

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?	<p>The council received a number of grants as part of the government's efforts to mitigate the effects on local residents and businesses of the Coronavirus pandemic during 2020/21. The financial statements will reflect the receipt and use of these grants.</p> <p>Changes in demand for services due to the pandemic may also affect spending and income reflected in the Comprehensive Income and Expenditure Statement.</p>
2. Have you considered the appropriateness of the accounting policies adopted by Lancashire County Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	<p>The accounting policies have been reviewed, and the policies to be adopted for the 2020/21 accounts were approved by the Audit, Risk and Governance committee in January 2021.</p> <p>There have been no events or transactions that have caused a change to the accounting policies since 2019/20.</p>
3. Is there any use of financial instruments, including derivatives?	<p>Yes, the financial instruments recognised in the Comprehensive Income and Expenditure Statement are detailed in a note to the statement of accounts. These include:</p> <ul style="list-style-type: none">- Financial assets and liabilities at amortised cost- Other financial assets measured at fair value
4. Are you aware of any significant transaction outside the normal course of business?	No.
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	The note on 'Property, plant and equipment' within the statement of accounts will show any changes in the value of non-current assets during 2020/21.

6. Are you aware of any guarantee contracts?	The council provides a pension indemnity to its wholly owned companies: Active Lancashire and Marketing Lancashire.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	The council sets aside a provision for self-insured unasserted claims, and these claims are subject to an actuarial valuation every three years.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Lancashire County Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	The county council utilises external solicitors and counsel on a range of issues. The litigation team within the council's legal services deals with on-going claims and litigation on issues such as highways, child protection and employment matters. The council maintains extensive records relating to both historic and current cases.
9. Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No material issues reported.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	As a large and complex organisation, the council uses a wide range of internal and external advisors to support the proper discharge of its responsibilities.

Fraud Risk Assessment

Question	Management response
<p>1. Have Lancashire County Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>The council's medium-term financial position is identified as a key risk on the council's risk register.</p> <p>The council has a robust system of governance through its frameworks of governance, risk management and control that seek to mitigate risk of fraud in the first instance.</p> <p>The council's senior management and political leadership regularly receive reports on the council's current and longer term financial position.</p> <p>Financial reports are produced routinely on a monthly basis with an annualised forecast produced by budget holders with support from the finance team for more complex service areas such as adult social care.</p> <p>Budgets are composed on a hierarchical basis, such that the level of reporting from detail to corporate summary can be obtained dependant on need.</p> <p>The financial position is reported to Cabinet on a quarterly basis, which provides a commentary on the main risks and opportunities to date. Particularly focussing on the high value and demand led services such as waste, children and adult's social care.</p> <p>Corporate accountability for budgets is held at Director and Heads of Service levels, allowing for corrective actions to be employed effectively at an appropriate scale.</p> <p>The council continues to look to improve the integration of reporting across finance, performance and human resources such as to further support risk management outcomes.</p>

<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Clearly all financial systems are susceptible to fraud. However, the transactions that yield the greatest number of potential and actual frauds as well as some of the largest values, are direct payments to service users or their representatives.</p> <p>The distribution through the council of grants from government, as a response to the Covid-19 pandemic, at speed to a wide variety of services and suppliers naturally brings an increased risk of fraudulent use of funds by recipient organisations and individuals.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Lancashire County Council as a whole or within specific departments since 1 April 2020?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>At this point there have been no significant instances of fraud, error, or other irregularity identified during the period either singly or collectively.</p> <p>The Internal Audit service provides a progress report to each meeting of the Audit, Risk and Governance Committee that highlights any unmitigated risks arising from the audit work undertaken. The committee has a record of interest in such matters and periodically invites directors to explain their responses to the risk issues raised and provide assurance regarding the action being taken.</p> <p>In a normal year all services update their risk and opportunity registers quarterly, these are assessed by the Deputy Monitoring Officer, and a corporate risk and opportunity register prepared and presented to the Corporate Management Team. This corporate risk and opportunity register is then reported to both the Cabinet Committee for Performance Improvement and Audit, Risk and Governance Committee on a quarterly basis. During 2020/21 this process has been superseded by alternative processes within the framework of the corporate response to Covid-19.</p>
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Lancashire County Council where fraud is more likely to occur?</p>	<p>No.</p>

<p>5. What processes do Lancashire County Council have in place to identify and respond to risks of fraud?</p>	<p>The council employs an investigator who reports to the Head of Internal Audit. That individual undertakes proactive counter fraud work, in particular directing the council's participation in the National Fraud Initiative, monitors and responds to the financial whistleblowing help-line, and undertakes investigations in accordance with the council's Fraud Response Plan.</p>
<p>6. How do you assess the overall control environment for Lancashire County Council, including:</p> <ul style="list-style-type: none"> • the existence of internal controls, including segregation of duties; and • the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>The frameworks of governance, risk management and control have been referred to in the response to question 1 in this section.</p> <p>These are subject to assurance through the three lines of defence operated by the council's service managers, assurance functions and internal audit, which functions independently and regularly reports to those charged with governance. Further, a range of external regulators assess whether the control environment is working effectively, from the Care Quality Commission and Ofsted to the Driver and Vehicle Standards Agency.</p> <p>The Head of Internal Audit has provided favourable assurance over the council's control environment in recent years. The work to support this has included audits of the council's financial controls including those designed to manage the risk of fraud. Due to the particular circumstances of the Covid-19 pandemic, the Internal Audit Service was unable to conduct its work to the usual extent during 2020/21, and a degree of reliance has been placed on the prior assurances secured. This has been reported transparently to those charged with governance.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>The council's political decision-making reports are subject to an internal clearance process, requiring legal and financial clearance as a minimum, thus reducing the risk of misreporting through professional oversight.</p>
<p>8. How do Lancashire County Council communicate and encourage ethical behaviours</p>	<p>There are several mechanisms that include:</p> <ul style="list-style-type: none"> - Induction - Intranet pages

<p>and business processes of its staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<ul style="list-style-type: none"> - Staff notices - Cascade briefings - Performance Development Reviews - Bite sized briefings - Specific training - Staff conferences - Blogs - Videos - Whistle-blowing helplines addressing both financial and non-financial matters
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>The decision-making abilities of the most senior positions in the organisation would mean that these posts have the greatest ability to pose a fraud and corruption risk, however the council's scheme of delegation and professional oversight of political decision-making allows these risks to be mitigated.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>There is a range of relationships between the council and other organisations within the county and therefore the potential for these relationships to be used inappropriately. However, the only scope for significant fraud lies with post-holders at the level of a Head of Service or Director and it is expected that these individuals will operate within the seven principles of public life. Further, the council maintains a register of interests and any related parties should be clearly identified by post-holders to their line managers.</p> <p>No relationships are known to the council that could give rise to instances of fraud.</p>
<p>11. What arrangements are in place to report fraud issues and risks to the Audit, Risk and Governance Committee?</p> <p>How does the Audit, Risk and Governance Committee exercise oversight over management's processes for identifying and</p>	<p>The committee receives an annual report on counter fraud, investigations and whistleblowing activity.</p> <p>There have been very few investigations or whistleblowing activity during 2020/21.</p>

<p>responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>There have been 25 instances of whistleblowing during the year. Of these, four have been closed and the underlying issues addressed, four have been closed but not upheld, six have been passed to school governing bodies to address locally and work on the remaining eleven is ongoing.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No.</p>

Impact of Laws and Regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Lancashire County Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>There are a number of policies and procedures that are available to all employees via the intranet. These include:</p> <ul style="list-style-type: none"> - The constitution - Scheme of delegation - Political decision making arrangements - Assurance statements <p>This is supplemented by internal audit reviews.</p> <p>There were no changes to the council's regulatory environment in 2020/21 that may have a significant impact on the council's financial statements.</p>
<p>2. How is the Audit, Risk and Governance Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>All committee reports are required to undergo an internal clearance process whereby relevant input is obtained from finance, legal, procurement, HR and other support services, before decisions are taken.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p>	<p>No material issues identified.</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>The council sets aside a provision for self-insured unasserted claims, and these claims are subject to an actuarial valuation every three years.</p>
<p>5. What arrangements does Lancashire County Council have in place to identify, evaluate and account for litigation or claims?</p>	<p>The county council identifies litigation and claims from several sources that include service managers, external bodies serving notice and individuals submitting claims through established claims procedures. The litigation team within the council's legal services deals with on-going claims and litigation on issues such as highways,</p>

child protection and employment matters. The council maintains extensive records relating to both historic and current cases.

The council generally self-insures for claims up to £1m, above which insurance is procured. A provision is held on the council's balance sheet to cover the accruing liabilities based on an external actuarial valuation.

6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?

No material issues reported.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Lancashire County Council's 2019/20 financial statements?</p> <p>If so, please summarise:</p> <ul style="list-style-type: none">• the nature of the relationship between these related parties and Lancashire County Council• whether Lancashire County Council has entered into or plans to enter into any transactions with these related parties• the type and purpose of these transactions	<p>There have been no changes to the related parties to date.</p>
<p>2. What controls does Lancashire County Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>The group boundary assessment is updated annually by officers in legal and democratic services.</p> <p>All members and senior officers are required to complete a related parties disclosure each year.</p> <p>Enquiries are made across finance department teams to identify any new related party entities.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>The council's related parties in the main are its owned companies, that operate under the direction of their own Board of Directors transacting with the council through the council's normal decision-making processes.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>The council has an urgent decision-making procedure managed by the Democratic services team.</p>

Accounting Estimates – General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	Fair value estimations relating to Property and Pensions.
2. How does the Council's risk management process identify and addresses risks relating to accounting estimates?	The accounting policies are reviewed annually by the Audit, Risk and Governance committee which considers the approach to accounting estimates in light of current issues and regulatory requirements.
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	The corporate finance department employs a team of suitably qualified and experienced accountants who can commission the work of experts as well as exercise their own professional judgement in determining the most appropriate accounting estimates.
4. How do management review the outcomes of previous accounting estimates?	The corporate finance department employs a team of suitably qualified and experienced accountants who can commission the work of experts as well as exercise their own professional judgement in determining the most appropriate accounting estimates.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	No.
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	The corporate finance department employs a team of suitably qualified and experienced accountants who can commission the work of experts as well as exercise their own professional judgement in determining the most appropriate accounting estimates.

<p>7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>The corporate finance department employs a team of suitably qualified and experienced accountants who can commission the work of experts as well as exercise their own professional judgement in determining the most appropriate accounting estimates.</p>
<p>8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>The corporate finance department employs a team of suitably qualified and experienced accountants who can commission the work of experts as well as exercise their own professional judgement in determining the most appropriate accounting estimates.</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>See Annex A.</p>
<p>10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Annex A)?</p>	<p>None to date.</p>
<p>11. Are the management arrangements for the accounting estimates, as detailed in Annex A reasonable?</p>	<p>Yes, the approaches are compliant with the CIPFA code of practice.</p>

12. How is the Audit, Risk and Governance Committee provided with assurance that the arrangements for accounting estimates are adequate?

The corporate finance department employs a team of suitably qualified and experienced accountants who can commission the work of experts as well as exercise their own professional judgement in determining the most appropriate accounting estimates.

The accounting policies are reviewed annually by the Audit, Risk and Governance committee which considers the approach to accounting estimates in light of current issues and regulatory requirements.

Annex A

Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	The council's internal valuers provide valuations as at 1 April based on a three-year rolling programme of valuations.	Internal professional review.	<p>The valuations are undertaken by qualified valuers in accordance with the Royal Institute of Chartered Surveyors (RICS) professional standards using recognised measurement techniques.</p> <p>External valuations have been obtained for the waste facilities and investment properties.</p>	<p>The balance of assets not revalued in year are reviewed by applying local movement in prices and appropriate cost indices to ensure that the value of the council's assets are not materially misstated at the balance sheet date.</p> <p>A variation of 10% in the value of the council's land and buildings is stated in the accounts.</p>	No.
Depreciation	Depreciation is calculated based on the useful lives of the assets as set out in	Internal professional review.	The valuations are undertaken by qualified valuers in accordance with	An assessment is made of the impact of a change of one year in the useful lives of the assets.	No.

	the accounting policies.		the Royal Institute of Chartered Surveyors (RICS) professional standards using recognised measurement techniques.		
PFI Liabilities	PFI model	Internal professional review.	No.	The PFI models are updated each year in line with RPI.	No.
Valuation of defined benefit net pension fund liabilities	The net liability to pay pensions is calculated every 3 years with annual updates in the intervening years.	Internal professional review.	Yes. A firm of consulting actuaries (Mercer) is engaged to provide the Council with expert advice about the assumptions to be applied.	Changes to underlying assumptions can result in significant variances in the calculated liability. The assumptions and complex judgements applied include the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	No.
Fair Value Investments Estimates	Dependant on the specific investment.	Specialist review through the council's external advisors, Arlingclose.	Dependant on the specific investment.	Dependant on the specific investment.	No.
Fair value liability estimates	Dependant on the specific liability.	Specialist review through the council's external advisors, Arlingclose.	Dependant on the specific liability.	Dependant on the specific liability.	No.

Provisions	Actuarial valuation of the insurance provision is carried out every three years.	Claims handling and record keeping carried out through the council's internal legal team who use the information to identify any relevant trends and/or regulatory changes.	An actuarial valuation is carried out by AJ Gallaghers.	The council's claims history and records form the basis of the actuarial valuation and is used as a basis of evaluating the need for alternative estimates.	No.
Accruals	Management accounting models and business information.	Internal professional review.	The finance team is able to commission experts where considered necessary due to complexity and/or risk.	Dependant on the nature of the accrual.	No.
Credit loss and impairment allowances	Historic debt collection records are used to model collection rates per client categories.	Internal professional review.	The finance team is able to commission experts where considered necessary due to complexity and/or risk.	The council's debt collection history and records form the basis of the estimates and is used as a basis of evaluating the need for alternative estimates.	No.