



# The Annual Audit Letter for Lancashire County Council

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**Year ended 31 March 2015**

27 October 2015

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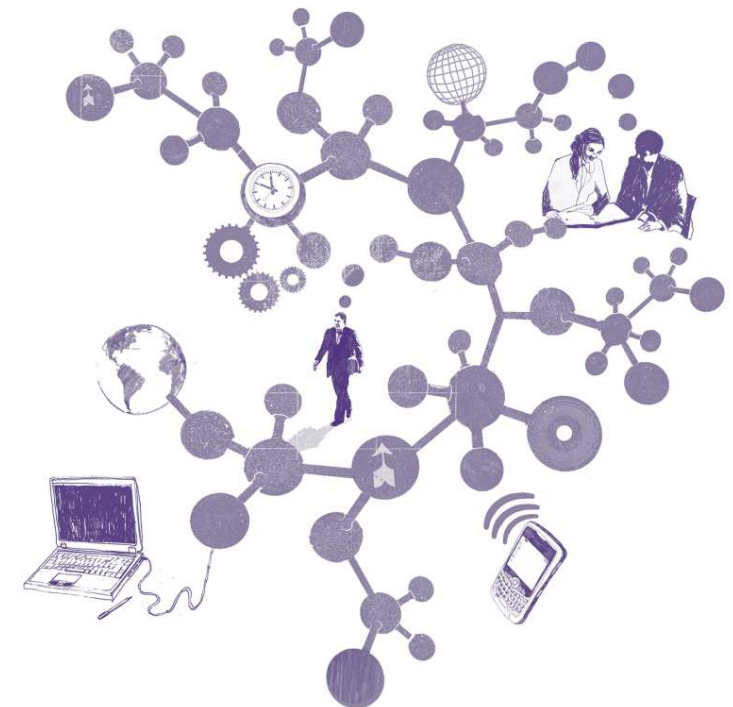
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# Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Lancashire County Council ('the Council') for the year ended 31 March 2015.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 13 April 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.

## **Financial statements audit (including audit opinion)**

We reported our findings arising from the audit of the financial statements for the County Council and the Lancashire Pension Fund in our Audit Findings Reports to the Audit and Governance Committee on 28 September 2015.

The key messages from our audit of the County Council's accounts were:

- The financial statements were prepared to a good standard and were largely complete
- We agreed some changes to the accounts to improve the disclosures, particularly relating to the Council's refinancing of the waste PFI scheme.

At the time of the Audit & Governance Committee our review of the Council's Whole of Government Accounts (WGA) return was outstanding. As part of the work required to complete this, we identified one further error in the Council's accounts. This related to grant paid to the Council by Department for Education. It was classified within the statement of accounts as being from an other government department but was correctly reflected in the whole of government accounts return as having been paid by Department for Education. The grant of £2.3m was not material to the statement of accounts. We agreed with management and the Chair of the Audit Committee not to amend the accounts for this on the grounds of materiality.

The key messages arising from our audit of the Lancashire Pension Fund accounts were:

The financial statements were prepared to a good standard

- We did not identify any adjustments impacting on the fund's reported financial position
- We agreed a number of amendments to improve the presentation and disclosures in the statements, including a non-adjusting post balance sheet event note in respect of the asset and liability management partnership proposal with the London Pension Fund Authority.

We issued an unqualified opinions on the two sets of financial statements on 30 September 2015, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms the financial statements give a true and fair view of the financial position and of the income and expenditure recorded by the Council and the Pension Fund.

## Key messages - continued

### Value for Money (VfM) conclusion

We issued a qualified VfM conclusion for 2014/15 on 30 September 2015.

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we highlighted the following issues which gave rise to an 'except for' VfM conclusion:

- The Council's Head of Internal Audit was unable to issue an overall opinion on the system of internal control at the Council for 2014/15 because of the narrow scope of work undertaken by internal audit;
- On bringing the Council's procurement function back in house in April 2014, the Council identified several contracts which had either expired, or were due to expire, before they could be properly re-procured;
- The Council's financial planning has identified significant financial pressures from 2015/16 onwards. The Council is now working to identified savings to meet a spending gap from 2016/17 to 2020/21 of £294m.

Overall, our work highlighted that the Council has had a challenging year. These challenges have impacted on the Council's wider governance framework. The Council has reflected this in its Annual Governance Statement for the year and subsequent update reports to the Audit & Governance Committee.

In 2013/14, the Council's Head of Internal Audit give an overall "limited assurance" opinion on the operation of the Council's overall system of internal control. Management Team set out their commitment to ensuring the issues were addressed in 2014/15 and a decision was taken to re-direct Internal Audit resource for the remainder of the 2014/15 year. A revised audit plan was presented to the Audit & Governance Committee in January 2015. The consequences of these changes to the audit plan were that:

- management now has assurance that the specific controls identified as 'not operating' during 2013/14 have been addressed;
- Internal Audit's work on 4 key financial systems (General Ledger, Treasury Management, Payroll and Central Accounts Payable) provided assurance over the operation of the controls within those areas; but
- the revised plan (as approved) did not provide sufficient coverage of the Council's activities to support an overall Head of Internal Audit opinion in compliance with the requirements of Public Sector Internal Audit Standards.

Management Team have re-iterated their commitment to ensuring that there is a robust internal control framework in place across the Council and for 2015/16, intended to use the skills and experience of the Internal Audit team to work with Heads of Service across the Council to ensure risks and controls have been properly identified and are being operated as intended. However, this work had not yet commenced at September 2015 because the Council identified a lack of capacity in the finance department to work on a number of key projects. Staff from Internal Audit were seconded to the finance team to provide operational support but will all return to their substantive posts by the end of November 2015.

## Key messages - continued

### **Value for Money (VfM) conclusion**

More recently, a high level audit plan has been prepared which provides for coverage of the Council's main financial systems. The work to be completed by the remaining available internal audit resource is currently being refined to ensure it is properly focussed on the areas of risk. There is a recognition that this will need to be considered further in the light of the strategic decisions expected to be taken by members about the future size and shape of the Council. The plan will be presented to the Audit and Governance Committee in January 2016 although work in delivering elements of it will already be underway.

Further progress has been made in addressing the other weaknesses in the Council's governance framework identified in 2013/14 and 2014/15:

- action has been taken to address the failures in the procurement service. Since it was brought back in house in April 2014, a procurement strategy has been developed and a comprehensive contract register has been put together. This will provide a basis for the re-letting of contracts in line with proper processes
- significant progress has been made in strengthening the Council's arrangements for Information Governance;
- the Council's arrangements for identifying, assessing and reporting risks has been developed and work is now underway to ensure it is consistent and embedded across the Council. A formal risk register is due to be approved by Management Team and will be presented to Audit and Governance Committee in January 2016.

We have also considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

Overall our work highlighted the Council has delivered the first phase of its transformation programme during 2014/15. The restructure of the Council's Management Team, with new roles and responsibilities in place, supports a more streamlined and focussed Council. In addition, the Council has moved away from its former directorate structure and has appointed Heads of Service to lead the operational delivery. However, the transformation programme has now been paused whilst the Council considers its options for meeting the savings gap and on-going service pressures identified. The scale of the savings needed by the Council mean some very difficult decisions will be required on the way in which statutory services will be delivered, and on the options for, and scale of, discretionary services provided in the future.

Overall, the Council remains in a difficult and challenging position. We will continue to monitor progress to ensure that actions remain on track.

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## Key messages - continued

<b>Whole of Government Accounts</b>	We reviewed the consolidation pack which the Council prepared to support the production of Whole of Government Accounts. We reported that the Council's pack was consistent with the audited financial statements, except for one unadjusted item in the statement of accounts that was correctly disclosed in the Whole of Government Accounts.
<b>Audit fee</b>	Our fee for Council's 2014/15 audit was £150,660, excluding VAT which was in line with our planned fee for the year. The fee for the pension fund audit was £35,906. Further detail is included within Appendix A.

# Appendix B: Reports issued and fees

We confirm below the fees charged for the audit and non-audit services.

## Fees for audit services

	Per Audit plan £	Actual fees £
Council audit	150,660	150,660
Grant certification on behalf of Audit Commission	2,800	2,800
Pension Fund audit scale fee	34,169	34,169
IAS19 Protocol audit work	1,737	1,737
<b>Total audit fees</b>	<b>189,366</b>	<b>189,366</b>

## Fees for other services

Service	Fees £
<b>Audit related services</b> <ul style="list-style-type: none"><li>Reasonable assurance report on the 2014/15 Teacher's Pensions return</li></ul>	4,200

## Reports issued

Report	Date issued
Audit Plan	April 2015
Audit Findings Report	September 2015
Annual Audit Letter	October 2015



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