantial Assurance' and zero actions to complete. However, the focus on implementing GDPR impacted on other areas of work. As a result, in January 2019, the Information Commissioner's Office (ICO) wrote to the Chief Executive raising concerns about the time the council was taking to process subject access requests. This had come about because of the demands placed upon the Information Governance team by the introduction of GDPR and staff turnover at that critical time. The Chief Executive assured the ICO that information governance was an issue we take very seriously and agreed an action plan to resolve the issue.

<p>Scrutiny Committees</p> <p>The work of the five Scrutiny Committees is presented to Full Council on an on-going basis for comment and discussion.</p> <p>There is also a cross party Budget Scrutiny Review Panel. The Panel:</p> <ul style="list-style-type: none"> • Provides further support to the overall budget monitoring process • Considers and formulates recommendations on Cabinet budget proposals • Monitors progress of agreed budget savings <p>The Review Panel in exercising this function contributes to a robust budget scrutiny process and supports effective monitoring of the County Council's budget. The Review Panel's role is not to lead on the management of the budget or to set a budget, but to provide support as a 'critical friend'. The Review Panel reports to the Internal Scrutiny Committee.</p> <p>Political Governance</p> <p>During the year, the Political Governance Working Group was re-established with the remit to make recommendations to Full Council on revisions to the Constitution, Standing Orders and other democratic processes and procedures. The working group operates on a cross party basis with representation from all political groups. The working group recommended changes to standing orders that were adopted by Full Council. The agreed changes focused on Full Council procedures, including Question Time and Notices of Motion. Two of the changes were approved based on a six-month trial period.</p> <p>18</p>	<p>Local Government & Social Care Ombudsman</p> <p>During 2018/19 Full Council considered one public report from the Local Government & Social Care Ombudsman on the Blue Badge service. In this instance the Ombudsman found fault causing injustice. Full Council noted the actions already taken and endorsed further actions to remedy the complaint.</p> <p>Lancashire County Developments Limited</p> <p>Lancashire County Developments Limited is an owned subsidiary of the county council. As a material entity it forms part of the council's group accounts. The county council has the power to change decision making rights, and to appoint and remove Directors of the company. Board Directors are County Councillors who regularly meet, and receive financial and performance reports. In the 2018 / 19 financial year there have been no governance issues reported. The company is annually subject to a separate external audit to the county council.</p> <p>19</p>
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Looking back on 2018/19

Several improvement actions were identified as part of the 2017/18 Annual Governance Statement. All of these have been the subject of detailed reports to Cabinet and/or committees or Full Council. Set out below is an update in relation to each area:

A new Operational Plan was adopted. The Plan summarised the priorities, delivery focus approach and aspirations for 2018/19. Building on past achievements the council pursued several operational priorities over the year:

1. Establish a new leadership and management team

Vacancies to the Corporate Management Team (CMT) were filled. A permanent appointment to the post of Chief Executive and Director of Resources was made in October 2018, and a new Executive Director of Education and Children's Services took up post in January 2019. There were also in year changes to the senior management structure with two new director posts established in Education and Children's services and a realignment in Growth, Environment, Transport and Community Services following the resignation of two directors. Further to this a senior management restructure was completed in January 2019. The restructure grouped together complimentary services and provided the necessary capacity to lead the development of our partnership and organisational aspirations. It also provided corporate capacity to drive the system and the change required across the organisation.

To provide visible leadership and engage the organisation, the CMT worked closely together to complete several individual and collective actions that included:

- Leading on a new corporate strategy
- Agreeing a vision and values for the organisation
- Completing a staff survey
- Implementing new employee engagement processes including a new performance engagement system
- Introducing new leadership and management training modules

2. Embed a focus on service delivery

The focus in 2018 was to view our services through the eyes of users and develop them to be the best they can. A 'service challenge' was applied to each service area. This put users at the heart of the service and empowered delivery staff to design the optimum solution. In all cases the objective of the service challenge was to secure a better service at a lower cost.

To support this, services were benchmarked against other county councils and managers were actively encouraged to speak to other high performing authorities and organisations to understand the differences in their costs and outcomes, and how they could be improved.

In February 2019, Full Council agreed around £77m of savings proposals resulting from 43 service challenges. Work is continuing under the second phase of the service challenge process and further information about this process is set out later in the AGS.

3. Develop a sustainable financial strategy

Like many councils, Lancashire County Council is facing significant financial pressures, and while good progress has been made in addressing the forecast financial shortfall over the medium term, further work is required to ensure the council can achieve a financially sustainable position.

To address the budget gap a number of work streams have been established, that include:

- Service challenges
- Commercialisation
- Taxation & grants
- Productivity
- Commissioning and third sector

As a result of the work mentioned above, phase one of the process has produced significant savings.

In addition, Internal Scrutiny Committee received an update on commercialisation work and an approach on how the County Council is seeking to improve and strengthen its working relationships with the Voluntary Community Faith Sector in Lancashire has also been agreed.

Continue to improve Children's Services following Ofsted inspection

The Ofsted re-inspection of Children's Services in June 2018 noted significant improvements, with an overall effectiveness judgement of requires improvement to be good and good for our adoption service.

However, there is still more to do to ensure that all children receive a consistently good service. The Lancashire 'Getting to Good Plan' was approved by the Cabinet in December 2018, sets out the actions required to address the 11 recommendations in the Ofsted report, further improving the quality of practice and outcomes for children.

The Getting to Good Plan focuses on six key areas:

- **Prevention**
We are committed to working with partners to utilise our collective resource to secure a county-wide approach within which all partners coordinate, prioritise and maximise their efforts to achieve successful outcomes for children and families
- **Effective partnership working**
A Children's Partnership Board has been established to ensure partners are working collaboratively in addressing shared strategic priorities. The Neglect Strategy has been updated and was officially launched by the Lancashire Safeguarding Children Board in April 2019.
- **Purposeful practice**
A Statement of Social Work has been developed which sets out our values and principles, with clear links to the Knowledge and Skills Statement (national standards for social workers). There is a strong focus on practice, casework consistency and developing more strength-based approaches to working with children and families.

- **Permanence and corporate parenting**
Effective long-term planning for a child's upbringing is essential and an Improvement Partner is working with the service to help develop our practice in relation to permanence. Processes are being streamlined and policies and procedures updated to simplify them. Workshops are taking place to develop practitioners understanding of permanence and a permanence tracker is now in use to track cases which will reduce drift and delay in achieving permanence for children.
- **Effective use of performance data**
Whilst significant progress has been made in improving the accuracy of performance data, we need to improve the use of data so that it is an effective tool to help manager's measure progress and examine trends. We are working with North Yorkshire Children's Services, as part of the DfE Partners in Practice Innovation Programme to review our systems and use of data.
- **Workforce development**
In order to improve the quality of practice in line with the recommendations made by Ofsted, we need to ensure we have a workforce with the right skills, support and tools to do the job and provide strong leadership. We are successfully recruiting to social work posts through our centralised recruitment panel. The retention of our newly qualified social workers - ASYE (assessed and supported year in employment) improves year on year. An evaluation of our Social Work Academy has confirmed its key role in supporting a good induction of these social workers to Lancashire and a career with us.

There are new Governance arrangements within the Getting To Good Plan that include the Lancashire Health and Wellbeing Board, Corporate Parenting Board, Children's Services and Education Scrutiny Committees. Each of these Boards/Committees will review and challenge the areas relevant to themselves.

Managing major projects

The County Council is currently involved in several major capital projects and significant risks can be associated with such projects. During 2018/19 the Council implemented steps to ensure robust risk management practices are in place.

Initial review work was undertaken of a sample of major capital schemes including Lancashire Central to improve the estimating and testing of current and future scheme costs. These include:

- Reporting of cost ranges for new schemes
- Routine updating of cost estimates
- Inclusion of contingency at industry standards and benchmarks

Governance of the capital programme was strengthened under the auspices of the Capital Board where responsibility for oversight and challenge of cost estimates and capital budgets rests. A comprehensive review of the projects for 2018/19 including prior year slippage has been undertaken by project and programme managers, supported by finance and commissioning managers. The primary purpose of the review was to propose a delivery programme for 2018/19 which was approved by Cabinet and which now forms the agreed baseline for monitoring purposes. The review was focused on:

- Updating the delivery programme for 2018/19 informed by the delivery performance in 2017/18 and previous years
- Reviewing the level of funding available for unallocated budgets and the requirement for these to continue to be carried forward

- Removal of budgets previously included in 2018/19 which have been carried forward from previous years where there is no expectation or plan of delivery in 2018/19
- Of the new approved projects, a realistic assessment of 2018/19 delivery was made with timeframes and budgets being moved to future years where appropriate.

All this gave a proposed delivery programme for 2018/19 which had been risk-assessed as being deliverable and to which project and programme managers would be held accountable using the following actions:

- Detailed monitoring of the delivery programme through 2018/19 to ensure any slippage is reported in a timely manner and a robust level of challenge is provided to programme and project managers to ensure delivery remains on track.
- Detailed report of performance through reports developed to enable the Capital Board to undertake this monitoring and challenge.

During 2018/19 the Audit, Risk and Governance Committee received two separate reports setting out the progress made on this issue.

Neighbourhood Wellbeing Grants

At its meeting on 14th December 2017, Full Council resolved to appoint an independent auditor to carry out an investigation into the way Neighbourhood Wellbeing Grants were recommended, approved and paid.

The findings of the investigation were presented to the Audit, Risk and Governance Committee on 29th October 2018. The independent auditor concluded that the approval of the projects was undertaken in accordance with the County Council's decision making processes and was therefore lawful. However, the Cabinet Member (at that time in 2017) should have limited their involvement to setting the overall scheme objectives and principles. Officers should have been asked to administer all other aspects of the scheme, including determining which projects were recommended for funding, using pre-determined criteria.

As a result of these findings, the Committee asked to receive a further report setting out the responsibilities of County Council officers in relation to council expenditure. In addition, a protocol was to be set out when grants are awarded to community groups and other voluntary bodies. On 28th January 2019, the Committee agreed a protocol to ensure robust governance. It was also agreed that further efforts would be made to contact the recipients of the Neighbourhood Wellbeing Grants to request details of the outcomes achieved.

Response to Special Educational Needs & Disability (SEND) Inspection

Lancashire local area SEND services were inspected by Ofsted and the Care Quality Commission (CQC) in November 2017 to judge how effectively the special educational needs and disability (SEND) reforms had been implemented, as set out in the Children and Families Act 2014. The inspection identified two fundamental failings and twelve areas of significant concern.

The partners in Lancashire were required to produce a Written Statement of Action (submitted April 2018) setting out the immediate priorities for action. This action plan has been supported by five thematic delivery plans which are monitored monthly against the action plan deadlines by the SEND Partnership team. Progress is reported bi-monthly to the SEND Partnership Board and the Department for Education (DfE) and NHS England (NHSE).

External monitoring by the DfE and NHSE has been taking place quarterly, with the last meeting in December 2018. The overall assessment, on the progress the Lancashire SEND Partnership is making, is now considered to be Green/Amber (concurring with our own view)..

The DfE/NHSE appointed advisors also concluded in December 2018 that sufficient progress has been made in implementing the Written Statement of Action to cease the quarterly monitoring meetings. The robust governance arrangements and the draft Improvement Plan 2019-2021 provided the necessary assurance that improvement is and will continue to be a priority for Lancashire. The Improvement Plan has therefore replaced the Written Statement of Action. Further monitoring will be undertaken in July 2019 prior to a possible re-inspection in the Autumn.

Improving Health and Wellbeing

The Health and Wellbeing Board continued to receive regular progress reports and updates on the delivery and development of the Better Care Fund plan. Improved performance on the discharge of patients from hospital was also reported.

The NHS Long Term plans confirm the continuation of the Better Care Fund into 2019/2020 but with a national review of it underway. Alongside this review and the anticipated new framework, planning of a Lancashire wide review is underway that would reset the Better Care Fund in a context of an integrated care system. In developing further the Better Care Fund there are plans to hold a workshop on integration with a focus on transformation.

During 2018, Cabinet agreed *The Care, Support and Wellbeing of Adults in Lancashire Vision* and *The Housing with Care Strategy*.

The Care, Support and Wellbeing of Adults in the Lancashire Vision sets out how the County Council, together with its partners, will help people to live as independently and healthily as possible. The Vision recognises the need to keep pace with people's changing needs and expectations, whilst addressing the increasing demands upon public services at a time of significant financial pressure.

The Lancashire Vision also signals how services will be designed and delivered in the future, acknowledging that partners, the NHS in particular, have a key role to play in preventing and reducing long term physical and mental health conditions, and addressing the significant variations in health outcomes within the Lancashire population.

The Housing with Care Strategy outlines the County Council's intentions in relation to the development of housing with care and support for older

adults and younger adults with disabilities. It will be used to engage with a wider audience as part of a collaborative approach to developing a range of high-quality housing with care and support schemes across Lancashire by 2025 for both older adults and younger adults with disabilities.

Our Vision for Lancashire

The County Councils Corporate Strategy 'Our Vision for Lancashire' was approved by Full Council in February 2019. The strategy sets out the five key objectives and ambitions for Lancashire and is the cornerstone of our policy framework providing a 'golden thread' linking our key strategies and plans.

The strategy enables staff to understand how their roles and responsibilities contribute to our key objectives and ambitions, and it will enable teams to develop service plans and work programmes with a clear focus on delivering key priorities. The strategy also enables our key partners, stakeholders and businesses to be clear about our longer-term ambitions, which will enable them to understand how it aligns to their own plans and facilitate collaborative work to deliver high quality, best value services to meet the needs of Lancashire residents.

Along with the strategy document, Full Council agreed a set of high-level key metrics. These will be monitored on a regular basis by the Cabinet Committee on Performance Improvement. Scrutiny Committees will play a key role in year one in ensuring that the high-level metrics are the right ones, or if more need to be added, and that the targets set are appropriate.

In addition to the high-level key metrics relating to the vision, the Cabinet Committee on Performance Improvement will continue to regularly receive the more detailed, service specific key performance metrics which enable members to monitor ongoing service delivery and performance.

Both the strategy document and the accompanying high-level key performance metrics will be kept under regular review and will be updated to ensure they remain current and relevant in a fast-moving world. It is anticipated that the vision will have a lifespan of at least 5 years, with an annual review and refresh.

Core Systems and Data

As part of the senior management restructure completed in January 2019, Core Systems and Business Intelligence were brought together under the direction of the Director of Strategy & Performance. This allows them to be considered in their entirety to ensure synergies are optimised so that consistent and triangulated management information is delivered alongside measurably improved service performance.

Such a move is consistent with the highest performing councils and ensures the delivery of organisational performance sits with the directorate ultimately responsible for the setting of the organisation's strategic direction.

The quality of data in the Council's Core Systems has continued to improve during 2018/19. Children's Services continue to hold a Data Quality and Performance meeting on a monthly basis. Led by a Head of Service, this group has made significant progress in data quality over the last year. In Adults Social Care improvements in the quality of data within the systems continue. The development of performance trackers have enabled the team to focus on using these as exception reports. This in turn has helped managers and staff Improve data accuracy.

An improvement plan for our Highways and Asset Management System has been implemented and a Highways Improvement Board continues to operate. A comprehensive training and support plan for the service was also delivered. A follow up audit review has also been completed.

Core Systems working with Business intelligence and BTLS (our ICT providers) also completed a review of reporting across the authority. This will help shape our Business Intelligence and Reporting Strategy.

The development of an architectural vision for the digital strategy is underway, working closely with BTLS. This includes a landscape review of existing technologies.

The Internal Audit Service have given Substantial assurance over the effectiveness of controls operating over the Systems Support function within Core Systems.

Intermediate care for older people in a residential setting

A review of the Lancashire intermediate care system was commissioned using money from the Better Care Fund and included consideration of the best practice model for each service area including the community beds. Consultants were appointed and undertook initial investigatory work before carrying out a wider review.

Supporting disadvantaged families to fulfil their potential (Troubled Families Programme)

Payment by results (PBR) claims continue to be made where significant and sustained progress is evidenced. The current positive position is anticipated to further improve as all available data and information systems are fully utilised to maximise PBR claim opportunities. It was recently agreed that we look to maximise our claims by accelerating progress with partners and getting them to share this responsibility. This is an identified action in the Children Services 'Getting to Good' plan. It is anticipated that the target of 8,620 PBR claims will be achieved by the time the 5-year programme ends in 2019/20.

Governance challenges for 2019/20 and actions to be taken

Reshaping the Council

A lot of excellent work has taken place over the past 12 months. However, there is a risk that the council will not be sufficiently radical or innovative to transform services at the required pace to achieve the scale of change needed over the next 12 months and beyond.

Without the required workforce plans, capacity and skills in place, or the necessary drive to support and deliver a financially sustainable organisation, there is a risk that change opportunities will be missed that may result in us not meeting the needs of service users or delivering a balanced budget.

Therefore, building on the achievements of the Operational Plan, the County Council will pursue three priorities over the coming year:

1. Through our People Strategy ensuring adequate workforce plans, capacity and skills are in place across the organisation

This will focus on:

- Supporting the development of managers through continued leadership and management modules
- Workforce sustainability including succession planning & recruitment and retention
- Continuing use of the apprenticeship levy to increase the number of apprentices and support critical development needs
- Continuing to respond to the issues raised in the staff survey
- Managing absence effectively

2. Further embed a focus on service delivery

Building on the success of the service challenge work carried out during 2018, a phase 2 service challenge process is being implemented to help reduce the £47m financial gap that is still anticipated by 2022/23. To take this forward a new board has been established to oversee the process. Three cross cutting strands have been identified to develop new savings proposals. These are:

- Organisational
- Finance & Commercial
- Health & Care

In addition to the cross-cutting themes, some services from phase 1 will be subject to further challenge based on updated benchmarking data.

3. Develop a sustainable financial strategy

The council has faced an unprecedented period of financial challenge since 2010. Whilst good progress has been made to date in addressing the forecast financial shortfall over the Medium Term Financial Strategy period, further work is required to ensure the council can achieve a financially sustainable position.

In reports throughout the financial year to Cabinet, it is clear that the council is committed to the delivery of a significant savings programme with £77m of new savings agreed by Full Council during 2018/19.

There are inherent risks with savings plans of this scale and scope and any significant under-delivery of agreed savings will further

increase the funding gap. This has been identified as one of the highest level risks in the council's risk and opportunity register and there are comprehensive arrangements in place to track delivery of financial savings and take corrective actions as required.

Should any of these savings proposals ultimately not be achieved they will need to be replaced with alternative savings to avoid increasing the size of the funding gap. £7.5m of the savings proposals are subject to the outcome of specific consultations.

The Medium Term Financial Strategy (MTFS) includes government funding as announced in the settlement on 29th January 2019, with no change to the additional funding announced as part of the provisional settlement in December 2018.

As part of the local government finance settlement the Chancellor of the Exchequer announced several new 75% business rates pilot schemes, with Lancashire being successful in its bid. This means that in order to secure the additional growth from business rates authorities agree to forgo their revenue support grant. The bid contained the County Council, along with 11 district councils, Lancashire Fire and Rescue Authority and the two unitary authorities of Blackburn with Darwen and Blackpool which could see potentially a one-off extra c£10m retained across Lancashire based on current growth estimates.

It is currently anticipated that a new system of local government finance, the "fair funding formula", will be in place in 2020/21 which involves local government retaining 75% of the business rates and a review of the funding formula. However, details of the scheme and the impact on Lancashire are not known at this time.

Getting to Good

Our services for children's social care have improved significantly. The service knows itself well and appropriate action has taken place to improve services and multi-agency strategic partnerships are stronger leading to a more shared approach. However, there is still more to do to ensure that all children receive a consistently good service and, as previously mentioned, Cabinet have agreed a 'Getting to Good' plan.

The plan provides a framework for the next phase of our improvement journey, in line with our ambition that we deliver consistently good services to children and families in Lancashire.

The plan sets out the actions that will be undertaken, the expected outcomes and improvement measures. It also provides details of lead officers, targets and due dates. More detailed action plans, led by specific Delivery Boards, will drive specific service improvement. Sitting alongside this document is our Purposeful Practice Framework and our Corporate Parenting Strategy. It is also part of several strategies and plans that fit together to deliver improvement for children. The plan will be overseen by the Lancashire Getting to Good Board which will meet six weekly to review progress, maintaining focus and pace.

However, this plan is set in the context of increasing demand for services and an increasingly challenging financial backdrop. Therefore, we need to improve the way we manage demand for services and ensure that our improvement is sustainable. The plan therefore also includes actions to support us in delivering the best and most efficient services.

Work continues at pace in preparation for inspection, with a Peer Challenge on the services approach to Permanence - the long-term plan for a child's upbringing (LGA) scheduled for June 2019.

Response to Special Educational Needs & Disability (SEND) inspection

Work will continue to implement the Special Educational Needs and Disabilities Improvement Plan. This plan was considered by the Special Educational Needs and Disabilities Partnership Board at their meeting in January 2019. Following a period of consultation, the revised plan was approved by the same Board at their meeting on 1 April 2019.

To ensure continued momentum, initial work has included:

- Implementing an Audit Programme, to improve the quality of Education Health and Care plans, including training auditors and completing a pilot to test the approach
- Undertaking Special Educational Needs and Disabilities reviews in schools
- Increasing the involvement and profile of the Parent Carer Forum
- Implementing Local Area Partnerships, to improve communication and access for parents
- Holding area based informal sessions for parents to meet professionals
- Implementing an electronic case management system
- Publishing the draft Joint Strategic Needs Assessment
- Agreeing a Speech and Language Service specification and rolling this out across Lancashire

The SEND Improvement plan was also shared with the Health and Wellbeing Board at their meeting in May 2019. Ahead of the Ofsted re-inspection of SEND in 2019, a review meeting in preparation will take place with DfE/NHSE advisors in July 2019.

Supporting disadvantaged families to fulfil their potential (Troubled Families Programme)

The County Council currently receives funding towards working with troubled families. However, post 2019/20 there is no information available as to whether this funding will continue. It is assumed that funding will remain at 2019/20 levels. However, if the funding does cease this will result in a pressure on the County Council's budget.

Managing major projects

As stated earlier, there are now control measures in place for projects that reflect the Major Projects Review. Key projects for the coming year will be included in the following programmes:

- Preston, South Ribble and Lancashire City Deal (e.g. Cuerden site)
- Growth Deal (e.g. Advanced Manufacturing Research Centre/ Preston West Distributor)
- Enterprise Zones (e.g. Salmesbury)

Each project will be developed in line with the processes established in the Major Projects Review and the Capital Board will continue to monitor progress.

Intermediate care for older people in a residential setting

The review of the Lancashire intermediate care system was completed in April 2019. The recommendations from the review will be taken forward and monitored through a Quality Assurance Panel (chaired by the Director of Adult Services) and the Health & Wellbeing Board.

Future provision of ICT Services

An independent review was commissioned from The Society of IT Management to look at the options available for consideration regarding the current BTLS contract, which ends on 31 March 2021.

In January 2019, Cabinet considered a report from this work that provided an evaluation of the principal options available to the County Council which need to be considered in advance of the contract end date to allow sufficient time for effective implementation. A further progress report will be presented to Cabinet in due course.

Core systems and data

Whilst significant progress has been made in improving the accuracy of performance data, we need to improve the use of data so that it is an effective tool to help manager's measure progress and examine trends.

For Adults' Services, the new posts of Practice Improvement Officers will be in place during quarter 1 of 2019/20. They will work very closely with the quality and continuous improvement managers within Adult Social Care. A programme of work is being developed, specifically in relation to the delivery of service challenge, which must be underpinned by accurate data. Adult Services will be using their established performance management groups to monitor performance and data quality within each service area.

For Children's Services there is a clear work programme of continuous improvement managed through the data quality and performance group. The 'Getting to Good' Board has a comprehensive performance dashboard with very clear ownership across the service. Individual managers understand their roles

and responsibilities regarding performance and data quality and liaise closely with business intelligence. Going forward there will be a move towards proactive trend analysis with a focus on insight and impact.

The Corporate Strategy was agreed at Full Council in February 2019 and a workshop is being held in June 2019 with Chairs and Deputy Chairs of Scrutiny Committees to establish a suite of metrics to be reported quarterly to the Cabinet Committee on Performance Improvement. Once established these metrics will be subject to audit and the data quality reviewed accordingly.

A project to replace the 'Passport to Independence' trackers will identify potential suppliers of data analytics and will establish the resources and costs of implementation. If approved, the implementation of the solution will pave the way to better analytic capability for the council. Data quality issues are likely to be identified for the data sources and a programme of work will be needed to improve data quality. This will be managed through the Accuracy Steering Group.

A Digital Strategy is being drafted that includes a work stream relating to data and developing information architecture across the core systems.

Recruitment and Retention

As an organisation we are experiencing skills shortages in key professional and technical areas such as social care and design and construction. This is a risk in our corporate risk and opportunity register. As outlined in our draft People Strategy we have already taken some steps to address this issue. We have set up a recruitment website – 'Make a difference in Lancashire' and we have held specific recruitment events. We will also continue to use the apprenticeship levy to increase the number of apprentices in the workforce and use it to support critical development needs in the County Council.

Monitoring implementation

The key governance challenges facing the Council in 2019/20 will be monitored by the Corporate Management Team and are identified risks in the Council's Corporate Risk and Opportunity Register. This document is the 'action plan' for each issue identified.

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

Conclusion

Overall, the County Council has the appropriate systems and processes in place to ensure good governance is maintained. Whilst these work generally well, the council has identified a number of areas where further improvements can be made to strengthen its governance framework. The governance of the County Council will continue to be monitored by the Audit, Risk & Governance Committee, Cabinet and Corporate Management Team.

Glossary

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

Better Care Fund - is a programme spanning both the NHS and local government which seeks to join-up health and care services, so that people can manage their own health and wellbeing, and live independently in their communities for as long as possible.

Capital Programme - identifies agreed capital schemes, showing the total cost of schemes and the projected phasing of those schemes over current and future financial years.

Care Quality Commission – is the independent regulator of all health and social care services in England.

Constitution - sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that decision-making is efficient, transparent and accountable to local people.

Corporate Management Team (CMT) – is the strategic officer leadership body within the council that advise and support the elected members of the council and its key post holders and bodies, including the Cabinet and Overview and Scrutiny.

Corporate Risk Register – is a formal record of the major risks facing the county council and the mitigating actions to reduce the risk.

<p>Directors' Assurance Statements - provide an assurance on the internal control framework operating within their service(s).</p> <p>Equality Impact Assessment - is a process designed to ensure that a policy, project or scheme does not discriminate against any disadvantaged or vulnerable people.</p> <p>External Audit - external auditors review annual financial statements to ensure they present a 'true and fair' view of the financial performance and position, and provide an opinion on the council's Value for Money.</p> <p>General Data Protection Regulation (GDPR) – is a regulation in EU law on data protection and privacy for all individuals within the European Union (EU) and the European Economic Area (EEA).</p> <p>Intermediate Care – services provide support for a short time to help individuals recover and increase their independence.</p> <p>Internal Audit - is an independent, objective assurance and consulting activity designed to add value and improve the county councils operations</p> <p>Medium Term Financial Strategy - is the Council's key financial planning document. It aims to provide the Council with an assurance that the Council's spending plans are affordable over the medium term.</p> <p>Monitoring Officer - has the specific duty to ensure that the Council, its officers, and its Elected Councillors, maintain the highest standards of conduct in all they do.</p> <p>44</p>	<p>Ofsted - is the Office for Standards in Education, Children's Services and Skills. They inspect services providing education and skills for learners of all ages.</p> <p>Passport to Independence - its aim is to help people stay healthy and self-sufficient (independent) for longer.</p> <p>Performance Management – is the activity and set of processes that aim to maintain and improve performance in line with an organisation's objectives.</p> <p>Reserves – funds set aside to meet planned future spending and/or to cover emergency needs.</p> <p>Risk Management - is an important part of both corporate governance and performance management. It allows the council to avoid problems and failures, rather than just reacting to them when they arise. It helps the council to identify where it needs to focus its efforts and resources, to exploit more opportunities and suffer fewer failures.</p> <p>S151 Officer - an officer appointed under section 151 of the Local Government Act 1972 which requires every local authority to appoint a suitably qualified officer responsible for the proper administration of its affairs</p> <p>Scheme of delegation - sets out how the Cabinet and full Council have delegated their executive and non-executive powers.</p> <p>45</p>
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Code of Corporate Governance 2019/20

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 priorities effectively as well as underpinning those priorities with mechanisms for control and the management of risk.

Lancashire County Council has a good 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 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, Risk and Governance Committee. It is then presented to Full Council 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 both for the County Council and its officers. These are defined in the 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, Risk 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 of the County Council's resources and assets, comply 	<ul style="list-style-type: none"> • Our values <ul style="list-style-type: none"> ○ Supportive ○ Innovative ○ Respectful ○ Collaborative • Corporate Strategy • Annual Governance Statement • 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

	<p>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 a corporate information governance group (CIGG) with the remit of collecting assurance information across all council functions. Establish a Senior Information Risk Officer and Data Protection Officer. • Publish an Annual Governance Statement, signed by the Leader of the Council and the Chief Executive and Director of Resources to confirm that we are satisfied that we have effective governance arrangements in place. 	<ul style="list-style-type: none"> ➤ Codes of Conduct for Members and Employees ➤ Scheme of Delegation ➤ Procedural Standing Orders ➤ Register of Interests ➤ Terms of reference <ul style="list-style-type: none"> • Information Security Policy • 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 • Anti-money laundering policy • Calendar of meetings • CCTV Policy • Companies – compliance with Companies Act 2006, directors
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		<p>duties, LEP assurance framework</p> <ul style="list-style-type: none">• Councillor – Use of resources, social media, acceptable use policy (AUP)• Employee policies & procedures• Freedom of Information (FOI) Publication Scheme• Grants rules, process, decisions and website• Pre-election guidance• Elections complaints process, fly posting, website• Identifying politically restricted posts
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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 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 regular reports on the activities of the scrutiny function. 	<ul style="list-style-type: none"> • Corporate strategy • Annual Governance Statement • Getting to Good plan • Special Educational Needs and Disabilities Improvement Plan • The Care, Support and Wellbeing of Adults in Lancashire Vision • The Housing with Care Strategy • 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 • Community Safety Agreement

	<ul style="list-style-type: none"> • 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. • 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"> • Director of Public Health Annual Report • Draft Children's Partnership Plan • Statement of Accounts • Scrutiny Reports • County Council Website • Joint Strategic Needs Assessment • Strategic Assessment of Crime & Anti-Social behaviour • Anti-Bribery Policy • Anti-Fraud & Corruption Strategy • Anti-Money Laundering Policy • Calendar of meetings • Companies - Companies database, Companies House database, Compliance with the Companies Act 2006, Directors duties, Lancashire County Developments Ltd (LCDL) 2018/19 Statement of Accounts, Lancashire Enterprise Partnership (LEP) Assurance Framework, LEP website • Employee Policies and Procedures • Equalities, Cohesion and Integration Strategy • Equality Impact Analysis
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		<ul style="list-style-type: none"> • External inspections of accounts • Grants rules, process, decisions and website • Health and Safety Policies and Procedures • Information Governance Framework 2019 • Information Security Policy 2019 • Information sharing policy 2019 Partnership Protocol • Privacy Impact Analysis • Privacy Notice 2019 • Procedure for complaints against Councillors • Publication of Members' Allowances paid 18/19 • Privacy Impact Analysis • Scheme for access of information
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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 priorities and use it as a basis for corporate and service planning. Publish 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"> Corporate Strategy Getting to Good plan Special Educational Needs and Disabilities Improvement Plan The Care, Support and Wellbeing of Adults in Lancashire Vision The Housing with Care Strategy Money Matters Budget Reports Director of Public Health Annual Report Reports to Audit, Risk & Governance Committee Quality of Service Reports Performance reports to Cabinet Committee on Performance Improvement Monthly budget monitoring reports Statement of Accounts External Auditors letter & reports External Inspections Approach to Risk & Opportunity

		<ul style="list-style-type: none"> • Treasury Management Strategy • Capital Investment Strategy • Adult Services Annual plan • Boost Lancashire's Business Growth Hub • Care Act Policies, Procedures and Guidance • Children's Social Care • Community & Resilience Plan • Companies - annual business plans • Consultancy Code • Consultation and Engagement Procedures • Corporate Procurement Strategy, policies and guidance • Customer Access Strategy • Development Plan • Digital by Default Strategy • Equalities, Cohesion and Integration Strategy • Full Council Framework documents • Health and Wellbeing Strategy Delivery Plan • Lancashire Children Looked After Sufficiency Strategy 2017- 2020 • Lancashire CLA Residential Strategy
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		<ul style="list-style-type: none">• Lancashire County Council Dementia Strategy• Lancashire Economic Development Strategy• Lancashire Economic Partnership (LEP)• Lancashire Environment Strategy• Lancashire Health and Wellbeing Strategy• Lancashire Renewables• Lancashire Rosebud Finance - Investment & Portfolio Strategy 2017-2019• Libraries, museums and culture strategy• Local Transport Plan• Notice of forthcoming Executive Key Decisions (Forward Plan) and intention to conduct business in private• Prevent Strategy and Delivery Plan• Property Strategy• Risk Management Strategy• Roads, parking and travel plans• Sustainable Community Strategy• Treasury Management Strategy• Youth Justice Plan
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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 priorities 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"> • Corporate Strategy • Getting to Good plan • Special Educational Needs and Disabilities Improvement Plan • The Care, Support and Wellbeing of Adults in Lancashire Vision • The Housing with Care Strategy • Our approach to Risk & Opportunity Management • Corporate Risk & Opportunity Register • Corporate & service performance dashboards • Highlight Reports • Business Continuity Plans • Emergency Plan • Money Matters Budget Reports • Social Value Policy & Framework • Anti-Fraud & Corruption Strategy • Committee specific training for Scrutiny members

		<ul style="list-style-type: none">• Companies - Articles of association, Directors duties, LEP Assurance Framework, Service level agreements• Education Scrutiny Committee• External Scrutiny Committee• Health and Wellbeing Strategy Delivery Plan• Health Scrutiny Committee• Internal Scrutiny Committee• Scrutiny Task Group Meetings/Reports• Webcast of all Scrutiny Committee meetings
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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. 	<ul style="list-style-type: none"> Constitution Annual Pay Policy Scheme of Delegation Leadership Development Programme Performance Engagement Reviews Member Development Strategy and Programme Member Induction Working Group Getting to Good Plan Special Educational Needs and Disabilities Improvement Plan Scheme of delegation to officers Induction programme Health & Wellbeing Policy Children's Partnership Board - Terms of reference Code of conduct training for councillors Companies - Articles of association, Directors duties, Directors induction packs,

	<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 Finance 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 performance engagement 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. 	<p>Directors induction training, Internal controls manuals</p> <ul style="list-style-type: none"> • Corporate induction e-learning • Councillors - Internet and email acceptable use policy, Provision and use of resources, Use of social media, Fair Use Policy for Mobile Phones • County Councillor Training Records • Generic Job descriptions/specifications for officers • Internet, Email and Telephone Acceptable Use Policy for staff • Lancashire County Council Behaviour Framework • Leadership Development Programme • Mandatory e-learning modules • Recruitment & Selection Policy
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	<ul style="list-style-type: none"> • We provide the Director of Finance with the resources, expertise and systems necessary to perform the role effectively within the County Council. • We will provide the Executive Director Education & Children's Services with the resources, expertise and systems necessary to perform the role effectively within the Council and respond to the last Ofsted & Special Educational Needs & Disability inspections. 	
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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, Risk & Governance Committee which is independent of the executive and scrutiny functions. • Enable the Director of Finance 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 performance reports are produced and used to hold Cabinet Members and officers to account 	<ul style="list-style-type: none"> • Audit, Risk & Governance Committee • Money Matters Budget Monitoring Reports • Approach to Risk Management and publication of a quarterly Corporate Risk & Opportunity Register • Annual Governance Statement • Performance reports presented to Cabinet Committee for Performance Improvement (CCPI) • Internal Audit Reports • Project Accuracy • Overview and Scrutiny arrangements • Information Governance Strategy • Data Protection Policy • Companies - account filed in accordance

		<p>with all regulations, Companies House Database, LEP performance committee, own audit & finance committees e.g. active companies, Quarterly monitoring reports, Regular financial monitoring reports, Risk Management reports</p> <ul style="list-style-type: none"> • Audit, Risk & Governance Committee - terms of reference • External Auditors letter & reports • Internal Audit Plan 2019/2020 • Internal Audit Reports • Lancashire County Pension Fund - Annual Governance Statement • Peer Reviews • Local Code of Corporate Governance • External reports protocol • Directors Assurance statement
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		<ul style="list-style-type: none">• Project Plans and Risk Registers• Health and Wellbeing Board revised terms of reference• Health and Wellbeing Strategy Delivery Plan• Lancashire Insight website• Medium Term Financial Plan• Minutes of committee meetings• Monthly budget monitoring reports• Notice of forthcoming Executive Key Decisions (Forward Plan) and intention to conduct business in private• Partnership Protocol• Peer Review• Performance Management• Quarterly Performance Highlight Reports• Statement of Accounts 2018/2019• Treasury Management Strategy
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		<ul style="list-style-type: none"> • Webcasting of committee meetings
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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, Risk & Governance Committee which is independent of the Executive and Scrutiny committees. • Ensure an effective internal audit function is resourced and maintained. 	<ul style="list-style-type: none"> • Medium Term Financial Strategy • 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 • Approach to Risk Management & publication of a

	<ul style="list-style-type: none"> • 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. • 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 	<p>quarterly Risk & Opportunity register</p> <ul style="list-style-type: none"> • Companies - Companies House database, LCDL - 2018/19 Statement of Accounts, LEP Assurance Framework, own audit & finance committees e.g. active companies • Data Protection Policy • External inspections e.g. Ofsted • External inspections of accounts • Information Governance Framework • Internal Audit Plan • Internal Audit Reports • Money Matters Budget Monitoring Reports • O&S arrangements • Performance Reports • Project Accuracy • Quality of Service Reports
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Audit, Risk and Governance Committee

Meeting to be held on Monday, 20 May 2019

Electoral Division affected: (All Divisions);
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Corporate Risk and Opportunity Register Quarter 1 2019/20

(Appendix A refers)

Contact for further information:

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Executive Summary

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

Recommendation

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

Background and Advice

Following the corporate approach to reporting on risk and opportunity, Corporate Management Team have completed the annual review of the register. The register has now been updated to reflect changing priorities and is aligned to the Annual Governance Statement (AGS). Therefore, the register acts as the action plan and main document to monitor progress on the issues raised in the AGS during 2019/20. The register will be presented to Cabinet Committee for Performance Improvement on 6 June 2019. An updated Corporate Risk and Opportunity Register is attached at Appendix A.

A summary of the key changes and updates to the register is set out below.

Corporate risks (CR)

CR1 Reshaping the County Council

This risk replaces the previous risk on delivering the operational plan and focuses on having the right workforce plans, capacity and skills to ensure we are sufficiently innovative/radical to transform services at the required pace in order to achieve the scale of change needed to deliver a balanced budget.

It also covers further embedding a focus on service delivery through a second phase of the service challenge process.

CR 2 - Protect and safeguard children

This has been updated in the context of the Getting to Good plan and new multi-agency safeguarding arrangements.

CR 3 - Complying with statutory requirements and duties relating to children looked after, children in need and children leaving care

This has been updated in the context of the Getting to Good plan, sufficiency strategy and preparations for the peer review on permanence.

CR4 - Increase in demand, including rise in number of contacts and referrals and an increase in Children Looked After numbers

This provides updates on the sufficiency strategy, the permanence action plan and the work being carried out to improve processes and procedures within children's social care.

CR5 – Recruit and retain experienced staff across the organisation

This risk replaces the risk that focused on Children's services and is now authority wide. It sets out what has and what is being done corporately to both retain and recruit staff.

CR6 - Managing our data well and producing effective management information (Responsibility for this risk transferred to the Director of Strategy & Performance)

Work in this area is on-going. However, the Business Intelligence team have now put in place a process to prioritise requests so that they can support core system testing.

CR7 - Implement/maintain core systems that support the organisation, deliver transformational change and deliver efficiencies, cost reductions and produce effective management information that supports management decision making (Responsibility for this risk transferred to the Director of Strategy & Performance)

For this risk there are updates on the support work around service challenge and highways.

CR8 - Delivering major projects/schemes on time and within budget

Update on project and programme management for the 2019/20 delivery programme.

CR9 - Delivering a statutory service for children and young people with special educational needs and/or disabilities

This risk has been updated in line with the service risk register.

CR10 - Supporting disadvantaged families to fulfil their potential (Troubled Families Programme)

Update on current claims trajectory and challenges faced by savings targets to the service.

CR 11 - Future provision of ICT services

This is new risk relating to the current ICT contract with BTLS and the work Society of IT Management are undertaking.

CR12 - Intermediate care for older people in a residential setting

Provides an update on the review of intermediate care and next steps.

Corporate Opportunities (CO)

CO1 - Delivering growth and prosperity for the whole of Lancashire

Update on Local Enterprise Partnership activity, European structural funds and pan-Lancashire collaborative working arrangements.

CO2 - Apprenticeship Levy and Apprentice % in Public Sector

Includes an update on transactional spend.

CO3 – Fair Funding and Business Rate Retention

This is a new opportunity that provides an update on the fair funding review and the business rate retention pilot in Lancashire.

CO4 – Working collaboratively with key health partners

This is a new opportunity that sets out what initial work is being undertaken to develop an LCC offer to the health economy.

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 and Opportunity Register means the Council would be negligent in its responsibilities for ensuring accountability and the proper conduct of public business.

List of Background Papers

Paper	Date	Contact/Tel
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None		
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Reason for inclusion in Part II, if appropriate		
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N/A		
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Corporate Risk & Opportunity Register Q1 2019/20

Risk Identification Number (RIN)	Description	Risk Type	Possible Risk Consequences	Current Controls	Risk Score	Mitigating Actions	Residual Score	Risk Owner	Direction of Travel
CR1	Reshaping the County Council 1. Through our People Strategy, ensuring adequate workforce plans, capacity and skills are in place across the organisation	Organisational	<ul style="list-style-type: none">Inability to deliver a balanced budget post 2022/23That the council will not be sufficiently radical or innovative to transform services at the required pace to achieve the scale of change needed over the next 12 months and beyondChange opportunities will be missed that may result in us not meeting the needs of service users or delivering a balanced budget.Lack of buy-in/engagement from staffManagers do not possess the leadership skills required, leading to demotivated staff and poor service deliveryThe organisation does not have the right people in the right jobs leading to service failureStaff do not know what is expected of them and they do not possess the skills to adequately do their job	<ul style="list-style-type: none">Service Challenge Board has been established chaired by the Director of Strategy & PerformanceFinancial Monitoring Boards have been established that are each chaired by the relevant Executive DirectorProgramme Office is managing the overall programme of activityVision and Values communicated and plan to further embedInspirational speakers – programme on goingIntroduction of new suite of Leadership and management modules to support development of LCC managers, linked to national occupational standards and apprenticeships.MSc, MBA senior Leaders Apprenticeship being rolled out.Research work on Induction Programme has commenced and scope is under developmentManagement Style Questionnaire and Colleague Feedback Questionnaire - new format rolled out	20	<ul style="list-style-type: none">Develop a new behavioural framework as the basis from which to drive organisational changeCommence development for new Lancashire InductionContinue new suite of leadership and management modules to support development of LCC managers, linked to national occupational standards and apprenticeshipsStaff survey findings rolled out to Head of Service for action planningStaff Survey 'pulse surveys' to evaluate progress against baselineCross organisational themes to be assessed and links to People StrategyDevelopment of 'Inspiration matters' short briefings will link to the newly communicated Values to support the embedding in the organisation.Information sessions with staff, managers and universities in respect of MSc and MBA via Apprenticeship Levy now in place.	16 (Major/Likely)	Overall Risk Owner is CMT however there is a lead officer for each work stream	<p>This risk is being monitored by the Service Challenge Board, Financial Monitoring Boards and CMT</p> <p>Draft People Strategy to be informed by outcome of staff survey</p> <p>Service Challenge Phase 2 programme to be completed by Autumn 2019</p>

	2. Further embed a focus on service delivery	Organisational	<ul style="list-style-type: none">• Unable to meet Terms and Conditions savings targets• Services become unsustainable and we cannot fulfil our statutory duties• Compounds ability to set balanced budget and unable to deliver a balanced budget post 2022/23• Insufficient reserves	<ul style="list-style-type: none">• New governance structure established. Phase 1 savings being monitoring by Service Challenge Board and Financial Monitoring Boards• Continue to work with staff to develop new options and revisit options• Continue to seek out, learn from and adapt services to follow best practice• Corporate Management Team have agreed to a second phase of the service challenge process• Treasury Management / Investment and Capital Strategy agreed at January Audit, Risk & Governance Committee		<ul style="list-style-type: none">• Develop process for further challenge. This will include:<ul style="list-style-type: none">○ Further challenge for some phase 1 services based on updated benchmarking data○ Cross cutting themes<ul style="list-style-type: none">▪ Organisational▪ Finance & Commercial▪ Health & CareThere will be a number of work streams under each crosscutting theme with a named lead.• Business Rate pilot - progress with district council partners - governance arrangements and implementation.• Progress further work / analysis of a small number of proposals identified within service challenges but not sufficiently developed to make December Cabinet.			
CR2	Protect and safeguard children	People/Service delivery	<ul style="list-style-type: none">• Children are put at risk of harm.• High profile safeguarding incidents can attract national media attention and trigger an early inspection by Ofsted and ultimately Department for Education (DfE) intervention	<ul style="list-style-type: none">• The protection and safeguarding of children, and oversight, is at all levels from Chief Executive to front-line managers to ensure there is an accurate understanding of the quality of practice.• Clear governance and accountability arrangements are in place via the Getting to Good Board and the six boards which report to it:<ul style="list-style-type: none">○ Workforce Development Board○ Purposeful Practice Board○ Multi-Agency Safeguarding Hub (MASH) and Demand Management Board○ Permanence and Children In Our Care Board○ Data Quality and Performance Board○ Children's Partnership Board• There are effective partnership arrangements at a strategic and operational level.• External reviews of front-line practice is provided by Ofsted, DfE, Local Government Association (LGA) and North West Association of Directors of Childrens Services (ADCS) to provide external, independent evaluation of the quality of practice.	12	<ul style="list-style-type: none">• In line with revised "Working Together" new multi-agency safeguarding arrangements are being established, to ensure there is a shared responsibility for safeguarding and promoting the welfare of children.• Getting to Good Plan is now completed following the Ofsted inspection to ensure continued improvement.	12 (Major/possible)	Director of Children's Services	<p>Safeguarding arrangements have been strengthened. Ofsted inspection (June 2018) - Inspectors broadly agreed with our self-assessment.</p> <p>There has been a 2.9 % increase in the number of children on a Child Protection Plan since the last quarter (Q3 - 1329, Q4 - 1368).</p> <p>The risk remains static, and work continues via the Getting to Good Board, and the six Boards which feed into it.</p>

CR3	Complying with statutory requirements and duties relating to children looked after, children in need and children leaving care.	People/service delivery	<p>Local authority is legally and financially liable, and may be subject to judicial review if found in breach of its statutory responsibilities.</p> <p>Further DfE intervention if Ofsted judge Children's Services to be inadequate.</p>	<ul style="list-style-type: none"> The protection and safeguarding of children, and oversight, is at all levels from Chief Executive to front-line managers to ensure there is an accurate understanding of the quality of practice. Clear governance and accountability arrangements are in place via the Getting to Good Board and the six boards which report to it: <ul style="list-style-type: none"> Workforce Development Board Purposeful Practice Board MASH and Demand Management Board Permanence and Children In Our Care Board Data Quality and Performance Board Children's Partnership Board There are effective partnership arrangements at a strategic and operational level. External reviews of front-line practice is provided by Ofsted, DfE, LGA and North West ADCS to provide external, independent evaluation of the quality of practice. 	16	<ul style="list-style-type: none"> The Getting to Good Plan has been produced to address the recommendations from the inspection and progress will be monitored via the Getting to Good Board. Sufficiency strategy: both the Bungalow (complex needs unit) and Slyne Road (Adolescent Support Unit) are now registered with Ofsted. Building work at South Avenue (the crisis unit) is not yet complete. Children's services will be re-inspected in 2019 under the Inspection of Local Authority Children's Services (ILACS) inspection framework. The focus will be on permanence. Preparation for this inspection has commenced and will include an external peer review by the Local Government Association in May/June 2019. 	12 (Major/possible)	Director of Children's Services	<p>There has been some positive improvement in performance which have included Children Looked After (CLA) visits within timescale improved (Q3 82%, Q4 87%), CLA Reviews in timescales have improved - (Q3 90%, Q4 91%).</p> <p>Some areas for further improvement Care Leavers in employment, education or training (EET) declined slightly - (Q3 93%, Q4 92%) and Care Leavers in suitable accommodation has also deteriorated - (Q3 51%, Q4 49%)</p> <p>The focus continues to be on a cultural shift from compliance with statutory requirements to improving the quality of practice.</p> <p>Further work is required to address variability in the quality of practice, to ensure that all children in need receive a consistently good service.</p> <p>The pace of change needs to accelerate as part of our continuing improvement journey from requires improvement to be</p>
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									<p>good.</p> <p>The Getting to Good Plan sets out agreed priorities and timescales.</p>
CR4	Increase in demand, including rise in number of contacts and referrals and an increase in CLA numbers	People	<ul style="list-style-type: none"> Potential drift and delay - impact on timeliness of assessment, plans and interventions with children & families. Financial implications. 	<ul style="list-style-type: none"> Clear governance and accountability arrangements are in place via the Getting to Good Board and the six boards which report to it. The MASH and Demand Management Board and Children in Our Care Board has the main function of monitoring Demand Management and CLA numbers. 	16	<ul style="list-style-type: none"> Permanence Action Plan has been developed to help reduce the CLA numbers. Sufficiency Strategy includes targets to reduce CLA numbers through prevention of S20 accommodation and children exiting from care. Successful life chances bid will support children on the edge of care. Increased use of Family Group Conferencing as a demand management strategy. Adolescent Support Unit and Outreach Service help to prevent the need for accommodation. Amendment to pre proceedings protocol, and introduction of permanence protocol guidance and toolkit. 	16 (Major/ Likely)	Director of Children's Services	<p>The number of referrals to Children's Social Care has greatly increased by 28.8% in the last quarter. (Q3 - 2482, Q4 - 3198).</p> <p>The number of CLA has increased by 45 which is a 2.2% increase on the last quarter (Dec - 2083, Mar - 2128).</p> <p>Average social worker caseloads have increased in the last quarter, from 19.8 as at the end of Q3 to 22.6 as at the end of Q4.</p> <p>The risk is being managed via the Getting to Good Board, and the six Boards which feed into it.</p>
CR5	Recruit and retain experienced staff across the organisation	People/service delivery	<ul style="list-style-type: none"> Inability to deliver effective services Shortage of skilled staff in specific service areas High caseloads Increased staff turnover Increased agency spend Lack of succession planning Low morale Negative impact on productivity levels 	<ul style="list-style-type: none"> Revised recruitment policy and procedures implemented including new recruitment software Vision and values being embedded Developed brand as an employer Use of new technology to aid recruitment such as apps on smartphones Introduced a guided application process for jobs Lancashire CC Career website launched to promote brand and improve recruitment rates Workforce Group established in Children's Social Care to ensure strong focus on recruitment and retention and workforce development. 	16	<ul style="list-style-type: none"> A strategic approach is planned to further develop council-wide succession planning requirements, to include the recruitment to 'Hard to fill' posts and reduce the reliance on costly agency staff. This will include career pathways. Proposals will be presented to Corporate Management Team on reshaping the apprenticeship programme to maximise the apprenticeship levy and support the delivery of the People's Strategy Continue to improve staff engagement through regular pulse surveys Introduce leadership and management module courses Corporate induction programme to be reviewed Develop a more focused graduate offer Improve the health and wellbeing of staff through initiatives such as the 'time to change' programme 	12 (Major/ possible)	Director of Corporate Services	Level

				<ul style="list-style-type: none"> Revised supervision policy now in place to support staff retention in Children's Social Care. Social Work Academy established providing robust induction and continuous professional development for social workers, including newly qualified staff. In Children's Social Care Advanced Practitioner posts established to support social workers to aid staff retention. Leadership Academy in Children's Social Care now in place with particular focus on up-skilling first line managers to strengthen leadership of practice. 					
CR6	Managing our data well and producing effective management information	Organisational	<ul style="list-style-type: none"> Ineffective collection, collation and input of data Failure to improve quality of data in council systems including those that have already been implemented and those that are being implemented. 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 demand management e.g. around demographics and ageing population profile Ineffective reporting arrangements. Statutory returns will be compromised, so incorrect performance will be reported nationally, with potential for negative financial consequences OFSTED/Care Quality Commission (CQC)/LGA and other external organisations will be using inaccurate 	<ul style="list-style-type: none"> Information Management Strategy. Accuracy Steering Group chaired by Director of Adult Services oversees a programme of work to improve data quality within systems used by Adult Services Data Quality and Performance Group oversees quality of information in systems for children's services Regular provision of management information to staff at all levels across adults and children's services helps to embed ownership of data and improve recording. Use of 'exception reports' which proactively highlights data anomalies and inconsistencies. Development of a Corporate Performance Dashboard is facilitating a council-wide view of all services, which will improve the quality of reported data as anomalies will be highlighted. Performance and Data Quality Group (Children's Services) is a well-established group facilitated by the Practice Improvement Officer. Heat maps have been designed to monitor Annex A data quality. Clear governance structure in place to ensure a continued focus on data quality/accuracy: <ul style="list-style-type: none"> Data Quality and Performance Group. Practice Improvement Meetings (PIMs) looking at performance and data quality. Children's Portfolio Review Boards have oversight of development of systems Governance Boards established for Early help Module, 	16	<ul style="list-style-type: none"> 'Project Accuracy' for Adults Services focussing on procedures and data quality is now underway. Draft Digital Strategy – the developing strategy has a work stream relating to data and developing an information architecture across the core systems. A strategy for Business Intelligence and reporting is being developed and will be presented to Corporate Management Team A Performance Management Framework is being developed to supplement the proposed new 'Our Vision for Lancashire' document. This will involve scrutiny committees Workshops have taken place with the Business Intelligence Service to identify Corporate Reporting. The outcome of these workshops will form the basis of requirements for how the council manages reporting in the future. This will be an integral part of the Digital Strategy. All requests to Business Intelligence team for new reports are made using Redmine and closely monitored. Requests will be challenged/prioritised and potentially refused in order to provide capacity in Business Intelligence team to test the core systems at peak periods. 	12 (Major/possible)	CMT	Children's - Regular meetings with Deputy Director Children's Services and Executive Director Escalation via Improvement and Accountability Board.

			<p>information to judge performance.</p> <ul style="list-style-type: none"> • Service planning and management will be severely compromised. • Potential for incorrect payment of providers, staff etc 	Education, Health and care Plans module and the Education Management System.					
CR7	Implement/maintain core systems that support the organisation, deliver transformational change and deliver efficiencies, cost reductions and produce effective management information that supports management decision making.	Organisational/Reputational	<ul style="list-style-type: none"> • Failure to deliver transformational change. Failure to deliver efficiencies and cost reductions. • Failure to produce the information needed to support management decision making. • Lack of management buy-in from service areas to drive forward change. • Failure to ensure that services work to new practices in a consistent way so as to maximise the benefit from investment in new technology. • Ineffective reporting arrangements. Statutory returns will be compromised, so incorrect performance will be reported nationally. • Ineffective working practices and targeting of resources to work priorities. • May impact on response times. • OFSTED/CQC/LGA and other external organisations will be using inaccurate information to judge performance. 	<ul style="list-style-type: none"> • Roadmaps have been developed for all key major systems. Governance arrangements in place with full impact assessment carried out for all system changes. • Central co-ordination, control and monitoring in place which assists in performance management of BTLS. Corporate wide approach implemented for all system changes involving services, Learning and Development, Business Intelligence etc. on wider impacts and how system changes are managed into the business. • The service challenges require significant additional resources and the prioritisation of the service challenges alongside existing work plans are being worked on in detail to understand just what can be delivered and when. • Service Challenges demand being evaluated and a programme of work alongside existing work plans is being considered including the additional resource demand to deliver alongside how best to maintain the savings profile. • Delivery of Early Help Module (EHM)/Educational Health Care Plans (EHCP)/MASH was successfully completed through the period of October 2018 to February 2019 including the Early Action module in conjunction with Lancashire Constabulary. • Information management strategy and approach being rolled out with all new systems. • Digital First strategy and action plan being developed which includes a data strategy as a fundamental building block for the Business Intelligence and Reporting strategy. • Performance Data on projects supplied to the Corporate Dashboard 	16	<ul style="list-style-type: none"> • Continued monitoring of data within Lancashire Children's Service. • Internal Audit have given Substantial assurance over the effectiveness of controls operating over the Systems Support function within Core Systems. • New system roadmaps developed to provide more control over system changes. Core Systems are continually reviewing request against council priorities and strategies. • Working closely with services, Programme Office and BTLS to firm up the detailed requirements of the service challenges and the resourcing of this additional work. Issues and implications logged at FMBs and overarching approach has been escalated to CMT for consideration • Monthly meetings with Highways Service continue, with focus on discussing and managing operational issues, with a continuous tracking of issues and timescales for rectifying these. • After comprehensive work with the service and a review by audit, a programme of work has been identified and underway. A Highways Improvement Board has been established which includes a comprehensive training and support plan for the service. Which has now begun. 	12 (Major/possible)	Director of Programmes & Project Management	<p>Risk being managed downwards</p> <p>On-going review and control of development work plans and roadmaps through relevant Portfolio Review Boards</p> <p>Establishment of overarching review and control of Work Plans and Roadmaps by Digital Board. This needs to take full account of the demand that service challenges are placing on work plans and resourcing.</p> <p>As part of the new emerging Digital Strategy there is a work stream looking at the technologies that will underpin the delivery of digital. The development of an architectural vision for the digital strategy is underway, working closely with BTLS. This includes a landscape review of existing technologies and is due to be presented at the next Digital Board on 15 April.</p>

			<ul style="list-style-type: none"> Service planning and management will be severely compromised. The activity and changes required to enable delivery of the service challenges presents a risk to delivery of both the necessary changes but importantly the savings. 	from Project and Programme Management System (PPMS).					Programme delivery model for Early Help Module/ Education, Health Care Plan to be replicated across new system delivery projects and programmes – demonstrates effective service participation and ownership of system development.
CR8	Delivering major projects/schemes on time and within budget	Development & regeneration	<ul style="list-style-type: none"> Scheme viability in doubt due to speculative estimating and project management Pressure on capital programme 	<ul style="list-style-type: none"> Capital Programme reports to Cabinet Improved approach adopted regarding the deliverability of current and future schemes. These include: <ul style="list-style-type: none"> Reporting of cost ranges for new schemes Routine updating of cost estimates Inclusion of contingency at industry standards and benchmarks Governance of the capital programme has been strengthened under the auspices of the Capital Board where responsibility for oversight and challenge of cost estimates and capital budgets sits. Restructuring to ensure the service has the resources with the right skill sets Update reports to Audit, Risk & Governance Committee 	16	<ul style="list-style-type: none"> Active project and programme management including: <ul style="list-style-type: none"> Detailed monitoring of the delivery programme through 2019/20 to ensure slippage is reported in a timely manner and a robust level of challenge is provided to programme and project managers to ensure delivery remains on track. Performance reports developed to enable the Capital Board to undertake this monitoring and challenge. 	12 (Major/possible)	Exec Director Growth, Transport and community services	Level
CR9	Delivering a statutory service for children and young people with special educational needs and/or disabilities.	People/Organisational	<ul style="list-style-type: none"> Not providing adequate service which places the local authority at risk of appeals to Special Educational Needs and Disability Tribunals (SENDIST), increased reputational risk via complaints corporately and to Local Government Ombudsman (LGO). Unmet need will result in children and young people failing to meet their potential and therefore not be supported as positively 	<ul style="list-style-type: none"> Following the SEND Local Area Inspection a Written Statement of Action (WSA) has been submitted identify improvements to the service offered by LCC and the Clinical Commissioning Groups. The following areas were identified as requiring action: <ul style="list-style-type: none"> The lack of strategic leadership and vision across the partnership Leaders' inaccurate understanding of the local area Weak joint commissioning arrangements that are not well developed or evaluated The failure to engage effectively with parents and carers The confusing, complicated and arbitrary systems and processes of identification The endemic weaknesses in the quality of EHC plans 	25	<ul style="list-style-type: none"> Recruitment of qualified staff funded by the SEND reform grant. Commissioning arrangements with Health being reviewed. The actions to implement the SEND improvement plan. Strategic reporting and monitoring of improvement plan at Cabinet and CMT level. Active leadership of Health and Wellbeing Partnership is leading SEND improvement plan. 	12 (Major/possible)	Director of Education & Skills	

			<p>as possible into adulthood.</p> <ul style="list-style-type: none">• The failure to recruit and retain staff.• Lack of confidence in council services.• The lack of accessibility and quality of information on the local offer	<ul style="list-style-type: none">○ The absence of effective diagnostic pathways for Autistic Spectrum Disorder (ASD) across the local area, and no diagnostic pathway in the north of the area○ No effective strategy to improve the outcomes of children and young people who have SEN and/or disabilities○ Poor transition arrangements in 0–25 healthcare services○ The disconcerting proportion of children and young people who have an EHC plan or statement of SEN who are permanently excluded from school○ The inequalities in provision based on location					
CR10	Supporting disadvantaged families to fulfil their potential (Troubled Families Programme)	People/Organisational	<ul style="list-style-type: none">• Failure to achieve Payment by Results targets due to specific requirements of the programme.• Failure to accrue maximum income from the programme for the authority.• Failure to meet savings target attributed to the service for current financial year.• Possible reputational risk as a result of missing a national target.• Possible reputational risk if progress not made with the Troubled Families Unit (TFU) Maturity Model and service transformation with partners.• Risk of additional scrutiny of programme	<ul style="list-style-type: none">• No governance procedures in place with responsibility for (TFU) oversight. Robust tracking processes in place with view to maximising payment by result claim opportunities.• Ongoing data matching to identify new eligible families• Robust tracking processes in place with view to maximising payment by result claim opportunities. However, no governance procedures in place with responsibility for oversight.• Ongoing data matching to identify new eligible families• The target in the med term fin strategy for TFU Payment by Results (PBR) claims for 2017/18 was for 1,500 PBR claims to be made and this target has been exceeded. As at 29 March 2019 payment by results claims had been made for 4,035 families (47% of the target for the life of the programme) where significant and sustained progress was evidenced.• The current positive trajectory is anticipated to continue to improve with the team ensuring that all available data and information systems are fully utilised to maximise PBR claim opportunities.• The service has a reduced capacity to meet the TFU targets since the implementation of a £1.25m budget reduction to the CFW service. This has reduced caseload capacity from 10k families a year to 7k families a year. The	20	<ul style="list-style-type: none">• Development of reporting processes to ensure monthly progress checks against targets• Redesigning of outcomes plan to set more achievable/realistic targets• Review of governance arrangements commissioned.• Districts supported to identify families where potential claims can be made• Workforce development complete for shared assessment. Lead professional and risk sensible approach.• Revised Common Assessment Framework (CAF) documentation, quality assurance and processes to assist in meeting requirements.• TFU Maturity Model self-assessment completed and developed action plan to support delivery and improvement.	16 (Major/ Likely)	Director of Public Health	Level

				TFU target is to 'turn around' 8620 families.					
CR11	Future provision of ICT services	Organisational	<ul style="list-style-type: none"> The BTLS contract has an expiry date of 31 March 2021 and covers ICT and transactional payroll services. Failure to put in place suitable arrangements will impact on organisational effectiveness and service delivery May impact on the service challenge savings options that need ICT solutions If any potential renegotiations are unsuccessful need to consider how the services will be transferred successfully back to the authority. 	<ul style="list-style-type: none"> The Society of IT Management have undertaken an independent review of our options that considered current BTLS service performance, how it benchmarks with other local authority services, particularly with regard to cost, and to consider the best options available to the council with regard to future service requirements 	16	<ul style="list-style-type: none"> The Society of IT Management are providing expert consultancy services to the county council for the contract renegotiation process with the outcome to be reported back for approval at a future Cabinet meeting. 	12	Director of financial services	Risk is reducing
CR12	Intermediate care for older people in a residential setting	People/Organisational	<ul style="list-style-type: none"> Operational issues leading to service failures Unavailability of community beds for older people on a short term basis Prolonged period of rehabilitation and recuperation before the person goes home Delayed transfer from hospital Reputational challenge for the Council if care homes operated by the council are judged by CQC as 'Requires Improvement' 	<ul style="list-style-type: none"> A review of the Lancashire intermediate care system was commissioned using money from the Better Care Fund, and included consideration of the best practice model for each service area including the community beds. Consultants have now been appointed and are undertaking initial investigatory work. Working with NHS colleagues to agree joint action plans Discussion with CQC on lessons learnt and action plans County Council care homes will formally be part of Radar and Quality Improvement Planning (QIP) safeguarding systems A quarterly Quality Assurance Panel will be set up with Director of Adult Services and Head of Service presenting a progress report against the action plans the Executive Director, Head of Safeguarding and an external NHS representative. 	16 (Major/Likely)	<ul style="list-style-type: none"> The Carnall Farrer Review of Intermediate Care is scheduled to conclude imminently with final sign off of the report at the end of May 2019. Reports or presentations to partnership meetings with the NHS including the Health and Wellbeing Board (HWB) are being scheduled accordingly, and it will come to LCC CMT in June for consideration. Earlier drafts of this work suggest opportunities for significant improvement and cost savings across the NHS – local government system. The findings of this report will not by themselves provide definitive answers as to whether LCC should continue to be a provider of some these services, but it will provide important context for more in-depth local discussions with NHS partners to determine answers to those questions. 	12(Major/Possible)	Executive Director for Adult Services and Health & Wellbeing	Following the implementation of the mitigating actions CQC ratings have improved.

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	<p>Delivering growth and prosperity for the whole of Lancashire</p> <p>To fully and effectively utilise the remaining European Structural Funds available to Lancashire and to position the County to benefit from future regional funding regimes.</p> <p>Establishment of robust pan-</p>	Development & regeneration	<ul style="list-style-type: none"> Continued successful delivery of the LEP's current strategic economic growth programmes. Successfully securing 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. <p>It is looking increasingly likely that the current European Structural and Investment Fund (ESIF) programme will run through to its planned conclusion at the end of 2020. Some early policy announcements have been made around a replacement UK Shared Prosperity Fund but it is unclear how this will compare to EU funding in terms of scale, focus and priorities.</p>	<ul style="list-style-type: none"> Lancashire Enterprise Partnership (LEP) has secured and is delivering through partners 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. The national policy framework is being shaped by a new Industrial Strategy with priorities and funding streams in development. ESIF monies, both Regional Development Funds and Social Funds, totalling circa £200m are currently ring-fenced for use in Lancashire (LEP area) over the next 5 years. This supports business support initiatives, innovation investment, environmental and flood mitigation measures as well as skills development and employability work. Post Brexit vote, projects which have been through the full approval process are not able to sign a final contract with Ministry of Housing, Communities and Local Government (MHCLG) and project funding is being restricted to spend prior to end 2018. Significant beneficiaries include the Council, other local authorities, Higher Education Institutes' and Colleges. Local authorities across Lancashire are reviewing their collective approach to 	12	<ul style="list-style-type: none"> Work with the LEP and local authority partners to ensure national resources to support growth and regeneration are secured. Maximise the support from key local and national public and private sector stakeholders outside the County Council. The County Council to give greater consideration to using its investment and prudential borrowing capacity and investment funds to bring forward a portfolio of strategic development opportunities. Economic Development's main European Regional Development Fund (EDRF) project Boost, has secured a Grant Funding Agreement and is applying for funding to the end 2021. Business Growth Service staff will, as far as possible, seek to frontload activity and spend within this project in-case funding or activity is prematurely curtailed. For the programme as a whole, we have issued calls in all measures in an effort to defray as much of the programme as early as possible. We are now looking to a further bid which could take the project to 2021. Local authorities across Lancashire are reviewing their collective approach to establishing effective joint 	16 (Major/likely)	CMT	<p>The LEP Review will present some significant challenges for local partners as the LEP is required to establish its own legal entity and further distance itself from any local authority support. We are now looking to move forward with the production of a Local Industrial Strategy to maximise new funding opportunity. New national housing and transport infrastructure funds will be targeted in support of local strategic priorities.</p> <p>Whilst the opportunity to secure EU funds (underwritten by HMG) looks more positive in the medium term, we are also preparing in the event that EU Structural funds are replaced with competitive rounds of regional productivity funding. More may be signalled on this as the government's Industrial Strategy is confirmed.</p> <p>The County Councils' political and officer</p>

	Lancashire collaboration arrangements.		Uncertainty over potential securing of a Devolution Deal or allocation of national resources and freedoms/flexibilities to the Lancashire level.	establishing effective joint working. Agreement on the way forward will enable swifter progress to be made on identified priorities.		working. Agreement on the way forward will enable swifter progress to be made on identified priorities.			leadership will play a full and active role in shaping and accelerating arrangements in Lancashire.
CO2	Apprenticeship Levy and Apprentice % in Public Sector	People/org anisational	Increase in Apprentices in the workforce and use the Apprenticeship levy to its maximum benefit to support critical development needs in the County Council	The Apprenticeship Levy was live from April 2017 and the first payment from the digital account was in May 2017. Work is being undertaken across LCC with Heads of service or their representatives to discuss their overall workforce development and what part the Levy could play in this.	12	<ul style="list-style-type: none"> Maximise the benefits of the Apprenticeship Levy within LCC by working in conjunction with Management Team, Finance and HR to embed this into structures across the organisation. Working with services to identify the quick wins where these suit their business need and to thus eliminate training expenditure where we can, and link to Levy fund. L&D are speaking to Heads of Service to see how their training needs can be creatively addressed to link with the Levy, where possible. Heads of Service have been asked to report to L&D any current areas of training expenditure commitment that they have entered into. Heads of Services have been asked not to enter into any further financial commitments without speaking to L&D Close working relationship with the LGA and we are focussing currently on Higher degree apprenticeships. LGA will be supporting LCC in developing a strategy and future spending plan. Recent work with Finance looking at transactional spend in Services on training has not identified anything which could have been Levy based. 	15 (Outstanding/p possible)	Dir of Corporate Services	We now have more Standards available to us, which we have been waiting for and we have developed a draft strategy with the LGA support which we intend to share with Director, HR, Finance , CMT
CO3	Fair Funding and Business rate Retention	Organisational/Financial	<p>Potential increase in funding to help balance the budget post 22/23</p> <p>However, several grants will end in 2020</p> <p>Business rate baseline applied from 2020 and councils encouraged to try to increase their rate revenues instead of being dependent on Government grants. However the impact may depend on technical decisions within rate retention e.g. how to divide revenue between counties and districts (tier splits)</p>	<ul style="list-style-type: none"> Implemented business rate pilot with Lancashire district and unitary councils Proportion of business rate retention is 75% Responded to consultations on Fair Funding Review 	12	<ul style="list-style-type: none"> Fair Funding Review continue to lobby through the LGA and respond to further consultations up until summer 2019 Work with Lancashire councils to embed the business rate retention pilot 	12 (Major/possible)	Dir of Finance	March 2020

CO4	Working collaboratively with key health partners	Organisational/financial	<p>Opportunity to work more closely with Health partners to align plans, strategies and budgets as part of the Integrated Care System for Lancashire and South Cumbria and Integrated Care Partnerships.</p> <p>The opportunity needs to be balanced against the risk of lessened control over County Council budgets and the delivery models which may be put in place, with our health partners, to achieve our intended outcomes for people in Lancashire</p>	<ul style="list-style-type: none">Engagement through Lancashire-wide forums eg Integrated Care System Board, Joint Committee of Clinical Commissioning Groups, Collaborative Commissioning Board, Children & Maternity Commissioners Network.	12	<ul style="list-style-type: none">Develop a clear "offer" to the health economy for discussion and agreement with Cabinet	15 (outstanding/possible?)	Executive Director of Adult Services & Health & Wellbeing	Level
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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, Risk and Governance Committee

Meeting to be held on Monday, 20 May 2019

Electoral Division affected: (All Divisions);
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Internal Audit Annual Plan 2019/20

(Appendices A and B refer)

Contact for further information:

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ruth.lowry@lancashire.gov.uk

Executive Summary

This report explains the approach to establishing the internal audit plan for 2019/20 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 is at Appendix B.

Recommendation

The committee is asked to consider and approve the internal audit plan 2019/20 as set out in Appendices A and B.

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 Corporate Management Team, both collectively and individually, and with directors and heads of service across the organisation.

Implications:

Not applicable

Risk management

This report supports the Audit, Risk 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
Internal Audit Strategy for 2019/20	April 2019	Ruth Lowry, (01772) 534898

Reason for inclusion in Part II, if appropriate

Not applicable.

Internal audit plan 2019/20

1. Introduction

- 1.1. This report sets out the internal audit plan for 2019/20. The Audit, Risk and Governance Committee is asked to consider and approve it under the committee's terms of reference.
- 1.2. The plan is supported by the Internal Audit Strategy for 2019/20 which sets out the relevant statutory and professional requirements, the planning principles and inputs to the process, and the audit approach employed by the Internal Audit Service.
- 1.3. The plan is also supported by a service charter, which defines the purpose, authority, scope and responsibility of internal audit activity, establishes the service's position within the organisation, and authorises access to all relevant records, personnel and physical properties.
- 1.4. The Internal Audit Service aims to achieve the core principles set out by the Chartered Institute of Internal Auditors and reiterated in Public Sector Internal Audit Standards, which are that the service:
 - Demonstrates integrity
 - Demonstrates competence and due professional care
 - Is objective and free from undue influence (independent)
 - Aligns with the strategies, objectives, and risks of the organisation
 - Is appropriately positioned and adequately resourced
 - Demonstrates quality and continuous improvement
 - Communicates effectively
 - Provides risk-based assurance
 - Is insightful, proactive, and future-focused
 - Promotes organisational improvement

2. The purpose of the audit plan

- 2.1. The council is responsible for a wide range of services across the county, and it is expected that the council's members and senior management are aware both of the risks to achieving their service objectives and the risks inherent in their work. Each of these risks should be managed by controls designed to reduce it to a corporately acceptable level, and which operate effectively and consistently in practice. The chief executive, Audit, Risk and Governance Committee, and ultimately the Council, need assurance that these controls are adequately designed and operating effectively. At the end of the financial year the chief executive and the leader will jointly sign an annual governance statement that is published with the council's financial statements.

Internal audit plan 2019/20

- 2.2. The head of internal audit is required by professional standards to provide an opinion addressing the council's frameworks of 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, Risk 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 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 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 will be sufficient to inform the council's annual governance statement shortly after the year end.

3. Obtaining the evidence to support an overall opinion for 2019/20

- 3.1. 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.
- 3.2. 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. However information will also be available from less formal sources than planned audit engagements and this will also inform the overall opinion.
- 3.3. A control framework applicable to the council's governance, risk management and control is shown on the following page. The internal audit plan is designed to address, proportionately, the coverage required across this controls framework for the whole organisation. It addresses each of the areas of the overall opinion, each of the areas of control set out in the control framework, and each of the major areas of service delivery. A number of individual audits address some common themes, including contract monitoring, safeguarding, health and safety, and improvement plans that may also inform a more corporate view. The plan also includes work to follow up all of the action plans agreed by managers as a result of audit work over the previous year.

A framework for governance, risk management and control						
Governance and democratic oversight						
Corporate governance		Decision-making		Oversight and scrutiny		Policy setting
Business effectiveness						
Risk management	Performance management	Organisational design		Financial governance and planning		Working in partnership
Service delivery						
Growth, Environment & Transport		Education & Children's Services		Adult Services and Health & Wellbeing		Resources
Service support						
Legal services	Skills, learning & development	Core ICT systems	Property management	Health & safety	Programme management	Customer access
Business processes						
Financial systems & processes		Procurement		Facilities management		Human resources
Information management		Contract monitoring & management				Payroll processing
Business continuity				Investment		ICT systems

- 3.4. A detailed list of each audit in the plan is provided at Appendix B to this report, setting out how they fit into this framework. It should be noted that the plan will almost certainly be subject to some change during the year as the council's priorities alter and as the work set out here in outline is scoped in more detail. The committee will be informed of any significant changes as progress is reported during the year.
- 3.5. An ICT audit service provider was appointed in 2018 and a programme of ICT audit work began in 2018/19. The plan of ICT audit work for 2019/20 is included in the plan set out at Appendix B.
- 3.6. The county council is the administering authority for the Lancashire Pension Fund and the plan therefore incorporates the need to provide assurance over the operation of the fund. It is administered and its pooled assets are managed by Local Pensions Partnership Ltd (LPP) which has appointed Deloitte as its own internal auditor. In addition to the work being undertaken by the council's Internal Audit Service, the council may take some assurance from Deloitte's work. Although Deloitte disclaims any liability to the council and the Pension Fund for any reliance they may place on this work, the firm has agreed that its conclusions may be reported to the council's Audit, Risk and Governance Committee and Pension Fund Committee.
- 3.7. An indication of the scale of work by control area and service is also provided by the table on the following page. The type of work is shown as:
- '1' for phase one/ consultancy work
 - '2' for phase two/ compliance testing
 - '1+2' for a full risk and control evaluation
 - 'F' for follow-up work.

Internal audit plan 2019/20

Control category and service area	Number of audits by type				
	'1+2'	'1'	'2'	'F'	Total
Governance and democratic oversight	1	1	-	-	2
Finance	1	1			2
Business effectiveness	3	-	-	2	5
Strategy and Performance	1				1
Corporate Services	1				1
Finance				2	2
Pension Fund	1				1
Service delivery	36	9	5	40	90
Adult Services	13	1	1	9	24
Public Health	5	1		2	8
Patient Safety & Safeguarding	3			6	9
Corporate Parenting		1			1
Children's Social Care	6	4	4	6	20
Education & Skills	1	2		2	5
Growth, Environment and Planning	2				2
Highways and Transport	4			10	14
Waste Management & Lancashire Renewables				3	3
Finance	1			1	2
Pension Fund	1			1	2
Service support	8	3	-	4	15
Corporate Services	2			1	3
Finance	1			2	3
Public Health	1				1
Strategy and Performance	3	3		1	7
Property Services	1				1
Business processes	4	-	8	12	24
Strategy and Performance	1			3	4
Corporate Services				3	3
Finance	3		5	3	11
Pension Fund			1	2	3
BTLS			2	1	3
Total	52	13	13	58	136

4. The context of the audit work for the year

- 4.1. For the first time in some years, in 2018/19 favourable overall assurance was given on the council's frameworks of governance, risk management and control. The council's managers are themselves now content to give assurance overall that these frameworks are in place and operating effectively. Inevitably there are a number of areas that are subject to further improvement as well as additional cost-saving activity, but this is to be expected in any normal organisation. The challenges that have faced the council in recent years are now regarded as surmountable.
- 4.2. The audit plan has therefore been constructed to include potentially any area of the council's operations and any service, system or process. Full audits have been planned across each control area and each of the main service directorates.
- 4.3. Where improvement work is under way the audit team's responses, with management's agreement, range from providing input as new policies and control frameworks are developed, auditing the implementation of improvement plans, and maintaining a watching brief until plans have been implemented and the service, system or process can be audited in future.
- 4.4. Work is being undertaken by the council in particular to finalise and implement a digital strategy and a data strategy that will eventually have far-reaching impacts across its services and on its ability to monitor and manage its work. These strategies and their effects will be audited in future years rather than in 2019/20 but will be of interest as they develop. They will also facilitate changes to some of the council's basic business processes and controls, for example in relation to its human resource processes.
- 4.5. We will also, and crucially, retain a close interest in the council's financial position and the achievement of its planned savings. Whilst the Programme Office is subject to an external review we do not plan to audit it or the processes it will eventually operate to monitor and support the achievement of savings, but we will seek to understand the council's financial position throughout the year.
- 4.6. In February the Council agreed a budget for 2019/20 with a £10.245 million funding gap covered by reserves, which is significantly lower than the reserve requirement of £42 million included in the 2018/19 budget. After some years in which large gaps have been forecast between the council's resources and its projected expenditure, it is now anticipated that available reserves will be more than sufficient to support the council's expenditure until at least 2022/23. The forecast gap in funding by 2022/23 is £47.2 million and work is continuing to identify further savings which will address the structural funding gap and reduce the need for support from reserves in 2020/21, and beyond, achieving a financially sustainable position for the longer term.

5. The assurance we will provide

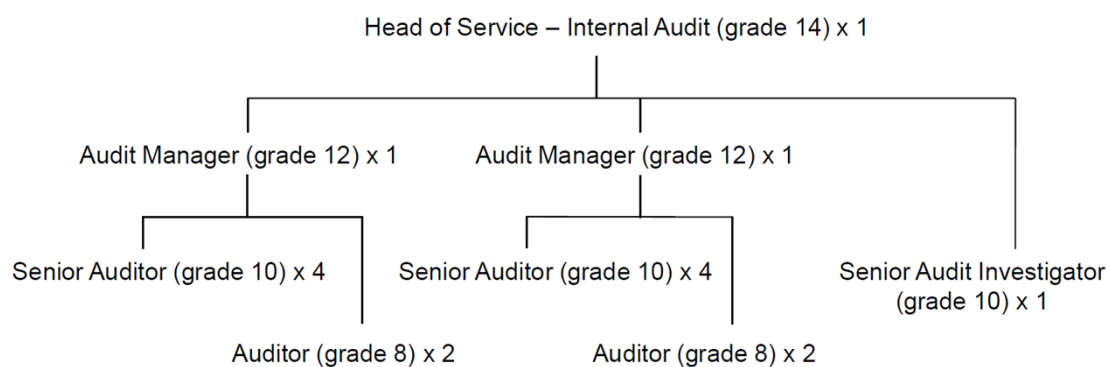
- 5.1. The assurance we will provide falls into four categories: substantial, moderate, limited and no assurance.
 - Substantial assurance: the framework of control is adequately designed and/ or effectively operated.

Internal audit plan 2019/20

- Moderate assurance: the framework of control is adequately designed and/ or effectively operated overall, but some action is required to enhance aspects of it and/ or ensure that it is effectively operated throughout the service, system or process.
- Limited assurance: there are some significant weaknesses in the design and/ or operation of the framework of control that put the achievement of the service, system or process' objectives at risk.
- No assurance: there are some fundamental weaknesses in the design and/ or operation of the framework of control that could result in failure to achieve the service, system or process' objectives.

6. Internal Audit Service resources

- 6.1. The plan takes account of the internal audit resources available. The service employs 16 staff in the structure set out below:



- 6.2. 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 additional support to some of the other district councils. This work accounts for a little more than three full-time equivalent staff but is undertaken by individuals across the service.

7. Funding and grant certification work

- 7.1. The Internal Audit Service is required under 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.
- 7.2. The Ministry for Housing, Communities and Local Government requires the Internal Audit Service to test funding claims submitted by the council's Troubled Families Programme and we are working with the Children and Family Wellbeing Service to process the council's funding claims under this programme.
- 7.3. 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.

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

- 8.1. 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.
- 8.2. 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 the Internal Audit Service.
- 8.3. 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.

Internal audit plan 2019/20

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 2019/20. Individual elements within the plan may be amended but, taken as a whole, the resulting plan is designed to address the requirement for an overall opinion as set out in the Internal Audit Strategy for 2019/20.

The type of work is shown as: '1' for phase one/ consultancy work; '2' for phase two/ compliance testing; '1+2' for a full risk and control evaluation. Work to follow up the actions arising from previous audit work is not listed here.

Service area	Operational area of activity	Audit work	Type
Control framework: governance and democratic oversight			
Financial Management (Operations)	Corporate reporting and oversight of the delivery of the council's financial strategy and budget reductions	Assessment of the manner in which the council oversees the achievement of its financial savings, and the adequacy and effectiveness of the controls that will ensure that planned savings are made.	1+2
Pension Fund	Obtaining and understanding the assurance provided by the Pension Fund's own internal auditors	Assessment of the assurance provided by Deloitte over the operation of the Pension Fund by the Local Pensions Partnership Ltd (LPP).	N/A
-	Renegotiation of the contract with BTLS	Work to understand and support the conduct of negotiations.	1
Control framework: business effectiveness			
Legal, Governance and Registrars	Risk management	Effectiveness of risk management arrangements in services and at a corporate level. Includes follow up of any actions from 2018/19 audit.	1+2
Business Intelligence	Corporate performance management	Audit of the implementation of revised performance management arrangements and KPIs developed following the introduction of new corporate strategy.	1+2
Pension Fund	LPP's compliance with its contractual obligations	Review of the accuracy of the performance data reported by LPP to demonstrate its achievement of its contractual performance targets.	1+2
Control framework: service delivery			
Adult Services and Health & Wellbeing			
Learning Disability, Autism & Mental Health	Transitioning young people from children's services to adults' services	Assessment of the controls that have been put in place to ensure that young people are properly transferred between children's and adults' services.	1+2
Learning Disability, Autism & Mental Health	Mental health case management	Review of the end-to-end case management arrangements following the transfer of mental health services back into the council from the NHS.	1+2

Internal audit plan 2019/20

Service area	Operational area of activity	Audit work	Type
Learning Disability, Autism & Mental Health	Mental health case audit work	Assessment of the robustness of the case audit mechanism as a means of identifying elements of good practice to be shared and identifying areas for improvement.	1+2
Social Care (Health); Social Care (Community)	Passport to Independence: governance	Assessment of the governance and risk management arrangements in relation to service challenge items and business as usual following the Passport to Independence programme.	1+2
Older People	Audit and assurance arrangements	A review of the in-service audit arrangements, focussing on supervision arrangements, medication compliance and support planning in residential settings.	1+2
Patient Safety & Safeguarding	Operation of the residential quality assurance framework	Consideration of the adequacy and effectiveness of the improvement programme being developed to drive improvements in service delivery across the regulated care sector.	1+2
Patient Safety & Safeguarding	Operation of the non-residential quality assurance framework	Consideration of the adequacy and effectiveness of the improvement programme being developed to drive improvements in service delivery across the regulated care sector.	1+2
Social Care (Health); Social Care (Community)	Provider-led reviews	Assessment of the scheme operating in the Carers Service, focussing on whether the council is obtaining appropriate assurance that quality standards are being maintained, and the reviewers' competence and training.	1
Older People	Financial practice	An assessment of the adequacy and effectiveness of the arrangements for recording and accounting for contributions due from self-funders, with a focus on accuracy and efficiency.	1+2
Exchequer Services	Direct payments: adults' financial reviews	Assessment of the scope, frequency and timeliness of reviews of service users' expenditure of direct payments, including both desk-top reviews and visits to service users.	1+2
Older People	Management of service users' funds	A review of the controls in place to ensure that service user funds are appropriately safeguarded and accounted for, including contributions to and the use of the residents' amenity fund.	1+2
Disability Services	Safeguarding service user finances in the Supported Living Service.	An assessment of the adequacy and effectiveness of the arrangements in place to ensure that the finances of service users who lack capacity are safeguarded.	1+2
Disability Services	Shared Lives	An assessment of the adequacy and effectiveness of the recruitment process, with a focus on transparency, compliance with policy and guidance, and the benefits of the panel approval process.	1+2

Internal audit plan 2019/20

Service area	Operational area of activity	Audit work	Type
Disability Services	Sickness absence arrangements	A review to assess compliance with the sickness absence policy for both short term and long term absence by operational managers, including the case review process and referrals to occupational health.	1+2
Learning Disability, Autism & Mental Health	Supervision	Confirmation that staff are subject to regular support and supervisory review to ensure compliance with professional body requirements	2
Legal, Governance and Registrars	Adult social care complaints	Consideration whether the service is appropriately identifying the lessons learned from complaints and amending its practices and procedures to improve service provision.	1+2
A sample of all	Business continuity arrangements	An assessment of the adequacy and effectiveness of the business continuity arrangements across the range of adult social care services, considering in particular the robustness of the plans, test arrangements and the implementation of lessons learned.	1+2
Patient Safety & Safeguarding	Safeguarding vulnerable adults	Audit of the arrangements to address safeguarding concerns including reporting to the Lancashire Safeguarding Adults Board, with a focus on compliance with the Making Safeguarding Personal ethos.	1+2
Health Equity & Partnerships	Contract monitoring: 0-19 years health care professionals	Assessment of the adequacy of the contract monitoring arrangements to ensure that the service is provided to appropriate standards and ensures service user outcomes are achieved.	1+2
Health Equity & Partnerships	VIP enquiries	Consideration of the adequacy and effectiveness of the case management arrangements to manage the demand for and response to VIP enquiries.	1+2
Health Equity & Partnerships	External sources of assurance over the council's activity and objectives	Work with Mersey Internal Audit Agency to understand their work in the region that may provide assurance over the council's objectives as well as those of MIAA's NHS clients.	1
Trading Standards & Scientific Services	Safe Trader Scheme	An assessment of the management and monitoring arrangements in place over the operation of the Safe Trader Scheme.	1+2
Health, Safety & Resilience	Educational off-site visits	Assessment of the adequacy and effectiveness of the risk assessment process and the compliance checks conducted by the Health, Safety and Resilience team.	1+2
Health, Safety & Resilience	Contract monitoring: Occupational Health Service	Consideration of the adequacy and effectiveness of the council's oversight of the outsourced occupational health services.	1+2

Internal audit plan 2019/20

Service area	Operational area of activity	Audit work	Type
Education & Children's Services			
Children's Social Care	Children's Services improvement plan delivery	Assessment of delivery against the improvement plan, including implementation of action, benefits realisation, service-level monitoring and reporting to the directorate management team.	1+2
Children's Social Care	The sufficiency strategy for children looked after	Assessment of the adequacy of controls to ensure that the strategy is implemented effectively.	1
Children's Social Care	Prevention of child sexual exploitation.	Assessment of compliance with the new process, including follow up of the actions agreed in 2018/19.	2
Children's Social Care	Payments to external care providers	Assessment of the effectiveness of controls for managing payments to external care providers, including their accuracy and validity.	1+2
Children's Social Care	Caseload management	Audit of the controls to manage the allocation of casework to social workers.	1
Children's Social Care	Supervision and support	Audit of the adequacy and effectiveness of supervisions, including frequency, timeliness and impact.	1+2
Children's Social Care	Independent reviewing officers (IROs)	Audit of the adequacy and effectiveness of the IROs' role in providing oversight and assurance over practice quality assurance.	1+2
Corporate Parenting	Corporate parenting strategy	Audit of the adequacy of controls to ensure that the corporate parenting strategy is implemented and effectively operated.	1
Inclusion	Inclusion Service improvement plan	Assurance over the development and implementation of the improvement plan including governance structures, decision making and monitoring.	1+2
Inclusion	Direct payments	Follow up of the 2017/18 audit supported by further testing based on the risk and control framework already agreed.	2
Fostering, Adoption, Residential & YOT	Special guardianship order financial support	Assessment of the controls to assess entitlement to special guardianship financial support including means testing and calculation of payment, conditions, enhancement payments, ongoing entitlement and reassessment.	2
Safeguarding, Inspection & Audit	Children's Services' in-service audit framework	Assessment of the adequacy and effectiveness of controls over the operation of the audit framework including testing of audit activity on casework and supervisions. (Phase 1 was completed in 2018/19).	2
Safeguarding, Inspection & Audit	Transition to new local safeguarding arrangements	Assessment of the establishment of governance structures and review partnerships, and the transition to national and local reviews.	1

Internal audit plan 2019/20

Service area	Operational area of activity	Audit work	Type
Safeguarding, Inspection & Audit	Lancashire Safeguarding Children's Board (LSCB) purchasing	Audit of the adequacy and effectiveness of controls to ensure that purchasing by the LCSB is valid, legitimate and provides value for money.	1+2
Safeguarding, Inspection & Audit	Serious incident reporting and case review	Assessment of controls following the transition of serious case reporting from the local safeguarding board to new partnership boards.	1
Education, Quality and Performance	Children missing from home or school.	Audit of the adequacy and effectiveness of controls to identify and track children missing from home or school, building on the work done in 2018/19 on school exclusions.	1+2
Libraries, Museums & Culture	Re-imagining the Harris	Work to understand the overall programme and the implementation of its component parts with Preston City Council.	1
Libraries, Museums & Culture	Safekeeping of heritage assets held in museums and libraries	Assessment of the controls in place to ensure that heritage assets held in museums and libraries are exhibited, stored and moved safely and securely.	1
Financial Management (Development & Schools)	Schools thematic audit: procurement	Audit of a sample of schools' arrangements for procuring goods and services.	1+2
Growth, Environment & Transport			
All	Improvement plan implementation	Work to understand and assess the directorate's plans and action to deliver service improvement.	1+2
Highways	Highways stocks and stores	Assessment of the arrangements in depots for the proper management of stocks and stores, including their security and the treatment of wastage.	1+2
Public & Integrated Transport	Operation of the non-HGV vehicle fleet	Audit of the effectiveness of controls over the operation of non-HGV council fleet.	1+2
Highways; Public & Integrated Transport; Waste	Health and safety at operational depots.	An audit of the controls to manage the risks to operatives' and the public's health and safety at transport and highways depots, and household waste and recycling centres.	1+2
LEP Coordination	Operation of the LEP assurance framework	Consideration of the adequacy of the assurance over the activities of the LEP following the change in legal status with effect from April 2019.	1+2
Planning & Environment	The Countryside Service.	Consideration of the adequacy and effectiveness of the processes and controls that ensure sites remain open and safe in accordance with the Occupiers Liability Act.	1+2

Internal audit plan 2019/20

Service area	Operational area of activity	Audit work	Type
Pension Fund			
Pension Fund	Collecting contributions from employers	Assessment of the controls over the collection of contributions from employers.	1+2
Control framework: service support			
Health, Safety & Resilience	Compliance with lone worker arrangements in services across the council	For a sample of service areas, we will assess compliance with the new lone working arrangements introduced by the Health, Safety and Resilience team.	1+2
Core Systems	Management and monitoring of system changes	A review of the adequacy of the controls in place over the introduction of changes to the core ICT systems.	1
Core Systems	Improved data management	Work to understand the action being taken to improve the council's data quality and management.	1
Asset Management	PAMS improvement plan	Assessment of the action being taken to ensure that PAMS properly supports the organisation's objectives and operates effectively.	1
Asset Management	Highways Authorities	Assessment of the adequacy and effectiveness of the arrangements underpinning the completion of the Highways Authority self-assessment.	1+2
Asset Management	Contract monitoring: Building Schools for the Future (BSF) contracts	Assessment of the procedures in place to monitor the BSF contracts, both their financial performance and in relation to the health and safety of staff and students in the school buildings.	1+2
Asset Management	Premises compliance: health and safety in properties managed by the council	Assessment of the process by which compliance with statutory and other requirements is assured by the compliance team for properties managed by the council.	1+2
Asset Management	CCTV surveillance conducted from the council's estate.	Confirmation that the council is compliant with GDPR and any requirements related to the use of CCTV cameras and retention of data obtained from them.	1+2
Skills, Learning & Development	Implementation of the new e-learning system	Assessment of the controls supporting the effective implementation of the system, focussing on the areas of the council most reliant on staff training and development.	1+2
Human Resources	Sickness absence management	Assessment of the corporate management of sickness absence, by performance monitoring and the provision of support to operational managers.	1+2
Procurement	End-to-end procurement to payment process	Audit of the end-to-end processes operated from the procurement of new suppliers through to processing payments.	1+2

Internal audit plan 2019/20

Service area	Operational area of activity	Audit work	Type
Technology risk assurance			
Core Systems	Service management: Core Systems	Review of service management arrangements.	1+2
BTLS	Service management: BTLS	Review of service management arrangements.	1+2
Core Systems and BTLS	Critical applications	Review of critical systems' security, performance, resilience and recovery.	1+2
Core Systems and BTLS	Mobile devices and data	Review of the security of mobile devices and the data held on them, with an emphasis on the configuration of devices.	1+2
Core Systems and BTLS	Cyber resilience	Review of organisational cyber resilience capability.	1+2
Core Systems and BTLS	Incident management and response	Review of arrangements to respond to and recover from service disruptions in accordance with business need.	1+2
Core Systems and BTLS	NHS data security and protection toolkit	Review of the council's mandatory submission to ensure continued access to care data.	1+2
Control framework: business processes			
Core Systems	Oracle user access	Review of the improvement plan.	1+2
Payroll Service	Payroll processing by BTLS of information provided by LCC	Compliance testing of the key controls.	2
Payroll Service	Payroll overpayments	Compliance testing of the key controls.	2
Exchequer Services	Accounts receivable: central controls	Compliance testing of the key controls.	1+2
Exchequer Services	Accounts payable: central controls	Compliance testing of the key controls.	1+2
Exchequer Services	Cash and banking	Compliance testing of the key controls.	2
Exchequer Services	General ledger	Compliance testing of the key controls.	2
Exchequer Services	VAT	Compliance testing of the key controls.	2
A sample of all	Mileage claims by staff across the council	Testing of compliance with corporate policy including insurance cover, driving licence and V5 checks.	1+2
Investment	Treasury management	Compliance testing of the key controls.	2
Financial Management (Development & Schools)	Schools' Financial Value Standard (SFVS) self-assessments	Review of a sample of SFVS self-assessments submitted by schools for 2018/19 to ensure their assertions are supported by adequate evidence, and follow-up of 2018/19 actions.	2
Pension Fund	Accounting for the Pension Fund through the council's general ledger	Compliance testing of key controls.	2

Audit, Risk and Governance Committee

Meeting to be held on Monday, 20 May 2019

Electoral Division affected: (All Divisions);
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Grant Thornton's Request for Information from Management

(Appendices A and B refer)

Contact for further information:

Neil Kissock, Tel: (01772) 536154, Director of Finance,

neil.kissock@lancashire.gov.uk

Executive Summary

The Committee is asked to consider the proposed response to Grant Thornton's request for information from the Council's management.

Recommendation

The Committee is recommended to agree the management response set out at Appendix B.

Background and Advice

To comply with International Auditing Standards, each year Grant Thornton as the external auditor is required to establish an understanding of the management processes in place to prevent and detect fraud and to ensure compliance with law and regulation. They are also required to make enquiries as to management's knowledge of any actual, suspected or alleged fraud and to document management's view on some key areas affecting the financial statements.

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

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

The response to Grant Thornton will provide information to the external auditor to support their role in determining an opinion on the Council's statement of accounts and value for money arrangements for 2018/19.

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

Paper	Date	Contact/Tel
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N/A

Reason for inclusion in Part II, if appropriate

N/A



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27 February 2019

Dear Angie

Lancashire County Council and Lancashire County Pension Fund Financial Statements for the year end 31 March 2019

To comply with International Auditing Standards, we need to establish an understanding of the management processes in place to prevent and detect fraud and to ensure compliance with law and regulation. We are also required to make inquiries of both management and the Audit, Risk and Governance Committee as to their knowledge of any actual, suspected or alleged fraud. International Auditing Standards also place certain obligations on auditors to document Management's view on some key areas affecting the financial statements

To assist us in meeting these requirements, I would be grateful if you would consider and formally respond to the matters set out in the attached schedule. In completing this task, you may wish to take into account the views of other directors where you think appropriate. The schedule relates to operational issues as well as the financial statements of the Council.

In addition to our request to management, we also need to gain an understanding of how the Audit, Risk and Governance Committee maintains oversight of the above processes. I will provide you with a copy of the letter that I sent to Councillor Alan Schofield, Chair of the Audit, Risk and Governance Committee, for your information.

It would be useful to co-ordinate both the Audit, Risk and Governance Committee and management responses to our letters in time for discussion at the Audit, Risk and Governance Committee meeting scheduled for 20 May 2019. Please could you provide a response to me by **Friday 31 May 2019** covering the full financial year 2018/19. Please contact me if you wish to discuss anything in relation to this request. My contact details are:

Angela Pieri 0141 223 08897/ 07920 813338 Angela.L.Pieri@uk.gt.com

Chartered Accountants

Member firm within Grant Thornton International Ltd
Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP
A list of members is available from our registered office.

Grant Thornton UK LLP is authorised and regulated by the Financial Services Authority for investment business.

Yours sincerely

Angela Pieri

Senior Manager
For Grant Thornton UK LLP

Appendix B

Lancashire County Council and Lancashire County Pension Fund - Questions to Management 2018/19

Auditor question	Response for Lancashire County Council	Response for Lancashire County Pension Fund
What do you regard as the key events or issues that will have a significant impact on the financial statements for 2018/19?	There are no specific events that have had a significant impact on the financial statements for 2018/19 however, the continuing increase in the demand for services and reductions in central government funding has meant that some depletion of reserves will be seen in the movement in usable reserves.	Pooling of investments and the reporting of post-pooling management expenses. The Fund will follow The Chartered Institute of Public Finance and Accountancy (CIPFA) guidance in preparing the annual report and accounts.
Have you considered the appropriateness of the accounting policies adopted by the Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	The accounting policies have been reviewed, and the policies to be adopted for the 2018/19 accounts were approved by the Audit, Risk and Governance committee in January 2019. There have been no events or transactions that have caused a change to the accounting policies since 2017/18.	There have not been any events or transactions that will result in new or changed accounting policies. The Fund follows the CIPFA code of practice and guidance specific to the accounts of Local Government Pension Scheme (LGPS) Funds.
Are you aware of any changes to the Councils regulatory environment that may have a significant impact on the Authority's financial statements?	No.	No.

Auditor question	Response for Lancashire County Council	Response for Lancashire County Pension Fund
<p>What policies and procedures are in place to identify applicable legal and regulatory requirements to ensure the Council is complying with those requirements?</p>	<p>There are a number of policies and procedures that are available to all employees via the intranet. These include:</p> <ul style="list-style-type: none"> - The constitution - Scheme of delegation - Political decision making arrangements - Assurance statements <p>This is supplemented by internal audit reviews.</p> <p>Also, all committee reports are required to undergo an internal clearance process whereby relevant input is obtained from finance, legal, procurement, HR and other support services, before decisions are taken.</p>	<p>Head of Fund is designated as the officer responsible for the management of the Fund.</p> <p>Pension Fund Committee approves the annual governance compliance statement which is prepared by the Head of Fund.</p> <p>Pension Fund Committee undertakes training to ensure possession of the sufficient skills, information and resources.</p> <p>Local Pensions Board assists the Council in ensuring compliance with LGPS and other regulations. The Fund is a member of the CIPFA pension network and other local networking groups. For example NWWPG (North West and Wales Practitioners Group). There is regular attendance of training and conference events to remain fully aware of current and developing laws and regulations.</p>
<p>How would you assess the process for reviewing the effectiveness of internal control and what are the results?</p>	<p>The adequacy and effectiveness of internal control is assessed through an annual programme of internal audit work, and through management's own assessment of their controls' effectiveness.</p> <p>The results of these assessments are that, overall, moderate assurance can be taken that the council's internal controls are adequately designed and effectively operated.</p>	<p>The adequacy and effectiveness of internal control is assessed through an annual programme of internal audit work. The council's oversight of the Pension Fund is audited by the council's own internal audit service.</p> <p>The service company appointed to administer the fund has appointed its own internal auditor who also follows an annual programme of internal audit work. However as at mid-April the council has not seen the results of that programme of work for 2018/19.</p>
<p>How does the Council's risk management processes link to financial reporting?</p>	<p>The Council's financial position is identified as a key risk on the Council's risk register.</p> <p>The Council's senior management and political leadership regularly receive reports on the Council's current and longer term financial position.</p> <p>Financial reports are produced routinely on a monthly basis with an</p>	<p>Any significant identified risk areas are accounted for in accordance with the CIPFA Code and additional CIPFA guidance.</p>

Auditor question	Response for Lancashire County Council	Response for Lancashire County Pension Fund
	<p>annualised forecast produced by budget holders with support from the finance team for more complex service areas such as adult social care.</p> <p>Budgets are composed on a hierarchical basis, such that the level of reporting from detail to corporate summary can be obtained dependant on need.</p> <p>The financial position is reported to Cabinet on a quarterly basis, which provides a commentary on the main risks and opportunities to date. Particularly focussing on the high value and demand led services such as Waste, Children and Adult's social care.</p> <p>Corporate accountability for budgets is held at Director and Heads of Service levels, allowing for corrective actions to be employed effectively at an appropriate scale.</p> <p>The Council continues to look to improve the integration of reporting across finance, performance and human resources such as to further support risk management outcomes.</p>	
How would you assess the Council's arrangements for identifying and responding to the risk of fraud?	The senior audit investigator supports the council's participation in the National Fraud Initiative, supports managers where there are reasons to consider that there may be a risk of fraud, and in some cases directly investigates allegations of fraud or impropriety.	The senior audit investigator supports the council's participation in the National Fraud Initiative, which incorporates data relating to the Pension Fund.
What has been the outcome of these arrangements so far this year?	No single issue has had a material impact on the council, or would prompt a reassessment of the council's overall control environment.	A number of cases arising from the National Fraud Initiative are being investigated but none are significant.
What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	Clearly all financial systems are susceptible to fraud. However the transactions that yield the greatest number of potential and actual frauds as well as some of the largest values, are direct payments to service users or their representatives.	The largest financial sums lie in the Fund's investments, but the greatest numbers of individual transactions are with the Fund's members: both areas could be susceptible to fraud.

Auditor question	Response for Lancashire County Council	Response for Lancashire County Pension Fund
Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	The council's whistleblowing helpline continues to receive referrals relating both to financial issues and to human resource concerns. All are considered and investigated either by the senior audit investigator or by the Human Resources service.	Two whistleblowing letters were received relating to matters within Local Pensions Partnership Ltd (LPPL), addressing some common themes. These have been considered and addressed by the company, and its responses shared with the council.
As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	<p>The Internal Audit service provides a progress report to each meeting of the Audit, Risk and Governance Committee that highlights any unmitigated risks arising from the audit work undertaken. The committee has a record of interest in such matters and periodically invites directors to explain their responses to the risk issues raised and provide assurance regarding the action being taken.</p> <p>The risk management process is robust and all services update their risk and opportunity registers quarterly. During 2018/19 these service registers have been assessed by the Deputy Monitoring Officer, and a corporate risk and opportunity register prepared and presented to the Corporate Management Team. This corporate risk and opportunity register is then reported to both the 'Cabinet Committee for Performance Improvement' and 'Audit, Risk and Governance Committee' on a quarterly basis.</p>	<p>The Pension Fund maintains a risk register which includes consideration of fraud risk. This register is presented to the Pension Fund Committee on a regular, six monthly basis. All reports considered by the Pension Fund Committee identify the key risks involved in any proposed decision and the nature of mitigation, together with any legal or other issues that might arise.</p> <p>The Pension Fund Committee reports directly to Full Council reporting any breaches or risks.</p> <p>Local Pensions Board also has remit to report directly to Full Council.</p>
As a management team, how do you communicate to staff and employees your views on business practices and ethical behaviour?	<p>There are several mechanisms that include:</p> <ul style="list-style-type: none"> - Induction - Intranet pages - Staff notices - Cascade briefings - Performance Development Reviews - Bite sized briefings - Specific training - Staff conferences - Blogs - Videos 	<p>Staff employed within the Lancashire County Pension Fund (LCPF) team are employees of Lancashire County Council and must comply with the Council's Code of Conduct for Employees. The 'seven principles of public life', requiring the highest standards of conduct apply to the Board, officers of and advisors to the Fund.</p>
What are your policies and procedures for identifying, assessing and accounting for litigation and claims?	The County Council identifies litigation and claims from several sources that include service managers, external bodies serving notice and individuals submitting claims through established	The County Council's legal procedures apply to LCPF.

Auditor question	Response for Lancashire County Council	Response for Lancashire County Pension Fund
	<p>claims procedures. The Litigation team within the Council's Legal services deals with on-going claims and litigation on issues such as highways, child protection and employment issues. The Council maintains extensive records relating to both historic and current cases.</p> <p>The Council generally self-insures for claims up to £1m, above which insurance is procured. A provision is held on the Council's balance sheet to cover the accruing liabilities as valued by an external actuarial review.</p>	
Is there any use of financial instruments, including derivatives?	<p>Yes, the financial instruments recognised in the comprehensive income and expenditure statement are detailed in a note to the statement of accounts.</p> <p>These include:</p> <ul style="list-style-type: none"> - Financial liabilities at amortised cost - Financial assets: loans and receivables - Financial assets: available for sale - Other assets and liabilities shown at fair value through profit and loss 	Yes. The investments of the Fund.
What is the current position of those issues included in the 2017/18 accounts as contingencies and provisions at 31 March 2018?	<p>Provisions are set aside to provide for specific expenses for which the exact cost and timing are still uncertain. At 31 March 2018, these comprised:</p> <ul style="list-style-type: none"> - Insurance provision - Business Rates appeals <p>Insurance provision - Funds are set aside to cover liability claims in respect of employer's liability, public liability or buildings insurance which are below our insurance excess and our self-insured limits. A provision will continue to be made at March 2019 to cover ongoing liabilities.</p> <p>Business rates appeals - This provision accounts for the share of the business rates appeals impact estimated by the 12 Lancashire Districts. A provision will continue to be made at March 2019 for the revised impact estimate.</p>	No provisions or contingencies were included in the accounts of the Fund for 2017/18.

Auditor question	Response for Lancashire County Council	Response for Lancashire County Pension Fund
Are you aware of any significant transaction outside the normal course of business?	No.	No.
Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No.	No.
Are you aware of any guarantee contracts?	The Council provides a pension indemnity to its wholly owned companies: Active Lancashire and Marketing Lancashire.	There are no guarantee contracts.
Are you aware of allegations of fraud, errors, or other irregularities during the period?	<p>There have been no significant instances of fraud, error, or other irregularity during the period either singly or collectively.</p> <p>A report is being prepared for the Audit, Risk and Governance Committee to consider at its meeting on 20 May 2019 that will provide information on each case and the work undertaken in response.</p>	No.
Are you aware of any instances of non-compliance with laws or regulations or is the Authority on notice of any such possible instances of non-compliance?	<p>A number of data breaches were reported to the Information Commissioner's Office. However, in an organisation of Lancashire County Council's size, a proportionate approach must be taken to an assessment of risk and to the assurance required over the controls implemented to manage it.</p> <p>It is impractical to expect that either a committee of elected members or the Internal Audit service, having adopted a risk-based approach, will be able to oversee and assess all management processes. Nor can absolute assurance be gained that compliance with all applicable laws and regulations is achieved. However, each year Directors complete an assurance statement confirming compliance.</p>	No.
Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?	No examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities are known to the Finance, Legal and Internal Audit	No.

Auditor question	Response for Lancashire County Council	Response for Lancashire County Pension Fund
	service or Trading Standards and Scientific Services.	
Are you aware of any transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	<p>Yes.</p> <p>These are noted in the statement of accounts, and include:</p> <ul style="list-style-type: none"> - Property, plant and equipment valuations - Property, plant and equipment depreciation - Fair value estimations - Impairment of debtors - Pensions liability 	<p>Yes.</p> <p>The valuation of investments, particularly those classed as Level 3 in the fair value hierarchy, is subject to professional judgement and estimation techniques. Disclosures are included in the statement of accounts outlining areas of estimation uncertainty and significant judgements.</p> <p>Estimation of the liability to pay future pensions benefits is also based on professional judgment and complex assumptions.</p>
Where the financial statements include amounts based on significant estimates, how have the accounting estimates been made, what is the nature of the data used, and the degree of estimate uncertainty inherent in the estimate?	<p>Property, plant and equipment valuations -</p> <p>The Council commissions a rolling programme of valuations. Valuations are undertaken by qualified valuers within the Council's estates department in accordance with the Royal Institute of Chartered Surveyors (RICS) professional standards using recognised measurement techniques.</p> <p>Property, plant and equipment depreciation -</p> <p>Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets.</p> <p>Fair value estimations -</p> <p>When the fair values of investment properties, surplus assets and assets held for sale cannot be measured based on quoted prices in active markets, their fair value is measured using the valuation techniques following the CIPFA code. All valuations are undertaken in accordance with the methodologies and bases for estimation set out in the professional standards of the RICS.</p> <p>Impairment of debtors -</p>	<p>Estimates and judgements are based on best industry practice in respect of the valuation of level 3 investments and investment properties. Where applicable, industry standards are applied.</p> <p>For private equity and infrastructure assets the valuations are assessed using Internal Private Equity and Venture Capital Valuation Guidelines or equivalent.</p> <p>Long term credit investments are valued at the Fund's % holding based on audited net asset value provided by external investment managers.</p> <p>Real estate is valued according to Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Standards. Valuations of directly held properties are provided by external valuer, GVA Bilfinger, now part of the Avison Young Partnership group.</p> <p>The estimation of the liability to pay future pension benefits is dependent on a number of complex assumptions. A firm of consulting actuaries (Mercer) provides the Fund with expert external advice.</p>

Auditor question	Response for Lancashire County Council	Response for Lancashire County Pension Fund
	<p>Analysis of historic payment data to project lifetime recoverability of debtor balances.</p> <p>Pensions liability - The net liability to pay pensions is calculated every 3 years with annual updates in the intervening years. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</p>	
Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No.	No.
What is the current position in respect of any of the prior years reported internal control deficiencies?	<p>A considerable programme of improvements to services, systems and process is still under way, although this is also closely related to cost-saving measures.</p> <p>Managers have provided information about the status of each action arising as a result of internal audit work and these are generally being progressed.</p>	The matter raised by the council's own internal audit service has been addressed by the council's officers. The LPP's Audit Committee is seeking information about the company's responses to its internal auditor's reports.
Can you provide details of those solicitors utilised by the Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	The County Council utilises external solicitors and Counsel on a range of issues. The Litigation team within the Council's Legal services deals with on-going claims and litigation on issues such as highways, child protection and employment issues. The Council maintains extensive records relating to both historic and current cases.	<p>Pinsent Masons – ongoing class action litigation in respect of manufacture overseas dividends.</p> <p>In-house and external solicitors (Pinsent Masons) used for investment property legal matters and for review of other contracts and tender bids.</p>
Although the public sector interpretation of IAS1 means that unless services are being transferred out of the public sector then the financial statements should be prepared on a going concern basis, management is still required to consider whether there are any material uncertainties that cast doubt on the Council's ability to continue as a business.	The provisions in the CIPFA Code of Practice on Local Authority Accounting on the going concern accounting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, it would not, therefore, be appropriate for their financial statements to be prepared on	The provisions in the CIPFA Code of Practice on Local Authority Accounting on the going concern accounting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, it would not, therefore, be appropriate for their financial statements to be prepared on

Auditor question	Response for Lancashire County Council	Response for Lancashire County Pension Fund
<p>a) What is the process for undertaking a rigorous assessment of going concern?</p> <p>b) Is the process carried out proportionate in nature and depth to the level of financial risk and complexity of the organisation and its operations?</p> <p>c) How will you ensure that all available information is considered when concluding the organisation is a going concern at the date the financial statements are approved?</p> <p>d) Has the management team carried out an assessment of the going concern basis for preparing the financial statements and what was the outcome of that assessment?</p>	<p>anything other than a going concern basis.</p> <p>The Council has however conducted an assessment of the going concern basis for preparing the accounts.</p> <p>The main factors which underpin the Council's assessment of its going concern status include:</p> <ul style="list-style-type: none"> - The Council has set a balanced revenue budget for 2019/20; - The Council forecasts its financial position over the medium term, currently to 2022/23, identifying relevant risks and opportunities which have been subjected to scenario stress testing; - The Council has a strong record in bridging the gap between forecast expenditure and funding; - The Council has a robust financial monitoring framework; - The Council is able to raise revenue through local taxation. 	<p>anything other than a going concern basis.</p> <p>The Funding level of the Fund gives some assurance regarding the going concern basis for the Fund.</p> <p>Cash flow is monitored by the Pension Fund committee and the Fund's advisors on a quarterly basis with particular emphasis on the bridging of contributions income and benefits payable with investment income.</p>
<p>Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>As a large and complex organisation, the Council uses a wide range of internal and external advisors to support the proper discharge of its responsibilities.</p>	<p>Amaces – to advise on and evaluate bids under the tender for the Fund custodian.</p> <p>Mercer – general actuarial enquiries, International Accounting Standards (IAS) 19 assumptions and accounting schedules.</p> <p>KPMG – tax issues.</p> <p>PwC – review of first two years of LPP partnership.</p> <p>Independent advisors to the Fund – investment panel throughout the year.</p>
<p>Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements</p>	<p>Neither the internal audit service nor the procurement service are aware of any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which</p>	<p>Neither the internal audit service nor the procurement service are aware of any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect</p>

Auditor question	Response for Lancashire County Council	Response for Lancashire County Pension Fund
which would affect the financial statements of the Council?	would affect the council's financial statements.	the Pension Fund's financial statements.
Have any reports been made under the Bribery Act?	No.	No. However, any reports made by LPP may not be known to the Council.

Audit, Risk and Governance Committee

Meeting to be held on Monday, 20 May 2019

Electoral Division affected: (All Divisions);
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Grant Thornton's Request for Information from the Committee Chair

(Appendices A and B refer)

Contact for further information:

Neil Kissock, Tel: (01772) 536154, Director of Finance,

neil.kissock@lancashire.gov.uk

Executive Summary

The Committee is asked to consider the proposed response to Grant Thornton's request for information from the Chair of the committee.

Recommendation

It is recommended that approval is given to the Chair of the committee to provide the document at Appendix B to Grant Thornton as the formal response to its request for information.

Background and Advice

To comply with International Auditing Standards, each year Grant Thornton as the external auditor is required to refresh their understanding of how the Audit, Risk and Governance committee gains assurance over management processes and arrangements.

The Chair of the committee has been asked to provide information in respect of Lancashire County Council and its Pension Fund. The information requested relates to fraud risk; compliance with law and regulation; and the appropriateness of adopting the 'going concern' principle in preparing the 2018/19 accounts.

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

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

This response will provide information to the external auditor to support their role in determining an opinion on the Council's statement of accounts and value for money arrangements for 2018/19.

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

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

N/A



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27 February 2019

Dear Mr Schofield

Lancashire County Council and Lancashire County Pension Fund Financial Statements for the year end 31 March 2019 - Understanding how the Audit, Risk and Governance Committee gains assurance from management

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

I would be grateful, therefore, if you could write to me in your role as a member of the Council and as Audit, Risk and Governance Committee Chair with your responses to the questions on the attached schedule.

For information, we are also required to make similar enquiries of management and these issues will be discussed with senior management. Therefore, you may wish to discuss your response with Angie Ridgwell or Neil Kissock. I also recognise that you will want to consult with the Chair of the Pension Fund Committee.

Please could you provide a response to me by **Friday 31 May 2019** covering the full year 2018/19. Please contact me if you wish to discuss anything in relation to this request. My contact details are:

Angela Pieri 0141 223 0887 / 07920 813338 angela.l.pieri@uk.gt.com

Yours sincerely

Angela Pieri

Senior Manager
For Grant Thornton UK LLP

Response from Audit, Risk and Governance Committee Chair of Lancashire County Council and Lancashire County Pension Fund

Fraud risk assessment

Auditor's Questions	Response for Lancashire County Council	Response for Lancashire County Pension Fund
Has the Council / Pension Fund assessed the risk of material misstatement in the financial statements due to fraud?	The Council maintains a risk register which includes consideration of fraud risk. Fraud has not been formally identified as a high risk on the Council's corporate risk register. The Internal Audit Plan is designed to test the areas of highest risk to the council's objectives and provide assurance that they are adequately and effectively managed.	The Pension Fund maintains a risk register which includes consideration of fraud risk. This register is presented to the Pension Fund Committee on a regular, six monthly basis.
What are the results of this process?	<p>The risk to the Council of a fraud amounting to c£32 million, i.e. material to the statement of accounts, is considered to be low.</p> <p>However, the risk of smaller amounts of fraud or theft is recognised and financial controls are regularly audited.</p>	The risk register identifies a medium level of inherent risk of fraud and a low residual risk through the mitigation outlined as follows.
What processes does the Council / Pension Fund have in place to identify and respond to risks of fraud?	<p>Fraud is one of a wide range of risks which are subject to formal review each quarter.</p> <p>The Internal Audit service designs its audit work, in particular within the council's key financial systems, to identify and pursue indications of fraudulent activity.</p> <p>Through the Internal Audit Service, the council also actively participates in the National Fraud Initiative.</p>	<p>The Pension Fund actively participates in the National Fraud Initiative. More generally the council's procedures for investigating allegations of fraud and corruption apply equally to the Fund.</p> <p>Pension fund assets are held by an independent custodian or by depositary custodians appointed by investment managers. These custodians are responsible for protecting and safeguarding fund assets.</p>

Auditor's Questions	Response for Lancashire County Council	Response for Lancashire County Pension Fund
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	<p>Direct payments to users of adult social services and to the carers of children in receipt of services are high risk and often subject to fraud.</p> <p>Internal audit work on these areas has been undertaken during 2018/19.</p>	<p>There is no real incentive to manipulate revenue recognition for fraudulent purposes.</p> <p>It might be possible for fraudulent investment management charging to take place – fees incurred by the Fund in respect of investment management carried out by managers. Fees are reviewed on a quarterly basis. Fees are broadly similar in basis across the industry.</p>
Are internal controls, including segregation of duties, in place and operating effectively?	<p>The Council's financial controls are regularly audited by the Internal Audit Service. The Audit, Risk and Governance Committee receives regular progress reports from the Head of Internal Audit, including reports on the adequacy of internal control.</p> <p>Generally, the Council is sufficiently resourced to ensure segregation of duties. There are some small areas where this is not the case, but the risk of loss, fraud or theft is assessed as low in these areas.</p>	<p>The Pension Fund Committee is responsible for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control.</p> <p>The Fund has its own governance policy and also complies with the Council's Code of Corporate Governance.</p> <p>The Internal Audit Service considers the internal controls relevant to the Pension Fund general ledger annually.</p>
If not, where are the risk areas and what mitigating actions have been taken?	Not applicable.	Not applicable.
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	<p>The Internal Audit Service has not identified any areas where there is potential for override of controls or inappropriate influence over financial reporting.</p> <p>A centralised finance function allows for scrutiny of business finance information such that financial reports can be independently verified.</p>	<p>The nature of the Fund does not subject employees to undue pressure around financial targets.</p> <p>An independent actuarial valuation is undertaken on a triennial basis and the Fund was 90% funded as at the date of the last valuation.</p>

Auditor's Questions	Response for Lancashire County Council	Response for Lancashire County Pension Fund
	Employees are not considered to be under undue pressure to achieve financial targets.	The Investment Panel ensures that performance is in line with expectations according to the investment strategy. The panel operates under delegated responsibility from the Pension Fund Committee and reports to the committee on a quarterly basis.
Are there any areas where there is a potential for misreporting?	Most financial information of significance is reviewed by the centralised finance function, and is verified by senior finance managers to ensure that the risk of misreporting is minimised.	Investment performance is monitored on a regular basis. Reconciliation to underlying investment records is undertaken by an independent investment custodian.
How does the Council / Pension Committee exercise oversight over management's processes for identifying and responding to risks of fraud?	<p>Since fraud represents a lapse in financial control, the Audit, Risk and Governance Committee is charged with responsibility for overseeing management's arrangements in response to the risk of fraud. It receives, as a minimum, an annual report from the Internal Audit service addressing whistleblowing, special investigations and counter fraud work, including work on the National Fraud Initiative.</p> <p>In an organisation of Lancashire County Council's size, a proportionate approach must be taken to an assessment of risk and to the assurance required over the controls implemented to manage it. It is impractical to expect that either a committee of elected members or the Internal Audit service, having adopted a risk-based approach, will be able to oversee and assess all management processes.</p>	<p>The Pension Fund maintains a risk register which includes consideration of fraud risk. This is reviewed regularly, every six months.</p> <p>The results of the work performed under the National Fraud Initiative are reported to the Pension Fund Committee.</p> <p>The Local Pensions Board performs a scrutiny role, ensuring good governance and compliance with legal and regulatory requirements. The board reviews the work of the committee in considering risk monitoring and mitigation.</p> <p>The board is also informed of all breaches of law or regulations, and considers, amongst other things, whether there is a requirement to report a breach to the Pensions Regulator.</p> <p>The Fund is compliant with county council's Code of Corporate Governance, Local Government Pension Scheme Regulations and Chartered Institute of Public Finance and Accountancy</p>

Auditor's Questions	Response for Lancashire County Council	Response for Lancashire County Pension Fund
		(CIPFA) / Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code of Practice.
<p>What arrangements are in place to report fraud issues and risks to the Council / Audit, Risk and Governance Committee?</p>	<p>The Audit, Risk and Governance Committee receives regular progress reports from the Head of Internal Audit, including reports on breaches of internal control and fraud risks where applicable.</p> <p>The Audit, Risk and Governance Committee is also provided with a report at least annually addressing whistleblowing, special investigations and counter fraud work, including information about every case raised and addressed during the year.</p>	<p>The Pension Fund maintains a risk register which includes consideration of fraud risk. This register is presented to the Pension Fund Committee on a regular, six monthly basis.</p> <p>All reports considered by the Pension Fund Committee identify the key risks involved in any proposed decision and the nature of mitigation, together with any legal or other issues that might arise.</p> <p>The Pension Fund Committee reports directly to the Full Council where any breaches or risks are reported. The Local Pensions Board also has a remit to report directly to Full Council.</p>
<p>How does the Council communicate and encourage ethical behaviour of its staff and contractors?</p>	<p>Staff are periodically reminded through corporate staff notices of the need to adhere to the Council's Code of Conduct and to behave ethically. For staff without access to the intranet, managers are asked to raise these issues in team meetings.</p> <p>A reminder about whistleblowing, also referring to the Council's commitment to the highest possible standards of openness, probity and accountability, is made through a 'Staff News' items.</p>	<p>Staff employed within the Lancashire County Pension Fund (LCPF) team are employees of Lancashire County Council and must comply with the Council's Code of Conduct for employees.</p> <p>The 'seven principles of public life', requiring the highest standards of conduct apply to the Board, officers of and advisors to the Fund.</p> <p>Advisors to the Fund such as actuaries, legal and accounting firms are also covered by their own industry specific ethical standards and professional conduct requirements.</p>

Auditor's Questions	Response for Lancashire County Council	Response for Lancashire County Pension Fund
<p>How do you encourage staff to report their concerns about fraud?</p> <p>Have any significant issues been reported?</p>	<p>All staff are periodically encouraged through staff news items to use the whistleblowing helpline where appropriate and all reports are investigated. However no significant issues have been reported.</p>	<p>The pension fund accounting team have undertaken online fraud awareness training.</p> <p>No issues have been reported by staff in relation to fraud concerns.</p>
<p>Are you aware of any related party relationships or transactions that could give rise to risks of fraud?</p>	<p>Related party disclosures are requested from relevant members and senior management annually, as defined by International Financial Reporting Standards (IFRS) 24.</p> <p>No relationships or transactions that might give rise to risks of fraud have been identified to date.</p>	<p>Related party transactions and relationships are reviewed on an annual basis.</p> <p>No relationships or transactions that might give rise to risks of fraud have been identified to date.</p> <p>Specific training in relation to declarations of interest is given after each set of elections to the county council.</p>
<p>Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments, or the Pension Fund, since 1 April 2018?</p>	<p>The Internal Audit Service is aware of a number of instances of actual, suspected or alleged, fraud and will report them to the committee in May 2019: none are material to the financial statements.</p>	<p>No.</p>

Law and regulation

Auditor's Questions	Response for Lancashire County Council	Response for Lancashire County Pension Fund
<p>What arrangements does the Council / Pension Fund have in place to prevent and detect non-compliance with laws and regulations?</p>	<p>In an organisation of Lancashire County Council's size, a proportionate approach is taken to an assessment of risk and to the assurance required over the controls implemented to manage it.</p> <p>It is impractical to expect that either a committee of elected members or the Internal Audit Service, having adopted a risk-based approach, will be able to oversee and assess all management processes. Nor can absolute assurance be gained that compliance with all applicable laws and regulations is achieved.</p> <p>However, we do have a number of controls in place that include:</p> <ul style="list-style-type: none"> • A designated Monitoring Officer • A Legal Service that provides advice and support • All political decision making reports must have both legal and finance clearance • Access to independent legal advice • Directors' assurance statements • Equality impact assessments 	<p>Compliance with the Scheme of Regulations is ensured by a dedicated internal technical team and the use of a pension's administration system specifically designed for the LGPS.</p> <p>The Fund's investments are managed in line with the relevant regulations with independent assurance in relation to compliance provided by either the Fund's or Local Pensions Partnership's (LPP) custodian. LPP is a Financial Conduct Authority (FCA) registered company and therefore must follow strict rules over compliance and has a compliance team which is independent from the investment management team.</p> <p>The Fund and its officers must also comply with a range of other laws and regulations applicable either to local authorities or to any organisation generally. These are managed through the specific accountabilities of individual managers or through the wider County Council's business processes with the Monitoring Officer providing advice on the impact of legislative changes when necessary.</p>
<p>How does management gain assurance that all relevant laws and regulations have been complied with?</p>	<p>Directors complete annual assurance statements and Corporate Management Team (CMT) review arrangements as part of the development of the Annual Governance Statement and local Code of Corporate Governance. CMT also receive and consider external reports and Internal Audit reports.</p>	<p>Head of Fund is designated as the officer responsible for the management of the Fund.</p> <p>All reports to the Pension Fund Committee require legal and finance clearance prior to submission.</p>

Auditor's Questions	Response for Lancashire County Council	Response for Lancashire County Pension Fund
	<p>Other controls in place include:</p> <ul style="list-style-type: none"> • A designated Monitoring Officer • A Legal service that provides advice and support • All political decision making reports must have both legal and finance clearance • Access to independent legal advice • Equality impact assessments 	<p>Pension Fund Committee approves the annual governance compliance statement which is prepared by the Head of Fund.</p> <p>Pension Fund Committee undertakes training to ensure possession of the sufficient skills, information and resources.</p> <p>Local Pensions Board assists the Council in ensuring compliance with LGPS and other regulations.</p> <p>The Fund is a member of the CIPFA pension network and other local networking groups such as NWWPG (North West and Wales Practitioners Group). There is regular attendance of training and conference events to remain fully aware of current and developing laws and regulations.</p>
<p>How is the Council / Pension Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Directors complete annual assurance statements and Corporate Management Team (CMT) review arrangements as part of the development of the Annual Governance Statement and local Code of Corporate Governance. CMT also receive and consider external reports and Internal Audit reports.</p> <p>Other controls in place include:</p> <ul style="list-style-type: none"> • A designated Monitoring Officer • A Legal service that provides advice and support • All political decision making reports must have both legal and finance clearance • Access to independent legal advice • Equality impact assessments 	<p>The Pension Fund Committee and Local Pensions Board receive reports on potential regulatory changes and their implementation.</p> <p>All reports to the Pension Fund Committee require legal and finance clearance prior to submission.</p> <p>Pension Fund Committee approves the annual governance compliance statement which is prepared by the Head of Fund.</p>

Auditor's Questions	Response for Lancashire County Council	Response for Lancashire County Pension Fund
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2018?	<p>Several data breaches were reported to the Information Commissioner's Office (ICO). However, it is impractical to expect that either a committee of elected members or the Internal Audit service, having adopted a risk-based approach, will be able to oversee and assess all management processes. Nor can absolute assurance be gained that compliance with all applicable laws and regulations is achieved.</p> <p>However, the Audit, Risk and Governance Committee comments on and approves the Annual Governance Statement. It also approves annually the local Code of Corporate Governance that is then approved by Full Council. The Committee also receives and considers external reports and Internal Audit reports as appropriate.</p>	No
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	There is an established litigation team within the Council's Legal service that uses its professional experience to deal with litigation and claims against the Council.	The Council's legal procedures apply to LCPF.
Is there any actual or potential litigation or claims that would affect the financial statements?	All relevant claims are included in the Financial Statements and potential claims of significance are noted as required per the financial reporting regulations.	No
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	The Information Commissioner's Office (ICO) contacted the County Council regarding the noncompliance to Subject Access Request timescales. The ICO is monitoring the Council for 6 months. Revised working practices have been put in place.	No

Going Concern

Auditor's Questions	Response for Lancashire County Council	Response for Lancashire County Pension Fund
<p>How will the Council / Audit, Risk and Governance Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the 2018/19 financial statements?</p>	<p>According to the CIPFA code, 'as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting'.</p> <p>The Council periodically produces a Medium Term financial forecast covering a multi-year time horizon. Gaps between expenditure forecasts and funding levels are addressed through the annual budget setting process.</p> <p>The Council has the ability to raise additional funding through local taxation.</p> <p>The Council's Code of Corporate Governance supports the Director of Finance to bring influence to bear on all material decisions.</p>	<p>According to the CIPFA code, 'as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting'.</p> <p>The funding level of the Fund gives some assurance regarding the going concern basis for the Fund.</p> <p>Cash flow is monitored by the Pension Fund Committee and the Fund's advisors on a quarterly basis with particular emphasis on the bridging of contributions income and benefits payable with investment income.</p> <p>The Pension Fund Committee reports directly to Full Council.</p>

Audit, Risk and Governance Committee

Meeting to be held on Monday, 20 May 2019

Electoral Division affected: None

External Audit - Audit Progress Report and Sector Update 2018/19

(Appendix A refers)

Contact for further information:

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Executive Summary

The External Audit - Audit Progress Report and Sector Update 2018/19 at April 2019 is set out at Appendix 'A' for the Committee's consideration.

Recommendation

The Committee is asked to consider the External Audit - Audit Progress Report and Sector Update 2018/19 set out at Appendix 'A'.

Background and Advice

This report provides an update including our proposed timescales for the audit of the 2018/19 statement of accounts and the Value for Money (VfM) conclusion. The outcome of the work will be reported to the Audit, Risk and Governance Committee's meeting in July 2019. The report also provides additional information, on sector developments, to members of the Committee as those charged with governance for the County Council.

Robin Baker, Engagement Lead, will attend the meeting to present the report at Appendix 'A' and respond to questions.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

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

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

N/A

Audit Progress Report and Sector Update

Lancashire County Council and Lancashire County Pension Fund
Year ended 31 March 2019

April 2019



Appendix A

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Introduction



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

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority.

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

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.

PSAA Contract Monitoring

Lancashire County Council opted into the Public Sector Audit Appointments (PSAA) Appointing Person scheme which starts with the 2018/19 audit. PSAA appointed Grant Thornton as auditors. PSAA is responsible under the Local Audit (Appointing Person) Regulations 2015 for monitoring compliance with the contract and is committed to ensuring good quality audit services are provided by its suppliers. Details of PSAA's audit quality monitoring arrangements are available from its website, www.psaa.co.uk.

Our contract with PSAA contains a method statement which sets out the firm's commitment to deliver quality audit services, our audit approach and what clients can expect from us. We have set out commitment to deliver a high quality audit service in the document at Appendix A. We hope this is helpful. It will also be a benchmark for you to provide feedback on our performance to PSAA via its survey in Autumn 2019.

Progress at April 2019

Financial Statements Audit

We have completed our planning for the 2018/19 financial statements audit for Lancashire County Council and Lancashire County Pension Fund and have issued detailed audit plans in February 2019, setting out our proposed approach to the audit of the Council's and Pension Fund's 2018/19 financial statements.

The Audit Plans for Lancashire County Council and Lancashire County Pension Fund are presented to the Audit, Risk and Governance Committee on 20 May 2019.

We commenced our interim audit in January 2019. Our interim fieldwork included:

- Updated review of the Council's and Pension Fund'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

There are no issues that we need to bring to the Committee's attention from the work we have completed to date. Detailed findings from the interim audit are noted on pages 6 to 9 of this report.

The statutory deadline for the issue of the 2018/19 opinion is 31 July 2019. We are discussing our final accounts timetable with officers.

The final accounts audit is due to begin on 31 May with findings reported to you in our Audit Findings Report. We will present our report at the 29 July Audit, Risk and Governance Committee meeting and issue our audit opinion by the 31 July deadline.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. 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".

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".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach are included in our Audit Plan. We identified two significant Value for Money Risk areas relating to financial sustainability and internal audit coverage of the internal control system. We are currently carrying out our audit work on these areas.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2019.

Other areas

Certification of claims and returns

As in previous years, we can certify the Council's annual Teachers' Pension return for 2018/19 in accordance with procedures agreed with the Teachers' Pension Agency. The instructions for 2018/19 have not yet been issued. We will agree our overall project plan for completing this work with officers.

Meetings

Since our last update report in January 2019, we met with the Chief Executive in April, with the Director of Finance in February and March, and with finance officers in March and as part of our regular liaison meetings. We also met with Pension Fund officers in February and March. We continue to be in discussions with finance and pension staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers attended our Financial Reporting Workshop in February, which helps to ensure that members of your finance team are up to date with the latest financial reporting requirements for local authority and pension fund accounts.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit, Risk and Governance Committee setting out our proposed approach in order to give an opinion on the Council's and Pension Fund's 2018/19 financial statements.	February 2019	Complete
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	April 2019	Complete
Audit Findings Report The Audit Findings Reports for Lancashire County Council and Lancashire County Pension Fund will be reported to the 29 July Audit, Risk and Governance Committee.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due

Council responsibilities

In our Audit Plans presented to the Audit, Risk and Governance Committee on 20 May 2019 we have communicated our expectations around the Council's and Pension Fund's responsibilities for timely production of the draft accounts supported by appropriate working papers. Should delays be experienced in the provision of these requirements or should additional work be required on our part due to complex technical issues, new arrangements and delays in response to queries additional costs will be incurred.

Any additional fees are subject to approval by PSAA.

Results of Interim Audit Work

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

	Work performed	Conclusions and recommendations
Internal audit	We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention as part of our interim work.	Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council. We continue to review the work of Internal Audit on key financial systems. We also review the overall programme and coverage of work as part of our value for money conclusion assessment. Our Audit Findings Report in July 2019 will provide a further update.
Entity level controls	We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including: <ul style="list-style-type: none">• Communication and enforcement of integrity and ethical values• Commitment to competence• Participation by those charged with governance• Management's philosophy and operating style• Organisational structure• Assignment of authority and responsibility• Human resource policies and practices	Our work has identified no material weaknesses which are likely to adversely impact on the Council's and Pension Fund's financial statements.

	Work performed	Conclusions and recommendations
Review of information technology controls	<p>Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>The work is on-going and we continue to liaise with officers in this area.</p>	<p>At this stage our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p> <p>Our work in this area is not yet finalised, we will provide a further update in our next progress report.</p>
Walkthrough testing	<p>We have completed walkthrough tests of the Council's and Pension Fund's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. In addition a walk through test is required in systems where controls testing is relied upon.</p> <p>We have carried out walkthrough testing on operating expenses, Property, Plant and Equipment, IAS19 entries, Pension Fund investments and Pension Fund benefit payments.</p> <p>We visited Your Pensions Service at Local Pensions Partnership in order to carry out our work on Pension Fund benefit payments.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council and Pension Fund in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
Controls testing	<p>We performed testing of the operating effectiveness of key controls on those information systems where we had identified a reasonably possible risk of material misstatement to gain assurance about this and to reduce the amount of substantive testing performed on the financial statements. We tested Pension Fund benefit payments and operating expenses.</p>	<p>Our work identified that the key controls tested were operating effectively for months 1 to 9 for operating expenses and for the full year for benefit payments, and we are able to reduce the amount of substantive testing on these areas as a result.</p> <p>We will complete the rest of the controls testing of operating expenses at the final accounts visit.</p>

	Work performed	Conclusions and recommendations
Journal entry controls	<p>We have reviewed the Council's and Pension Fund's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's or Pension Fund's control environment or financial statements.</p> <p>Detailed testing on journal transactions will be undertaken at the final accounts stage.</p>	<p>Our work on journal policies and procedures has not identified any weaknesses which impact on our audit approach.</p>
Early substantive testing	<p>We carried out early substantive testing on the following areas to month 9 of the financial year for the Council:</p> <ul style="list-style-type: none"> • operating expenses sample testing • grant income sample testing • other revenues sample testing • payroll substantive analytical procedures <p>We carried out early substantive testing on the following areas covering the full financial year for the Pension Fund:</p> <ul style="list-style-type: none"> • Benefit payments • Member data 	<p>Our work to date has not highlighted any issues which impact on our audit approach.</p> <p>We will complete our substantive testing for the rest of the financial year at the final accounts stage.</p>

Sector Update

Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
government

Public Sector Audit Appointments – Report on the results of auditors' work 2017/18

This is the fourth report published by Public Sector Audit Appointments (PSAA) and summarises the results of auditors' work at 495 principal local government and police bodies for 2017/18. This will be the final report under the statutory functions from the Audit Commission Act 1998 that were delegated to PSAA on a transitional basis.

The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors used their statutory reporting powers.

For 2017/18, the statutory accounts publication deadline came forward by two months to 31 July 2018. This was challenging for bodies and auditors and it is encouraging that 431 (87 per cent) audited bodies received an audit opinion by the new deadline.

The most common reasons for delays in issuing the opinion on the 2017/18 accounts were:

- technical accounting/audit issues;
- various errors identified during the audit;
- insufficient availability of staff at the audited body to support the audit;
- problems with the quality of supporting working papers; and
- draft accounts submitted late for audit.

All the opinions issued to date in relation to bodies' financial statements are unqualified, as was the case for the 2016/17 accounts. Auditors have made statutory recommendations to three bodies, compared to two such cases in respect of 2016/17, and issued an advisory notice to one body.

The number of qualified conclusions on value for money arrangements looks set to remain relatively constant. It currently stands at 7 per cent (32 councils, 1 fire and rescue authority, 1 police body and 2 other local government bodies) compared to 8 per cent for 2016/17, with a further 30 conclusions for 2017/18 still to be issued.

The most common reasons for auditors issuing qualified VFM conclusions for 2017/18 were:

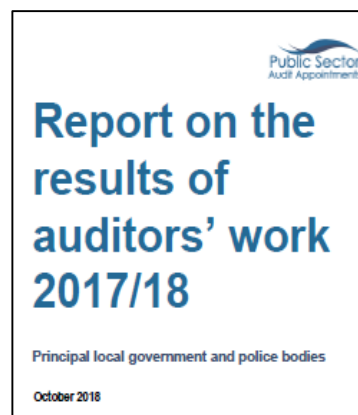
- the impact of issues identified in the reports of statutory inspectorates, for example Ofsted;
- corporate governance issues;
- financial sustainability concerns; and
- procurement/contract management issues.

All the opinions issued to date in relation to bodies' financial statements are unqualified, as was the case for the 2016/17 accounts.

The report is available on the PSAA website:

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

PSAA Report



National Audit Office – Local authority governance

The report examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and that authorities are financially sustainable.

Local government has faced considerable funding and demand challenges since 2010-11. This raises questions as to whether the local government governance system remains effective. As demonstrated by Northamptonshire County Council, poor governance can make the difference between coping and not coping with financial and service pressures. The Department (Ministry of Housing, Communities and Local Government) places great weight on local arrangements in relation to value for money and financial sustainability, with limited engagement expected from government. For this to be effective, the Department needs to know that the governance arrangements that support local decision-making function as intended. In order to mitigate the growing risks to value for money in the sector the Department needs to improve its system-wide oversight, be more transparent in its engagement with the sector, and adopt a stronger leadership role across the governance network

Not only are the risks from poor governance greater in the current context as the stakes are higher, but the process of governance itself is more challenging and complex. Governance arrangements have to be effective in a riskier, more time-pressured and less well-resourced context. For instance, authorities need to:

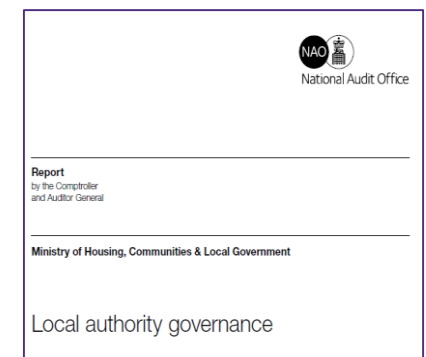
- maintain tight budgetary control and scrutiny to ensure overall financial sustainability at a time when potentially contentious savings decisions have to be taken and resources for corporate support are more limited; and
- ensure that they have robust risk management arrangements in place when making commercial investments to generate new income, and that oversight and accountability is clear when entering into shared service or outsourced arrangements in order to deliver savings.

Risk profiles have increased in many local authorities as they have reduced spending and sought to generate new income in response to funding and demand pressures. Local authorities have seen a real-terms reduction in spending power (government grant and council tax) of 28.6% between 2010-11 and 2017-18. Demand in key service areas has also increased, including a 15.1% increase in the number of looked after children from 2010-11 to 2017-18. These pressures create risks to authorities' core objectives of remaining financially sustainable and meeting statutory service obligations. Furthermore, to mitigate these fundamental risks, many authorities have pursued strategies such as large-scale transformations or commercial investments that in themselves carry a risk of failure or under-performance.

The report is available on the NAO website:

<https://www.nao.org.uk/report/local-authority-governance-2/>

NAO Report



National Audit Office – Pressures on children’s social care

The Local authorities in England have statutory responsibility for protecting the welfare of children and delivering children’s social care. In extreme cases they may use their statutory powers to place children in need on protection plans or even take them into care. Local authorities are also responsible for delivering non-statutory services for all children and young people, such as children’s centres. The Department for Education (the Department) provides statutory guidance on delivering these functions. It also has overall policy responsibility for children’s services, and has the strategic vision that all vulnerable children, no matter where they live, should have access to high-quality support by 2022.

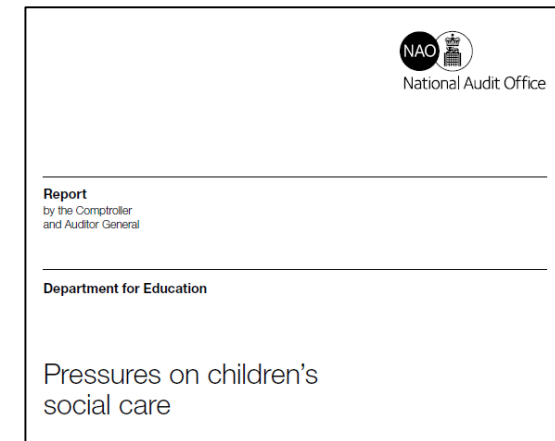
The report sets out recent trends in pressures on children’s social care demand and activity and the response of both national and local government to these pressures. It also sets out analysis the NAO conducted about what is causing variations in children’s social care demand and activity between different local authorities. The report covers:

- the pressures on children’s social care;
- the response of national and local government to increasing demand for children’s social care; and
- NAO analysis of what is causing variations in demand for children’s social care between local authorities.

The report notes that, while the Department has put in place a programme of reform, it still does not fully understand what is driving demand for children’s social care or why there is such wide variation between local authorities in their children’s social care activity and costs. It has not yet done the work to tie together available sources of information and therefore lacks a well-informed pathway to achieve its goal. While the Department has recognised the need for this analysis, it will not complete the work until summer 2019. Even if its analysis is completed successfully it will be a tall order for the Department to achieve its goal within three years.

The report is available on the NAO website:

<https://www.nao.org.uk/report/pressures-on-childrens-social-care/>



NAO Report

CIPFA – Financial Resilience Index plans revised

The Chartered Institute of Public Finance and Accountancy (CIPFA) has refined its plans for a financial resilience index for councils and is poised to rate bodies on a “suite of indicators” following a consultation with the sector.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector’s views, CIPFA invited all interested parties to respond to questions it put forward in the consultation by the 24 August.

CIPFA has also responded to concerns about the initial choice of indicators, updating the selection and will offer authorities an advanced viewing of results.

Plans for a financial resilience index were put forward by CIPFA in the summer. It is being designed to offer the sector some external guidance on their financial position.

CIPFA hailed the “unprecedented level of interest” in the consultation.

Responses were received from 189 parties, including individual local authorities, umbrella groups and auditors. Some respondents called for a more “forward-looking” assessment and raised fears over the possibility of “naming and shaming” councils.

CIPFA chief executive Rob Whiteman said with local government facing “unprecedented financial challenges” and weaknesses in public audit systems, the institute was stepping in to provide a leadership role in the public interest.

“Following the feedback we have received, we have modified and strengthened the tool so it will be even more helpful for local authorities with deteriorating financial positions,” he said.

“The tool will sit alongside CIPFA’s planned Financial Management Code, which aims to support good practice in the planning and execution of sustainable finances.”

CIPFA is now planning to introduce a “reserves depletion time” category as one of the indicators. This shows the length of time a council’s reserves will last if they deplete their reserves at the same rate as over the past three years.

The consultation response document said this new category showed that “generally most councils have either not depleted their reserves or their depletion has been low”.

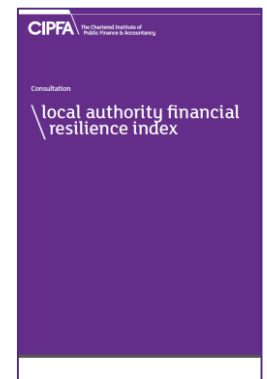
“The tool will not now provide, as originally envisaged, a composite weighted index but within the suite of indicators it will include a red, amber, green (RAG) alert of specific proximity to insufficient reserve given recent trajectories,” it said.

It also highlighted the broad support from the sector for the creation of the index. “There was little dissent over the fact that CIPFA is doing the right thing in drawing attention to a matter of high national concern,” it said.

“Most respondents agreed to the need for transparency – but a sizable number had concerns over the possibly negative impacts of adverse indicators and many councils wanted to see their results prior to publication.”

As such, CIPFA plans to provide resilience measurements first to the local authorities and their auditors via the section 151 officer rather than publishing openly.

CIPFA Consultation



CIPFA – Social Care risk tool

The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Association of Directors of Adult Social Services' (ADASS) have updated the Social Care Risk Tool; an advisory risk assessment tool for discretionary use by councils with adult social care responsibility.

The tool's objective is to help authorities assess whether unsustainable financial pressures might be faced by the adult social services department. It seeks to do this by assessing the extent to which various risk factors apply. This is the third version of the risk tool and it has been expanded to include new risks that have emerged since the previous version. In addition, a number of risks have been revised to make them clearer.

The risk assessment adopts a survey format and covers the following areas:

- savings;
- local pressures; and
- culture and relationships.

Each of the areas above includes a series of questions (or indicators), and authorities are required to assess whether the indicators are strongly present (score of 5); only present to some extent (scores 2 to 4); or not at all (score of 1). The total score helps to give an indication of where the authority lies. The maximum score is 195 (there are 39 questions altogether) which represents the highest risk possible. Some of the metrics (particularly those relating to unit costs) are more illustrative than prescriptive and local authorities may wish to adjust these to reflect their local circumstances.

To download the tool:

<https://www.cipfa.org/cipfa-thinks/health/articles/social-care-risk-tool>



CIPFA Social Care risk tool

Links

Grant Thornton

<https://www.grantthornton.co.uk/>

<https://www.grantthornton.co.uk/industries/public-sector/>

National Audit Office

<https://www.nao.org.uk/report/local-authority-governance-2/>

<https://www.nao.org.uk/report/pressures-on-childrens-social-care/>

National Audit Office

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>

<https://www.nao.org.uk/report/the-adult-social-care-workforce-in-england/>

Public Sector Audit Appointments

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

CIPFA

<https://www.cipfa.org/cipfa-thinks/health/articles/social-care-risk-tool>

<https://www.cipfa.org/policy-and-guidance/reports/measured-resilience-in-english-authorities>

Local Government audits 2018/19 and beyond

Grant Thornton's External Audit commitment

Audit 2018/19

Our team



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"I have always been extremely pleased with the work done by colleagues from Grant Thornton, there is continuity of staff delivering the team who presented the bid. This continuity remains through the cycle of work that takes place during the year; allowing the team to continue to understand the corporate objectives whilst allowing us to ensure we comply with the required standards. The team are very friendly and approachable with an accommodating style".

Director of Finance, local audited body

Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

Our relationship with our clients – why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.
- We propose a realistic fee, based on known local circumstances and requirements.

New opportunities and challenges for your community

The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

Grant Thornton in Local Government

Our client base and delivery



- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

Our connections



- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

Our people



- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

Our quality



- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT

Our technical support



- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies

"I have found Grant Thornton to be very impressive.....they bring a real understanding of the area. Their insights and support are excellent. They are responsive, pragmatic and, through their relationship and the quality of their work, support us in moving forward through increasingly challenging times. I wouldn't hesitate to work with them."

Director of Finance, County Council

Audit, Risk and Governance Committee

Meeting to be held on Monday, 20 May 2019

Electoral Division affected: None

External Audit - Lancashire County Council Audit Plan 2018/19

(Appendix 'A' refers)

Contact for further information:

Robin Baker, 0161 214 6399, Director, Grant Thornton UK LLP,

robin.j.baker@uk.gt.com

Executive Summary

The Annual Audit Plan for Lancashire County Council for 2018/19 sets out the nature and scope of work that the Authority's external auditor will carry out to discharge its statutory responsibilities, compliant with the Local Audit & Accountability Act 2014 (the Act) and the Code of Audit Practice for Local Government.

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

Recommendation

The Committee is asked to agree the External Audit plan for the audit of Lancashire County Council for 2018/19, and the fees therein.

Background and Advice

Attached at Appendix 'A' is the external auditor's Annual Audit Plan for the audit of Lancashire County Council for 2018/19. The Audit Plan sets out in broad terms the programme of work required to:

- give a financial opinion on whether the financial statements:
 - give a true and fair view of the financial position of the County Council and Group (Lancashire County Developments Limited) as at 31 March 2019 and of the County Council and Group's expenditure and income for the year then ended;
 - have been prepared in accordance with proper accounting practice.
- report whether, under the National Audit Office (NAO) Code of Audit Practice ('the Code'), that in our opinion:

- the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')

The Plan sets out the main risk areas, which the audit will focus on, including:

- the two default significant risks as highlighted in International Standard on Auditing (ISA) +315 applicable to all audits on the revenue cycle including fraudulent transactions (re-buttled) and management override of controls; and
- the other significant risks, which are valuation of property, plant and equipment and investment property and valuation of the pension fund net liability.

Our risk assessment regarding the County Council's arrangements to secure value for money identified the VFM significant risks as financial sustainability and internal control.

The fee for the audit has been set at £87,006, which is the scale fee set by Public Sector Audit Appointments Limited. Please note the scale fee is reduced from 2017/18 by 23% (£112,995 in 2017/18) due to the Public Sector Audit Appointments Limited re-tender process.

The 'Fee for other services' is £13,200 and relates to our certification work on the Teachers' Pension claim and your subscription to our CFO Insights service.

Robin Baker, Engagement Lead, will attend the meeting to present the report at Appendix 'A' and respond to questions.

Consultations

The report has been agreed with the Director of Finance.

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

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

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

External Audit Plan

Year ending 31 March 2019

Lancashire County Council

27 February 2019



Contents



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

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Lancashire County Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). The Code summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Lancashire County Council. We draw your attention to both of these documents on the [PSAA website](#).

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit, Risk and Governance Committee); and
- Value for Money arrangements (VFM) in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit, Risk and Governance Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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

Group Accounts	The Council is required to prepare group financial statements that consolidate the financial information of Lancashire County Developments Limited.
Significant risks	<p>Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:</p> <ul style="list-style-type: none">• revenue recognition (default significant risk under ISAs) – this has been rebutted for the Council• management override of controls (default significant risk under ISAs)• valuation of land, buildings and investment property and• valuation of the pension fund net liability. <p>We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.</p>
Materiality	We have determined planning materiality to be £32.248 million (Prior Year (PY) £34.714 million) for the group and £32.208 million (PY £34.67 million) for the Council, which equates to 1.5% of your gross cost of services expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1.614 million (PY £1.733 million).
Value for Money arrangements	<p>Our risk assessment regarding your arrangements to secure value for money has identified the following VFM significant risks:</p> <ul style="list-style-type: none">• Financial sustainability. The 2018/19 budget included planning savings of £55 million but still required a further £42 million from reserves to balance the budget. The Council's Medium Term Financial Strategy (MTFS) 2019/20 to 2022/23 updated in February 2019, showed a cumulative funding gap between 2019/20 and 2022/23 of £47 million. The funding gap assumes that significant savings identified of £120 million be delivered over the period of the Medium Term Financial Strategy (MTFS).• Internal control. The Council's Head of Internal Audit (HIA) opinion for 2017/18 provided limited assurance on the Council's overall system of internal control because the plan did not provide coverage of the Council's full internal control system. An 'except for' VFM Conclusion was issued in 2017/18 due to this issue.

Introduction & headlines

Audit logistics	<p>Our interim visit will take place in February and March and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report.</p> <p>Our fee for the audit will be £87,006 (PY: £112,995) for the Council, subject to the Council meeting our requirements set out on page 14.</p>
Independence	<p>We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.</p>

Key matters impacting our audit

External Factors

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. The current political climate is uncertain, with a number of varying outcomes possible over the next twelve months, which may bring further pressures to local government.

With Brexit, the impact of any changes will be an area of focus in terms of any impact at the balance sheet date and we will review management's assessment of any post balance sheet events.

The Council's 2018/19 budget included planned savings of £55 million but still required a further £42 million from reserves to balance the budget. The 2019/20 budget includes a further use of reserves of £10 million in order to balance the budget.

The Council's Medium Term Financial Strategy (MTFS) 2019/20 to 2022/23 updated in February 2019, shows a cumulative funding gap between 2019/20 and 2022/23 of £47 million.

The funding gap assumes that significant savings identified of £120 million are delivered over the period of the MTFS. The need to deliver the agreed savings and close the funding gap in the MTFS, represents a significant challenge for the Council.

Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of:

- IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model.
- IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition.

Internal Factors

Ofsted Inspection of Children's Services and Special Educational Needs (SEND) Services

Ofsted's inspection report dated August 2018 on Children's Services rated the Council as 'requires improvement'. This is an improved position from the previous November 2015 rating. Action Plans are in place to address on-going improvement with a Children and Families Board replacing the Improvement Board during 2018.

The joint Ofsted and CQC inspection letter dated January 2018 of SEND services highlighted some significant weaknesses and improvement issues for the Council to consider. A written statement of action has identified improvements with a SEND Partnership Board established in 2018.

In addition, strategic reporting occurs regularly at Cabinet and Corporate Management Team level.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion. In particular we will review the Council's arrangements for updating, agreeing and monitoring its financial plans including the assumptions within them. We will also consider the arrangements in place to monitor the identification, pace, delivery and reporting of savings.
- We will consider whether your financial position leads to material uncertainty about the going concern of the group and will review related disclosures in the financial statements.
- We will review management's post balance sheet assessment updated to the date of the audit opinion.

- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops. We thank the Council for hosting one of the technical update workshops in February 2019.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.

- We will review any further update reports or monitoring visits available to the date of the audit opinion as part of our understanding of external regulators, when carrying out our VFM Conclusion work.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Lancashire County Council	Yes	Audit of the financial information of the component using component materiality	<ul style="list-style-type: none"> See pages 7 to 9 	Full scope UK statutory audit performed by Grant Thornton UK LLP
Lancashire County Developments Limited	Yes	Specified audit procedures relating to significant risks of material misstatement of the group financial statements	<ul style="list-style-type: none"> See pages 7 to 9 	Specific scoped procedures on investment property to be performed by the company's auditor.

Key changes within the group:

- We are not aware of any key changes within the group during 2018/19.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Revenue recognition	Council	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Lancashire County Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Lancashire County Council.</p>	The risk is rebutted.
Management over-ride of controls	Group	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land, buildings and investment property	Group	<p>The Council revalues its land and buildings on a rolling three-yearly basis. Investment properties are revalued annually.</p> <p>These valuations represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally for land and buildings, management will need to ensure the carrying value in the Council and group financial statements is not materially different from the current value or the fair value (for surplus assets and investment property) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings and investment property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • discuss with the valuer the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test revaluations made during the year to see if they had been input correctly into the Council's asset register • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end • consider the impact of Brexit on asset valuations.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Council	<p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation • consider the impact of Brexit on investment valuations • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of Lancashire County Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and are consistent with our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
 - issue of a report in the public interest or written recommendations to the Council under section 24 of the Act, copied to the Secretary of State.
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
 - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

As noted in our Audit Plan, Audit Findings Report and Annual Audit Letter in 2017/18, we have been unable to certify completion of the Lancashire County Council audit since 2012/13 due to an on-going police investigation. We will continue to track any developments during the course of our audit, and provide any further update in our Audit Findings Report in July 2019.

Other material balances and transactions

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

In the 2017/18 Audit Findings Report we identified the valuation of a lender option borrowing option (LOBO) loan of £50 million taken out in 2010 as a significant audit risk with detailed work undertaken to address the risk. We obtained sufficient audit assurance and the Council added further disclosure in their technical annex to the financial statements. During 2018/19 the Council redeemed the loan, therefore in our 2018/19 Audit Plan the LOBO is not identified as a significant risk. We will carry out work to review the redemption accounting and disclosures in the financial statements.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the group's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the **group and Council** for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £32.248 million (PY £34.714 million) for the group and £32.208 million (PY £34.67 million) for the Council, which equates to 1.5% of your gross cost of services expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be a lower specific materiality level for senior officer remuneration at £20,000.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

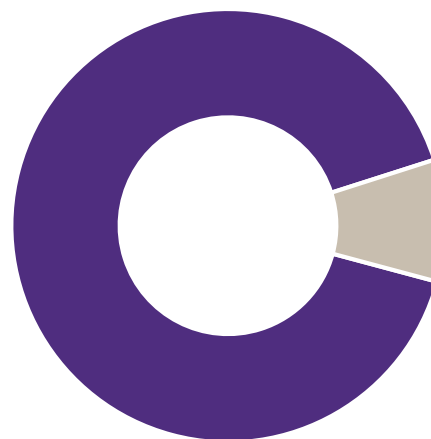
Matters we will report to the Audit, Risk and Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit, Risk and Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.614 million (PY £1.733 million).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit, Risk and Governance Committee to assist it in fulfilling its governance responsibilities.

Prior year gross cost of services expenditure

£2,149.9m group
(PY: £2,314.3m)
£2,147.2m Council
(PY: £2,311.3m)



- Gross cost of services expenditure
- Materiality

£32.248m
group financial
statements materiality
(PY: £34.714m)
£32.208m
Council financial
statements materiality
(PY: £34.67m)
£1.614m
Misstatements reported
to the Audit, Risk and
Governance Committee
(PY: £1.733m)

Value for Money arrangements

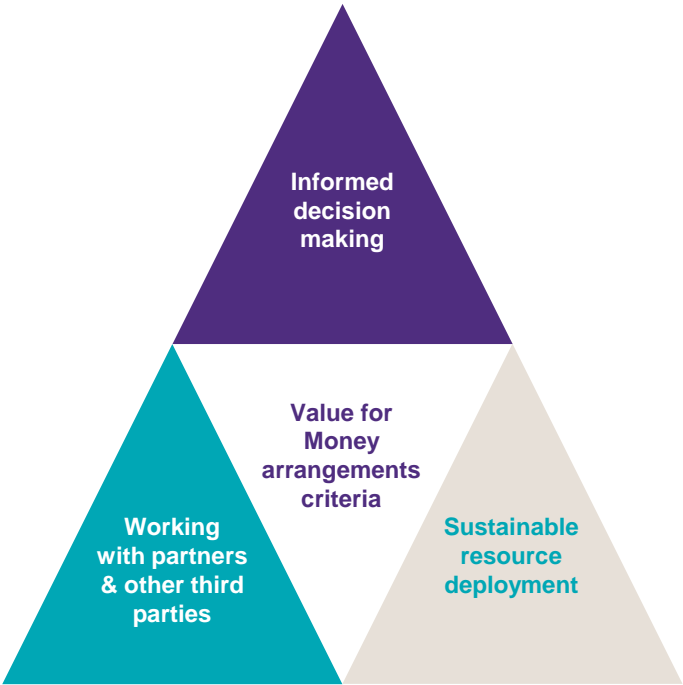
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

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

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



Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money.



Financial Sustainability

The 2018/19 budget included planned savings of £55 million but still required a further £42.0 million from reserves to balance the budget. The 2019/20 budget includes a further use of reserves of £10 million in order to balance the budget.

The Council's Medium Term Financial Strategy (MTFS) 2019/20 to 2022/23 updated in February 2019, shows a cumulative funding gap between 2019/20 and 2022/23 of £47 million.

The funding gap assumes that significant savings identified of £120 million are delivered over the period of the MTFS. The need to deliver the agreed savings and close the funding gap in the MTFS, represents a significant challenge for the Council.

We will review the Council's arrangements for updating, agreeing and monitoring its financial plans including the assumptions within them. This will include the consideration of Brexit in the Council's planning processes. We will also consider the arrangements in place to monitor the identification, pace, delivery and reporting of savings. This work is part of the sustainable resource deployment sub-criteria.



Internal Control

The Council's Head of Internal Audit (HIA) opinion for 2017/18 provided limited assurance on the Council's overall system of internal control because the plan did not provide for coverage of the Council's full internal control system. This resulted in an 'except for' VFM Conclusion qualification in 2017/18, and will be an area of focus for 2018/19.

We will review the Head of Internal Audit's opinion and the Annual Governance Statement (AGS) to confirm that the work completed and management's assurances are reflected. This work is part of the informed decision making sub-criteria.

Audit logistics, team & fees



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Robin Baker, Engagement Lead

Robin leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Trust.



Angela Pieri, Engagement Manager

Angela plans, manages and leads the delivery of the audit, is your key point of contact for your Finance team and is your the first point of contact for discussing any issues



Richard Tembo, Audit Incharge

Richard’s role is to assist in planning, managing and delivering the audit fieldwork, ensuring the audit is delivered effectively, efficiently and supervises and co-ordinates the on-site audit team.

Audit fees

The planned audit fees are £87,006 (PY: £112,995) for the financial statements audit completed under the Code, which are inline with the scale fee published by PSAA. In setting your fee, we have assumed that the scope of the audit, and the Council and its activities, do not significantly change.

Our fees for other services relates to £4,200 (PY: £4,200) for our certification work on the Teachers’ Pension return. There is also £9,000 (PY £9,000) for our CFO Insights service.

Where additional audit work is required to address risks relating to additional work i.e. the application of changes to International Financial Reporting Standard (IFRS) 9 – Financial Instruments and changes to the Council’s recognition and accounting treatment of financial assets and/or liabilities, and the application of changes to International Financial Reporting Standard (IFRS) 15 – Revenue from contracts with customers and the Council’s recognition and accounting treatment of income, we will consider the need to charge fees in addition to the audit fee on a case by case basis. Any additional fees will be discussed and agreed with management and require PSAA approval.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section ‘Early Close’. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Early close

Meeting the 31 July audit timeframe

In the prior year, the statutory date for publication of audited local government accounts was brought forward to 31 July, across the whole sector. This was a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts was curtailed, while, as auditors we had a shorter period to complete our work and faced an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 13). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that:

- you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- you respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and regular meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following other services were identified.

Service	£	Threats	Safeguards
Audit related			
Agreed upon procedures – Teachers’ Pension return	£4,200	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,200 in comparison to the total fee for the audit of £87,006 and in particular relative to Grant Thornton UK LLP’s turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
Chief Finance Officer (CFO) Insights	£9,000	Self-Interest (because this is a recurring fee)	The fee is a annual subscription for three years from 1 April 2017 to 31 March 2020. This is year two of the subscription. The level of this recurring fee on its own is not considered a significant threat to independence as the fee for this work is £9,000 per annum in comparison to the total fee for the audit of £87,006 and in particular relative to Grant Thornton UK LLP’s turnover overall. It is also a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.

Note that approval is currently being sought from PSAA for an annual subscription to Supply Chain Insights for three years from 1 April 2019 to 31 March 2022 for £12,500 per annum.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Independence & non-audit services

Auditor independence

On page 15 we listed the other services provided to Lancashire County Council. We also disclose to you that the commercial arm of our firm undertakes the audit of the Local Pensions Partnership, of which Lancashire County Council is one of the two founding members, each holding 50%. Details of the work performed, and the fees charged, are shown below for transparency purposes. However we are satisfied that this work has no impact on our independence for the audit of Lancashire County Council for the reasons mentioned below.

Service	£	Threats	Safeguards
Audit related			
Local Pensions Partnership	TBC	Self Review	This is not considered a significant threat as the audit of Lancashire County Pension Fund and Lancashire County Council is undertaken by a completely separate team from the Public sector Services arm of the Firm, as opposed to the commercial audit team that delivers the LPP audits. These are different Engagement Leads in place for both audits, and where we seek to place reliance on the work performed on the LPP audit, this is treated as an auditor's expert for the purposes of our work.
Authorised Contractual Scheme and investment funds structures audit			

Appendices

A. Audit Approach

Appendix A - Audit approach

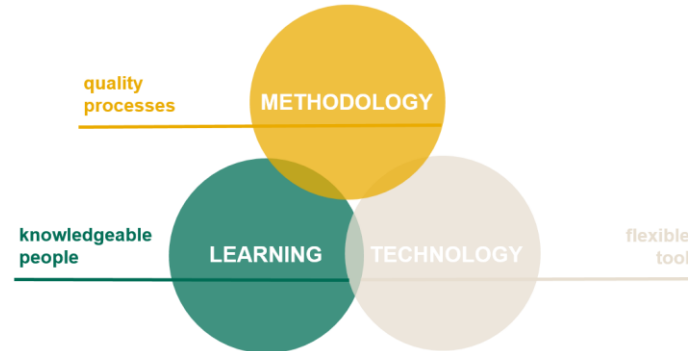
Use of audit, data interrogation and analytics software

LEAP



Audit software

- A globally developed ISA-aligned methodology and software tool that aims to re-engineer our audit approach to fundamentally improve quality and efficiency
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform cost effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- A cloud-based industry-leading audit tool developed in partnership with Microsoft



IDEA



- We use one of the world's leading data interrogation software tools, called 'IDEA' which integrates the latest data analytics techniques into our audit approach
- We have used IDEA since its inception in the 1980's and we were part of the original development team. We still have heavy involvement in both its development and delivery which is further enforced through our chairmanship of the UK IDEA User Group
- In addition to IDEA, we also use other tools like ACL and Microsoft SQL server
- Analysing large volumes of data very quickly and easily enables us to identify exceptions which potentially highlight business controls that are not operating effectively

Appian



Business process management

- Clear timeline for account review:
 - disclosure dealing
 - analytical review
- Simple version control
- Allow content team to identify potential risk areas for auditors to focus on



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Audit, Risk and Governance Committee

Meeting to be held on Monday, 20 May 2019

Electoral Division affected: None

External Audit - Lancashire County Pension Fund Audit Plan 2018/19

(Appendix 'A' refers)

Contact for further information:

Robin Baker, 0161 214 6399, Director, Grant Thornton UK LLP,

robin.j.baker@uk.gt.com

Executive Summary

The Annual Audit Plan for Lancashire County Pension Fund for 2018/19 sets out the nature and scope of work that the Authority's external auditor will carry out to discharge its statutory responsibilities, compliant with the Local Audit & Accountability Act 2014 (the Act) and the Code of Audit Practice for Local Government.

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

Recommendation

The Committee is asked to agree the External Audit plan for the audit of Lancashire County Pension Fund for 2018/19, and the fees therein.

Background and Advice

Attached at Appendix 'A' is the external auditor's Annual Audit Plan for the audit of the Lancashire County Pension Fund for 2018/19.

The Audit Plan sets out in broad terms the programme of work required to:

- give a financial opinion on whether the financial statements:
 - give a true and fair view of the financial position of the Pension Fund as at 31 March 2019 and of its expenditure and income for the year then ended; and
 - have been prepared in accordance with proper accounting practice.

The Plan sets out the main risk areas, which the audit will focus on, including:

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

- the risk of incorrect valuations on Level 3 investments, which by their nature require a significant degree of judgement to reach an appropriate valuation at year end.

The fee for the audit of the pension fund has been set at £26,310, which is the scale fee set by Public Sector Audit Appointments Limited. A fee of £1,737 is set to cover the IAS19 assurance work, which is subject to separate approval from Public Sector Audit Appointments Limited. Please note the scale fee is reduced from 2017/18 by 23% (£34,169 in 2017/18) due to the Public Sector Audit Appointments Limited re-tender process.

Robin Baker, Engagement Lead, will attend the meeting to present the report at Appendix 'A' and respond to questions.

Consultations

The report has been agreed with the Head of Fund and Director of Finance.

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

Local Government (Access to Information) Act 1985

List of Background Papers

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

External Audit Plan

Year ending 31 March 2019

Lancashire County Pension Fund

7 March 2019



Appendix A

Contents



**Your key Grant Thornton
team members are:**

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

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Lancashire County Pension Fund ('the Fund') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Lancashire County Pension Fund. We draw your attention to both of these documents on the [PSAA website](#).

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit, Risk and Governance Committee).

The audit of the financial statements does not relieve management or the Audit, Risk and Governance Committee of your responsibilities.

Our audit approach is based on a thorough understanding of the Fund's business and is risk based. We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit. It will enable us to be more responsive to changes that may occur in your organisation.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Revenue recognition – the risk of revenue including fraudulent transactions is rebutted for Lancashire County Pension Fund
- Management override of controls
- Valuation of level 3 investments

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined materiality at the planning stage of our audit to be £76.212 million (Prior Year (PY) £72.093 million) for the Fund, which equates to 1% of your net assets for the year.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £3.811 million (PY £3.604 million).

Audit logistics

Our interim visit will take place in February and March and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £26,310 (PY: £34,169) for the Fund, subject to management meeting our requirements set out on page 10.

Where we are required to respond to requests received from other auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations these will be billed in addition to the audit fee. Any additional fee would require Public Sector Audit Appointments Ltd (PSAA) approval. Our proposed fee for this work is £1,737 (PY: £1,737). Therefore we expect the total audit fee to be £28,407 (PY: £35,906).

Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Key matters impacting our audit

Factors

SI 493/2018 – LGPS (Amendment) Regulations 2018

Introduces a new provision for employers to receive credit for any surplus assets in a fund upon ceasing to be a Scheme employer. This could potentially lead to material impacts on funding arrangements and the need for updating of Funding Strategy Statements.

Guaranteed Minimum Pension (GMP)

- Pension funds are continuing to work through the GMP reconciliation process.
- In January 2018 the government extended its "interim solution" for indexation and equalisation for public service pension schemes until April 2021. Currently the view is that the October 2018 High Court ruling in respect of GMP equalisation is therefore not likely to have an impact upon the LGPS.

Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of IFRS 9 Financial Instruments. In practice, IFRS 9 is anticipated to have limited impact for pension funds as most assets and liabilities held are already classed as fair value through profit and loss.

The Pensions Regulator (tPR)

tPRs Corporate Plan for 2018-2021 includes three new Key Performance Indicators (KPIs) directly related to public service pension schemes and TPR has chosen the LGPS as a cohort for proactive engagement throughout 2018 and 2019.

Brexit

With Brexit, the impact of any changes at the balance sheet date will be an area of focus as well as reviewing management's assessment of any post balance sheet events.

Pooling

For Lancashire County Pension Fund this process began in 2016/17 with the Local Pensions Partnership (LPP) becoming fully operational in April 2017. Lancashire County Council and London Pensions Fund Authority are joint partners in LPP. From 1 April 2018 Investment and Employer Risk Management services are also being provided to the Royal County of Berkshire Pension Fund. These services are provided as a client basis, with the make up of the partnership remaining unchanged.

Most of the investment and administrative functions are now performed by LPP in accordance with several legal agreements between Lancashire County Council and LPP and decisions by the Pension Fund Committee.

The Pension Fund Committee receives a quarterly update report on the activities of LPP. It remains key that the administering authority continues to operate strong governance arrangements.

The investments held at 31 December 2018 were £7.9 billion, of which £6.1 billion were held in Local Pensions Partnership Investments Ltd (LPPI) pools across fixed income, private equity, infrastructure, credit and global equities. With the exception of internally managed cash held with external banks and highly liquid funds, the remaining investments are managed by LPPI and comprise bonds, directly held real estate assets, investment in property funds and legacy private equity, together with cash and bank deposits.

Our response

- We will continue to monitor the position in respect of GMP equalisation and reconciliation. For pension funds the immediate impact is expected to be largely administrative rather than financial.

- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.
- We will keep under review any interaction the Fund has with tPR and tailor our audit approach where necessary.
- We will review management's post balance sheet assessment updated to the date of the audit opinion.

- Whilst we do not consider the transfer of assets to the pool as a significant risk we will tailor our approach to gain assurance in respect of the completeness and accuracy of the transactions.
- We will review the governance processes in place at Lancashire County Pension Fund and Lancashire County Council that gives assurance over the activities of LPP and LPPI.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Revenue recognition – the risk of revenue including fraudulent transactions	<p>Under ISA (UK) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Lancashire County Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Lancashire County Pension Fund.</p>	<p>The risk of revenue including fraudulent transactions is rebutted for Lancashire County Pension Fund.</p>
Management over-ride of controls	<p>Under ISA (UK) 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities. The auditing standards do not allow this presumption to be rebutted by the auditor.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 3 investments	<p>The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.</p> <p>By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2019.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes for valuing Level 3 investments • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met • for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2019 with reference to known movements in the intervening period and • in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Other matters

Other work

The Fund is administered by Lancashire County Council (the 'Council'), and the Fund's accounts form part of the Council's financial statements.

Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Fund, such as:

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
 - issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
 - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

Other material balances and transactions

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

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Fund's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

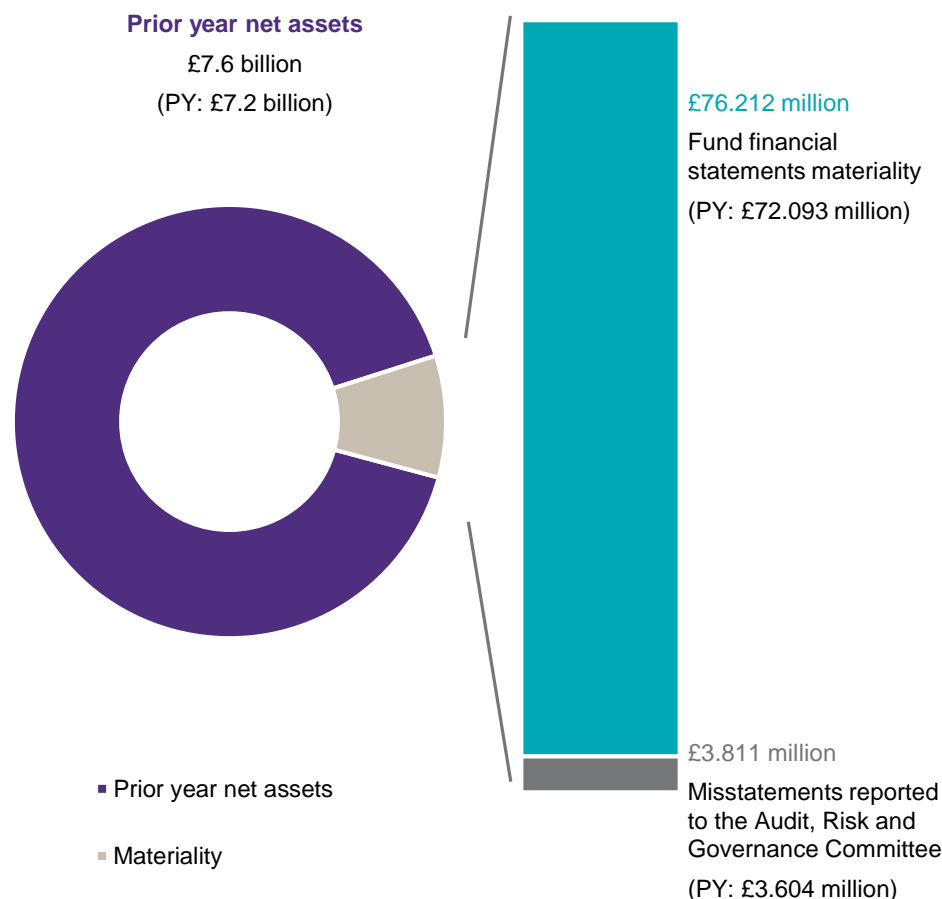
We have determined materiality at the planning stage of our audit to be £76.212 million (PY £72.093 million) for the Fund. We consider the proportion of the net assets of the Fund to be the appropriate benchmark for the financial year. In the prior year we used the same benchmark. Our materiality equates to 1% of your actual net assets for the year ended 31 March 2018.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit, Risk and Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £3.811 million (PY £3.604 million).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit, Risk and Governance Committee to assist it in fulfilling its governance responsibilities.



Audit logistics, team & fees

Page 205



Robin Baker, Director Engagement Lead



Angela Pieri, Senior Manager Engagement Manager



Sana Mumtaz Audit In-charge

Audit fees

The planned audit fees are £26,310 (PY: £34,169) for the financial statements audit completed under the Code, which are in line with the scale fee published by PSAA. In setting your fee, we have assumed that the scope of the audit, and the Fund and its activities, do not significantly change.

Where we are required to respond to requests received from other auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations these will be billed in addition to the audit fee. Our proposed fee for this work, subject to approval by PSAA Ltd is £1,737 (PY: £1,737). Therefore, we expect the total fee to be £28,047 (PY: £35,906).

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section ‘Early Close’. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Any proposed fee variations will need to be approved by PSAA Ltd.

Early close

Meeting the 31 July audit timeframe

In the prior year, the statutory date for publication of audited local government accounts in England was brought forward to 31 July. Wales and Scotland currently have different deadlines but there is convergence towards earlier close. This is a significant challenge for Pension Funds and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors there is a shorter period to complete our work and an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 9). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and regular meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

DRAFT

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Fund.

Whilst no additional services are provided to Lancashire County Pension Fund, the commercial arm of our firm undertakes the audit of the Local Pensions Partnership, of which Lancashire County Council is one of the two founding members, each holding 50%. Details of the work performed, and the fees charged, are shown below for transparency purposes. However we are satisfied that this work has no impact on our independence for the audit of Lancashire County Pension Fund for the reasons mentioned below.

Service	£	Threats	Safeguards
Audit related			
Local Pensions Partnership	TBC	Self Review	This is not considered a significant threat as the audit of Lancashire County Pension Fund and Lancashire County Council is undertaken by a completely separate team from the Public sector Services arm of the Firm, as opposed to the commercial audit team that delivers the LPP audits. These are different Engagement Leads in place for both audits, and where we seek to place reliance on the work performed on the LPP audit, this is treated as an auditor's expert for the purposes of our work.
Authorised Contractual Scheme and investment funds structures audit			

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit. None of the services provided are subject to contingent fees.

Appendices

A. Audit approach

Audit approach

Use of audit, data interrogation and analytics software

LEAP



Audit software

- A globally developed ISA-aligned methodology and software tool that aims to re-engineer our audit approach to fundamentally improve quality and efficiency
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform cost effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- A cloud-based industry-leading audit tool developed in partnership with Microsoft



IDEA



- We use one of the world's leading data interrogation software tools, called 'IDEA' which integrates the latest data analytics techniques into our audit approach
- We have used IDEA since its inception in the 1980's and we were part of the original development team. We still have heavy involvement in both its development and delivery which is further enforced through our chairmanship of the UK IDEA User Group
- In addition to IDEA, we also other tools like ACL and Microsoft SQL server
- Analysing large volumes of data very quickly and easily enables us to identify exceptions which potentially highlight business controls that are not operating effectively

Appian



Business process management

- Clear timeline for account review:
 - disclosure dealing
 - analytical review
- Simple version control
- Allow content team to identify potential risk areas for auditors to focus on

Inflo



Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.



REQUEST & SHARE

- Communicate & transfer documents securely
- Extract data directly from client systems
- Work flow assignment & progress monitoring



ASSESS & SCOPE

- Compare balances & visualise trends
- Understand trends and perform more granular risk assessment



VERIFY & REVIEW

- Automate sampling requests
- Download automated work papers



INTERROGATE & EVALUATE

- Analyse 100% of transactions quickly & easily
- Identify high risk transactions for investigation & testing
- Provide client reports & relevant benchmarking KPIs



FOCUS & ASSURE

- Visualise relationships impacting core business cycles
- Analyse 100% of transactions to focus audit on unusual items
- Combine business process analytics with related testing to provide greater audit and process assurance



INSIGHTS

- Detailed visualisations to add value to meetings and reports
- Demonstrates own performance and benchmark comparisons



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Audit, Risk and Governance Committee

Meeting to be held on Monday, 20 May 2019

Electoral Division affected: None

External Audit - Fee Letter for Lancashire County Council and Lancashire County Pension Fund 2019/20

Appendix 'A' refers

Contact for further information:

Robin Baker, 0161 214 6399, Director, Grant Thornton UK LLP,

robin.j.baker@uk.gt.com

Executive Summary

This report sets out details of the planned fees for the audit work to be undertaken by Grant Thornton in respect of Lancashire County Council and Lancashire County Pension Fund for 2019/20.

Recommendation

The Committee is asked to approve the fees for 2019/20 is set out in Appendix A.

Background and Advice

Public Sector Audit Appointments Ltd (PSAA) has been specified as an appointing person under the Local Audit and Accountability Act 2014 and the Local Authority (Appointing Person) Regulations 2015 and has the power to make auditor appointments for audits of opted-in local government bodies from 2018/19.

For opted-in bodies PSAA's responsibilities include setting fees, appointing auditors and monitoring the quality of auditors' work.

PSAA published the 2019/20 scale fees for opted-in bodies in March 2019. Individual scale fees have remained at the 2018/19 levels for both the Lancashire County Council and Lancashire County Pension Fund audit.

The Council's scale fee for 2019/20 has been set by PSAA at £87,006.

PSAA prescribes that 'scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes'.

The audit planning process for 2019/20, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as work progresses.

PSAA has also established a scale of fees for pension fund audits for 2019/20. The scale fee for the audit of the pension fund is £26,310.

Robin Baker, Engagement Lead, will attend the meeting to present the report at Appendix 'A' and respond to questions.

Consultations

The report has been agreed with the Chief Executive and Director of Resources.

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

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

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



Ms Angie Ridgwell
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12 April 2019

Dear Ms Ridgwell

Planned audit fee for 2019/20

The Local Audit and Accountability Act 2014 (the Act) provides the framework for local public audit. Public Sector Audit Appointments Ltd (PSAA) has been specified as an appointing person under the Act and the Local Authority (Appointing Person) Regulations 2015 and had the power to make auditor appointments for audits of opted-in local government bodies from 2018/19.

For opted-in bodies PSAA's responsibilities also include setting fees and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities are available on the [PSAA website](#).

All grant work, including housing benefit certification, falls outside the PSAA contract, as PSAA no longer has the power to make appointments for assurance on grant claims and returns. Any assurance engagements will therefore be subject to separate engagements agreed between the grant-paying body, the Council and ourselves and separate fees agreed with the Council.

Scale fee

PSAA published the 2019/20 scale fees for opted-in bodies at the end of March 2019, following a consultation process. Individual scale fees have been maintained at the same level as in 2018/19, unless there were specific circumstances which required otherwise. Further details are set out on the PSAA website. The Council's scale fee for 2019/20 has been set by PSAA at £87,006, that is the same as in 2018/19.

PSAA prescribes that 'scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes'.

The audit planning process for 2019/20, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

There are no changes to the overall work programme for audits of local government audited bodies for 2019/20. Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and guidance for auditors. Audits of the accounts for 2019/20 will be undertaken under this Code. Further information on the NAO Code and guidance is available on the [NAO website](#).

The scale fee covers:

- our audit of your financial statements;
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion); and
- our work on your whole of government accounts return.

PSAA will agree fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, as a variation to the scale fee.

Value for Money conclusion

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

The NAO issued its latest guidance for auditors on value for money work in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Pension Fund audit

PSAA has also established a scale of fees for pension fund audits. The scale fee for the audit of the pension fund is £26,310, which is also the same as last year. Our work on the pension fund will be undertaken by our specialist pension fund audit team, led by Robin Baker.

Billing schedule

Fees will be billed as follows:

Month and year	Main Audit fee £	Pension Audit fee £
September 2019	21,752	6,578
December 2019	21,752	6,578
March 2020	21,751	6,577
June 2020	21,751	6,577
Total	87,006	26,310

Outline audit timetable

We will undertake our audit planning and interim audit procedures in December 2019 to March 2020. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit, work on the VfM conclusion, and work on the whole of government accounts return will be completed by 31 July 2020.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	December 2019 to March 2020	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	June to July 2020	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	December 2019 to July 2020	Audit Findings (Report to those charged with governance)	As above
Whole of government accounts	July 2020	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	September 2020	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.

Our team

The key members of the audit team for 2019/20 are:

	Name	Phone Number	E-mail
Engagement Lead	Robin Baker	0161 214 6399 / 07880 456159	Robin.J.Baker@uk.gt.com
Engagement Manager	Angela Pieri	0141 223 0887 / 07920 813338	Angela.L.Pieri@uk.gt.com
Lancashire In-Charge Auditor	Richard Tembo	0161 234 6352 / 07801 797504	Richard.Z.Tembo@uk.gt.com
Pensions In-Charge Auditor	Sana Mumtaz	0151 224 2445	Sana.Mumtaz@uk.gt.com

Additional work

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Sarah Howard, our Public Sector Assurance regional lead partner, via Sarah.Howard@uk.gt.com.

Yours sincerely

Robin Baker

Robin J Baker
Engagement Lead

For Grant Thornton UK LLP

cc Neil Kissock, Director of Finance

Audit, Risk and Governance Committee

Meeting to be held on Monday, 20 May 2019

Electoral Division affected: None;

Neighbourhood Wellbeing Grants Update

(Appendix A refers)

Contact for further information:

Josh Mynott, Tel: (01772) 534580, Democratic and Member Services Manager,

josh.mynott@lancashire.gov.uk

Executive Summary

This report presents an update on the monitoring activity in relation to the Neighbourhood Wellbeing Grants awarded in 2016/17.

Recommendation

That the committee note the update.

Background and Advice

At the meeting of the Audit Risk and Governance Committee on 20 January 2018, it was agreed that further efforts would be made to contact the recipients of the Neighbourhood Wellbeing Grants in 2016/17 to request information on the outcomes achieved from receipt of the grant funding.

Officers have sought to contact all recipients who had not previously provided financial and/or performance monitoring information. The original total of the grants approved was £525,089, to 103 organisations.

- Four of the original awards, totalling £46,900, were either never paid by the council, or were returned due to projects not going ahead.
- Of the projects that went ahead, financial and performance information has been received from 84 of the recipients, totalling £417,259.
- Partial performance and/or financial information has been received from another 8 organisations, for grants totalling £27,200.
- No information has so far been received from 7 organisations, for grants totalling £33,730.

Appendix A provides a further breakdown.

Officers continue to pursue outstanding responses, and information continues to be received. Any updates on this position will be presented at the meeting. In some cases, where it has been difficult to contact the recipient, the assistance of the local councillor has been sought.

The committee will recognise that the passage of time since the grants were awarded has caused some difficulties, for example where personnel within recipient organisations have left, and in some cases, organisations themselves appear no longer to exist. The nature of the grants meant that many small organisations came forward, and indeed in some cases may only have existed for the sole purpose of delivering a project with the grant funding the county council provided.

As the committee is aware, some grants were paid before recipients had signed the appropriate acceptance form setting out the conditions of the funding in relation to monitoring and reporting. This agreement also made clear that should this information not be forthcoming or the project not delivered, the council could seek to recover the money. This option remains open and will be pursued where appropriate.

In three cases, where no information has yet been received, there is no signed agreement, which may impact on the council's ability to recover the funding, should further efforts to obtain information prove unsuccessful.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

The council has conducted the monitoring in accordance with the original conditions of the grants to identify whether the funding provided has been spent as intended.

Officers have not identified any incidence or evidence of fraud or misuse of the grant funding.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Tel
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N/A

Reason for inclusion in Part II, if appropriate

N/A

Health and Wellbeing Grants 2016/17 Overview

Round 1

	Number of organisations	Grant Value	% Value
Total number of organisations funded in Round 1	8	£74,850	n/a
Full Financial / Performance information received	5	£25,500	34.1%
Partial Financial / Performance information received	0	£0	0%
No Financial / Performance information received	1	£4,950	6.6%
Project did not go ahead, was not paid or funding was returned	2	£44,400	59.3%

Round 2

	Number of organisations	Grant Value	% Value
Total Number of organisations Funded in Round 2	56	£208,939	n/a
Full Financial / Performance information received	49	£192,959	92.4%
Partial Financial / Performance information received	4	£7,200	3.4%
No Financial / Performance information received	3	£8,780	4.2%
Project did not go ahead, was not paid or funding was returned	0	£0	0%

Round 3

	Number of organisations	Grant Value	% Value
Total Number of organisations Funded in Round 3	34	£234,800	n/a
Full Financial / Performance information received	26	£192,800	82.1%
Partial Financial / Performance information received	3	£19,500	8.3%
No Financial / Performance information received	3	£20,000	8.5%
Project did not go ahead, was not paid or funding was returned	2	£2,500	1.1%

Round 4

	Number of organisations	Grant Value	% Value
Total Number of organisations Funded in Round 4	5	£6,500	n/a
Full Financial / Performance information received	4	£6,000	92.3%
Partial Financial / Performance information received	1	£500	7.7%
No Financial / Performance information received	0	£0	0%
Project did not go ahead, was not paid or funding was returned	0	£0	0%

Overview of all grants

	Number of organisations	Grant Value	% Value
Total Number of organisations funded*	103	£525,089	n/a
Full Financial / Performance information received	84	£417,259	79.5%
Partial Financial / Performance information received	8	£27,200	5.2%
No Financial / Performance information received	7	£33,730	6.4%
Project did not go ahead, was not paid or funding was returned	4	£46,900	8.9%

Agenda Item 19

(NOT FOR PUBLICATION: By virtue of paragraph(s) 2,3,7 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered that all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information)

Document is Restricted

Appendix A

(NOT FOR PUBLICATION: By virtue of paragraph(s) 2,3,7 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered that all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information)

Document is Restricted

