APPENDIX A

Grant Thornton

The Annual Audit Letter for Lancashire County Council and Lancashire County Pension Fund

Year ended 31 March 2016

October 2016

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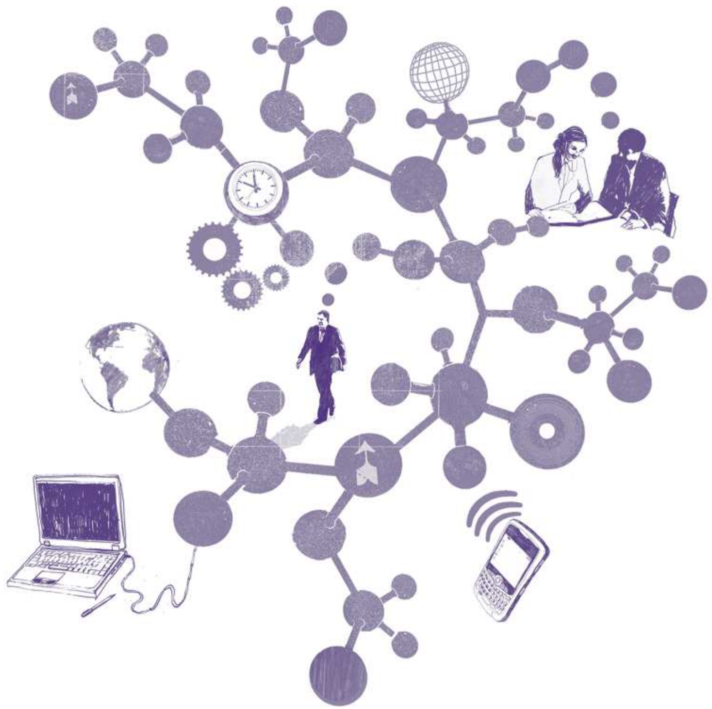

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Executive summary

Purpose of this letter

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

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

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

Our responsibilities

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

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

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

Our work

Financial statements opinion

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

Value for money conclusion

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

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

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

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

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

Working with the Council

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

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

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

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

Council

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

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

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

Pension Fund

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

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

The scope of our audit

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

This includes assessing whether:

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

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

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

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

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

Audit of the accounts – the Council

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

Risks identified in our audit plan	How we responded to the risk
The revenue cycle includes fraudulent transactions Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Lancashire County Council and Lancashire Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Lancashire County Council, mean that all forms of fraud are seen as unacceptable. **There were no matters to report**
Management over-ride of controls Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	We have: • undertaken a review of entity level controls • tested of journal entries • reviewed the accounting estimates, judgements and decisions made by management • reviewed unusual significant transactions **There were no significant matters to report**
Valuation of Property Plant and Equipment - in respect of the waste plants owned by the Council.	As part of our audit work we: • discussed the timeline of the plans with officers. • reviewed the information shared with the Council's external valuers setting out the impact of these plans on the service and therefore the Council's valuations for the sites • assessed the information used by the valuer to value the assets and the qualifications of the valuer in making the valuations required. • reviewed the valuation report and discussed with management how this would be accounted for in the financial statements **We concluded the valuation was materially correctly stated. We reported our findings to the Audit & Governance Committee**

Audit of the accounts – the Council

Risks identified in our audit plan	How we responded to the risk
Valuation of pension fund net liability	We undertook the following audit work: • identified the controls put in place by management to ensure the pension fund liability is not materially misstated. • assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. • gained an understanding of the basis on which the valuation is carried out. • undertook procedures to confirm the reasonableness of the actuarial assumptions made. • reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. **There were no matters to report**
Social care income and expenditure	We undertook the following audit work: • identified the controls in place in the system • completed walkthrough testing of the controls to confirm they operate as we understand • sample tested transactions processed through the system during the year • reviewed the processes for identifying year end accruals of income and expenditure • sample tested year end balances for accruals of income and expenditure. **There were no significant matters to report**
Employee remuneration accruals understated (Remuneration expenses not correct)	We undertook the following audit work: • documented our understanding of the processes and key controls over the payroll transaction cycle • Completed walkthrough testing of the key controls to assess the whether they were operating in line with our understanding • reviewed the reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems and interfaces. • sample tested payroll transactions. • Performed a trend analysis of monthly payroll costs. **There were no matters to report**

Audit of the accounts – the Council

Risks identified in our audit plan	How we responded to the risk
Creditors understated or not recorded in the correct period (Operating expenses understated)	We undertook the following audit work: • documented our understanding of processes and key controls over the operating expenditure transaction cycle • performed walkthrough of the key controls to assess the whether those controls were operating in line with our understanding • substantively tested a sample of expenditure transactions • reviewed managements processes to raise accruals and to ensure the accruals recognised are materially complete. • substantively tested a sample of creditor balances and accruals recognised in the year end balance sheet. • tested cash payments made after the year-end to identify potential unrecorded liabilities and gain assurance over the completeness of the payables balance in the accounts. **There were no significant matters to report**

Audit of the accounts – Pension Fund

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

Risks identified in our audit plan	How we responded to the risk
The revenue cycle includes fraudulent transactions Under ISA (UK&I)240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. **This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.**	Having considered the risk factors set out in ISA(UK&I)240 and the nature of the revenue streams at Lancashire County Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited due to clear separation of duties between the Fund, fund managers, and custodian ; and • the culture and ethical frameworks of local authorities, including Lancashire County Council as the administering authority, mean that all forms of fraud are seen as unacceptable. **There were no matters to report**
Management over-ride of controls Under ISA(UK&I)240 it is presumed that the risk of management over-ride of controls is present in all entities.	In line with our plan we: • reviewed entity-level controls • reviewed journal controls and tested a sample of journal entries • reviewed accounting estimates, judgements and decisions made by management • reviewed any unusual significant transactions **There were no matters to report**

Audit of the accounts – Pension Fund

Risks identified in our audit plan	How we responded to the risk
Level 3 Investments **Fair value measurements priced using inputs not based on observable market data not correct. - Valuation is incorrect (Valuation Net)** Under ISA(UK&I)315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	• carried out walkthrough tests of the system processes and controls.. • tested a sample of individual investments valuations by obtaining and reviewing the latest audited accounts for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31 March with reference to known movements in the intervening period. • reviewed the qualifications of fund managers and custodian as experts able to value the level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached. **There were no matters to report**
Investment Income **Investment activity not valid (Occurrence/Valuation)** **Investment income not correct (Accuracy)**	We undertook the following audit work: • updated and documented our understanding of processes and key controls for investment transactions • Performed walkthrough of the key controls to assess whether those controls operated in line with our understanding • for investments held by fund managers, reviewed reconciliation between the custodian , fund managers, and Pension Fund following up any significant variance and gain appropriate explanations/evidence for these. • for a sample of direct property investments, rationalised income against expected rental income. **There were no matters to report**
Investment purchases and sales **Investment activity not valid (Occurrence/Valuation)**	We undertook the following audit work: • reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances • tested a sample of purchases and sales to ensure these are appropriately recorded **There were no matters to report**

Audit of the accounts – Pension Fund

Risks identified in our audit plan	How we responded to the risk
Fair value measurements priced using inputs (other than quoted prices from active markets for identical investments) that are observable either directly or indirectly not correct **Valuation is incorrect. (Valuation net)**	• reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances • tested a sample of these investments to independent information from custodian/manager on units and on unit prices where the custodian does not provide independent pricing confirmation • for direct property investments, agreed values in total to the valuer's report and taken steps to gain reliance on the valuer as an expert. **There were no matters to report**
Contributions **Recorded contributions not correct (Occurrence)**	• performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • carried out controls testing over completeness accuracy and occurrence of contributions • Rationalised contributions received with reference to changes in member body payrolls and numbers of contributing pensioners and ensured that any unexpected trends were satisfactorily explained. **There were no matters to report**
Benefits payable **Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)**	• performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • Controls testing over completeness, accuracy and occurrence of benefit payments. • Rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year and ensured that any unusual trends were satisfactorily explained. **There were no matters to report**
Member data **Member data not correct. (Rights and Obligations)**	• performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • Performed controls testing over annual/monthly reconciliations and verifications with individual members • Tested a sample of changes to member data made during the year to source documentation. **There were no matters to report**

Audit of the accounts

Audit opinion

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

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

Issues arising from the audit of the Council's accounts

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

Pension fund accounts

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

Annual Governance Statement and Narrative Report

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

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

Other statutory duties

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

We have not used these powers in 2015/16.

Value for Money conclusion

Background

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

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

Key findings

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

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

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

Overall VfM conclusion

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

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

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

Value for Money

Risk identified	Work carried out	Findings and conclusions
Ofsted inspection of children's services Ofsted issued a report on the Council's children's services in 2015 which rated these as 'inadequate'. The Council is currently subject to follow up review.	We liaised with officers and review updates as they become available.	The Council's Children's Services were subject to an Ofsted inspection in 2015. The report, published on 27 November 2015 assessed the aspects of the service as follows: • Children who need help and protection - inadequate • Children looked after and achieving permanence - requires improvement • Adoption performance - requires improvement, • Experiences and progress of care leavers – inadequate, • Leadership, Management and governance - inadequate. The report identified wide ranging areas for improvement across the service with concerns raised around the failure of the Council to work with other key agencies in strategy discussions, risk assessments being undertaken without reference to, or knowledge of, significant history, complex work assigned to insufficiently qualified or experienced practitioners, and a lack of effective management oversight. The inspection also identified that performance management information was very poor, providing insufficient information to provide management and members with the right information to hold the service to account. The Council has responded quickly to the report and subsequent Improvement Notice issued by Ofsted. An Improvement Board was set up with an Independent Chair. The chair has the responsibility to develop an Improvement Plan which was subsequently agreed with Ofsted. An interim Director of Children's Services, shared with Blackburn with Darwen Council, is now in place. The Improvement Board meets on a monthly to consider the progress against the improvement plan, with an "improvement board 12 week plan" being considered at each meeting. This 12 week plan provides focus to three key areas identified for improvement – workforce, managing change and managing demand. Multi-agency focus groups have also been established to identify key issues and barriers to better working practice. The feedback to the improvement board is that communication and information sharing is an area for improvement. Progress is being made in a number of areas. In particular, the Council has worked to address the challenges in recruitment of staff (with agency staff currently being used to reduce workloads), accuracy of performance information, and the implementation of a new operating model. However, at the time of this report, the current version of the progress plan notes feedback from both Ofsted and the Department for Education indicates the pace of progress needs to be faster. At the start of September Ofsted visited the Council again for a follow up. The feedback from this visit was published on the Ofsted website on the 3 October 2016. In this Inspectors recognised the increase in the pace of change to improve services for children and young people in Lancashire. Further work needs to be carried out to embed good practice and to ensure that services are delivered consistently.

Value for Money

Risk identified	Work carried out	Findings and conclusions
Internal control The Council's Head of Internal Audit was unable to provide an overall opinion on the Council's system of internal control in 2014/15 because of the limited nature of the internal audit plan. In 2015/16, the Council's internal audit plan focuses work on key financial systems. It is therefore unlikely that the Head of Internal Audit will be able to provide an overall opinion again for this year. There is an outline plan in place for 2016/17 which identifies key areas of audit coverage. If this plan is refined and delivered as expected, it is likely that the Head of Internal Audit will be able to reach a conclusion on the Council's system of internal control.	We update our assessment of the Council's arrangements in the light of the year end report from the Head of Internal Audit and the Annual Governance Statement.	At the Audit and Governance Committee on 9 May 2016 the Head of Internal Audit reported that the audit plan for 2015/16 would concentrate on the following financial systems: • general financial ledger • cash and banking • accounts payable system • accounts receivable and debt management system • payroll • treasury management and • VAT The work planned by internal audit for the year was insufficient to support an overall opinion on the internal control framework of the Council. The planned work on the general financial ledger, accounts payable, payroll and VAT was completed and reported to the May committee meeting. The remaining work was scheduled for after the end of the financial year because members of the audit team were seconded into the finance service to provide capacity on key projects during 2015 and the early part of 2016. As a result, the work on cash and banking, accounts receivable, and treasury management was completed following the end of the financial year. As at 7 September 2016 the cash and banking report was still at draft stage. The draft Annual Governance Statement presented to members at the Audit and Governance committee held on 30 June 2016 recognises the internal audit service has not been able to deliver a plan which would support an overall opinion for 2015/16 and acknowledges that the work delivered by internal audit has not been sufficient in scope for a Council the size and complexity of Lancashire County Council. Looking ahead, the Audit and Governance Committee has approved a plan for 2016/17 which includes a fuller programme of work. This has been designed to support an overall head of internal audit opinion for 2016/17. Internal audit have begun to recruit to the new structure to support delivery of this plan

Value for Money

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

Value for Money

Risk identified	Work carried out	Findings and conclusions
Waste plant In February 2016 the executive scrutiny committee considered a report on the proposed waste processing requirements and specification for services delivered by Global Renewables Lancashire Operations Limited (GRLOL). This recommended that elements of the plant were closed with immediate effect or by the end of the financial year 2015/16. On further discussion with officers, we understand the planned timetable for operational mothballing these assets stretches beyond the timescale agreed by members. We are also concerned that, as part of the decision making process, the impact on the valuation of the assets was not considered.	We have reviewed the decision making process the Council followed to understand that members considered all relevant information to make their decision.	Over recent years, the Council has been looking at ways to reduce the costs of waste disposal provided at two facilities in Lancashire. As part of the wider consideration of budget options in November 2015, a policy was agreed to reduce the processing activities and costs at the two plants as these were no longer considered to economic. Where this occurred, the plant and equipment was to be mothballed and maintained. As part of this decision, the service would cease composting of co-mingled food and garden waste. Alongside this was a commitment to downsize the waste company operating the facilities on behalf of the Council. Following this decision, the service options were considered in more detail. The recommendations made to the Cabinet Member for Environment, Planning and Cultural Services included that: • waste transfer operations were established for residual waste, • In Vessel Composting processes ceased with immediate effect • redundant processing equipment be protected and preserved; and • a new operating structure with the Council be agreed by GRLOL. This decision was taken on the basis of the lowest cost, lowest risk option, which at the time was to divert the residual waste to landfill. However, further discussion with contract holders for the waste output identified some options to use existing relationships to provide a lower specification output. As a result, some elements of the original service provision continue although on a reduced scale. Following our audit plan, the Audit and Governance committee requested and received a report on the decision taken and the financial impact. The plans for the downsizing of the company are continuing. This is expected to lead to a greatly reduced workforce at the company. The Council is committed to exploring the options for the future use of the two facilities and the equipment currently being preserved. A soft market testing exercise has been commenced but is not yet concluded so the longer term viability of the sites is unclear. The Council has discussed with its external valuer whether the changes in the service provision currently agreed impact on the carrying value of the assets. We received a draft of this on the 2 September 2016.

Value for Money

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

Working with the Council

Our work with you in 2015/16

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

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

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

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

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

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

Working with the Council

Working with you in 2016/17
Highways Network Asset

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

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

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

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

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

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

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

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

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

Appendix A: Reports issued and fees

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

Fees

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

Fees for other services

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

Reports issued

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

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