

Lancashire County Council

Audit and Governance Committee

Monday, 13th April, 2015 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Agenda

Part I (Open to Press and Public)

No.	Item
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1.	Apologies
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2.	Chair and Deputy Chair of the Committee
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Members are asked to note that County Councillor Clare Pritchard has replaced County Councillor Terry Brown as chair of the Audit and Governance Committee.

Members are also asked to note that County Councillor Terry Brown has been appointed as deputy chair of the committee.

3.	Disclosure of Pecuniary and Non-Pecuniary Interests
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Members are asked to consider any Pecuniary and Non-Pecuniary Interests they may have to disclose to the meeting in relation to matters under consideration on the Agenda.

4.	Minutes of the Meeting held on 26 January 2015	(Pages 1 - 8)
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To be confirmed, and signed by the chair.

5.	The Council's Code of Corporate Governance and Annual Governance Statement 2014/15
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(Report to follow)

6.	Internal Audit Service Progress Report	(Pages 9 - 26)
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7.	Information Governance Arrangements - Update	(Pages 27 - 32)
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8.	External Audit - Lancashire County Council Audit Plan	(Pages 33 - 50)
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9.	External Audit - Lancashire County Council Update Report	(Pages 51 - 68)
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10. Urgent Business

An item of urgent business may only be considered under this heading where, by reason of special circumstances to be recorded in the Minutes, the Chair of the meeting is of the opinion that the item should be considered at the meeting as a matter of urgency. Wherever possible, the Chief Executive should be given advance warning of any Member's intention to raise a matter under this heading.

11. Date of Next Meeting

The next meeting of the Committee will be held on 29 June 2015 at 2:00pm at County Hall, Preston.

I Young
Director of Governance,
Finance and Public Services

County Hall
Preston

Agenda Item 4

Lancashire County Council

Audit and Governance Committee

Minutes of the Meeting held on Monday, 26th January, 2015 at 2.00 pm in Cabinet Room 'D' - The Henry Bolingbroke Room, County Hall, Preston

Present:

County Councillor Terry Brown (Chair)

County Councillors

D Clifford	C Pritchard
K Brown	A Schofield
C Dereli	V Taylor
G Driver	B Winlow

Officers in attendance

George Graham – Deputy County Treasurer
Mike Jensen – Chief Investment Officer
Ruth Lowry – Chief Internal Auditor
Ian Rushworth – Audit Manager
Beryl Rhodes – Head of Finance (Commercial and Central)
Karen Murray – Director, Grant Thornton
Ian Young – County Secretary and Solicitor
Roy Jones - Assistant County Secretary
Garth Harbison – Committee Support Officer

1. Apologies

None received.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

None declared.

3. Minutes of the Meeting on 29 September 2014

The County Secretary & Solicitor clarified that in relation Item 6, which related to the Annual Governance Statement 2013/14, he had accepted at the meeting on 29 September 2014 that a sentence in paragraph 3.4 of the Statement was open to different interpretations.

Whilst no amendment was moved at the meeting, and as the Annual Governance Statement had been signed and was made public immediately after the meeting, so that the document could not now be amended retrospectively, the Minutes

should reflect the fact that the Audit and Governance Committee had not received all of the reports that had gone to Cabinet concerning the failure to deliver services to a satisfactory standard and to achieve procurement savings, the only reports to the Audit and Governance Committee in this regard related to information governance issues.

Resolved: That the Minutes of the meeting held on 29 September 2014 be confirmed and signed by the Chair.

4. Accounts of Lancashire County Developments Limited 2013/14

The Chair welcomed Beryl Rhodes, Head of Finance (Commercial and Central) to the meeting, who presented a report which set out the financial statements of Lancashire County Developments Limited (LCDL) for 2013 / 14. LCDL was legally required to have its financial records audited annually and the appointed auditors were Grant Thornton Chartered Accountants.

The Committee noted there was a drop in profit for at the end of the 2014 financial year compared to the last financial year. It was noted that this drop in profit included the residual impact of the fire at St. Mary's Catholic Technology College, Leyland.

It was noted that the public liability claim referred to in the financial statements, the Committee was informed that this had now been settled and the financial statements would be amended accordingly.

Key points in the financial statement for 2013/14 were:

1. The LCDL Group pre-tax profit was £1,065,669 for the period.
2. The major reasons for this profit were a £200k reduction in provisions for investments and a lower than anticipated expenditure on economic development projects. The reduction in investment provision resulted mainly from change in the profile of the investments being made.
3. The company's property portfolio was revalued at 31st March and this gave rise to an increase in value from £25.9m to £31.4 million. This reflected the completion of the new building at Leyland following the fire and a small rise in existing buildings on all sites.
4. The balance sheet net worth of the LCDL Group of companies totalled £39,629,889 as at 31st March 2014.

The Audit Findings Report stated:

1. There were no material findings and no misstatements reported.

2. The Auditors continued to require updates on the Contingent liability position with regard to Public Liability claims following the fire at Leyland.

Resolved: That the 2013/14 Statement of Accounts for Lancashire County Development Ltd, as now presented, be noted.

5. Update on Treasury Management Activity

Mike Jensen, Chief Investment Officer, presented an update report on a review of Treasury Management activities in 2014/15 which presented a very positive picture for Treasury Management. Management activities were regulated by the CIPFA Code of Practice and it was best practice to review treasury management activities on a regular basis.

This review included:

- A review of the economic conditions during 2014/15
- An assessment of the appropriateness of treasury strategy within the current and predicted economic environment.
- Borrowing activity
- Investment activity
- Actual results measured against 2014/15 Prudential indicators and Treasury Management Indicators
- An update on the Council's investment in Landsbanki Is.

The Committee was informed of changes to legislation which brought into law 'bail-in' arrangements.

It was noted that current market conditions continued to enabled the County Council to take advantage of short term market borrowing

Resolved: That the Committee note the review of treasury management activities in 2014/15 for the period 1 September to 30 November 2014.

6. Internal Audit Service Progress Report

Ruth Lowry, Chief Internal Auditor, presented the Internal Audit Progress Report. The report highlighted a number of key areas of work undertaken by the Internal Audit Service during the period to 31 December 2014.

It was noted that the provisional audit plan for the year was considered by the Audit and Governance Committee in June 2014 and the Internal Audit team began that work as the previous year's work was completed. The Committee considered the annual audit report for 2013/14 in September 2014, and the

Management Team was committed to rectify the control weaknesses identified in that report and to ensure that the council's internal controls were adequately designed and operating effectively, and sought the Internal Audit Service's cooperation and support.

Members enquired why the follow-up work had not begun earlier and were informed that this was only possible once management had implemented the controls improvements. An Audit Manager had been specifically seconded out of the team to work more directly with managers to ensure that appropriate control frameworks were implemented. Internal audit work would follow when the work was complete, to consider whether appropriate action had been taken to rectify the control weaknesses identified. Work began in January 2015 to address the corporate information governance arrangements, central procurement, initial assessment for direct payments in ASHW and the case file audit process within CYP.

Resolved: That the Committee note the Internal Audit Service Progress Report for the nine months to 31 December 2014.

7. CIPFA Code of Practice - Managing the Risk of Fraud and Corruption

Ian Rushworth, Audit Manager, presented a report on CIPFA Code of Practice – Managing Risk of Fraud and Corruption.

The County Council had a responsibility to ensure it had effective counter fraud arrangements in place and CIPFA had recently issued a voluntary code of practice entitled 'Managing the Risk of Fraud and Corruption' to support organisations in delivering this.

The code consisted of the following five key principles of counter fraud good practice:

- Acknowledge the responsibility of the governing body for countering fraud and corruption;
- Identify the fraud and corruption risks;
- Develop an appropriate counter fraud and corruption strategy
- Provide resources to implement the strategy; and
- Take action in response to fraud and corruption.

The code built on existing CIPFA guidance, 'Managing the Risk of Fraud', and other counter fraud best practice advice such as the 'Protecting the Public Purse' reports issued by the Audit Commission.

For each of the five principles the new code included details of the specific elements that organisations should have in place. The Council's current arrangements had been assessed against each of these elements. LCC already had adequate and effective counter fraud arrangements in place and as such was compliant with the vast majority of the code. Three areas for recommendation had been identified which could be strengthened by these arrangements:

1. The code recommended that a statement was included in the annual governance report stating that the organisation had adopted a response appropriate to the fraud and corruption risks it faced. LCC's annual governance report for 2013/14 referred to the council's whistleblowing and counter fraud arrangements, however, consideration would be given to expanding this and include a reference to the CIPFA Code of Practice in future annual governance reports.
2. LCC had an anti-fraud policy and strategy which was developed several years ago. Whilst these documents were relevant they needed to be refreshed to reflect current arrangements. These would be reviewed by the end of March 2015.
3. To increase Fraud awareness across the County Council it was proposed that staff in key roles completed a fraud awareness e-Learning course. A course had been developed by the National Fraud Authority and Deloitte and made available free of charge to local authorities. It was intended that this would be rolled out in April 2015 and made mandatory to the following groups of staff.
 - Budget holders;
 - Staff within County Treasurers Directorate; and
 - Staff within procurement, legal services, Your Pensions Service and payroll.

Resolved: The Committee note the report and approve that:

1. A statement is included in the annual governance statement that LCC had adopted a response appropriate to the fraud and corruption risks it faces and a reference is made to the CIPFA Code of Practice;
2. LCC review its anti-fraud policy and strategy by the end of March 2015;
3. LCC staff in key roles complete a fraud awareness e-learning course.

8. External Audit - Lancashire County Council Update Report

Karen Murray, Director for Grant Thornton, presented the External Audit Update Report to the Committee. The report included progress to date with the 2014/15 audit of accounts, Value for Money (VfM) conclusion and other work.

The outcome of External Audit's work would be reported to the Audit and Governance Committee throughout the year. The report also provided additional information on sector developments to the Members of the Audit and Governance Committee as those charged with governance for the County Council.

The Committee was informed that the scope of External Audit's work to inform the 2014/15 VfM conclusion comprised considering the County Council had appropriate arrangements in place for:

- Securing financial resilience; and
- For challenging how it secured economy, efficiency and effectiveness

It was reported that intelligence was being gathered by External Audit at this stage and there were no conclusions yet on VfM.

Resolved: The Audit and Governance Committee note the report.

9. External Audit - Lancashire County Council Annual Audit Letter

Karen Murray, Director for Grant Thornton, presented the report on the External Audit's Annual Audit Letter. The Annual Audit Letter summarised the outcome of External Audit's work in 2013/14. It included the key messages in relation to the financial statements audit and audit opinion, and Value for Money conclusion.

The Annual Audit Letter was intended to communicate key messages to the County Council and external stakeholders, including members of the public. External Audit's annual work programme, which included nationally prescribed and locally determined work, had been undertaken in accordance with the Audit Plan that External Audit issued in June 2014 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing and other guidance issued by the Audit. The Annual Audit Letter had been reported to Cabinet in December 2014.

In relation to VfM the County Council had identified a number of fundamental weaknesses in its arrangements in relation to:

- Two procurement processes;
- The relationship with, and operation of, the County Council's strategic partnership and associated joint venture company; and

- Salary payments made to the then Chief Executive of the County Council's joint venture company.

Members raised questions on these issues and it was noted further comment could not be made at this stage.

Resolved: That the External Auditor's Annual Audit Letter as now presented be noted.

10. Urgent Business

There were no items of urgent business.

11. Date of Next Meeting

Resolved: That the next meeting of the Committee be held on Monday 30th March 2015 at 2:00pm at County Hall, Preston.

I Young
County Secretary and Solicitor

County Hall
Preston

Audit and Governance Committee Meeting to be held on 13 April 2015

Electoral Division affected: All

Internal Audit Service Progress Report (Appendix A refers.)

Contact for further information:
Ruth Lowry, (01772) 534898

Executive Summary

In the context of fulfilling its responsibility to consider periodic reports of internal audit activity and outcomes, the committee is asked to consider the progress report and outcomes of the Internal Audit Service's work for the period to mid-March 2015 (Appendix A).

Recommendation

The Audit and Governance Committee is asked to consider the Internal Audit Service progress report for the period to mid-March 2015.

Background and advice

The committee may be interested to understand the internal audit work performed for the period, and council's senior management's responses to the control issues reported in relation to 2013/14.

Appendix A to this report summarises the findings of the internal audit work completed during the year to date.

Internal audit assurance

Internal audit assurance is stated in the following terms:

Full assurance: there is a sound system of internal control which is designed to meet the service objectives and controls are being consistently applied.

Substantial assurance: there is a generally sound system of internal control, designed to meet the service objectives, and controls are generally being applied consistently. However some weakness in the design and/ or inconsistent application of controls put the achievement of particular objectives at risk.

Limited assurance: weaknesses in the design and/ or inconsistent application of controls put the achievement of the service objectives at risk.

No assurance: weaknesses in control and/ or consistent non-compliance with controls could result/ have resulted in failure to achieve the service objectives.

Consultations

Not applicable.

Implications

Not applicable.

Risk management

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

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact
Not applicable.		

Reason for inclusion in Part II, if appropriate: Not applicable.

Matters arising from internal audit work during the year

1 Introduction

- 1.1 This report highlights key issues that the Audit and Governance Committee should be aware of in fulfilling its role of providing independent oversight of the adequacy of the council's governance, risk management and internal control framework. It sets out the issues arising from the work undertaken during the period to mid-March 2015 by the Internal Audit Service under the amended internal audit plan for 2014/15. Work on a small number of areas is still continuing but is nearing completion.
- 1.2 A provisional audit plan for the year was considered by the Audit and Governance Committee in June 2014 but was altered as reported to the committee in January 2015. Since September 2014 internal audit work has been strongly focussed on following up agreed remedial actions and on re-auditing areas with known control weaknesses as these are addressed by the council's senior management teams. The Management Team is keen to rectify the control weaknesses reported in 2013/14 and to ensure that controls over areas of high and moderate risk are adequately designed and effective in operation.
- 1.3 A full table of all the audit work currently planned, progressing and completed for 2014/15 is included at section 2, and section 3 sets out brief notes of the outcomes where reviews have been completed.

2 Summary of progress against the revised audit plan

- 2.1 The work planned for 2014/15 as at January 2015 is set out in the table below, with an indication of whether it is complete and what assurance we have given. The areas presenting high or moderate risk, over which we previously provided only limited or no assurance, have been marked as 'key' and a subjective assessment has been made of the risk associated with each area.
- 2.2 Progress has been made by management teams across the council in addressing the matters raised by internal audit work during 2013/14 and earlier, and in implementing the control improvements required. The opinions marked with an asterisk (*) below are given on the basis that our testing has confirmed that action has been taken to address the issues identified as a result of previous internal audit work, although our testing has necessarily been restricted by the short periods during which the amended controls have been in operation.
- 2.3 If the control systems continue in all other respects to operate as they did at the time of our original work, then we would now be able to provide substantial assurance over the adequacy and effectiveness of their controls. However our work has been restricted to testing only management's actions to rectify those control issues we originally reported. With the exception of the council's key financial systems, we have not re-tested controls which were previously found to be adequately designed and operating effectively.

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- 2.4 A number of pieces of work have been completed but our draft reports have not yet been confirmed as final with the relevant management teams; these are nonetheless reported below.

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Control areas and audit reviews	Audit nature and scope	Risk weighting	Key area	Work complete	Assurance
Corporate controls					
Working in strategic partnership					
Funds flow between LCC and BTLS	Review of remedial action	High	✓	✓	Substantial *
Performance data quality and monitoring BTLS by LCC	Review of remedial action	High	✓	✓	Substantial *
Corporate governance					
Declarations of officers' interests, gifts and hospitality	Re-review of earlier work	Low (but with potential reputational risk)		✓	Substantial
Members' expenses and allowances	Re-review of earlier work	Low (but with potential reputational risk)		✓	Substantial
Responses to complaints	RACE-based review			✓	Substantial (draft)
Information governance					
Overall corporate arrangements and action	Review of remedial action	High	✓	✓	Substantial *
Common controls					
Financial controls					
Accounts payable (excluding social care payments)	Compliance testing	Moderate		On-going	
Accounts receivable and debt recovery	Review of remedial action	Moderate	✓	x	x
Budget monitoring and control	RACE-based review	Moderate		✓	Substantial
Capital accounting	RACE-based review			✓	Substantial
Cash and banking (centrally, and individual establishments)	Compliance testing	Moderate		✓	Substantial
Expenses and allowances	Compliance testing	Low (but with potential financial risk)		✓	Limited (draft)
General ledger	Compliance testing	High		✓	Substantial
Grant award and monitoring	RACE-based review	Low (but with potential financial risk)		On-going	

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Control areas and audit reviews	Audit nature and scope	Risk weighting	Key area	Work complete	Assurance
Payroll	Compliance testing	High		✓	Substantial
Payroll additional payments	Compliance testing of specific services	Low (but with potential financial risk)		✓	Substantial
Treasury management	Compliance testing	High		✓	Substantial
VAT	Compliance testing	Low		✓	Substantial
Human Resources controls					
Hierarchies in Oracle HR/ payroll system	Review of remedial action	Moderate	✓	On-going	
ICT controls					
Network management and security	Compliance testing of network user access	High	✓	On-going	
Procurement controls					
Central procurement	RACE-based review	High	✓		Substantial *
Service specific controls					
ASHW					
Initial assessment for direct payments	Review of remedial action	High	✓	✓	Substantial *
Reablement	RACE-based review	Moderate		✓	Substantial
Social care supervision	Review of remedial action	Moderate	✓	On-going	
Support planning	RACE-based review	Moderate		✓	Substantial
Public Health					
Scheme of delegation	RACE-based review	Moderate		✓	Substantial
CYP					
Case file audit process	Review of remedial action	Moderate	✓	✓	Substantial *
Direct payments to children with disabilities	Review of remedial action	High	✓	x	Not applicable
Emergency payments to families	Review of remedial action	Low	✓	x	Not applicable
Independent Reviewing Officers	Review of remedial action	Moderate	✓	✓	Substantial * (draft)

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Control areas and audit reviews	Audit nature and scope	Risk weighting	Key area	Work complete	Assurance
Due diligence over the transfer of children's centres from the NHS	Work at the request of management	Low		✓	Substantial
Residential homes	Follow-up of agreed action	Low		✓	Substantial *
Partnership working with the NHS to support children with mental health needs	Review of remedial action	Moderate	✓	On-going	
Working Together with Troubled Families	Follow-up of agreed action	Moderate	✓	✓	Limited * This area is to be re-assessed in April 2015
Working Together with Troubled Families	Grant certification	Not applicable		✓	Not applicable
Schools and sixth forms					
School reviews	Reviews of financial controls in schools	Moderate		✓	See table below for individual schools' assurances
Follow-up of school reviews	Follow-up of agreed action	Low		✓	
Schools with new bank accounts	RACE-based review	Low		✓	Limited
Environment					
Capital programme management	Review of remedial action	Moderate	✓	On-going	
Capital programme management	Compliance testing of capital cost codes	Low		On-going	
Highways and property asset management project	Support to the project	Not applicable		On-going	Not applicable
Procurement of Highways contractors	Re-review	Moderate (with potential reputational and financial risks)		✓	Limited
Grant audit: Citizens Rail	Grant certification	Not applicable		✓	Not applicable
Grant audit: CIVINET	Grant certification	Not applicable		✓	Not applicable
Grant audit: Interreg IVB SusStations	Grant certification	Not applicable		✓	Not applicable
Grant audit: Local Sustainable Transport	Grant certification	Not applicable		✓	Not applicable

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Control areas and audit reviews	Audit nature and scope	Risk weighting	Key area	Work complete	Assurance
Grant audit: Local Transport Capital	Grant certification	Not applicable		✓	Not applicable
Lancashire County Commercial Group					
Fleet services	RACE-based review	Low		✓	Substantial
Counter fraud work					
Counter fraud actions	Support to management	Not applicable		On-going	Not applicable
National Fraud Initiative	Data matching and follow-up	Not applicable		On-going	Not applicable
Responsive work to support management	Individual investigations	Not applicable		On-going	Not applicable

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3 Audit outcomes

- 3.1 Brief information is provided below about the progress and outcomes on each piece of work noted above. Where services have been re-assessed the audit opinion is on the basis that the process continues in all other respects as it did when first assessed.

Corporate controls

Performance data quality and monitoring of BTLS by LCC: substantial assurance

- 3.2 There are new governance arrangements in place between LCC and BTLS. A client manager has been appointed and regular monthly and quarterly review meetings have been convened, attended by appropriate representatives of both LCC and BTLS, to facilitate performance monitoring. The Cabinet Committee for Performance Improvement (CCPI) meets on a regular basis and will be provided with a six-monthly report on BTLS performance.
- 3.3 A new key performance indicator (KPI) definition has been proposed for processing payroll changes which needs to be ratified. Work is also on-going to further develop KPIs covering the payroll function.
- 3.4 The ICT KPIs require to be revisited and revised. At present, they cover only one aspect of the ICT service provided. An additional non-contracted ICT KPI has therefore been set, initially as a monitoring exercise. We understand that a special review of all targets is to be arranged for May 2015.
- 3.5 It is also intended that limited data access will be given to LCC's client manager to validate BTLS's performance, however this is still under negotiation.

Funds flow between LCC and BTLS: substantial assurance

- 3.6 The monthly payroll report is used to identify the appropriate charges to BTLS and, in future, it will also be reviewed to identify significant changes from month to month so that payments of arrears, pay awards or bonuses can be identified and validated.
- 3.7 Evidence is available of challenges being made by the LCC Client Manager in respect of BTLS charges raised for goods and services. New governance arrangements between the two organisations exist, with monthly and quarterly review meetings being used to take this issue forward.
- 3.8 Charging guidance is also to be made available on the intranet for LCC requisitioners, including the need/ requirement for staff to contact the LCC Client Manager if in doubt on any ICT procurement issue.

Corporate governance

Declarations of officers' interests, gifts and hospitality: substantial assurance

- 3.9 This work was reported to the committee in January 2015 and, as noted then, the council's governance would be improved by the requirements that certain officers (for example those in posts responsible for procurement) state positively either that they have no personal interests, or else declare them.

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Members' expenses and allowances: substantial assurance

- 3.10 This work was reported to the committee in January 2015. Random sampling of members' claims will now be introduced from 1 April 2015.

Responses to complaints: substantial assurance

- 3.11 A new Customer Feedback System was implemented 1 October 2014, which is used by the ASHW and CYP directorates for complaint handling. It is envisaged that the system will also be used for corporate complaints in the future. From April 2015, management of all complaints will come under one team which will therefore facilitate a single management overview. A strategic overview of social care complaints is already provided through appropriate scrutiny committees, and of corporate complaints through the Cabinet Committee for Performance Improvement.

Information governance

Overall corporate arrangements and action against plans set out in the Information Governance Framework: substantial assurance

- 3.12 Our opinion is based on an evaluation of the controls introduced since that time, and not on any compliance testing. We note that staff have been appointed to key information governance roles; a series of governance groups are in place; a comprehensive information governance framework has been developed, including detailed guidance, policies and procedures; a training programme developed; responsibility for ensuring compliance with information governance standards vested with Heads of Service, who have been designated as Information Asset Owners; and, a range of spot checks programmed by the Head of Information Governance, to ascertain the extent to which the new controls have been implemented.

Financial controls

Accounts payable – central system

- 3.13 Transactional testing work on the last quarter of the year, and on certain centralised accounts payable functions, will take place during March and April 2015. Work covering the first three quarters of 2014/15, covering transactional controls over the requisitioning, goods received and payments processes, indicates that controls are adequate and effective and we expect to be able to provide substantial assurance over the system, for the year as a whole.

Accounts payable – feeder systems (excluding social care payments)

- 3.14 Audit work on the feeder systems to the central accounts payable system that address ordering and requisitioning in operational services is on-going. The services covered include TravelCare, Highways, bus operators, capital projects and property maintenance.

Accounts receivable and debt recovery

- 3.15 Remedial action will not be complete before the year end and no further audit work will be undertaken in relation to 2014/15.

Budget monitoring and control: substantial assurance

- 3.16 The data recorded in the Oracle Financials system is accurate although the system's reporting function makes examination of details difficult for budget holders. Forecasting is thorough and effective, and is subject to a number of

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reviews. However it is clear that finance staff still play a very significant role in the forecasting process and whilst this is appropriate for high risk budgets, it runs counter to the current strategy of placing strong reliance on budget holders. Going forward it is intended that the number of budget holders will be significantly reduced, focussing primarily in high risk budgets and Finance will work closely with budget holders to build understanding and resilience.

Capital accounting: *substantial assurance*

- 3.17 Overall we can provide substantial assurance. Some minor actions have been agreed to improve the control environment.

Cash and banking: *substantial assurance*

- 3.18 The income identification and allocation process is effective and has improved significantly after a number of performance and process improvements over the last year. Efficiencies have been made by automating manual processes, introducing new ways of working and making better use of the technology available.

- 3.19 Our testing of controls over cash income handling, income upload and banking processes at a sample of remote establishments is also complete and has raised no significant issues. However it would be helpful to establishments if written procedure notes could be provided. We also note that ideal segregation of duties is always difficult to achieve where there are few staff resources in place.

Expenses and allowances: *limited assurance*

- 3.20 This area of work was reported to the committee in January. A draft policy for the recovery of overpayments to employees relating to salary, allowances, overtime and expense claims is to be considered by Management Team and the trades unions through the Joint Negotiating and Consultative Forum process with a view to a policy being agreed by Employment Committee. Although all employment contracts state that the council is able to recoup overpayments, the method, timing, circumstances and obligations of the employee have not yet been fully defined.

General ledger: *substantial assurance*

- 3.21 Overall, there are effective and comprehensive controls in place over the operation of the general ledger. We identified few reportable issues, but note the need to revoke a limited number of inappropriate system user access rights, to adhere to the journal naming convention, and to improve the format and frequency of some control account reconciliations.

Payroll: *substantial assurance*

- 3.22 The LCC payroll processes approximately 42,000 individual BACS payments to employees of the county council and the county's schools each month, amounting to approximately £44 million.
- 3.23 We can provide substantial assurance over the processes controlling these payments. This includes payments to starters and leavers and statutory and voluntary deductions made.
- 3.24 Given the scale of the payments processed, it is to be expected that minor errors will arise due to human error by both managers and the payroll processing team. The errors we found as a result of testing, relating to

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honoraria payments, were trifling in both number and value. Overpayments have been referred to payroll for recovery. We understand that the entire honorarium process is to be reviewed during 2015/16 to improve efficiencies and help ensure that over or under payments are eliminated in future.

- 3.25 As with other elements of the Oracle system, there are issues with regard to access rights to the Oracle HR/ Payroll system. We found that 29 individuals had inappropriate access rights to the system, and 30 others had access to data that should no longer be held relating to employees of an external organisation. Following the audit, access to the accounts of these users has been revoked or disabled as appropriate.

Payroll additional payments: substantial assurance

- 3.26 As the committee noted in January, we have provided substantial assurance that additional payments to staff through the payroll but beyond their normal salary payments are effectively controlled. However it is not clear that the risk that staff work excessive hours is adequately managed, or that reimbursement is properly achieved from the NHS where appropriate.

Treasury management: substantial assurance

- 3.27 We have provided substantial assurance over the council's treasury management function. We found no issues to report in terms of reported treasury management activity, cash flow forecasting, approval of treasury management transactions (other than a limited number of minor sign-off issues), or segregation of duties over key investment transactional controls.

VAT: substantial assurance

- 3.28 We have provided substantial assurance over this area with no significant issues emerging, although there are a number of coding errors each month, anomalies in the system that need to be resolved, and a need to ensure that self-billing arrangements are compliant with HMRC's record-keeping requirements.

Human resources controls

Hierarchies in the Oracle HR/ Payroll system

- 3.29 A project team is working to ensure that the establishment hierarchies for the year 2015/16 are correct in the Oracle HR/ Payroll system. This work is taking place alongside additional projects to ensure that the council transitions from its old management structure to its new structure, and the Internal Audit Service has been represented at recent project meetings. The team involved is clearly committed to ensuring that the council is ready to operate its new structure from 1 April 2015 but no further detailed internal audit assessment will be made before the year end.

Procurement controls

Central Procurement: substantial assurance

- 3.30 A procurement board has been established, a procurement strategy has been approved by Cabinet, and a contracts register has been set up. Further, guidance is now available to staff on the Procurement intranet, which covers the relevant council and EU rules. We identified some minor non-compliance issues which have been reported to management.

Internal Audit Service progress report 2014/15

Audit and Governance Committee meeting 13 April 2015

Service specific controls: Adult Services, Health and Wellbeing Directorate (ASHW)

Initial assessments for direct payments: substantial assurance

- 3.31 Good progress has been made in ensuring that, when direct payment cases are reviewed, due consideration is being given to the capacity of the service users, and mental capacity assessments are being performed as appropriate. In the majority of cases, direct payments are not being made directly to service users who lack the appropriate capacity to take on the employer responsibilities attached to them. However the controls in place to ensure that an appropriate direct payment agreement document is signed and retained, following completion of a mental capacity assessment, are not yet fully effective.

Reablement: substantial assurance

- 3.32 As reported in January, the involvement of service users in their own service plans is key. We found that this is achieved and service users' needs are appropriately captured and addressed

Support planning: substantial assurance

- 3.33 As was also reported in January, service users are involved in support planning and clear, robust, person-centred plans document the assistance required by them, their support preferences, and their individual capabilities.

Service specific controls: Public Health

Scheme of delegation: substantial assurance

- 3.34 As reported in January 2015, we have provided substantial assurance overall on this area. However we found a lack of clarity regarding the implementation of the council's procurement rules, including the procedures to be followed where a variation to an existing contract is required, or where contracts may be awarded to a single source supplier without seeking competitive tenders.

Service specific controls: Directorate for Children and Young People (CYP)

Case file audit process: substantial assurance

- 3.35 The Victoria Climbié Inquiry Report recommended that directors of social services ensure that senior managers inspect, at least once every three months, a random selection of case files and supervision notes. The county council has established a case file audit framework to fulfil this requirement and ensure that positive outcomes for vulnerable children and young people in Lancashire are achieved through high quality social care practice and compliance with procedures. The framework was revised in July 2014 and sets out the number of case file audits that managers and the CYP Audit Team are expected to complete each month and, to support the process, details of completed file audits are reported to the Directorate Leadership Team quarterly.
- 3.36 Each of the agreed actions has now been addressed. It was intended that the requirement for case file audits would be designed into the new Lancashire Care System (LCS) provided by Liquidlogic, but discussions are still ongoing with the developers because LCS does not currently meet this requirement. However, a robust interim system and a toolkit have been introduced which could be built into LCS in the future.

Internal Audit Service progress report 2014/15

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Direct payments and emergency payments to families

- 3.37 It has become clear that the processes and controls in these two areas have altered so significantly since we undertook our original audit that the actions raised are no longer relevant. The audit of emergency payments to families was reported in November 2011 and on direct payments for children with disabilities in December 2012.

Independent Reviewing Officers: substantial assurance

- 3.38 The role of the independent reviewing officer (IRO) involves chairing a child looked after's review, monitoring a child's case on an ongoing basis to identify any areas of poor practice, and raising any concerns around service delivery generally, not just in relation to individual children. The Government has established statutory guidance regarding IROs' caseloads and the frequency of contact with children looked after, and also gives the IRO the authority to convene a review whenever they deem one necessary.
- 3.39 The Service agreed to implement two high priority actions in this area. The first was that the 'starred recommendations' log would be continuously updated to ensure that all actions are easily identifiable, implemented in a timely manner and are reported to senior management as part of a quarterly quality assurance report. The second was that the caseloads of any IROs who leave or who are absent on long-term sickness would be reallocated with immediate effect by the Quality and Review Managers, and that this would be checked by producing and reviewing regular caseload reports. The testing we have undertaken confirms that both sets of actions have been addressed.
- 3.40 Most of the other actions have also been addressed, although the Service still struggles to meet the timescales in statutory guidance for reviews of children looked after and child protection cases and the reporting required to support these, as well as timely reporting to the families involved in child protection conferences.

Working Together With Troubled Families Programme: limited assurance

- 3.41 We have followed up the action taken to rectify controls that were previously not operating effectively. Although significant steps have been taken to implement the majority of the agreed actions, our high priority recommendation regarding obtaining consent from families remains outstanding. The Information Governance team has confirmed that consent is required.
- 3.42 Management have confirmed that families are now only discussed where they have explicit consent to do so. We will schedule some further follow-up work for April 2015 and will incorporate the results into our annual report.

Due diligence over the transfer of children's centres from the NHS: substantial assurance

- 3.43 As reported in January, we carried out work over the use of funding prior to the transfer in October 2014 of management responsibility for the centres from Lancashire Care NHS Foundation Trust to the council's Quality and Continuous Improvement Service. Our testing confirmed that the funding has been spent to support valid, eligible activities that meet the core offer of children's centre services, and that it did not appear that there were any accrued surplus funds or that funding had been used to support non-core activities.

Internal Audit Service progress report 2014/15

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Residential homes: substantial assurance

3.44 We reported in January that we had followed up the actions agreed in January 2013. Some actions have been taken as intended whilst others are reliant on wider control improvements, in particular revised social care supervision arrangements, and the development of revised financial procedures for these establishments.

Service specific controls: schools

School audit visits

3.45 We have completed audits of the county's schools with assurance results as follows:

School type	Number of audits	Level of assurance			
		Full	Substantial	Limited	None
High school	8	-	6	2	-
Primary school	14	-	12	-	2
Nursery/ special school	3	-	-	-	3
Total	25	-	18	2	5

3.46 We have followed up the actions agreed during 2012/13 with each of the schools where we have provided only limited or no assurance to assess whether improvement is being made to the controls over their finances. We will follow up the actions agreed in 2013/14 and the current year during the summer term to July 2015. Each of the schools whose actions we have followed up has implemented appropriately improved controls.

3.47 We have issued five school audit reports with no assurance during the year. In four of these cases these were initiated because we have also conducted a disciplinary investigation at the school. All schools that receive no assurance are reported to the council's School Improvement Challenge Board (SICB) so that appropriate support is provided by the council to these schools.

Schools with new bank accounts: limited assurance

3.48 We have reviewed the adequacy and effectiveness of the council's controls over schools which have recently chosen to have their own bank accounts. There are a number of weaknesses in these controls and the Head of Finance (Capital and Schools) intends to facilitate a review of the council's overall financial control framework over schools.

3.49 In particular, training is available from the Westfield Centre for officers involved in administering school bank accounts, but this is not mandatory and is not always accessed. Training has previously been provided by the Schools Finance team, but this has not been available recently. The school's bank account mandate ought to make reference to the fact the Lancashire County Council is the ultimate owner of the funds, but the Accounting and Budgeting team does not check that this is the case prior to approving any bank account: none of the mandates at the four schools we examined incorporated this reference. Schools are required to undertake bank reconciliations on a monthly basis and submit them to the Accounting and Budgeting team. However these

Internal Audit Service progress report 2014/15

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reconciliations are not verified against actual bank statements until the end of the year and any errors cannot be promptly identified.

- 3.50 At all four schools that we visited there was inadequate segregation of duties. Whilst it is acknowledged that in certain schools there are too few staff to separate their duties adequately, this should be identified as part of the application process, thereby allowing other appropriate arrangements to be made.

Service specific controls: Environment Directorate

Highways and property asset management project

- 3.51 The Internal Audit Service has been represented on the project board. Whilst there has been some delays with the supplier agreement process, management expect the project to be completed on time and this will be closely monitored throughout the course of the project.

Use of highways contractors: limited assurance

- 3.52 As already reported in January, there are weaknesses in controls over the council's use of contractors by its Lancashire Highways Service. There is a lack of corporate contracts where these would be appropriate, and a general lack of evidence that procurement exercises have taken place as required where corporate contracts are not already in place. Where corporate contracts are in place the first preferred supplier is frequently not used and, where corporate contracts require mini tenders to be undertaken with selected suppliers, this does not always happen.
- 3.53 Actions have been agreed to address the issues – for example training for staff in the highways depots, and more effective oversight by managers – and, if these are implemented, controls in this area will be audited again in May.

Service specific controls: Lancashire County Commercial Group

Fleet Services: substantial assurance

- 3.54 As reported in January, Fleet Services have established good practices, especially for servicing fleet vehicles and in relation to the accuracy of vehicle and plant item details entered in to RAMP (Repair And Maintenance Programme). However there are some areas where controls should be improved, in particular around the use of the RAMP system to process payments.

4 Counter fraud and investigations

- 4.1 The Internal Audit Service provides a counter fraud and investigatory service to management, which is distinct from internal audit but is related in considering the council's controls and in the skill sets required.

Responsive work to support management: special investigations

- 4.2 The Internal Audit Service has continued to spend a considerable amount of time on a number of special investigations, arising from whistle-blowing and similar calls, and from requests for support from the county's schools. We have worked with the police as well as service teams and the Human Resources team on a number of financial investigations and related disciplinary procedures.
- 4.3 During the year to date, including cases that were on-going at the start of the year, the Service has worked on 32 cases in total, 13 of which are still on-going. The largest single source of investigations is the county's schools, which account for eight cases.

Counter fraud activity

- 4.4 During April 2015 e-learning will be provided for targeted staff working in finance, procurement and contract management posts to raise awareness of areas susceptible to fraud, as well as the whistle-blowing lines (relating to both finance and human resources issues) available to them.
- 4.5 The Service is also supporting management to implement a pensions forfeiture scheme where individuals are found guilty of fraud or other offences.

National Fraud Initiative

- 4.6 As part of the county council's duty to protect public funds, the Audit Commission requires all local authorities to participate in the National Fraud Initiative. This is a two-yearly exercise that matches electronic data sets held by public sector organisations to highlight potentially fraudulent activity. The data for the current initiative was submitted last year and has resulted in 7,800 matches which are currently being investigated by services around the council.
- 4.7 The Audit Commission and, from 1 April 2015, the Home Office, expect that priority matches will be investigated, ideally before the end of the calendar year.

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Category of match	Total matches	Priority matches
Relating to deceased persons		
Blue badges held by deceased persons	3,950	3,454
Bus passes held by deceased persons	2,257	2,139
Pensions being paid to deceased persons	497	226
Private residential care home places registered to deceased persons	309	61
Resident parking permits held by deceased persons	1	1
Other matches		
Creditors	17,017	949
Payroll	1,803	654
Pensioners also on the payroll	954	243
Blue Badges – general	73	18
Insurance claimants	176	33
Personal budgets	713	33
Individuals who appear on more than one report	871	0
	28,621	7,811

Audit and Governance Committee Meeting to be held on 13th April 2015

Electoral Division affected: None

Information Governance Arrangements - Update

Contact for further information:

Debbie Bonser, Office of the Chief Executive, debbie.bonser@lancashire.gov.uk

Executive Summary

A progress report on Information Governance arrangements within the County Council.

Recommendation

The Committee are asked to note the report.

Background

The Committee have previously requested regular updates on progress in developing robust arrangements to manage the County Council's responsibilities to properly maintain the confidentiality and security of information.

Since the last report in March 2014, significant progress has been made to create a robust information governance function within the Council.

Information Governance Team

A fully resourced information governance team now resides on the 2nd Floor of the CCP building in County Hall and consists of ten members of staff all dedicated to:

- Protecting the confidentiality and security of the Council's information
- Giving public access to official information via Freedom of Information requests and access to ones own personal information via Data Protection Subject Access requests.

Actions Completed

Since the creation of the Information Governance Team in September 2014 the following actions have been completed:

- A dedicated intranet site has been created containing help, advice, policies and procedures for information governance. The site can be found here: <http://lccintranet2/corporate/web/?siteid=4305&pageid=18915&e=e>

- An Information Governance Framework and Annual Improvement Plan complete with performance indicators has set out the Council's plan for information governance.
- A set of renewed information governance policies have been created and these will be updated annually.
- A new security breach procedure and lessons learnt log has been created to ensure that any breaches that occur are fully investigated and lessons are learned.
- A suite of training resources including the mandatory information governance e-learning course and 29 specialised bite-sized training courses have been created. The mandatory training course has been completed by over 13,000 officers. All Heads of Service are being trained in relation to information governance.
- Information Sharing templates and advice for all services sharing information with partners and third party data sharing agreement templates for all services sharing information with suppliers processing data on our behalf, are being used and collected by the team.
- A newly created privacy-by-design advice service has been created, where the Information Governance team sit on all information related projects and offer information governance advice to protect the Councils information right at the very start of projects. The team also carry out investigations into systems or processes when risks are highlighted.
- A new risk assessment process has been devised, where drop-in sessions are offered to every Head of Service explaining their responsibilities in terms of information governance and help is given with risk assessments against any personal, sensitive, confidential, commercially sensitive or business critical information assets used within their service.
- New procedures for Freedom of Information requests and data protection subject access requests have been created to cope with increased demand and a changing workforce.
- Guidance on the best use of information is given, including records management, data quality and file and folder management in particular throughout the transformation process so that staff will be able to access the correct information within their new service areas.
- A set of Governance Groups have been set up to maintain control over information governance and highlight any risks to the Senior Information Risk Owner (SIRO – Ian Young). Information security officers from BTLS sit on these groups and offer assurance for the technical security aspects of the IT service.
- An NHS Toolkit attainment level of 90% has been reached. The NHS IG Toolkit is an online system which allows NHS organisations and partners to

assess themselves against Department of Health Information Governance policies and standards.

- A new N3 information governance statement of compliance has been approved. N3 is the name for the National Network, which provides fast, broadband networking services to the NHS and processes NHS data.
- PSN compliance has been awarded meaning the Council can connect to the Government's public service network which offers secure access to Government information.

Information Commissioners Office (ICO) Audit.

At the beginning of March 2015 four ICO auditors visited the Council to audit the new information governance arrangements in place. Over 200 documents were supplied to the auditors and over 50 interviews with specialist and random staff members were carried out. As a result of the audit, the ICO will not be taking any further action on the information security breaches previously suffered within the Council. The auditors gave verbal feedback after the audit and complimented the new controls in place. The final report is due in the next month or two.

Internal Audit

During December 2014 and March 2015, the Council's Internal Audit service carried out an audit into the new information governance arrangements in place at the Council. They looked at a number of controls relating to resources, breaches, roles and responsibilities, access controls, training, information sharing, records management, policies and an overarching framework.

Internal Audit complimented the new information governance arrangements in place at the Council and concluded that the Council's information governance arrangements now offered **Substantial Assurance**.

They reported that:

Significant progress had been made by the Council since responsibility for Information Governance returned from One Connect Limited, on 1 April 2014, including:

- Staff have been appointed to key Information Governance roles, including the Senior Risk Information Owner, the Caldicott Guardian, and the Head of Information Governance. The latter is also supported by a team of individual subject specialists;
- A comprehensive Information Governance framework has been developed, which is accessible, and includes a breadth of policies and procedures, including appropriate links to Records Management and Access to Information policies;
- A series of governance groups are in place to ensure that matters of significance are escalated to the relevant decision-making group for discussion and resolution;

- Action has been taken to ensure that all Council staff are made aware of their individual roles and responsibilities for Information Governance, via the refresh of the mandatory training programme and the development of additional, focused, "bite-sized" training modules;
- The Information Governance intranet pages hold further information, advice and guidance material, as well as a means of publicising key developments, pitfalls to avoid and the actions to take if a data security breach has occurred;
- Going forward, much of the responsibility for ensuring compliance with Information Governance standards will rest with Heads of Service, who have been designated as Information Asset Owners. A series of training sessions will be held early in the new financial year (2015-16) to talk Heads of Service through their responsibilities. In addition a handbook has been developed to, in particular, support them in developing and maintaining their individual Information Asset Registers; and,
- It has been recognised that whilst good progress has been made to date, there is still much to do to ensure that Information Governance is fully embedded across the council. Key developments are monitored via an Annual Improvement Plan. The Head of Information Governance has also established a range of spot checks to ascertain the success of the actions being undertaken, which will continue to be developed and refined during 2015-16.

Security breaches

No information security breaches have been reported to the ICO since the last report to this committee in March 2014. The ICO have audited the new security breach arrangements and are pleased with the procedure.

Consultations

N/A

Implications:

N/A:

Risk management

Information Governance is a growing area of work. The Government are placing more emphasis on Councils to protect the information they use everyday. Penalties for information security breaches can reach £500,000 per breach. The ICO have issued fines of over £2 million pounds to date and even heavier fines are being proposed in the new EU General Data Protection Regulations.

Alongside this, requests for access to public information (Freedom of Information requests) and requests for access to personal data (Data Protection Subject Access requests) continue to rise.

The necessity to change the culture of the Council to one where every officer and every Member respects the information they use every day remains paramount.

The robust arrangements detailed in this report will help the Council to change the culture, manage information risk and avoid significant financial and reputational damage.

Financial implications

N/A

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

Paper	Date	Contact/Directorate/Tel
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Nil

Agenda Item 8

Audit & Governance Committee

Meeting to be held on 13 April 2015

Electoral Division affected: All

External Audit

Lancashire County Council

Audit Plan

(Appendix 'A' refers)

Contact for further information:

Karen Murray, 0161 234 6364, Director, Grant Thornton

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Executive Summary

The Audit Plan sets out the nature and scope of work that the Authority's external auditor will carry out to discharge its statutory responsibilities, compliant with the Audit Commission Act 1998 (the Act) and the Code of Audit Practice for Local Government.

This audit plan is specific to the financial year 2014/15 and sets out in broad terms the programme of work required to:

- give a financial opinion on whether the financial statements:
- give a true and fair view of the financial position of the County Council as at 31 March 2015 and of its expenditure and income for the year then ended;
- has been prepared in accordance with proper accounting practice.
- give a Value for Money conclusion.

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

Recommendation

The Committee is asked to note the External Audit plan for the audit of the County Council for 2014/15.

Background and Advice

Karen Murray, Engagement Lead, will attend the meeting to present the report and answer any questions.

Consultations

The plan has been agreed with the Council's management.

Implications

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Directorate/Tel
N/A		

The Audit Plan for Lancashire County Council

Year ended 31 March 2015

March 2015

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

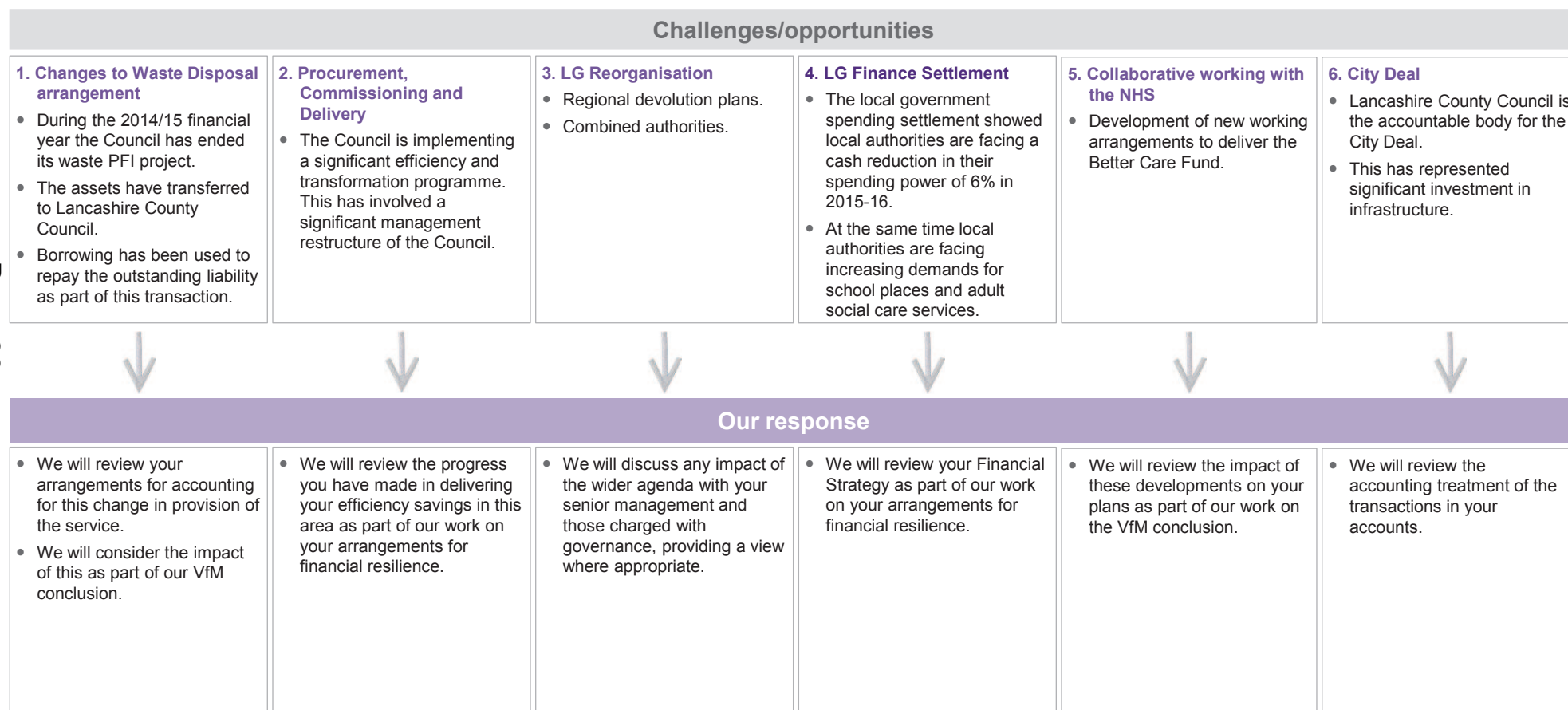
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1. Understanding your business
2. Developments relevant to your business and the audit
3. Our audit approach
4. Significant risks identified
5. Other risks identified
6. Value for Money
7. Results of interim work
8. Key dates
9. Fees and independence
10. Communication of audit matters with those charged with governance

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.



Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

Developments and other requirements

<p>1. Financial reporting</p> <ul style="list-style-type: none"> • Changes to the CIPFA Code of Practice • Changes to the recognition of school land and buildings on local authority balance sheets • Adoption of new group accounting standards (IFRS 10,11 and 12) 	<p>2. Legislation</p> <ul style="list-style-type: none"> • Local Government Finance settlement 	<p>3. Corporate governance</p> <ul style="list-style-type: none"> • Annual Governance Statement (AGS) • Explanatory foreword 	<p>4. Better Care Fund</p> <ul style="list-style-type: none"> • Better Care Fund (BCF) plans and the associated pooled budgets will be operational from 1 April 2015 	<p>5. Financial Pressures</p> <ul style="list-style-type: none"> • Managing service provision with less resource • Progress against savings plans 	<p>6. Other requirements</p> <ul style="list-style-type: none"> • The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion • The Council completes a Local Transport Plan grant claim which requires audit certification
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Our response

<p>We will ensure:</p> <ul style="list-style-type: none"> • the Council complies with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing; • schools are accounted for correctly and in line with the latest guidance; and • the group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly 	<ul style="list-style-type: none"> • We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate 	<p>We will:</p> <ul style="list-style-type: none"> • review the arrangements and evidence the Council has in place to support the production of the AGS; and • review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge 	<ul style="list-style-type: none"> • We will confirm that disclosures relating to the BCF are correctly disclosed in the accounts. 	<p>We will:</p> <ul style="list-style-type: none"> • review the Council's performance against the 2014/15 budget, including consideration of performance against the savings plans; and • undertake a review of Financial Resilience as part of our VfM conclusion 	<p>We will:</p> <ul style="list-style-type: none"> • carry out work on the WGA pack in accordance with requirements • certify your Local Transport Plan claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd. This company will take over the Audit Commission's responsibilities for grant certification from 1 April 2015.
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Our audit approach

Global audit technology

Ensures compliance with International Standards on Auditing (ISAs)

* Understanding the environment and the entity

Inherent risks

* Understanding the business

Significant risks

* Understanding management's focus

Other risks

* Evaluating the year's results

Material balances

Develop audit plan to obtain reasonable assurance that the Financial Statements as a whole are free from material misstatement and prepared in all material^a respects with the CIPFA Code of Practice framework using our global methodology and audit software

Devise audit strategy (planned control reliance?)

Yes

- Test controls
- Substantive analytical review
- Tests of detail

No

- Test of detail
- Substantive analytical review

Extract your data

IDEA

Report output to teams

Analyse data using relevant parameters

General audit procedures

Financial statements

Conclude and report

Note:

a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Creates and tailors audit programs

Stores audit evidence

Documents processes and controls

Voyager



Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to 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 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 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 because of the nature of the income received by the Council. A significant amount of the revenue received is related to central government grants, Council Tax precepts and business rates. The nature of this income means that it is less open to being recognised incorrectly.
Management over-ride of controls	Under ISA 240 there is a presumption that the risk of management over-ride of controls is present in all entities.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Testing of journal entries <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Further testing of journal entries • Review of unusual significant transactions

Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p>Work completed to date:</p> <ul style="list-style-type: none"> Documentation and assessment of the design effectiveness and implementation of internal controls <p>Further work planned:</p> <ul style="list-style-type: none"> Review of reconciliation of accounts payable system control accounts Search for unrecorded liabilities by comparing cash payments to suppliers in 2015/16 to supplier creditor balances as at 31 March 2015
Employee remuneration	Employee remuneration understated	<p>Work completed to date:</p> <ul style="list-style-type: none"> Documentation and assessment of the design effectiveness and implementation of internal controls, including those operated by BT Lancashire Services Limited <p>Further work planned:</p> <ul style="list-style-type: none"> Review of reconciliation of payroll costs to the general ledger Completion of trend analysis to assess whether employee remuneration is in line with expectations
Accounting for local authority maintained schools	Property Plant and Equipment misstated	<p>Work completed to date:</p> <ul style="list-style-type: none"> Discussions with Finance staff to confirm compliance with the new accounting requirements included in the 2014/15 CIPFA Code of Practice following the adoption of the new International Financial Reporting Standards on group accounting <p>Further work planned:</p> <ul style="list-style-type: none"> Review of accounting estimates, judgements and decisions made by management

Other risks identified

Other risks	Description	Audit Approach
Waste PFI	During the 2014/15 financial year the Council has ended its waste PFI project by purchasing the waste PFI company. Borrowing has been used to repay the outstanding liability as part of this transaction.	We will continue to discuss the accounting treatment for this transaction with your finance team. We will review the accounting transactions included in the accounts
City Deal	The Council is the accountable body for the Preston, South Ribble and Lancashire City Deal (City Deal). The scheme is delivering new infrastructure with resources from central government, local government and the private sector.	We will review the accounting treatment of the income and expenditure relating to this scheme included in your accounts.

Value for money

Value for money

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

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

We will review the arrangements in place for your governance framework and in particular the arrangements in place to support the production of your annual governance statement.

This will include reviewing:

- action taken by management in response to the issues raised in the 2013/14 annual governance statement and your arrangements to prepare the statement for this year;
- we will review the overall governance framework;
- the progress you've made in delivering savings and the associated transformation programme included in the 2014/15 budget;
- the robustness of the 2015/16 budget and plans to 2017/18 which identify savings of £146.2m in the three years period.

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter. We will agree any additional reporting to the Council on a review-by-review basis.

Results of interim audit work

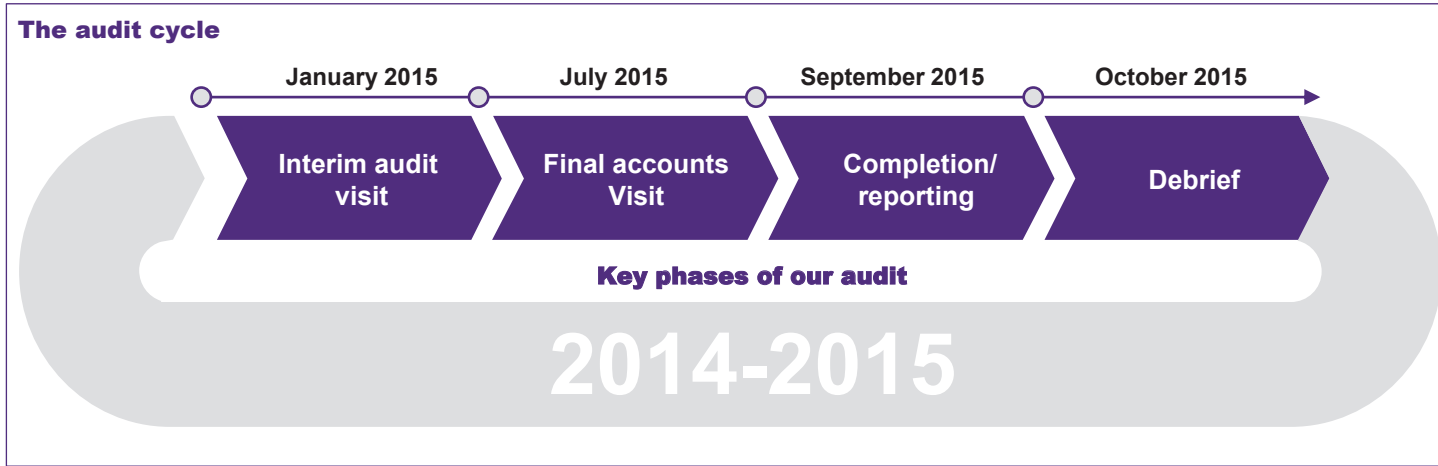
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusion
Internal audit	We have reviewed internal audit's work on the Council's key financial systems to date.	Our review of internal audit work has not identified any weaknesses which impact on our approach to the audit of your financial statements. We will update our assessment of the work undertaken by Internal Audit as they deliver their plan and report any findings to you.
Walkthrough testing	We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.	Our work has not identified any weaknesses which could lead to a material error.
Entity level controls	We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including: <ul style="list-style-type: none">• Communication and enforcement of integrity and ethical values• Commitment to competence• Participation by those charged with governance• Management's philosophy and operating style• Organisational structure• Assignment of authority and responsibility• Human resource policies and practices	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.

Results of interim audit work cont'd

	Work performed	Conclusion
Review of information technology controls	Our information systems specialists have performed a high level review of the general IT control environment, as part of the overall review of the internal controls system. We have also performed a follow up of the issues that were raised last year.	The output of this work will be agreed with management and we will report the findings to this committee in our audit findings report.
Journal entries	Review of unusual journal transactions recorded for the first nine months of the financial year.	No significant issues have been identified from the work performed to date We will complete our testing for the final quarter of the financial year on receipt of the draft 2014/15 accounts
Payroll substantive testing	Substantive testing of a sample of payroll transactions for the first nine months of the financial year, including employer contributions	No significant issues have been identified from the work performed to date We plan to complete our testing for the final quarter of the financial year prior to receipt of the draft 2014/15 accounts
Accounts payable substantive testing	Substantive testing of a sample of operating expenses and capital expenditure transactions for the first nine months of the financial year, including agreement to source documents	No significant issues have been identified from the work performed to date We plan to complete our testing for the final quarter of the financial year prior to receipt of the draft 2014/15 accounts
Accounts receivable substantive testing	Substantive testing of a sample of revenue transactions for the first nine months of the financial year, including agreement to source documents	No significant issues have been identified from the work performed to date We plan to complete our testing for the final quarter of the financial year prior to receipt of the draft 2014/15 accounts

Key dates



Date	Activity
January 2015	Planning
January 2015 – March 2015	Interim site visit
13 April 2015	Presentation of audit plan to Audit Committee
July 2015 – September 2015	Year end fieldwork
Mid September 2015	Audit findings clearance meeting with interim Director of Financial Resources
28 September 2015	Report audit findings to those charged with governance (Audit and Governance Committee)
28 September 2015	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	£150,660
Grant certification	£2,800*
Total fees (excluding VAT)	£153,460

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

Grant certification

- Our fees for grant certification cover only the Local Transport plan grant certification, which falls under the remit of Public Sector Audit Appointments Limited, as the successor to the Audit Commission in this area.
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services.'
- *These fees are estimated based on the fees for 2013/14. We will confirm the fees for these on completion of the work.

Fees for other services

Service	Fees £
Reasonable assurance report on the 2014/15 Teacher's Pensions return	£4,200*

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

Independence and ethics

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 therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 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 Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

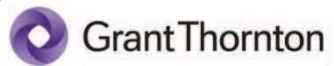
This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

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. 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 Audit Commission and includes nationally prescribed and locally determined work. 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 issue 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 the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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Agenda Item 9

Audit & Governance Committee

Meeting to be held on 13 April 2015

Electoral Division affected: All

External Audit

Lancashire County Council

Update Report

(Appendix 'A' refers))

Contact for further information:

Karen Murray, 0161 234 6364, Director, Grant Thornton

karen.l.murray@uk.gt.com

Executive Summary

Update report including progress to date with the 2014/15 audit of the accounts, Value for Money (VfM) conclusion and other work. The outcome of our work will be reported to the Audit and Governance committee throughout the year. The report also provides additional information on sector developments to the members of the Audit and Governance Committee as those charged with governance for the Council.

Recommendation

The Audit & Governance Committee is asked to note the update report.

Background and Advice

Karen Murray, Engagement Lead, will attend the meeting to present the report and answer any questions.

Consultations

The report has been shared with the Interim Director of Financial Resources.

Implications

This item has the following implications, as indicated:



Risk management

No significant risks have been identified.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Directorate/Tel
N/A		

Audit and Governance Committee Update for Lancashire County Council

Year ended 31 March 2015

March 2015

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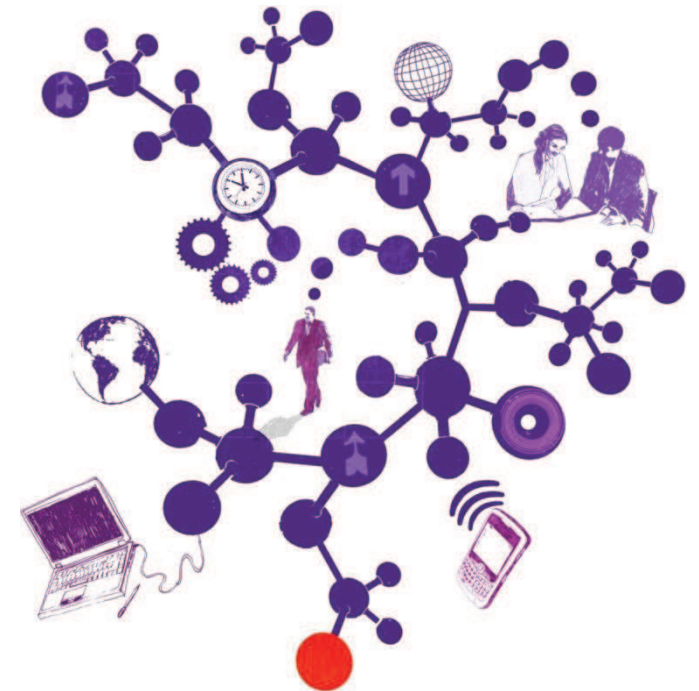
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to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

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Introduction

This paper provides the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit and Governance Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- All aboard? our local government governance review 2015
- Stronger futures: development of the local government pension scheme
- Rising to the challenge: the evolution of local government, summary findings from our fourth year of financial health checks of English local authorities
- 2020 Vision, exploring finance and policy future for English local government
- Where growth happens, on the nature of growth and dynamism across England

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

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Caroline Stead Audit Manager T 0161 234 6355 M 07880 456 208 caroline.l.stead@uk.gt.com

Progress at March 2015

Work	Planned date	Complete?	Comments
<p>2014-15 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2014-15 financial statements.</p>	March 2015	Yes	The audit plan is included on this agenda.
<p>Interim accounts audit Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing 	January to March 2015	On track	The results of the work completed to date are included in our audit plan.
<p>2014-15 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2014-15 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	July to September 2015	On track	

Progress at March 2015

Work	Planned date	Complete?	Comments
Value for Money (VfM) conclusion The scope of our work to inform the 2014-15 VfM conclusion comprises considering whether the Council has appropriate arrangements in place for <ul style="list-style-type: none">• Securing financial resilience; and• for challenging how it secures economy, efficiency and effectiveness.	January to September 2015	On track	

All Aboard? - Local Government Governance Review 2015

Grant Thornton

Our fourth annual review of local government governance is available at <http://www.grant-thornton.co.uk/en/Publications/2015/Local-Government-Governance-review-2015-All-aboard1/>.

We note that the challenges faced by local authorities are intensifying as austerity and funding reductions combine with demographic pressures and technological changes to create a potential threat to the long-term sustainability to some organisations. Maintaining effective governance is becoming ever more complex and increasingly important.

Against this background we have focused this year's review on three key areas:

Governance of the organisation – the main area of concern highlighted in this year's governance survey is the level of dissatisfaction with the scrutiny process.

Governance in working with others – there is an urgent need for scrutiny to exercise good governance over the complex array of partnerships in which local authorities are now involved. Boundary issues notwithstanding, by 'shining a light' on contracted-out activities and joint operations or ventures, scrutiny committees can bring a new level of transparency and accountability to these areas

Governance of stakeholder relations – despite the work that a number of local authorities are doing with the public on 'co-production', almost a third of respondents to our survey did not think their organisation actively involves service users in designing the future scope and delivery of its services.

We conclude that local authorities need to ensure that their core objectives and values are fulfilled through many other agencies. This implies a greater role for scrutiny and a need to make sure local public sector bodies' arrangements are as transparent as possible for stakeholders.

Hard copies of our report are available from your Engagement Lead or Audit Manager.



Stronger futures: development of the LGPS

Grant Thornton

Our second review on governance in LGPS funds in England and Wales is based on comprehensive research with pension fund senior officers, supported by insights from pension fund auditors and is available at <http://www.grant-thornton.co.uk/Publications/2015/Stronger-futures-development-of-the-LGPS/>

With the local government pensions scheme (LGPS) continuing to face significant change and challenge, there is a clear commitment to ensuring its survival and the provision of affordable pension benefits for the future. Following the implementation of a career average pension scheme in 2014, administering authorities are preparing for significant changes in governance arrangements effective from April 2015.

Some of the key messages from the report are:

there are increasing strong examples of innovation and increased collaborative working across the LGPS to achieve reduced costs and improved use of specialist skills and knowledge;

implementation of the career average scheme from April 2014 went well and demonstrated good project management and effective communication with members and employers; and

there have been several other positive trends across the LGPS since our 2013 review particularly around the widening scope of reporting to Pension Committees including performance reporting, risk management and internal audit reviews.

However, we saw a wide variation in practice, including a concentration of risk reporting on investment risk, over half of funds have not implemented the CIPFA knowledge and skills framework as part of their member training, 45 per cent of Pension Committees do not receive internal audit reports and 15 per cent do not have specific internal audit coverage, and nearly half of funds have no information around the value of their liabilities in between the triennial valuations.

Hard copies of our report are available from your Engagement Lead or Audit Manager.



Independent Commission into Local Government Finance

Local government issues

The Independent Commission on Local Government Finance was established in 2014 to examine the system of funding local government in England and bring forward recommendations on how it can be reformed to improve funding for local services and promote sustainable economic growth. It published its final report, [Financing English Devolution](#), on 18 February 2015.

The report notes that the core of the Commission's proposition is the devolution of powers, funding and taxes to sub-national entities over a 10 year period. They estimate that this could lead to over £200 billion in public expenditure being controlled at a sub-national level. The expectation is that councils and their partners would work collaboratively to manage differences in capacity and resources. They see local areas becoming self sufficient.

The Commission advocates a 'variable speed' approach to reform with 'Pioneers' able to and wishing to reform at a faster pace. Reforms advocated for all authorities include:

- An independent review of the functions and sustainability of local government in advance of the next spending review
- Freedom to set council tax and council tax discounts and full retention of business rates and business rates growth
- Multi-year financial settlements
- The ability to raise additional revenue through the relaxation of the rules on fees and charges

'Pioneer' authorities would also implement:

- Single placed-based budgets for all public services
- Management of funding equalisation across a sub-national area
- Further council tax reforms including the ability to vary council tax bands and undertake revaluations
- Newly assigned and new taxes such as stamp duty, airport taxes and tourism taxes
- The establishment of Local Public Accounts Committees to oversee value for money across the placed-base budget.

Challenge question

Are members aware of the key findings of the Independent Commission's final report?

Inspection into the governance of Rotherham Council

Local government issues

On 4 February 2015 the Secretary of State for Communities and Local Government, Eric Pickles announced the publication of [Louise Casey's report](#) . Her inspection of the exercise of functions on governance, children and young people and taxi and private hire licensing states:

"Rotherham Metropolitan Borough Council is not fit for purpose. It is failing in its legal obligation to secure continuous improvement in the way in which it exercises its functions. In particular, it is failing in its duties to protect vulnerable children and young people from harm."

It summarises the following serious failings:

- a council in denial about serious and on-going safeguarding failures
- an archaic culture of sexism, bullying and discomfort around race
- failure to address past weaknesses, in particular in Children's Social Care
- weak and ineffective arrangements for taxi licensing which leave the public at risk
- ineffective leadership and management, including political leadership
- no shared vision, a partial management team and ineffective liaisons with partners
- culture of covering up uncomfortable truths, silencing whistle-blowers and
- paying off staff rather than dealing with difficult issues

The report has had widespread press coverage and in a statement in the House of Commons the Secretary of State confirmed that he is considering exercising his powers of intervention in relation to Rotherham.

Challenge question

Are members aware of:

- the headline messages from the inspection of aspects of Rotherham MBC's governance arrangements?
- whether there are any lessons to be learned by the authority and actions that need to be taken to strengthen its overall governance arrangements in response to the risk of child sexual abuse, including the robustness of member oversight, challenge and scrutiny?

Care services for people with learning disabilities and challenging behaviour

Local government issues

The National Audit Office (NAO) published its report, [Care services for people with learning disabilities and challenging behaviour](#) on 4 February 2015. It concludes that the Government has not met its central goal of moving people with learning disabilities and challenging behaviour out of hospital by 1 June 2014, because it underestimated the complexity and level of challenge in meeting the commitments in its action plan.

Following the exposure in May 2011 of abuse of patients at the Winterbourne View Hospital, the Department of Health set out its action plan in the 'Winterbourne View Concordat' for moving people with learning disabilities and challenging behaviour out of hospital and into community care. At September 2014 however there were still 2,600 inpatients with learning disabilities in mental health hospitals, although NHS England's stated ambition is to discharge 50% of these into "more appropriate care settings" by 31 March 2015.

As the NAO also report that there is no financial incentive for local commissioners to bring such patients home. They have to bear the additional costs of expanding local community services to meet the patients' needs, following discharge from hospital, when NHS England had centrally funded patients' care in mental health hospitals

Challenge question

Are members aware of the arrangements the authority is putting in place with its health care commissioner and provider partners to locally implement the 'Winterbourne View Concordat'?

Accounting for schools – Code update and LAAP Bulletin 101

Accounting and audit issues

Non-current assets

In December 2014, CIPFA issued an Update to Appendix E of the 2014/15 Code which states "The recognition of non-current assets used by schools shall be determined in accordance with the relevant standards adopted by Chapter Four Non-Current Assets of this Code as appropriate to the arrangements for the assets. These assets shall be recognised in a local authority's balance sheet if they meet either the appropriate recognition criteria (see Chapter Four) for the local authority or for a school within the local authority area".

CIPFA also issued in December LAAP Bulletin 101 Accounting for Non-Current Assets Used by Local Authority Maintained Schools. The Bulletin provides application, clarification and interpretation but is secondary to the Code and accounting standards.

Due to the varied and sometimes complex arrangements for use of school land and buildings, the accounting treatment for these non-current assets will require the chief finance officer to make significant judgements in the preparation of the statement of accounts. These judgements should be based on the circumstances for individual schools and will involve consideration of the rights of the school as an entity and any rights held by the local authority. Judgements should be robust and well documented as auditors will be required to consider whether these are reasonable and supported by appropriate evidence. Local authorities should discuss and agree these judgements with Those Charged With Governance.

Other matters

The work required to identify and consider the arrangements over the use of schools may be significant and progress to date has been variable. Local authorities need to consider the resources required to identify and review arrangements and to undertake any necessary valuations. Good project management arrangements also need to be in place to ensure the requirements of the Code are met.

Challenge questions

- What progress has your finance team made in making judgements on the accounting treatment of schools non-current assets on a case by case basis?

Inclusion of overtime in the calculation of holiday pay

Accounting and audit issues

The Employment Appeal Tribunal (EAT) has delivered its judgement on the extent to which overtime pay should be included in the calculation of holiday pay. This case stems from an apparent conflict between UK law and European Law.

The EAT found that non-guaranteed overtime (i.e. overtime, which is not guaranteed by the employer, but which the worker is obliged to work, if it is offered), should be included in the calculation of holiday pay. Back-dated claims can only be made if it is less than three months since the last incorrect payment of holiday pay.

It is likely that there will be an Appeal to this decision. However that does not mean that authorities should hold off assessing the impact. Local authorities should be considering their own circumstances and if necessary taking their own legal advice as to the extent they might be affected by the ruling. If an authority is going to be affected they need to assess whether the liability can be reliably measured.

For an authority likely to be affected in a material way, where it is possible to reliably measure that liability, then appropriate provision should be made in the 2014/15 accounts. The fact that the issue might go to Appeal at some uncertain time in the future is not of itself grounds for not including a provision. The chances of any success would need to be taken account of in the legal analysis but, in any case, there are some indications that the key issue on Appeal would be whether to remove the three month cap (if this were done then the provision would increase), rather than dismissing the entire decision to include overtime in the calculation of holiday pay.

Challenge question

- Has your authority taken legal advice and assessed if a provision is required in the 2014/15 accounts?

Earlier closure and audit of accounts

Accounting and audit issues

Legislation was recently passed to bring forward the deadlines for the preparation and audit of Local Government financial statements from 2017/18 onwards. The timeframes for the preparation of the financial statements and their subsequent audit will be reduced by one month and two months respectively as follows:

- Deadline for preparation of financial statements – 31 May (currently 30 June)
- Deadline for audit completion – 31 July (currently 30 September)

Although July 2018 is over 3 years away, both local authorities and their auditors will have to make real changes in how they work to ensure they are 'match-fit' to achieve this deadline. This will require leadership from members and senior management.

Local government accountants and their auditors should start working on this now.

Top tips for local authorities:

- make preparation of the draft accounts and your audit a priority, investing appropriate resources to make it happen
- make the year end as close to 'normal' as possible by carrying out key steps each and every month
- discuss potential issues openly with auditors as they arise throughout the year
- agree key milestones, deadlines and response times with your auditor
- agree exactly what working papers are required.

Auditors are already working on bringing forward more testing to before the financial statements are prepared and will be discussing further changes with local authorities including greater use of estimates in the accounts which will enable the audits to be brought forward further.

Some authorities currently produce their financial statements ahead of the current deadline, or have plans to do so in 2014/15, and some audits are completed before 31 July.

We will be assessing how this has been achieved and will share our findings in a national report, expected in early 2016.



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