

The Audit Findings for Lancashire County Council

Year ended 31 March 2017

July 2017

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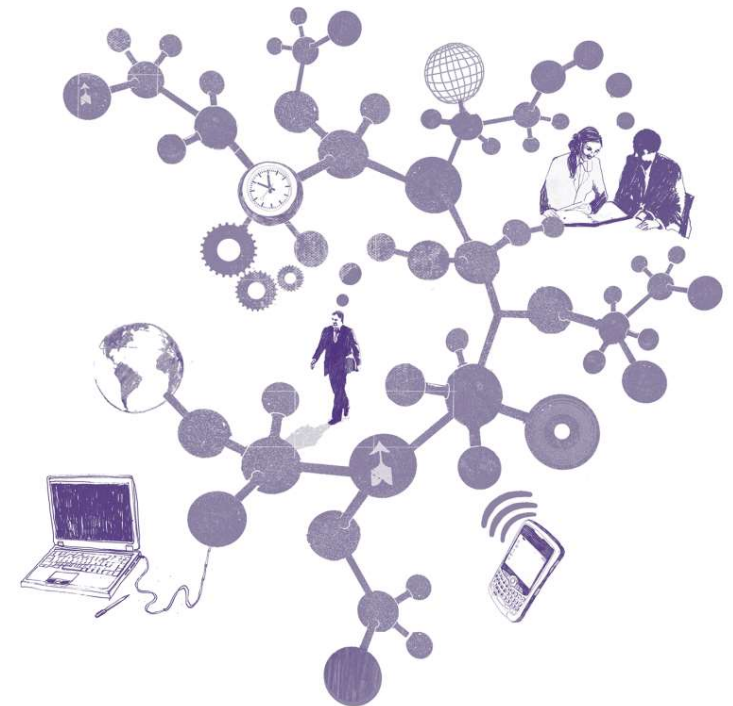
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31 July 2017

Dear Members of the Audit and Governance Committee

Audit Findings for Lancashire County Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Lancashire County Council, the Audit and Governance Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

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

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Karen Murray

Engagement Lead

Chartered Accountants

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Section 1: Executive summary

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Purpose of this report

This report highlights the key issues affecting the results of Lancashire County Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 3 April 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- completion of our final sample testing and testing of journals
- Review of work of other auditors
- review of the final version of the financial statements
- review of the Council's outturn report for year to 31 March 2017 which will be presented to Cabinet on 10 August 2017
- review of the cash flow statement and amended MIRS
- obtaining and reviewing the management letter of representation
- review of the final version of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion
- completing our work on Whole of Government Accounts.

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

Key audit and financial reporting issues

Financial statements opinion

There has been one adjustment affecting the group and Council's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2017 recorded total comprehensive income and expenditure of £372.4m; the audited financial statements show recorded total comprehensive income and expenditure of £363.41m. This change is primarily driven by the change made by management to the outturn position following the preparation of the draft accounts. We have also recommended a number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- the Council delivered draft accounts ahead of its internal deadline of 31 May 2017, reflecting the changes to the timetable that will take effect from 2017/18.
- work had been undertaken on the layout of the accounts to make them more understandable and to improve the clarity of supporting working papers to support the accounts

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B). We expect to issue this opinion on 10 August when Cabinet receives the report to confirm the final outturn position for the year.

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Findings

We draw your attention in particular to control issues identified in relation to:

- Our work on your general information technology controls identified that there are a large number of users with access to security settings of the general ledger.

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Our review of the Council's arrangements to secure economy, efficiency and effectiveness has highlighted the following issues which will give rise to a qualified VFM conclusion.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

We are unable to issue our certificate of completion of the audit. This is because we cannot formally conclude the audit on the accounts from 2012/13 onwards until we have completed our consideration of matters arising from 2012/13.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Financial Resources

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
July 2017

Section 2: Audit findings

01. Executive summary

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Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £33m (being 1.5% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £1.6m This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan .

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of senior manager salaries and allowances in the remuneration report	Due to public interest in these disclosures and the statutory requirement for them to be made.	£5k
Related Party Transactions	Due to public interest in these disclosures. Any individual misstatements identified would also be evaluated with reference to how material they are to the other party.	£20k

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Lancashire County 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; and • the culture and ethical frameworks of local authorities, including Lancashire County Council, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>Our work includes:</p> <ul style="list-style-type: none"> • review of entity controls • review of journal entry process and selection of unusual journal entries for testing back to supporting documentation • review of accounting estimates, judgements and decisions made by management 	<p>Our audit work has not identified any evidence of management over-ride of controls. Our review of journal controls and testing of journal controls and testing of journal entries is still ongoing and we will update the Audit and Governance committee with the results of this work.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks continued

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

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>Valuation of property, plant and equipment</p> <p>The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements. In 2016/17 the Council has also made decisions about the use of properties, as part of the property strategy which could impact on the value to be included in the Statement of Accounts.</p>	<p>We have</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate • reviewed the competence, expertise and objectivity of any management experts used • reviewed of the instructions issued to valuation experts and the scope of their work • discussed with valuer about the basis on which the valuation is carried out and challenged the key assumptions • reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding • tested a sample of revaluations made during the year to ensure they are input correctly into the Council's asset register • evaluated the assumptions made by management for those assets not revalued during the year and considered how management is satisfied these are not materially different to current value • reviewed the classification and valuation of properties in line with the decisions in the property strategy to ensure the valuations included in the accounts reflect the use of the property at the end of the financial year. 	<p>We have identified no matters arising against the risk</p>
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p>	<p>We have</p> <ul style="list-style-type: none"> • identified the controls put in place by management to ensure the pension fund liability is not materially misstated. • 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. • undertaken 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. 	<p>We have identified no matters arising against the risk</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	<p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Employee remuneration accruals understated (Remuneration expenses not correct) 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding reconciled the total payroll costs in the payroll system to the general ledger and the financial statements. undertaken a trend analysis of pay by month to confirm there are no unusual fluctuations throughout the year. 	We have identified no matters arising against the risk.
Operating expenses	<p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Creditors understated or not recorded in the correct period (Operating expenses understated) 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding Reviewed your process for raising accruals at the year-end tested new year payments to confirm the completeness of the accruals included in the statement of accounts. 	We have identified no matters arising against the risk.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Changes to the presentation of local authority financial statements	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS) tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements 	<p>The changes to the presentation are in line with the requirements of the CIPFA code.</p> <p>Because it was the first year of these changes management have added additional disclosures to explain the movement from the accounts for 2015/16 to the restated comparatives included in the accounts.</p>



Group audit scope and risk assessment

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

Component	Significant?	Level of response required under ISA 600	Work completed	Assurance gained & issues raised
Lancashire County Developments Limited	Yes	Targeted	We have reviewed the consolidation undertaken by the Council and reviewed the work undertaken by the company's auditor on those entries that are material to the financial statements of the Group.	<p>The consolidation has been agreed through to the supporting records of the Council and the company accounts</p> <p>We are awaiting confirmation from the company auditor that there are no further issues that should be reflected in the group accounts.</p>

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> The Council's accounting policy on the accruals of income confirms that income is accounted for in the year in which the activity it relates to takes place regardless of when cash payments are received. income from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council; income from the provision of services is recognised when the Council can measure reliably the percentage completion of the transaction and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council. 	<ul style="list-style-type: none"> The Council's accounting policy is in line with the requirements of the CIPFA code and is adequately disclosed in the accounts. Our testing of income, grants income and debtors confirmed that the Council is recognising income in line with its accounting policy. 	
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include <ul style="list-style-type: none"> Useful life of PPE Revaluations Impairments Accruals Valuation of pension fund net liability provisions 	<p>We have:</p> <ul style="list-style-type: none"> reviewed the estimates and judgements made in the accounts as part of our work with no matters arising. reviewed the process by which management have used as external expert to provide a desktop valuation of the Council's property assets sample tested valuations undertaken in the year to confirm they are appropriately included in the statement of accounts. tested a sample of your provisions to supporting information 	



Assessment

● Marginal accounting policy which could potentially attract attention from regulators
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Director of Financial Resources, the Council's s151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	
Other accounting policies	The Council has considered its accounting policies in line with the CIPFA code of practice and the example policies prepared by CIPFA.	We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	

Assessment

● Marginal accounting policy which could potentially attract attention from regulators
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Other communication requirements


We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any other incidents in the period. No other issues have been identified during the course of our audit procedures
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations in 2016/17. We have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council, including specific representations in respect of the Group, which is included in the Audit and Governance Committee papers Specific representations have been requested from management to confirm the Council has reviewed their buildings and are satisfied there is no need to impair the carrying value of these buildings because of fire safety.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send a confirmation requests to your bank. This permission was granted and the request was sent. The request was returned with positive confirmation.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements



Other communication requirements continued

	Issue	Commentary
7.	Matters on which we report by exception	<ul style="list-style-type: none"> We are required to report on a number of matters by exception in a number of areas: <p>We have not identified any issues we would be required to report by exception in the following areas</p> <ul style="list-style-type: none"> If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group acquired in the course of performing our audit, or otherwise misleading, subject to final agreement of the figures to the Council's outturn report.
8.	Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <ul style="list-style-type: none"> This work is not yet completed and will be completed in advance of the deadline in September

Internal controls

	Assessment	Issue and risk	Recommendations
1.		<ul style="list-style-type: none"> Our review of your IT controls identified 7 users who can modify system security settings and 68 who have access to modify ledger codes. This means there is a risk that users could override the existing internal controls. The Council is reviewing the number of users with this access to confirm it is still required 	<ul style="list-style-type: none"> Ensure that access rights continue to be reviewed so staff only have the level of access required to undertake their role.

Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail	Comprehensive Income and Expenditure Statement £m	Balance Sheet £m	Impact on total net expenditure £m
1 Following preparation of the draft accounts the Council has amended its outturn position. The revenue contribution to capital expenditure has been reduced with a corresponding increase in earmarked reserves in the single entity and group accounts.		4.3	
2 The accounts have been amended for a restatement to the Capital Grants Unapplied reserve, with the effect of increasing the balance on the reserve at 31 March 2017 by £10.7m. This mainly related to adjustments between borrowing and capital grants for the financing of capital expenditure.	9.3	10.7	10.7
3 The Council had restated the 2015/16 receipts in advance figure with an adjustment of £1m between company payments in advance and receipts in advance where the figures had been netted off. There were also adjustments within the intra group balances between the company and the Council. These are adjustments that are removed on consolidation. The result of this is the intra group creditors were overstated by £0.8m in 2015/16 and £2.5m in 2016/17 with the intra group receipts in advance were understated by the same amount. These have now been amended.		1.6 (2016/17) 2.5 (2015/16)	
Overall impact	£9.3	£3.1	£10.7

Impact of uncorrected misstatements from the prior year

Both uncorrected misstatements from 2015/16 have been adjusted in the 2016/17 accounts.

	Detail	Comprehensive Income and Expenditure Statement £m	Balance Sheet £m	Reason for not adjusting
1	Property Plant and Equipment - waste plants In 2015/16 the Council reviewed the services delivered from the two waste plants it operates. Management considered, in conjunction with external valuers whether the value of the assets had been affected. This valuation was received on 2 September 2016 and indicated the impact on the net book value of the assets included in the Council's balance sheet at 31 March 2016 was a reduction in value of £22m.		22	The adjustment is no longer required. This is because the assets in question have been re-valued as part of the programme for 2016/17 and these valuations at 31 March 2017 have been reflected in the statement of accounts.
2	Group Accounts In 2015/16 the Group Accounts for the Council were prepared using the draft financial statements for the company. There were then some amendments made as a result of the company audit which were not reflected in the Group accounts on the grounds of materiality.	1.4	1.3	The group accounts have been restated for 2016/17.
	Overall impact	£1.4	£23.3	

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type		Account balance	Impact on the financial statements
1	Disclosure	Group accounts	The Council has amended the group accounts disclosures to only include those where there are material differences between the Group accounts and the statements of the Council.
2	Disclosure	Group accounts	The Council has expanded some of its narrative disclosures in respect of the group accounts to better aid the understanding of the reader.
3	Disclosure	Group accounts	The taxation figures for the company are now included in the statement of accounts.
4	Disclosure	Cash Flow statement	The Council has amended the signage of the cash flow statement to aid clarity

Section 3: Value for Money

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05. Communication of audit matters

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that 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.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 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.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in March 2017 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated April 2017.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The risks that we raised in previous years
- Our ongoing discussions with the audit and governance committee and the management of the Council.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 27 to 30.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- except for the matter we identified in respect of internal control and your Ofsted report, the Council had proper arrangements in all significant respects. We therefore propose to give a qualified 'except for' conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The text of our proposed report can be found at Appendix B.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>Internal control</p> <p>In 2015/16 Internal Audit did not complete a full programme of work. As a result, the Head of Internal Audit was not able to provide an opinion on the overall system of internal control. For 2016/17, there is an audit plan in place and which has been approved by the Audit and Governance Committee. It is being delivered by a strengthened internal audit team. However, the plan has been developed to reflect the Council's progress with its transformation agenda and as a result, will support a limited assurance opinion, notwithstanding the outcomes of the specific reviews within the plan.</p> <p>There are other sources of information and assurance that management will need to draw on to support the annual review of the effectiveness of the system of internal control.</p>	<p>We have reviewed the head of internal audit opinion and the AGS to confirm that the work completed is reflected in both.</p>	<p>The Council's Head of Internal Audit opinion for 2016/17 provides limited assurance on the Council's overall system of internal control. This is because the plan put in place for the year, and approved by the Audit and Governance Committee in January 2016 did not provide for coverage of the Council's full internal control system.</p> <p>Although the audit plan was delivered as expected, it was developed to support the Council's progress with its transformation agenda and to provide coverage of the key financial systems. As a result of there has been a limited of scope to the programme of work undertaken with an agreement not to review those areas where management were making changes or improvements to systems, processes and controls.</p> <p>The work completed to date has largely resulted in substantial assurance being provided for those areas subject to review, including key financial systems.</p> <p>An audit plan for 2017/18 has been agreed with management and was reported to the Audit and Governance Committee's meeting of 26 June 2017 including the planned approach and scope of work for internal audit to deliver for 2017/18.</p> <p>We concluded that there were weaknesses in the Council's arrangements for working effectively with third parties to deliver strategic priorities, managing risks effectively and maintaining a sound system of internal control.</p>

Key findings

Significant risk	Work to address	Findings and conclusions
<p>Financial position, service transformation and working in partnership</p> <p>The Council's MTFP is predicated on the delivery of significant savings to move the Council to a lower cost profile. The plan links to a programme that includes a number of key projects and investments, which are significant both in scale and financial terms in transforming the way the Council delivers services.</p> <p>This sits alongside various partnership arrangements in which the Council is involved, including the shadow combined authority and the local health and wellbeing board which are intended to support wider public service reform.</p>	<p>We will review the project management and risk assurance frameworks established by the Council in respect of the more significant projects, to establish how the Council is identifying, managing and monitoring these risks.</p> <p>We will review the arrangements the Council has in place to work with other bodies in Lancashire.</p>	<p>The Council has set a balanced budget for 2017/18, and believes that it will be able to do so in 2018/19, but identifies that delivering the level of savings required to deliver a balanced budget will be challenging for the Council beyond this point</p> <p>The Council's work in 2015/16 to review the base budget identified there was an ongoing challenge to its financial position particularly in respect of increased service demand. In response to this the council has taken the following actions:</p> <p>Commissioned PWC to examine the council's base budget review. The outcome from this confirmed the findings of the base budget review and has been used to support representations to central government in re</p> <p>A second report was commissioned from PWC to consider a sustainable public sector delivery model in Lancashire. This included significant changes involving other bodies in the public sector in the area and therefore is not all within Lancashire County Council's power to reform. The Council recognises the need for working across the local government and NHS boundaries and is involved in work with the local sustainability and transformation partnerships and continue to be consulted upon with third parties recognising the challenges to integration of health and social care across the Council's boundaries.</p> <p>The Council has identified there are other areas where there continue to be significant cost pressures.</p> <p>The risk register includes the level of financial risk faced by the Council and the mitigating actions being taken. The quarterly "money matters" report to the Cabinet reflect the level of savings assumed within budget and progress against these.</p> <p>External consultants have been commissioned to redesign care pathways and deliver efficiencies within social care.</p> <p>The project office has been re-established and has in place the structure to support the other efficiency and transformation plans. This has established a framework which is supporting and monitoring the key savings plans, and is working in holding budget holders to account for delivery of savings projects.</p> <p>The year end outturn represented an underspend against the planned budget of £23.101m. However a significant amount of that underspend was driven by overperformance against the Treasury Management budget and the draft outturn (to be reported in August), shows there are still areas of significant cost pressure, particularly around adult and children's social services. The Council recognises this and a medium term focus will be balancing risk, quality of service and cost.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Key findings

Significant risk	Work to address	Findings and conclusions
<p>Ofsted inspection of children's services</p> <p>Ofsted issued a report on the Council's children's services in 2015/16 which rated these as 'inadequate'. The Council is currently subject to follow up review. Until such time as Ofsted has confirmed that adequate arrangements are in place this remains a significant risk to the Council's arrangements.</p>	<p>We have reviewed the Council's monitoring of its improvement plan arrangements and we will consider any further reports from Ofsted as they become available. We will take these into account in forming our conclusion.</p>	<p>The Council has continued to respond positively to the issues arising from the Ofsted inspection and is making progress in delivering its improvement plan.</p> <p>The Lancashire Children's services improvement board has continued to meet throughout the year. To ensure that key priorities are acted upon there is a 12 week plan considered at the board which covers the actions planned over the period in question. This is a rolling plan which focuses on 5 key areas for improvement - the most urgent issues with actions, timescales and lead officers. It also sets out how the progress against these specific actions will be monitored and where applicable audited.</p> <p>In February 2017 a substantive appointment was made to the Director of Children's Services.</p> <p>The plan and board both identify there is a significant amount of work to cover.</p> <p>The most recent correspondence from Ofsted confirms that uneven progress has been made in improving services and there still remain significant challenges to the consistent quality of provision of children's services.</p> <p>We concluded that there were weaknesses in the Council's arrangements managing risks effectively and maintaining a sound system of internal control</p>

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

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

Fees

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

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Independence and ethics

- Ethical Standards and ISA (UK&I) 260 require us to give you timely disclosure of matters relating to our independence. In this context, we disclose the following to you:
- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and 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 Auditing Practices Board's Ethical Standards.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Group. The table below summarises all non-audit services which were identified.

Fees for other services

Service	Fees £
Audit related services:	
• Teacher's Pensions return, reasonable assurance engagement	4,200
• Local Transport Plan Major projects reasonable assurance engagement	2,500
• BIS – Growth Hub funding	4,000
Non-audit services	
• Tax compliance services for the subsidiary company (this work related to the 2015/16 return, but was undertaken in 2016/17)	20,220

Independence and non-audit services

We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place

	Service provided to	Fees	Threat?	Safeguard
Grant Thornton UK LLP were previously the auditors for LCDL limited. This included undertaking tax compliance work for the company	LCDL limited	£20,220	Y	The work was undertaken by an appropriately qualified team who were separate from the team undertaking the company and Council audit.
Audit related services				
Teacher's Pensions return, reasonable assurance engagement	Lancashire County Council	4,200	Y	This is a recurring fee and therefore a self-interest threat exists. However the level of this recurring fee taken on its own is considered to be a significant threat to independence as the fee for this work in comparison to the total audit fee for the Council and in particular to Grant Thornton UK LLP overall. The work relates to audit related services for which there is a fixed fee and there is no contingent element to the fee.
Local Transport Plan Major projects reasonable assurance engagement	Lancashire County Council	2,500	Y	This is a recurring fee and therefore a self-interest threat exists. However the level of this recurring fee taken on its own is considered to be a significant threat to independence as the fee for this work in comparison to the total audit fee for the Council and in particular to Grant Thornton UK LLP overall. The work relates to audit related services for which there is a fixed fee and there is no contingent element to the fee.
BIS – Growth Hub funding	Lancashire County Council	4,000	N	
	TOTAL	£30,920		

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Communication to those charged with governance

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

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

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

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

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

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

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

Appendices

- A. Action Plan
- B. Audit Opinion

A. Action plan

Priority

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1	Ensure that access rights continue to be reviewed so staff only have the level of access required to undertake their role.	Medium	<p>The Council is currently in the process of removing all 'superuser' and generic manager access to Oracle, this will remove access for 7 users.</p> <p>The 68 users identified to have access to modify ledger codes consist mainly of BTLS staff as they have administrator access. These accesses will be reviewed to ensure that access rights continue to be appropriate. All code set-ups and amendments are required to be processed through the Core Systems team, and Oracle has an Audit check functionality that allows the ability to review who has amended codes, which codes and when.</p>	

B: Audit opinion

We anticipate we will provide the Group with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LANCASHIRE COUNTY COUNCIL

We have audited the financial statements of Lancashire County Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet, the Group Cash Flow Statement, the technical annex and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Financial Resources and auditor

As explained more fully in the Statement of Responsibilities, the Director of Financial Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Financial Resources; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority and Group as at 31 March 2017 and of the Authority's and Group's expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority 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 Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Basis for qualified conclusion

In considering the Authority's arrangements for securing economy, efficiency and effectiveness we identified the following matters:

In November 2015, Ofsted issued its report on the inspection of the Authority's services for children in need of help and protection. The overall judgement was that children's services were rated as inadequate.

The report concluded that there were wide ranging areas for improvement across the service with concerns raised on:

- the failure of the Authority 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.

These matters are evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management, and for planning, organising and developing the workforce effectively to deliver strategic priorities.

The Authority's Chief Internal Auditor gave limited assurance over the Authority's system of internal control in her opinion for the year ended 31 March 2017. This was because the internal audit plan put in place for the year, and approved by the Audit and Governance Committee in January 2016, did not provide for coverage by internal audit of the full system of internal control.

This matter is evidence of weaknesses in proper arrangements for managing risks effectively and maintaining a sound system of internal control, demonstrating and applying the principles and values of good governance.

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, except for the effects of the matters described in the Basis for qualified conclusion paragraphs above, we are satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2017 in accordance with the requirements of the Act and the Code of Audit Practice until we have completed our consideration of matters brought to our attention by the Authority in 2013. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Karen Murray
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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