

## Lancashire County Council

### Audit and Governance Committee

Monday, 3rd April, 2017 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 |  |
|-----|------|--|
|-----|------|--|

- |     |  |                   |
|-----|--|-------------------|
| 1.  | <b>Apologies</b>   |                   |
| 2.  | <b>Disclosure of Pecuniary and Non-Pecuniary Interests</b><br>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. |                   |
| 3.  | <b>Minutes of the Meeting held on 30 January 2017</b><br>To be confirmed, and signed by the chair.   | (Pages 1 - 6)     |
| 4.  | <b>Risk and Opportunity Register - Quarter 4</b>   | (Pages 7 - 20)    |
| 5.  | <b>2016/17 Statement of Accounts Update</b>  | (Pages 21 - 24)   |
| 6.  | <b>Response of the Audit and Governance Committee Chair to Grant Thornton's request for information to support its compliance with International Standards on Auditing</b>   | (Pages 25 - 32)   |
| 7.  | <b>Internal Audit progress report</b>  | (Pages 33 - 44)   |
| 8.  | <b>Internal Audit Planning for 2017/18</b>   | (Pages 45 - 58)   |
| 9.  | <b>External Audit Update Report</b>  | (Pages 59 - 80)   |
| 10. | <b>External Audit - Lancashire County Council Audit Plan 2016/17</b>   | (Pages 81 - 104)  |
| 11. | <b>External Audit - Lancashire County Pension Fund Audit Plan 2016/17</b>  | (Pages 105 - 122) |

**12. 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.

**13. Date of Next Meeting**

The next meeting of the Committee will be held on Monday 26 June at 2pm, Cabinet Room B, County Hall, Preston.

I Young  
Director of Governance,  
Finance and Public Services

County Hall  
Preston

## Lancashire County Council

### Audit and Governance Committee

**Minutes of the Meeting held on Monday, 30th January, 2017 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston**

**Present:**

County Councillor Terry Brown (Chair)

#### **County Councillors**

|          |             |
|----------|-------------|
| K Brown  | A Schofield |
| C Dereli | V Taylor    |
| B Dawson | B Winlow    |
| M Green  |             |

#### **1. Apologies**

Chair welcomed members and apologies were noted from County Councillor Darren Clifford, County Councillor Michael Green replaced County Councillor Geoff Driver and County Councillor Bernard Dawson replaced County Councillor Clare Pritchard.

#### **2. Disclosure of Pecuniary and Non-Pecuniary Interests**

There were no declarations of interest at this time.

#### **3. Minutes of the Meeting held on 26 September 2016**

Updates were provided to the Committee on the following items from the meeting held on 26 September 2016:

##### **Item 5 Liquid Logic System update**

It was originally resolved that a further update would be provided for this meeting, however members were informed that the work around adults was in the process of being scoped and developed and would be presented to the next meeting of this Committee.

##### **Item 10 External Audit - Lancashire County Council Audit Findings Report 2015/16**

It was confirmed that no provision existed under the Code of Conduct or the Members Allowance Scheme to impose financial sanctions on Councillors who fail to complete their related party disclosure declarations and it was not considered that the underpinning legislation allowed the Council to introduce such provisions.

##### **Item 11 Approval of the County Council's Statement of Accounts 2015/16**

It was confirmed that management structure in the 'Narrative' to the report had been expanded and the list of acronyms in the 'Glossary' had been updated.

**Resolved:**

- i. That the minutes of the meeting held on the 26 September 2016 be confirmed and signed by the Chair.
- ii. A Liquid Logic report on the scope and timescales would be provided for the next meeting of the Committee on the 3 April 2017.

**4. Update on Treasury Management Activity**

Mike Jensen, Lead Officer, presented the update report on the Treasury Management activity from August to November 2016.

Members were advised that this was a quiet period for the markets.

Members queried the cut in interest rates as discussed at the last meeting and it was reported that there was an expectation that there would potentially still be a further cut, perhaps towards the end of the year. It was anticipated that the portfolio would remain to be well balanced.

A query was raised around property investment and it was confirmed there were none in the treasury mandate as the principle responsibility is to manage instant and immediate liquidity. It was confirmed that a number of other councils have done so but members were advised that there remains a need to be cautious, in relation to the liquidity it could guarantee, but could be acceptable in another fund such as the Pension Fund.

Members were advised that the agreement with the Local Pension Partnership around the continuation of Treasury Management activity was currently with the respective lawyers to finalise the negotiated deal as originally envisaged.

**Resolved:** That the review of Treasury Management activities for the period August to November 2016 be noted.

**5. Financial Regulations**

Khadija Saeed, Head of Service Corporate Finance, presented the report on the revised Financial Regulations.

Members were advised that the Financial Regulations have now been updated which included the replacement of out of date references, job titles and financial limit increases. In addition guidance notes to support training and implementation has been referenced (but not included) within the regulations.

Members queried the increase in limits in respect of the capital post-completion statement from £70k to £1m and it was confirmed that this was to ensure that it was reflective of the current scale of capital projects.

It was also confirmed that in relation to capital projects, the two year deadline for the production of the statement following completion was a required timescale.

**Resolved:** That the proposed revisions to the Financial Regulations be considered and agreed to be submitted to Full Council on the 23 February 2017 for approval.

## **6. Update on the Measurement of the Highways Network Asset**

Khadija Saeed, Head of Service Corporate Finance, provided an update to the Committee on the measurement of the County Council's Highways Network Asset (HNA). It was reported that the CIPFA/LASAAC Local Authority Accounting Code Board, in November 2016, has taken the decision to defer implementation for the 2016/17 financial year which would be reviewed in March 2017 with a view to implementation in 2017/18.

Members were advised that there were no specific costs to this exercise as it was work scheduled to be completed as part of the core systems development work to update all the relevant information held. In addition, it was confirmed that this was a new requirement and the risks identified would be in relation to the quality of the Financial Statement of Accounts should this not be completed.

**Resolved:** That the report be noted.

## **7. Risk & Opportunity Register Quarter 3**

Paul Bond, Head of Legal and Democratic Services, presented an updated Risk and Opportunity Register for Quarter 3 to the Committee.

It was reported that there were no additions or deletions to the register and no scores have changed. The update had been reported to the Cabinet Committee for Performance Improvement on the 5 December 2016.

A query was raised in relation to CR2 in the report and it was confirmed that the report on the future delivery model has yet to be completed as there were ongoing discussions with NHS representatives who felt there were some issues with the health organisations involved which needed to be addressed, but the intention was that it would go ahead.

In relation to CR12 it was confirmed that there was no update at this time on Liquid Logic and will be brought to the next meeting of this Committee.

**Resolved:**

- i. That the updated Risk and Opportunity Register be noted.
- ii. The date shown under CR2 in the report (mitigating actions) be amended to a future meeting date.

## **8. Internal audit progress report**

Ruth Lowry, Head of Internal Audit, presented the report to the Committee on the Internal Audit Service progress for the period to mid December 2016.

Amendments to the audit plan (as outlined in the report) were highlighted to members. In relation to the Internal Audit Services resources, it was confirmed that subject to references, a new Audit Manager would be in place for the beginning of April.

Work was reported to be progressing around the undertaking of IT audits and working closely with BTLS on this.

Members raised a query in relation to data protection and managing the risks related to this area of work. It was confirmed that the remit around this sits with the Information Governance team.

In relation to the Public Sector Network compliance, it was confirmed that this would be included as part of a regular programme of work.

In relation to the business processes: financial processes system (limited assurance), members were assured that the finance team were currently working on this and progress was ongoing. This would be updated in the next year's audit plan.

In relation to service delivery: adult services (limited assurance), members raised concerns around the information provided particularly around case supervision and the lack of responses to the request for sample supervision documentation. Members were informed that the service recognised the issues outlined and the information given in the report has been highlighted to the Corporate Director for Operations and Delivery. It was confirmed that pilot projects were in place to support working practices and processes to address some of the issues highlighted.

**Resolved:**

- i. That the Internal Audit Service progress report for the period to mid December 2016 be considered and noted.
- ii. That the Corporate Director for Operations and Delivery be requested to attend the Scrutiny Committee to provide an update on the issues highlighted in the audit relating to case management in Adult Services.

**9. External Audit - Annual Audit Letter**

Karen Murray, Director, Grant Thornton, presented the Annual Audit letter to the Committee summarising the outcome of the work in 2015/16. The report was confirmed to include the key messages in relation to the financial statements audit and audit opinion and Value for Money (VfM) conclusion. In addition, there were reported to be minor amendments in relation to the Ofsted position.

**Resolved:** That the Annual Audit letter be noted.

**10. External Audit - Audit Update**

Karen Murray, Director, Grant Thornton, presented the External Audit update report to the Committee which included progress to date with the 2016/17 audit of

the accounts, Value for Money conclusion and other work. It was confirmed that work has commenced around early planning and early field work and the audit plan will come to the April meeting of this Committee.

**Resolved:** That the report be noted.

**11. Urgent Business**

There were no items of urgent business.

**12. Date of Next Meeting**

The next meeting of the Committee will be held on 3 April 2017 at 2pm, Cabinet Room B at County Hall, Preston.

I Young  
Director of Governance, Finance  
and Public Services

County Hall  
Preston





## **Audit and Governance Committee**

Meeting to be held on Monday, 3 April 2017

Electoral Division affected:  
(All Divisions);

## **Risk & Opportunity Register Quarter 4**

(Appendix "A")

Contact for further information:

Ian Young, Director of Governance, Finance and Public Services, 01772 533531

[ian.young@lancashire.gov.uk](mailto:ian.young@lancashire.gov.uk)

Paul Bond, Head of Legal and Democratic Services, 01772 534676

[Paul.bond@lancashire.gov.uk](mailto:Paul.bond@lancashire.gov.uk)

### **Executive Summary**

This report provides an updated (Quarter 4) Risk and Opportunity Register for the Committee to consider and comment upon.

### **Recommendation**

The Committee are asked to note the Quarter 4 Risk and Opportunity Register at Appendix A.

### **Background and Advice**

Following the corporate approach to reporting on risk and opportunity the Quarter 4 Risk and Opportunity register was recently reported to Management Team. Following this the Register was presented to Cabinet Committee for Performance Improvement (CPPI) on 7 March 2017. An updated Risk and Opportunity Register is attached at Appendix A and the Committee is asked to comment upon it.

The key highlights in the register include:

- for this quarter there is one addition (CR27) and one deletion (CR15) to the register;
- allowing for mitigating actions, the residual risk score for the following entries remain 12 or above so the issue remains on the register:

| <b>Risk Identification Number (RIN)</b> | <b>Risk Description</b>   |
|---|---|
| CR1                                     | Failure to implement the county council's MTFS. Further mitigating actions added but residual risk score remains unchanged.   |
| CR2                                     | Risk to the on-going financial viability of the county council. Further mitigating actions added but residual risk score remains unchanged.   |
| CR4                                     | Delivering Organisational Transformation. Residual risk score remains unchanged.  |
| CR5                                     | Inability to adequately protect and safeguard children. Further mitigating actions added. Direction of travel updated.  |
| CR6                                     | Failure to comply with statutory requirements and duties relating to CLA, children in need and children leaving care. Further mitigating actions added. Direction of travel updated.            |
| CR7                                     | Failure to recruit and retain experienced staff within Children's services. Direction of travel updated   |
| CR8                                     | Reputational damage and risk of direct intervention by DFE. Direction of travel updated.  |
| CR12                                    | Inability to implement/maintain systems that produce effective management information. Further mitigating actions added but residual score remains the same.                                    |
| CR16                                    | Management of the County Council's assets. Further mitigating actions added but residual score remains the same.  |
| CR20                                    | Transforming care (Winterbourne). Residual score remains at 12.   |
| CR21                                    | Service user/customer risk associated with the inability to influence behaviour change in demand and expectations continue to rise. Residual score remains at 12.                               |
| CR24                                    | Failure to achieve targets with National Troubled Families Unit. Updated and residual risk score has increased.   |
| CR25                                    | Failure to implement and meet the statutory requirement to children and young people with special educational needs and/or disabilities remains unchanged.                                      |
| CR26                                    | Proposed museums closures. Further mitigating actions added but residual score remains the same.  |
| CR27                                    | The mobilisation of the home care framework and subsequent service transfer process. Mitigating actions are being put in place but the residual score means the issue is added to the register. |
| CO1                                     | Developing a new model for public service delivery in Lancashire. Further updates added.  |
| CO2                                     | Delivering economic growth. Further maximising actions added.   |
| CO3                                     | Opportunities through delivering the corporate strategy and property strategy. No change.   |
| CO4                                     | Health & Social Care Integration. Narrative updated.  |

**Consultations**

N/A

**Implications:**

This item has the following implications, as indicated:

**Risk management**

Good governance enables a local authority to pursue its vision effectively as well as underpinning that vision with sound arrangements for control and management of risk. A local authority must ensure that it has a sound system of internal control which includes effective arrangements for the management of risk. Failure to develop and maintain a Corporate Risk & Opportunity Register means the County Council would be negligent in its responsibilities for ensuring accountability and the proper conduct of public business

**Local Government (Access to Information) Act 1985**

**List of Background Papers**

| Paper | Date | Contact/Tel |
|-------|------|-------------|
|-------|------|-------------|

|   |  |  |
|---|--|--|
| NA  |  |  |
| Reason for inclusion in Part II, if appropriate |  |  |

|    |  |  |
|----|--|--|
| NA |  |  |
|----|--|--|



## Appendix A: Corporate Risk & Opportunity Register Q4 2016/17

| Risk Identification Number (RIN) | Risk Description   | Risk Type                  | Possible Consequences  | Current Controls  | Risk Score | Mitigating Actions  | Residual Score | Risk Owner          | Direction of Travel  |
|----------------------------------|--|----------------------------|--|---|------------|---|----------------|---------------------|--|
| CR1                              | Failure to implement fully the councils medium term financial strategy including the delivery of planned budget reductions | Economic                   | Financial Savings not achieved resulting in in-year overspends with pressure on following year budget and reserves depleted more quickly than planned. Reductions in service and/or drop in quality of delivery leading to JR and damage to Council's reputation. New legislative requirements not being met and uncertainty over being able to deliver and/or implement future large projects. Potential for infrastructure to deteriorate. | <ul style="list-style-type: none"> <li>Monthly budget monitoring processes for Heads of Service and Directors with particular focus on agreed savings delivery.</li> <li>Ensure key programmes of activity (particularly linked to savings / downsizing) are adequately resourced.</li> <li>Quarterly Money Matters budget monitoring reports, MTFs, reserves and Treasury Management reports presented to members (includes capital).</li> <li>Management Team actions to monitor key areas of expenditure and consider remedial courses of action to address budgetary pressures.</li> <li>Robust Medium Term Financial Strategy and Plan, updated to reflect variations to resource and demand assumptions. Reserves regularly monitored and reviewed.</li> <li>Resources allocated to Base Budget Review. Rebalance budget savings via an ongoing risk assessment.</li> </ul> | 25         | <ul style="list-style-type: none"> <li>Recommendations from Zero Based Budget Review agree by Full Council on 9<sup>th</sup> February 2017.</li> <li>Improve commercial and financial acumen.</li> <li>Continuously revalidate budget assumptions.</li> <li>PWC interim draft report 'Lancashire Public Service Delivery Model' presented to Political Governance Working Group and then full Council on 23<sup>rd</sup> February to allow time for reflection. Full Council resolved to refer the report back to PwC asking them for their final report so that it can be given meaningful consideration and proper consultations can take place with other interested parties.</li> <li>Development of response to the Treasury and DCLG regarding the implementation of business rate retention and future needs assessment/allocation formula.</li> <li>Communicating with stakeholders to ensure an understanding of the council's financial position and need for change.</li> <li>Communicating specific proposals and service developments in the context of the financial scenario.</li> <li>Programme Office supporting services to deliver savings and bring forward savings wherever possible.</li> <li>An additional £2 billion to councils over the next 3 years to spend on adult social care services. £1 billion to be provided in 2017-18.</li> </ul> | 16             | Section 151 Officer | As time progresses the risk to some extent reduces. However, the risk cannot be fully mitigated until all the necessary enabling decisions have been taken and the relevant budget options have been realised. |
| CR2                              | Risk to the ongoing longer-term Financial Viability of the County Council  | Economic/ Political/Social | Problems stored up for the future as a combination of delivery issues in CR1 and further national funding reductions causing minimum reserve position not to be maintained with the risk of not being able to set a balanced legal budget in future years.   | <ul style="list-style-type: none"> <li>Base Budget Review has identified the risk of the County Council not being able to meet statutory obligations by 2018/19. The actual timing of when this situation may occur will be identified from the various monitoring and review process outlined in CR1 above</li> </ul>  | 25         | <ul style="list-style-type: none"> <li>Risk of the county council not being able to meet its statutory obligations by 2018/19 validated by PWC Zero Based Review activity (focus on lower quartile) will determine the scope for additional savings in all remaining services within the County Council (ongoing).</li> <li>Links to Combined Authority work including Healthier Lancashire programme with the NHS as to any opportunities / additional pressures (ongoing). Lobbying – Treasury and DCLG by utilising ongoing existing networks MP's / Members, LGA, CCN, SCT (ongoing)</li> <li>Development of response to the Treasury and DCLG of future needs assessment/allocation formula.</li> </ul>  | 25             | MT                  | Level  |

|     |  |                |  |  |    |   |    |                                 |       |
|-----|--|----------------|--|--|----|---|----|---------------------------------|-------|
|     |  |                |  |  |    | <ul style="list-style-type: none"> <li>Communicating with stakeholders to ensure an understanding of the councils financial position and need for change</li> <li>Communicating specific proposals and service developments in the context of the financial scenario.</li> <li>An additional £2 billion to councils over the next 3 years to spend on adult social care services. £1 billion to be provided in 2017-18.</li> </ul>  |    |                                 |       |
| CR4 | Delivering organisational transformation including capacity and resilience | Organisational | The failure to clearly implement the draft corporate strategy that sets out our vision, aims and priorities could result in a lack of purpose, direction and have an impact on service delivery and produce an adverse external audit report. The new structure that seeks to provide the ability to join up our services in a new way may not be fit for purpose. Ineffective employee engagement and buy in. A fall in staff morale could increase sickness absence and stress. Loss of knowledge and skills due to turnover puts demand on remaining staff which can expose the council to key person dependency and the risk of poor resilience. | <ul style="list-style-type: none"> <li>The draft corporate strategy has now been amended to reflect the consultation outcomes and has been to full council.</li> <li>The draft corporate strategy is being used to inform the development of the property review and proposed neighbourhood plans.</li> <li>As part of the base budget review process options for service delivery and redesign have been developed including proposals to stop some services.</li> <li>Management Team approval of all new appointments and cessation of temporary staff contracts.</li> <li>Senior Management Development programme implemented.</li> <li>Positive employee communication and engagement.</li> <li>Wellbeing initiatives and support for managers and employees.</li> <li>Introduced a new scheme of delegation for heads of service.</li> </ul> | 16 | <ul style="list-style-type: none"> <li>The draft corporate strategy has been amended to reflect the consultation outcomes and subject to amendment approved by full council. This process is on-going.</li> <li>Interim structures to reflect the base budget review options are being developed and implemented.</li> <li>Property strategy and accommodation review being progressed and approach to neighbourhood plan being developed.</li> <li>Independent challenge</li> <li>See specific actions in relation to other risk entries i.e. Ofsted inspection</li> <li>Use of transformation reserves to fund temporary staffing</li> <li>Implementation of recruitment and retention strategies</li> <li>Defining new service models across the organisation</li> <li>Adults service transformation – recruitment of temporary staff</li> <li>Children's service transformation – pilot programme in Fylde &amp; Wyre</li> <li>Extensive information is made available through the councils website which is also used by the customer service centre as a core council information resource</li> <li>Promoting recognition and benefits of working at the council</li> </ul> | 12 | MT                              | Level |
| CR5 | Failure to adequately protect and safeguard children                       | Social         | Children are put at risk of harm.  | <ul style="list-style-type: none"> <li>MASH hub.</li> <li>Serious incident reporting.</li> <li>Quarterly safeguarding report, to include LSCB.</li> <li>SCR learning shared.</li> <li>Case file audits.</li> <li>Multi-agency inspections.</li> <li>Supervision with HOS.</li> <li>Performance Data</li> </ul>   | 25 | <ul style="list-style-type: none"> <li>Post Improvement Inspection Board with Independent Chair appointed.</li> <li>LSCB membership of Improvement Board and acting as critical friend.</li> <li>Post Inspection Improvement Plan.</li> <li>Review of all CiN cases using internal and external capacity.</li> <li>Social Work Recruitment Strategy.</li> <li>Peer Challenge.</li> <li>Audit exercise.</li> <li>Newton's review of pathways.</li> <li>Established new QA system and implementation of Risk Sensible Model. Development of CIN Teams.</li> <li>LSCB have established new QA system including multi-agency case file audits.</li> <li>Monthly compliance recording of Strategy</li> </ul>   | 16 | Director of Children's Services | Level |

|     |   |                 |   |   |    |  |    |                                 |       |
|-----|---|-----------------|---|---|----|--|----|---------------------------------|-------|
|     |   |                 |   |   |    | <p>Discussions.</p> <ul style="list-style-type: none"> <li>• Strengthened quality assurance role of Independent Reviewing Officers.</li> <li>• Management Team approval of 15 additional IRO posts and 3.5 additional Quality and Review Manager Posts - post inspection.</li> <li>• IRO completion of mid-point checks on case files.</li> <li>• Creation of 12 Advanced Practitioner posts within the Audit Team - post inspection.</li> <li>• Creation of 1 Performance Development Review Officer within the Audit Team post inspection.</li> <li>• SW recruitment has improved.</li> <li>• Senior managers are now working in districts.</li> <li>• Independent Board Chair appointed.</li> <li>• CSC remodelling including new CIN Hubs and PPA teams.</li> <li>• 2 qualified social workers now working in Customer Access Service to ensure appropriate referrals to CSC and timely response to S47 enquiries. 6 out of 9 SW posts appointed to in CART/MASH to undertake 0-10 day Child &amp; Family Assessments. Recruited to additional CSE posts to improve identification, assessment and intervention. Development of the Practice Improvement Model.</li> </ul> |    |                                 |       |
| CR6 | <p>Failure to comply with statutory requirements and duties relating to children looked after, children in need and children leaving care.</p>                    | Legal/Political | <p>LA is legally and possibly financially liable, judicial review. Further OFSTED intervention.</p>   | <ul style="list-style-type: none"> <li>• Corporate legal oversight.</li> <li>• Quarterly safeguarding report.</li> <li>• Serious incident reporting.</li> <li>• Serious case review learning.</li> <li>• Peer review and challenge.</li> <li>• Stronger management oversight in Districts.</li> </ul>   | 25 | <ul style="list-style-type: none"> <li>• Monthly compliance recording of Strategy Meetings and S47 Enquiries.</li> <li>• LSCB have established new QA system including multi-agency case file audits.</li> <li>• Revised Audit Framework launched on 13 May 2016 has strengthened management understanding and quality assurance of practice.</li> <li>• Back to basics SW practice training. Implementation of Risk Sensible Model</li> <li>• Locality Practice Improvement Meetings.</li> <li>• Developed Professional Personal Adviser Teams.</li> <li>• Compliance reporting shows multi-agency Strategy Meetings are taking place in the majority of cases. Improved performance - management reports launched with first line managers.</li> <li>• Leaving Care performance indicators show improvement.</li> <li>• IRO oversight of practice has been strengthened as highlighted in Ofsted Monitoring Visits.</li> </ul>   | 16 | Director of Children's Services | Level |
| CR7 | <p>Failure to recruit and retain experienced Social Work staff</p> <p>Failure to recruit and retain Independent Reviewing Officers.</p> <p>Failure to recruit</p> | Organisational  | <p>Inability to deliver effective services. High caseloads. Lack of management oversight. Increased staff turnover. Increased agency spend.</p> | <ul style="list-style-type: none"> <li>• Vacancy monitoring. Recruitment strategy. Quarterly safeguarding report.</li> <li>• Reliance on agency staff risk of high staff turnover and inconsistency of practice. CYP experience frequent changes of IRO. Lack of consistent IRO oversight of Care Plans and CP plans. Impact on the budget - cost of agency staff.</li> </ul> | 25 | <ul style="list-style-type: none"> <li>• Additional funding envelope. Enhanced recruiting – vacancies being filled with a high proportion of newly qualified staff. Newton Europe pathway review. Increased focus on retention.</li> <li>• External agency contract to look at CIN cases and work following MASH</li> <li>• Improving SW recruitment is now at the levels within the original funding envelope prior to the £5m and recruitment is continuing.</li> <li>• Specific Recruitment and Retention Strategy for</li> </ul>   | 16 | Director of Children's Services | Level |

|      |  |                |  |   |    |  |    |                                 |  |
|------|--|----------------|--|---|----|--|----|---------------------------------|--|
|      | and retain experienced BSO staff.  |                |  | <ul style="list-style-type: none"> <li>Insufficient BSO support resulting in increased administrative tasks for managers and practitioners.</li> </ul>  |    | the North of the County.   |    |                                 |  |
| CR8  | <p>Reputational damage and risk of Direct Intervention by DFE.</p> <p>Negative media exposure.</p>   | Reputational   | <p>DFE manages services directly and removes them from the LA. Commission arrangements brought in.</p> <p>Loss of reputation. Impact on partner agencies.</p>  | <ul style="list-style-type: none"> <li>Safeguarding and Audit arrangements. Direct management oversight of services.</li> <li>Media planning around key issues and Serious Case Reviews. Scrutiny of key reports and information. Communication with Comms Team.</li> </ul>   | 25 | <ul style="list-style-type: none"> <li>Post Improvement Inspection Board with Independent Chair appointed. Post Inspection Improvement Plan. Senior management input into each of the 3 Children Social Care Districts. Review of all CiN cases using internal and external capacity. Social Work Recruitment Strategy. Peer Challenge. Newton Europe review of pathways.</li> <li>The council has been issued with an Improvement Notice by DFE which is the lowest level of implementation.</li> <li>Communication planning surrounding publication of Serious Case Reviews. Two way communication between LSCB and partner agencies.</li> <li>Additional IRO and Advanced Practitioner posts</li> </ul>   | 16 | Director of Children's Services | Increased IRO capacity (now fully staffed) and Improved systems in place to quality assure practice. |
| CR12 | <p>Failure to implement/maintain systems that produce effective management information</p> <p>Failure to improve quality of data in Liquid Logic's systems (LCS/LAS)</p> <p>Operational failure in the main IT Computer Suite (T101)</p> | Organisational | <p>Ineffective collection, collation and input of data<br/>Ineffective use of business intelligence, resulting in the inability to identify and respond to changing trends and inform strategic decisions. Impact on strategic planning, understanding and management demand e.g. around demographics and ageing population profile<br/>Ineffective reporting arrangements.</p> <p>Statutory returns will be compromised, so incorrect performance will be reported nationally. OFSTED/CQC/LGA and other external organisations will be using inaccurate information to judge performance. Service planning and management will be severely compromised.</p> <p>Reliance on uninterrupted operation of T101 cannot be over emphasised. Power</p> | <ul style="list-style-type: none"> <li>Information management strategy. Data Quality processes. Oracle. Local Information Systems. Corporate performance information. JSNA and other needs assessments</li> <li>Weekly provision of information to operational managers. Monthly Performance Books or dashboards provided to Start Well Management Team and Adults Leadership Team. Use of exception reports to flag up data quality issues.</li> <li>Over £200k has been invested to improve the back-up services for T101 to improve reliability. However, there are still potential risks regarding A/C cooling, maintenance of UPS units and insurance requirements regarding fire alarm links</li> </ul> | 15 | <ul style="list-style-type: none"> <li>External support to focus on Children's Services data issues. Introduction of new governance arrangements for children's services. Introduce a new performance management framework that is aligned to draft corporate strategy. Agree performance, financial data and intelligence required for all levels within the County Council. Agree milestones and metrics (ongoing)</li> <li>Joint working of Children's Services, Business Intelligence, System Control Team and Programme Office to establish an Accuracy Working Group (relating to Children's services).</li> <li>Accuracy Working Group and performance management framework ensuring continued use of management reports within children's social care were established in November 2016. Roll out of a 'Project Accuracy' style approach to YOT, SEND, FARY now underway.</li> <li>Developing improvement plan that includes culture and assurance. The plan will include systems such as Controcc and LAS</li> <li>Performance sub-group reporting the Improvement Board Chair</li> <li>Additional temporary resource employed within Business Intelligence to provide reports for Project Accuracy 2.</li> </ul> | 12 | MT                              | Level  |



|      |   |                           |  |  |    |  |    |  |   |
|------|---|---------------------------|--|--|----|--|----|--|---|
|      |   |                           | up following an uncontrolled failure takes 5 times longer than after a controlled shutdown. Impact on service delivery   |  |    | <ul style="list-style-type: none"> <li>• Multimillion pound refurbishment programme including upgrading the electrical infrastructure of county hall complex - to improve the reliability of the IT Suite.</li> <li>• 'Passport to Independence' reporting work stream incorporating exception reporting.</li> <li>• 'P2P' (Process to Pay) project focussing on procedures and data quality.</li> </ul>   |    |  |   |
| CR16 | Management of the County Councils Assets  | Organisational            | <p>Failure to maintain council owned assets and buildings.</p> <p>Inability to deliver in the timescale required and impact on organisational ability to achieve savings</p> <p>Failure to timely deliver a smaller more affordable property portfolio and associated savings. Inability to deliver service plans and savings effectively within required timescales, risks to service delivery across a number of services. Due to the high profile of Property Strategy (Neighbourhood Centres) delayed delivery could have reputational effect. Legal or public challenges.</p> | <ul style="list-style-type: none"> <li>• Effective planning and programming method of delivery. Management of organisational transition and effective engagement with operational services</li> <li>• Manage health and safety risks of customers and staff and ensure budgets are managed effectively to maintain assets to a satisfactory standard.</li> <li>• Consider and manage risks associated with redundant properties. Planned maintenance approach. Risk assessments and regular H&amp;S inspections. Presently undertaken by various operational service areas.</li> <li>• Delivery of Property Portfolio Rationalisation Programme (PPRP) is being managed by the programme board. Asset Management Service are working to specific timescales for the public consultation and delivery of recommendations to Cabinet. Office rationalisation is ongoing and is being managed by the PPRP team as a whole. Risks for each part of the project are registered and reviewed by the PPRP team and Board on a regular basis, reporting to Management Team separately.</li> <li>• Communications strategy for property strategy</li> </ul> | 16 | <ul style="list-style-type: none"> <li>• Asset Management Strategy and accommodation review and planned programme of conditions based work</li> <li>• Short-medium term facilities management strategy defined to deliver the spike in resource demand during the organisational transition period</li> <li>• Cabinet approval sets out the portfolio of buildings to be retained as Neighbourhood Centres. Ongoing work to develop design briefs for retained buildings requiring works and enable continuing community asset transfer of surplus buildings where appropriate.</li> <li>• Communicating with stakeholders to ensure an understanding of the councils financial position and need for change</li> <li>• Communicating specific proposals and service developments in the context of the financial scenario</li> <li>• Libraries – public consultation has taken place to help inform service design and future strategy. The service is liaising closely with asset management, commissioning and estates services to ensure that the process of handover to community organisations who wish to provide an independent community library is as smooth as possible.</li> <li>• The Library service now has a community library manager in post helping to support a number of different organisations to develop their own community library and manage the effective transition of an LCC building to a community library.</li> </ul> | 12 | Head of Asset Management/<br>Head of facilities Management | Level – risks are significant but currently managed   |
| CR20 | Transforming Care (Winterbourne)- the accelerated discharge of the population of adults with a Learning | Economic/Political/Social | Increased pressure on the adult social care budget. Resettlement from hospital to community health and social care packages shifts the funding responsibility from solely NHS to a shared responsibility   | <ul style="list-style-type: none"> <li>• There is a governance structure for the Fast Track programme through the Fast Track Steering Group with representation from LCC Director Adult Social Care and Head of Service working alongside SRO's from NHS and CCG's in order to achieve agreement on financial</li> </ul>   | 16 | <ul style="list-style-type: none"> <li>• Improved engagement with procurement colleagues to ensure due process is followed operationally in meeting the needs of this population.</li> <li>• Lancashire's Fast track plan identifies the implementation of a revised model of care for people with LD improving crisis support through</li> </ul>  | 12 | Director of Adult Services                                 | ↑the direction of travel is increased as these are new service users entering the social care system from |

|      |   |  |   |  |    |   |    |    |   |
|------|---|--|---|--|----|---|----|----|---|
|      | Disability from secure hospital in-patient beds into community houses   |  | between CCG's and LA's to fund these high cost intensive health and social care packages. LCC may not be able to afford these new packages of care in the current financial climate. There is a National Plan to facilitate discharge therefore there is a reputational and political risk in not achieving as Lancashire is identified as a National Fast Track programme for this work due to the high number of Lancashire residents currently in in-patients LD hospitals. The closure of Calderstones hospital is part of this national plan. Failure to agree locally a reasonable figure for a dowry that is planned to follow a person from hospital (NHS) to LA's is a further financial risk. | issues including the dowry and any future agreement for a pooled budget. There are identified work streams each with a defined action plan with leads identified from commissioners across Lancs. Work streams are monitored by the Steering group in addition to oversight by NHS England. The trajectory for possible discharge Sept 15- Mar 19 is to be carefully monitored so appropriate development and procurement of suitable housing and care can be planned for. |    | multi-disciplinary teams. <ul style="list-style-type: none"> <li>• This approach is aimed at reducing admissions and supporting providers to maintain a person's tenure in their chosen house rather than re-enter hospital.</li> <li>• The plan commits to securing improved and alternate care and housing solutions for this population with the aim of creating shared tenancies with back ground support, rather than the current single tenancy model currently used, which will be more cost effective. There are plans to stimulate the provider market to inform innovative solutions to providing for these peoples care and an interim framework has been put in place.</li> <li>• STP budget considerations</li> <li>• The financial risk had been negotiated with the CCG and immediate pressures remain offset whilst negotiations around the pooled budget take place.</li> </ul>  |    |    | the NHS, the risk is constant from a financial perspective as the cost will be high and require providing for life. (although there are plans to mitigate costs through a dowry system and improved commissioning solutions and the decision taken by Management Team re funding discharges |
| CR21 | Service user/Customer risk associated with the inability to influence demand whilst expectations continue to rise | Reputational/social/economic/political | Demand and expectations continue to rise against a backdrop of reduced resources, thus leading to service failure and an increase in complaints. Failure to integrate health and social care to reduce pressures on demand and expectations as a result of ageing population. Unacceptable waiting times for assessment and reviews including occupational therapy, safeguarding and social care reviews.   | <ul style="list-style-type: none"> <li>• Consultation and engagement with service users and customers. Co-ordination of communications. Changes and impacts communicated to stakeholders. Impact assessments. Alternative delivery options being explored as part of base budget review option development. Learning from complaints and oversight at CCPI.</li> </ul>   | 16 | <ul style="list-style-type: none"> <li>• Alternative delivery options being explored as part of base budget review option development</li> <li>• In relation to adult and children's social care Newton's Europe have been partly been engaged in this area of work</li> <li>• See opportunities entry on Healthy Lancashire</li> <li>• Early help and prevention investment in integrated wellbeing services</li> <li>• Children's demand management strategy</li> <li>• Additional capacity is being secured in key areas such as social work and occupational therapy</li> <li>• Realignment of management capacity in adult social care to provide improved focus on operational priorities</li> <li>• Clear triaging/prioritisation schemes at Customer Access Centre</li> <li>• Work with Newton Europe is underway to improve productivity</li> <li>• Working with health partners to improve arrangements around discharges from hospital</li> <li>• Communicating with stakeholders to ensure an understanding of the councils financial position and need for change</li> <li>• Communicating specific proposals and service developments in the context of the financial scenario</li> </ul> | 12 | MT | ↓ Downwards.  |

|      |  |   |  |   |    |   |    |  |         |
|------|--|---|--|---|----|---|----|--|---------|
| CR24 | <p>Failure to achieve targets agreed with National Troubled Families Unit team due to the specific requirements of the programme.</p> <p>Failure to provide robust data to evidence the impact on outcomes for those families engaged with the programme</p> | Economic Political                                    | <p>Failure to accrue maximum income from the programme for the authority</p> <p>Possible reputational risk as a result of failing to meet the national target.</p> <p>Risk of additional scrutiny of Lancashire's response to the programme</p>  | <ul style="list-style-type: none"> <li>Robust tracking processes in development with view to maximising payment by result claim opportunities.</li> <li>Improvement plan implementation to ensure that 'attached' cases meet national TFU principles with operational staff.</li> <li>Ongoing data matching to identify new eligible families</li> <li>Data analyst posts have been recruited and are in post. Challenges with compliance of casework with the national TFU principles.</li> </ul>  | 20 | <ul style="list-style-type: none"> <li>Development of reporting processes to ensure monthly progress checks against targets</li> <li>Business case to request additional resources to support tracking and claiming processes</li> <li>Redesigning of outcomes plan to set more achievable/realistic targets</li> <li>Exploration of systems that can be used to undertake the necessary analysis for Lancashire's response to the programme.</li> <li>Establishment of multi-agency "engine room" to drive multi-agency partnership working.</li> <li>Workforce development ongoing for CAF and LP working.</li> <li>Revised CAF documentation, Quality Assurance and processes to assist in meeting requirements.</li> </ul>  | 16 | Head of Wellbeing, Prevention and Early Help     | Upwards |
| CR25 | Failure to implement and meet the statutory requirement to children and young people with special educational needs and/or disabilities.   | Organisational  | Not providing adequate service to SEND leading to inspection failure. Lack of appropriate IT platform. Failure to recruit and retain staff. Commissioning arrangements with health not consistent.   | <ul style="list-style-type: none"> <li>Self-assessment completed against new framework</li> <li>N/W regional peer support group established</li> </ul>  | 16 | <ul style="list-style-type: none"> <li>Implementation of the early help (IT) module.</li> <li>Recruitment of qualified staff funded by the SEND reform grant.</li> <li>Commissioning arrangements with Health being reviewed.</li> </ul>  | 12 | Head of Special Education Needs and Disability   | Level   |
| CR26 | Proposed museum closures   | Organisational/political/reputational/financial/legal | <p>The proposal to close five museums has attracted negative publicity nationally, regionally and locally due to the national importance of the sites and collections</p> <p>Impact on staff leading to sickness absence</p> <p>The Council could be challenged by Judicial review if the process by which museums are either closed or transferred to a third party cannot be shown to be fair and legally robust</p> | <ul style="list-style-type: none"> <li>Weekly meetings between Museums managers and asset management, equality and diversity, communications and business intelligence to proactively manage the process.</li> <li>Decisions on process continue to be cleared through legal services and cabinet member as appropriate.</li> <li>Expressions of interest have been invited for interested parties that can show they have the resources and expertise to continue operating the museum and ensuring the collections continue to be made accessible to the public.</li> </ul> | 16 | <ul style="list-style-type: none"> <li>Senior management update staff on a weekly basis</li> <li>To help develop a revised cultural offer an application for heritage lottery funding submitted</li> <li>Public consultation has taken place to help inform the service design and future strategy of the museum service. Equality Impact Assessments detailing mitigating actions have been undertaken.</li> <li>A Cabinet Working Group (CWG) oversees the community asset transfer process to ensure it is fair and robust. The CWG meet on a monthly basis and make recommendations to Cabinet.</li> <li>Information has been circulated to assist all staff with issues which may impact upon their health and wellbeing as a result of the proposals to close buildings.</li> </ul> | 12 | Head of Libraries, museums, culture & registrars | Level   |
| CR27 | The mobilisation of the home care framework and subsequent service transfer process  | Organisational/political/reputational/financial/legal | <p>Risk of legal challenge to the tender process</p> <p>Risk of significant increased costs to the Council</p> <p>Risk of challenges in the mobilisation and transition</p>  | <ul style="list-style-type: none"> <li>Staff and County Councillor briefing notes have been shared.</li> <li>Steering group established.</li> <li>Mobilisation workshop with services who will be required to support the project.</li> <li>Evaluation of the implications for services have been identified</li> </ul>   | 16 | <ul style="list-style-type: none"> <li>Transforming Social Care in Lancashire Board to oversee the mobilisation of the home care framework and subsequent service transfer process and that the Home Care Mobilisation Steering Group should report to this Board for decision making.</li> <li>Project directly linked to the Passport to</li> </ul>   | 12 | Director of Adult services                       |         |

|                                   |  |                  | Capacity issues within teams to support the mobilisation and transition to the home care framework and ensuring that the Council's systems are able to support the requirements of the home care framework structure.<br><br>Challenges relating to providers<br><br>Potential disruption caused to service users.   | through a self-evaluation form completed by each service who will be impacted.<br><br><ul style="list-style-type: none"> <li>Work has already been undertaken around systems.</li> <li>Council services who have been engaged have a good understanding of the implications and what needs to be done.</li> </ul>  |                   | Independence Programme and involve Newton Europe in the development of the mobilisation plan.  |                            |                                  |                     |
|-----------------------------------|--|------------------|--|--|-------------------|--|----------------------------|----------------------------------|---------------------|
| Opportunity Identification Number | Opportunity Description  | Opportunity Type | Possible Benefits  | Progress to date   | Opportunity Score | Maximising Actions   | Residual Opportunity Score | Opportunity Owner                | Direction of Travel |
| C01                               | Establishing a new model for public service delivery in Lancashire | Political        | The establishment of a Lancashire Combined Authority and securing a devolution deal with central government. A Combined Authority is an accountable body in its own right – this means it is a single point of decision making on agreed functions (quicker and simpler decisions); has powers delegated to it from Government and the individual local authorities (subject to local discussion and determination); can hold substantial amounts of Government and European funding. In relation to transport, greater co-operation will allow improvements to the region's public transport network. | <ul style="list-style-type: none"> <li>Shadow Combined Authority established and meeting monthly, having received endorsement from all participating authorities. Lead Members identified for work streams and regular update reports to the Shadow CA indicate good progress. Discussions around the establishment of a Public Services Board are well developed, to be finalised in Jan / Feb 2017, to enhance engagement with other public sector partners. Initial discussions on a possible devolution deal for Lancashire underway. Successful bid for One Public Estate funding, and Property Board being established.</li> </ul> | 12                | <ul style="list-style-type: none"> <li>PWC presented an overview of their proposals for a new public service delivery model to the Combined Authority.</li> <li>Continue to press government for progress on the issuing of the necessary parliamentary order. Further develop the devolution ask, whilst ensuring that this does not interfere with the establishment of the Combined Authority itself.</li> <li>Continue to engage with councillors within individual member authorities to ensure understanding and support for the proposals, identifying benefits already gained (eg OPE, better relationships, links to LEP and growth Deal outcomes).</li> <li>Leader's workshop and separate Chief Execs workshop took place in January 2017 to take stock and consider the necessary next steps.</li> </ul> | 16                         | Chief Executive                  | ↑ Upwards           |
| CO2                               | Delivering economic growth   | Economic         | Continued successful delivery of the LEP's current strategic economic growth programmes. Successfully secured new resources for Lancashire to support job and business creation, housing growth and the delivery of strategic transport  | <ul style="list-style-type: none"> <li>Lancashire Enterprise Partnership has secured almost £1 billion of national resources to deliver a transformational programme of economic growth which see the delivery of new jobs, business and housing growth and strategic transport infrastructure. Key programmes/projects secured include the Preston, South Ribble</li> </ul>   | 12                | <ul style="list-style-type: none"> <li>Work with local authority partners on the establishment of a Combined Authority for Lancashire and in securing a Devolution Deal with Government to ensure national resources to support economic growth and regeneration are secured.</li> <li>Maximise the support from key local and national public and private sector stakeholders outside of the County Council.</li> </ul>   | 16                         | Director of Economic Development | ↑ Upwards           |

|     |   |                 |  |   |    |   |    |    |           |
|-----|---|-----------------|--|---|----|---|----|----|-----------|
|     |   |                 | infrastructure linking to drive economic growth and regeneration, linking residents and businesses with economic opportunities.  | and Lancashire City Deal, Growth Deal, three Enterprise Zones, Growing Places Funding, Boost Business Lancashire and Superfast Broadband.   |    | <ul style="list-style-type: none"> <li>EDRF project 'Boost' has secured grant funding agreement until end of 2018</li> <li>Growth Deal settlement circa £70m will provide resource for six key projects over the next three years.</li> </ul>   |    |    |           |
| CO3 | Opportunities through delivering the draft corporate strategy and property strategy | Economic/Social | This strategy seeks to ensure we continue to meet the immediate needs of our communities while shaping the council into an organisation that is sustainable and able to deliver successfully against its goals for years to come. It sets out what we will be doing to achieve that balance, along with our commitment to securing the best outcome for our citizens, communities and for Lancashire. The strategy will help to ensure that we deliver on the following strategic outcomes: <ul style="list-style-type: none"> <li>To live a healthy life</li> <li>To live in a decent home in a good environment</li> <li>To have employment that provides an income that allows full participation in society</li> </ul> | <ul style="list-style-type: none"> <li>A draft Corporate Strategy, has been produced and has been subject to Consultation. Cabinet considered the Strategy document and the approach contained within it at its meeting of the 26 November 2015. The Strategy was submitted to full Council on the 17 December 2015. The Strategy was debated and amendments agreed. It was resolved that the Corporate Strategy, as now amended, be approved subject to the section 'Our approach to service delivery' being referred back to Cabinet for further consideration. That review process is ongoing</li> </ul> | 12 | <ul style="list-style-type: none"> <li>Use the strategy and associated evidence base to guide our decision making and as the overarching framework for planning interventions which will meet the needs of communities</li> <li>Digital by design</li> <li>Embedding evidence based policy/decision making to plan for the future</li> <li>Aligning with health to meet need</li> </ul>   | 16 | MT | ↑ Upwards |
| CO4 | Health and Social Care Integration  | Organisational  | The principle of the separate organisations working together to align plans, strategies and budgets will involve the development of new delivery models and ways of working, to avoid duplication and focus activity where it is needed, recognising that current models of service delivery are unsustainable. Integration would provide the best opportunity to minimise the impact of funding reductions as well as providing a better offer for service users  | Participation in the Healthier Lancashire programme building upon the "Alignment of the Plans" work undertaken<br><br>Sustainability and Transformation Plan (STP). <ul style="list-style-type: none"> <li>Influencing and shaping the process to take account of Combined Authority objectives if and where appropriate.</li> <li>Aligning, where appropriate with existing work at a pan Lancashire level, and within individual health economies.</li> <li>Consideration of new models of delivery and potential new funding arrangements, such as pooled budgets where appropriate.</li> </ul>          | 12 | <ul style="list-style-type: none"> <li>Recognise the need for: an ambitious vision, robust partnerships, clear and credible delivery plans, and strong leadership and governance arrangements at a pan-Lancashire level.</li> <li>Lead the integration agenda, recognising the need for an ambitious vision, robust partnerships, clear and credible delivery plans. Strong leadership and governance arrangements at a pan-Lancashire level.</li> <li>PWC interim draft report 'Lancashire Public Service Delivery Model' presented to Political Governance Working Group and then full Council on 23rd February to allow time for reflection. Full Council resolved to refer the report back to PwC asking them for their final report so that it can be given meaningful consideration and proper consultations can</li> </ul> | 16 | MT | Level     |

take place with other interested parties.

**Key to Scores**

|               |  |      |                   |          |        |         |
|---------------|--|------|-------------------|----------|--------|---------|
|               | CATASTROPHIC (for risk)<br>OUTSTANDING (for opportunity) | 5    | 10                | 15       | 20     | 25      |
|               | MAJOR  | 4    | 8                 | 12       | 16     | 20      |
|               | MODERATE   | 3    | 6                 | 9        | 12     | 15      |
| <b>IMPACT</b> | MINOR  | 2    | 4                 | 6        | 8      | 10      |
|               | INSIGNIFICANT  | 1    | 2                 | 3        | 4      | 5       |
|               |  | RARE | UNLIKELY          | POSSIBLE | LIKELY | CERTAIN |
|               |  |      | <b>LIKELIHOOD</b> |          |        |         |

## **Audit and Governance Committee**

Meeting to be held on Monday, 3 April 2017

|   |
|---|
| Electoral Division affected:<br>(All Divisions) |
|---|

### **2016/17 Statement of Accounts - Update**

Contact for further information:

Neil Kissock, Tel: 01772 536154, Director of Financial Resources,  
Neil.Kissock@lancashire.gov.uk

#### **Executive Summary**

The County Council has delegated the approval of the Council's Statement of Accounts to the Audit and Governance Committee. The Accounts and Audit Regulations 2015 require that the accounts should be considered and approved by members prior to publication by 30 September following the year to which they relate.

From 2017/18, the timescales in relation to the signing, approval and publication of the statement of accounts, as specified in the Accounts and Audit Regulations 2015, will change whereby the accounts should be considered and approved by members prior to publication by 31 July following the year to which they relate.

This report sets out the early closedown timetable for 2016/17 in preparation for this earlier statutory deadline to support members of the committee in carrying out their role.

#### **Recommendation**

The Audit and Governance Committee is recommended to note this report.

#### **Background and Advice**

The County Council has delegated the approval of the Council's Statement of Accounts to the Audit and Governance Committee. The Accounts and Audit Regulations 2015 require that the accounts should be considered and approved by members prior to publication by 30 September following the year to which they relate.

From 2017/18, the timescales in relation to the signing, approval and publication of the Statement of Accounts, as specified in the Accounts and Audit Regulations 2015, will change. The relevant dates specified below all relate to the financial year immediately following the end of the financial year to which the statement of accounts relate:

- The responsible financial officer must sign and date the Statement of Accounts, confirming that they present a true and fair view of the financial position of the County Council at the end of the financial year to which they relate and the County Council's income and expenditure for that financial year, **by 31 May**.
- The period for the exercise of public rights (of inspection of the accounts) must include the **first 10 working days of June**.
- Following the conclusion of the period for the exercise of public rights and the audit of the accounts, the County Council's Audit and Governance Committee must consider the Statement of Accounts and approve them by a resolution of that Committee **before 31 July**. The responsible financial officer must re-confirm on behalf of the County Council that they are satisfied that the Statement of Accounts present a true and fair view before the Audit and Governance Committee approval.
- After approving the Statement of Accounts the Council must publish (which must include publication on the Council's website) the Statement of Accounts together with any audit certificate or opinion, the annual governance statement, and the narrative statement **by 31 July**.

In order for the County Council to prepare for this much reduced timeline for the production of the Statement of Accounts, the accounts for 2016/17 will be closed for this earlier timeline in order to identify any significant implementation issues that could prevent the achievement of the statutory deadline. This approach is supported by the County Council's auditors, and has been taken forward in earlier years by a number of other local authorities.

As such, the intended high-level early closedown schedule for the 2016/17 Statement of Accounts is as follows:

#### Statement of Accounts – Publication of Draft

The County Council's section 151 officer will sign and date the Statement of Accounts, confirming that they present a true and fair view of the financial position of the County Council as at the end of 2016/17, by 31 May 2017. The period for the exercise of public rights (of inspection of the accounts) is to commence 5 June. The 30 day public inspection period for the 2016/17 accounts must include the first 10 working days of July therefore, the period will be 5 June to 14 July.

Following the publication of the 2016/17 draft Statement of Accounts, the high-level timetable for the consideration of the accounts by the Audit and Governance Committee is as follows:

#### 26 June 2017

- Approval of the Annual Governance Statement
- Report on the significant judgements/accounting policies in the accounts

#### 31 July 2017

- Audit Findings report from the External Auditor



- Letter of Representation signed by s151 officer and chair of the Committee
- Approval of the 2016/17 Statement of Accounts
- Publication of final 2016/17 Statement of Accounts

### **Statement of Accounts briefing**

Further to last year's feedback from the Audit and Governance Committee around the timeliness of the Statement of Accounts briefing for members, for this year the briefing has been scheduled for the 26 June, allowing approximately one month before the final accounts Committee meeting scheduled for July.

### **Narrative Statement**

The Accounts and Audit Regulations (2015) require the County Council to publish a Narrative Statement with the financial statements. Its purpose is to offer interested parties an easily understandable guide to the most significant matters reported in the accounts. It should provide an explanation of the Council's financial position and assist in the interpretation of the financial statements. The Narrative Statement replaces the previous Explanatory Foreword.

The Narrative Statement should be based on the information contained in the Statement of Accounts. It should contain a commentary on the major influences affecting the County Council's income and expenditure and cash flow, and information on the financial needs and resources of the County Council. It must include comment on the County Council's financial performance and economy, efficiency and effectiveness in its use of resources over the financial year.

As per the 2015/16 accounts, the Narrative Statement will be published in the draft Statement of Accounts. For the 2016/17 accounts, this will be in May per the early closedown schedule.

### **Highways Network Assets**

The requirements for the reporting of new valuations for the County Council's Highways Network Assets has previously been reported to the Audit and Governance Committee.

On 10 March 2017 a statement was issued by CIPFA/LASAAC on the 'Implementation of the Highways Network Asset Code into the Financial Reporting Requirements of Local Authorities'.

At its meeting on 8 March, the CIPFA/LASAAC Code Board decided not to proceed with the introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities. The Board decided that, currently and in particular in the absence of central support for key elements of the valuation, the benefits are outweighed by the costs of implementation for local authorities. The Board determined that it will give further consideration to this issue only if provided with clear evidence that benefits outweigh costs for local authorities.

The Board recognised the work undertaken by accounts preparers, auditors and highways engineers in preparing for the planned changes and would encourage continued improvement of the management of the highways network asset through better inventory and cost information.

### **Consultations**

The external auditors of the County Council, Grant Thornton, have been consulted on the Council's early closedown plans for the 2016/17 Statement of Accounts.

### **Implications:**

This item has the following implications, as indicated:

### **Risk management**

An additional committee meeting has been scheduled for the statutory deadline of September 2017, for the event that matters arise meaning the accounts cannot be approved in July 2017. This may include delays due to waiting for material information from external partners to allow completion of accounts closedown and/or external audit.

### **Local Government (Access to Information) Act 1985**

#### **List of Background Papers**

| Paper  | Date              | Contact/Tel  |
|--|-------------------|--|
| Approval of the County Council's Statement of Accounts 2015/16 | 26 September 2016 | Khadija Saeed;<br>Head of Corporate Finance;<br>01772 536195 |

Reason for inclusion in Part II, if appropriate

N/A

## **Audit and Governance Committee**

Meeting to be held on Monday, 3 April 2017

Electoral Division affected:  
(All Divisions);

### **Response of the Audit and Governance Committee Chair to Grant Thornton's request for information to support its compliance with International Standards on Auditing**

(Appendices 'A' and 'B' refer)

Contact for further information:

Neil Kissock, Director of Financial Resources (01772) 536154

[Neil.kissock@lancashire.gov.uk](mailto:Neil.kissock@lancashire.gov.uk)

#### **Executive Summary**

The external auditor, Grant Thornton, is obliged to comply with International Auditing Standards and, although it has a good understanding of how the Audit and Governance Committee gains assurance over management processes and arrangements, it is required formally to update this understanding annually.

The Chair of the Audit and Governance Committee has been asked to provide information in respect of Lancashire County Council relating to:

- fraud and internal control;
- laws and regulations; and
- litigation and claims.

The letter from Grant Thornton is attached at Appendix 'A'. A response has been prepared for consideration by the committee and is attached at Appendix 'B'.

#### **Recommendation**

It is recommended that:

- a) The response attached at Appendix 'B' is considered and approved.
- b) The Chair of the Audit and Governance Committee be authorised to sign the response on behalf of the committee.

#### **Background and Advice**

The external auditor, Grant Thornton, is obliged to comply with International Auditing Standards and, although it has a good understanding of how the Audit and Governance Committee gains assurance over management processes and arrangements, it is required formally to update this understanding annually.

The Chair of the Audit and Governance Committee has been asked to provide information in respect of Lancashire County Council relating to:

- fraud and internal control;
- laws and regulations; and
- litigation and claims.

The letter from Grant Thornton is attached at Appendix 'A'. A response has been prepared for consideration by the committee and is attached at Appendix 'B'.

### **Consultations**

N/A

### **Implications:**

This item has the following implications, as indicated:

### **Risk management**

This letter will provide supporting evidence to Grant Thornton in determining its opinion on the financial statements of the County Council for 2016/17.

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

| Paper | Date | Contact/Tel |
|-------|------|-------------|
|-------|------|-------------|

N/A

Reason for inclusion in Part II, if appropriate

N/A

Our Ref: KLM/CLS

Mr Terry Brown  
Audit and Governance Committee Chair  
Lancashire County Council  
County Hall  
Preston  
PR1 0LD

**Grant Thornton UK LLP**  
4 Hardman Square  
Spinningfields  
Manchester M3 3EB  
T +44 (0)161 953 6900  
F +44 (0)161 953 6901  
[www.grant-thornton.co.uk](http://www.grant-thornton.co.uk)

2 March 2017

Dear Mr Brown

**Lancashire County Council and Lancashire County Pension Fund Financial Statements for the year end 31 March 2017**

**Understanding how the Audit and Governance Committee gains assurance from management**

To comply with International Auditing Standards, each year we need to refresh our understanding of how the Audit and Governance Committee gains assurance over management processes and arrangements.

I would be grateful, therefore, if you could write to me with your responses to the following questions.

- 1 How does the Audit and Governance Committee oversee management's processes in relation to:
  - carrying out an assessment of the risk the financial statements may be materially misstated due to fraud or error
  - identifying and responding to the risk of breaches of internal control
  - identifying and responding to risks of fraud in the organization (including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist)
  - communicating to employees its views on appropriate business practice and ethical behavior (for example by updating, communicating and monitoring against the codes of conduct)?
- 2 Do you have knowledge of any actual, suspected or alleged frauds? If so, please provide details.
- 3 How does the Audit and Governance Committee gain assurance that the County Council and County Pension Fund have complied with all relevant laws and

**Chartered Accountants**

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No. OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. Please see [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk) for further details.

regulations?

4 Are you aware of any actual or potential litigation or claims that would affect the financial statements?

Please could you provide a response by 3 May 2017 and please contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Karen Murray  
Director  
For Grant Thornton UK LLP

Dear Ms Murray

**Response of the Chair of the Audit and Governance Committee to Grant Thornton's request for information to support its compliance with International Standards on Auditing**

The Audit and Governance Committee and I have considered your request for information to enable you to comply with International Standards on Auditing and the Committee has approved the following response.

**Your requirements**

Grant Thornton is obliged to comply with International Standards on Auditing. In particular it is required to gain an understanding of how the Audit and Governance Committee exercises oversight of management's processes in respect of Lancashire County Council and the County Pension Fund in relation to:

- fraud and internal control;
- laws and regulations; and
- litigation and claims.

**The role of the Audit and Governance Committee**

Under its terms of reference the Audit and Governance Committee advises the Council on risk, control and governance, oversees the planned activity and results of both internal and external audit, and considers the adequacy of management's responses to issues identified by audit activity. It therefore oversees the work of the Council's Internal Audit Service, which provides assurance to the council on the adequacy and effectiveness of its internal controls, including financial controls, and also supports the Council in its management of the risk of fraud by providing a counter fraud and investigatory service.

Since fraud represents a lapse in financial control, the Audit and Governance Committee is also charged with responsibility for overseeing management's arrangements in response to the risk of fraud.

In an organisation of Lancashire County Council's size, a proportionate approach must be taken to an assessment of risk and to the assurance required over the controls implemented to manage it. It is impractical to expect that either a committee of elected members or the Internal Audit Service, having adopted a risk-based approach, will be able to oversee and assess all management processes. Nor can absolute assurance be gained that compliance with all applicable laws and regulations is achieved.

## **The Audit and Governance Committee's oversight of internal audit work**

The Audit and Governance Committee approves the annual internal audit plan, which is based on an assessment of the Council's risks and the operational and financial controls that mitigate these. The annual audit plan is built upon an assessment of risk that includes the risk of non-compliance with relevant laws and regulations. The Internal Audit Service also works to support management in managing the risk of fraud and sets aside audit resources for the investigation of suspected or alleged instances of fraud: this work continued during 2016/17.

The Audit and Governance Committee receives regular progress reports from the Head of Internal Audit, including reports on breaches of internal control and fraud risks where applicable. The Director of Financial Resources and his staff brief the Audit and Governance Committee on financial matters, and the Director of Governance, Finance and Public Services and other officers attend the Audit and Governance Committee to brief them on control issues, as necessary to respond to audit reports and to inform the Committee of progress where remedial action has been agreed.

The Internal Audit Service operates a proactive programme to identify and pursue indications of fraudulent activity in particular within the Council's key financial systems, regularly testing both the corporate controls and controls operated within individual services. Computer assisted techniques and additional testing of areas susceptible to fraud have been developed to enable the Internal Audit Service proactively to assess whether there are indications of malpractice in key areas. Work on the Council's key financial systems in 2016/17 included consideration of the controls to manage the risk of fraud.

As Grant Thornton will be aware, the Council actively participates in the National Fraud Initiative which serves as a regular extension of the work done by the Internal Audit Service throughout the year. Checks are carried out on the reports raised by this initiative and support is also given to Lancashire district councils.

The Internal Audit Service supports the financial whistleblowing helpline and regularly responds both to formal whistleblowing calls and to less formal concerns raised with individual auditors by staff across the Council. Investigations are undertaken promptly and pursued vigorously and, where appropriate, there is good liaison with the police.

Both management and the Audit and Governance Committee are aware of Grant Thornton's assessment of the level at which misstatements of Lancashire County Council's financial statements are deemed to be material, and are briefed on the External Auditor's assessment of the risks of material misstatement of the financial statements, including the risk of fraud. Any risk of misstatement due to fraud with a potential impact of this magnitude would be highlighted immediately by the Internal Audit Service to both management and the Audit and Governance Committee.

## **The Audit and Governance Committee's oversight of management processes**

The Audit and Governance Committee takes seriously its role in reviewing Lancashire County Council's internal control effectiveness, including financial control arrangements and compliance with the law. It values its independence of the executive



and its direct reporting line to the council. It is also charged with oversight of the overall arrangements by which the risk of fraud is managed.

The Audit and Governance Committee receives information about instances of financial impropriety and fraud as well as breaches of control within the Internal Audit Service's annual report.

A counter fraud policy statement, strategy and work-plan, and a whistleblowing policy are in place and are periodically communicated to the Council's staff. The Audit and Governance Committee receives periodic reports from the Internal Audit Service of issues being investigated as potential impropriety or fraud, and management's responses to these.

### **Fraud and internal control**

The Audit and Governance Committee is not aware of any breaches of internal controls that are intended to mitigate the risk of fraud within Lancashire County Council during 2016/17. The Committee has considered the existence and operation of internal controls (including, implicitly, segregation of duties) and where it has concerns, these have been minuted during the year.

Similarly, the Audit and Governance Committee is unaware of any further actual, suspected or alleged frauds, or any related party relationships or transactions that could give rise to instances of fraud affecting the Council.

The Audit and Governance Committee is not aware of any entries in the accounting records of the Council that it believes or suspects are false or intentionally misleading.

### **Laws and regulations**

As stated above, in an organisation of the size and complexity of Lancashire County Council, absolute assurance cannot be gained that compliance with all applicable laws and regulations is achieved. The Audit and Governance Committee is not aware of any significant areas of non-compliance during 2016/17.

### **Litigation and claims**

The Audit and Governance Committee is unaware of any actual or potential litigation or claims against the Council that would have a material impact on the financial statements.

Yours sincerely  
Chair of the Audit and Governance Committee  
Lancashire County Council



## **Audit and Governance Committee**

Meeting to be held on Monday, 3 April 2017

Electoral Division affected:  
(All Divisions);

## **Internal Audit progress report**

Appendices 'A' and 'B' refer

Contact for further information:

Ruth Lowry, Head of Internal Audit Service,

ruth.lowry@lancashire.gov.uk

### **Executive Summary**

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 County Council's governance, risk management and internal control framework. It highlights issues arising from the work undertaken during the period to the middle of March 2017 by the Internal Audit Service under the agreed internal audit plan.

### **Recommendation**

The Audit and Governance Committee is asked to consider the Internal Audit Service progress report for the period to the middle of March 2017.

### **Background and Advice**

#### ***Definition of internal auditing***

"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

"The provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control."

*The Institute of Internal Auditors, and  
Public Sector Internal Audit Standards, 2016*

#### ***Relevant regulations***

Internal audit: "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance."

*Regulation 5. (1)*

Review of internal control system: "A relevant authority must, each financial year  
(a) conduct a review of the effectiveness of the system of internal control ... and  
(b) prepare an annual governance statement."

*Regulation 6. (1)*

*Accounts and Audit Regulations 2015*

### **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**

#### **Implications:**

This item has the following implications, as indicated: none.

### **Risk management**

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

### **Local Government (Access to Information) Act 1985**

#### **List of Background Papers**

| Paper | Date | Contact/Tel |
|-------|------|-------------|
|-------|------|-------------|

NA

Reason for inclusion in Part II, if appropriate

NA

## **Internal Audit Service progress report on implementation of the strategic internal audit plan: 2016/17 and beyond**

### **1. Introduction**

- 1.1. In January 2016 the Audit and Governance Committee considered and approved a strategic internal audit plan for 2015/16, 2016/17 and beyond, and the Internal Audit Service has been working to that plan since then. The work scheduled for 2016/17 has progressed well and the majority of the planned audits are now in progress or complete, although a small number have been superseded by other sources of assurance. The Audit and Governance Committee's terms of reference require it to consider periodic reports of internal audit activity and outcomes, and this report provides a summary to support that task.

### **2. Amendments to the audit plan**

- 2.1. Small amendments to the plan have been reported to the Committee in September 2016 and January 2017 but there has been only one change since then. Following work by PricewaterhouseCoopers (PwC) to document the framework of controls by which the Council oversees the work of the Lancashire Pension Fund, we have recently begun work to address compliance with the shareholder agreement and the referral of matters reserved for the council to the council for decision. We previously reported that this work would not be undertaken.
- 2.2. For completeness, the original plan is set out in Appendix B and each piece of audit work planned for 2016/17 has been accounted for, with a note of the assurance on each that, in our opinion, can be provided at this point.

### **3. Internal Audit Service resources**

- 3.1. The Committee was informed in January 2017 that the resources available to the service had been agreed and all of the auditor and senior auditor posts had recently been filled. Following the departure of one of the two audit managers in December, that vacancy has also been filled and a new audit manager will start work at the Council on 3 April 2017.
- 3.2. The service has also recruited a graduate trainee internal auditor who will pursue qualification as a certified internal auditor with the Chartered Institute of Internal Auditors on a two-year training contract, and she started work in the team on 27 March.

### **4. Findings arising from the internal audit work completed to date**

- 4.1. The Committee's attention has previously been drawn to the existence of a number of areas of the Council's operations that are subject to too much turbulence to be audited, and areas where managers could not themselves provide assurance over the adequacy and effectiveness of controls. It has also been made aware of the limited assurance effectively provided by both PwC (in respect of the Council's financial position and capacity to make the necessary financial savings) and Ofsted (in respect of children's social care). The Internal Audit Service's own work has generated some positive assurance, but also only limited assurance over a key control in adult social care – professional supervision – and a key financial control – accounts receivable and debt management.

## Internal Audit Service progress report

- 4.2. In light of this information the Internal Audit Service will be able to provide no more than limited assurance overall for 2016/17, although the final outcomes of all the audit work for the year will be available only in June 2017.
- 4.3. However as was noted in January 2017, despite the instability arising from the changes taking place across the Council, there are some areas where strong control is exerted over the services being provided and systems operated. In particular, as previously reported, we have provided full assurance over the provision of school places.
- 4.4. One common theme across a number of areas though is inappropriate access to systems available to officers who no longer need it, or whose roles do not require it. This issue is known to the Council's management and it is being considered as part of the Council's wider development of improved ICT systems.
- 4.5. A brief summary of the assurance we have provided for each of the audits relating to 2016/17 and completed by the end of February 2017 is provided in the table below.

| <b>System</b>   | <b>Assurance</b>                         |
|---|--|
| <b>Governance and democratic oversight</b>  |  |
| Documentation of the Council's governance arrangements  | Substantial (reported in January 2017)   |
| <b>Business effectiveness</b>   |  |
| Preparation and use of the risk register  | Substantial (reported in January 2017)   |
| <b>Service delivery: adult's services</b>   |  |
| Case management: supervision and support to front-line social workers to ensure safeguarding of service users | Limited (reported in January 2017)       |
| <b>Service delivery: public health and wellbeing services</b>   |  |
| Commissioning and oversight of commissioned public health service provision                                   | Substantial (reported in January 2017)   |
| Operation of the Health and Wellbeing Board   | Substantial (reported in January 2017)   |
| <b>Service delivery: corporate commissioning</b>  |  |
| Operation of the Better Care Fund   | Substantial (see below)                  |
| Provision of school places  | Full (reported in January 2017)          |
| <b>Service delivery: economic development</b>   |  |
| Lancashire Enterprise Partnership: governance and accountability  | Substantial (reported in September 2016) |
| Lancashire Enterprise Partnership: assurance framework  | Substantial (reported in September 2016) |
| <b>Service delivery: emergency planning</b>   |  |
| Adequacy of the plans in place to address emergencies and civil contingencies                                 | Substantial (reported in January 2017)   |

| System  | Assurance                                |
|---|--|
| <b>Service delivery: pension fund administration</b>  |  |
| Accounting for the fund   | Substantial (see below)                  |
| <b>Service support: business systems</b>  |  |
| Monitoring of the contract with BTLS  | Substantial (reported in January 2017)   |
| <b>Business processes: financial processes</b>  |  |
| Oracle general ledger   | Substantial (see below)                  |
| Accounts receivable and debt management system (a centrally managed system with input across the council) | Limited (reported in September 2016)     |
| Cash and banking (central functions)  | Substantial (reported in September 2016) |
| Oversight of payroll payments   | Substantial (see below)                  |
| <b>Business processes: procurement</b>  |  |
| Central procurement: compliance with legislation, financial regulations and standing orders               | Substantial (reported in January 2017)   |

- 4.6. The matters arising from the audits completed since mid-December 2016 are set out in the narrative below, and notes of the progress made on each audit on the plan for 2016/17 are set out in the table in Appendix B.

**Administration of the Better Care Fund: substantial assurance**

- 4.7. The Better Care Fund (BCF) was designed to promote integrated and therefore more efficient and effective working between health and social care services. The pooled funding arrangements have been implemented and are operational, and serve as a first step in developing integrated working for the future.
- 4.8. The financial management arrangements in place within the Council are effective, including specifically the administration of receipts and payments from the pooled fund. We confirmed that the money allocated to each scheme in the BCF plan was correctly distributed, although the s75 agreement for 2016/17 has not yet been finalised and signed by all its counterparties.
- 4.9. Processes are in place to monitor the performance of service providers for schemes run by the Council. However the schemes being operated were initiated before the pooled funding arrangements were implemented and the way the partners are currently delivering services has not therefore changed yet as a result of the operation of the BCF.

**Accounting for the Pension Fund: substantial assurance**

- 4.10. We found no significant issues. However we noted that there were officers with access to the general ledger who no longer require this access since they have changed roles within the authority. We also noted that the balance on the sundry debtors account of £1.1 million had not been reconciled, as had been agreed during the previous audit.

**Oracle general ledger:** substantial assurance

- 4.11. We identified only one area where controls could be strengthened which is, again, the management of system users with access to the general ledger. Managers should notify ICT Services if staff transfer to another service or leave the Council but this does not always happen and staff retain access which they no longer need. This issue was also identified in the previous audit.

**Oversight of payroll payments:** substantial assurance

- 4.12. We found no significant issues relating to oversight by the Council of the payroll transactions processed by BTLS although, as noted below, there are a number of matters for the Council to address in providing BTLS with the information they need, accurately, and in a timely manner.

**Payroll processing by BTLS:** full assurance

- 4.13. We found no issues and only good practice in the systems by which BTLS processes the Council's payroll. However there are some problems in the data provided to BTLS by the Council. In particular it is clear that salary overpayments are routinely made as officers leave the organisation, partly due to late notification by the Council's managers of payroll adjustments as staff leave, and partly due to late adjustments to annual leave and other entitlements after officers have left. Further, the volume of these is resulting in delays within BTLS in raising invoices to former employees.



| Service area                               | Operational area of activity   | Audit work   | Planning principle   | Progress/ findings  | Assurance      |
|--|--|--|--|---|----------------|
| <b>Governance and democratic oversight</b> |  |  |  |   |                |
| Corporate governance framework             | Documentation of the council's governance arrangements: the framework that addresses the council's constitutional decision-making and delegation of powers | Review of the ownership, completeness and currency of documentation the council is required to hold, publicise and periodically review setting out its governance arrangements for decision-making and delegation of powers. | Key component of opinion   | All of the documentation that would be expected to be in place to underpin constitutional decision-making and delegation of powers exists, as does most of the wider documentation required by the CIPFA/ SOLACE publication 'Good governance in local government: framework 2016'. | Substantial    |
|  | Operation of the scheme of delegation to officers  | Review of the introduction of the revised scheme of delegation and its operation in practice.  | Coverage of control across the organisation  | This work has just begun.   |                |
|  | Effective oversight of corporate governance by the Audit and Governance Committee  | Assessment of the constitution and operation of the Audit and Governance Committee against professional guidance and current best practice.  | Key component of opinion   | Work on this audit is almost complete and will be discussed with the Leader of the Council as well as committee members before the end of the current administration.   |                |
| <b>Business effectiveness</b>              |  |  |  |   |                |
| Risk management                            | Preparation and use of the corporate risk register   | Assessment of the principles and practical operation of risk management arrangements to produce a corporate risk register and respond to the issues it records.  | Key component of opinion   | The process by which the corporate and service risk registers are prepared is still relatively new and, although there are differences in the extent to which it is understood by individual services, the arrangements are operating as intended overall.                          | Substantial    |
| Financial governance                       | Delivery of the council's financial strategy and budget reductions   | Risk and control assessment of the measures in place to monitor and achieve planned budget reductions.   | Controls to mitigate a significant risk  | See PricewaterhouseCoopers' report dated 23 September 2016. On the basis of that work, the committee should take no more than limited assurance that the risks to delivery of the council's financial strategy and budget reductions have been adequately mitigated.                | Limited        |
|  | Oversight of the Lancashire Pension Fund   | Assessment of the governance framework to achieve corporate oversight by the council of the Fund, whose assets are owned by the council.   | Controls to mitigate a significant risk  | This audit has recently begun and will assess areas of assurance identified in PricewaterhouseCoopers risk and assurance framework.   |                |
|  | Acting as accountable body for funding   | Evaluation of the controls that manage the risks in taking on the role of accountable body, taking a sample of the most significant funding streams.   | Coverage of controls across the organisation   | This work has been removed from the audit plan, but has been addressed by work on the Lancashire Enterprise Partnership and Better Care Fund.   | Not applicable |
| Performance monitoring                     | Corporate performance monitoring   | Support to management in establishing a revised framework for monitoring and managing achievement of the council's key strategies.   | Support to management to improve controls  | Work is almost complete and a draft report is being prepared for discussion with management.  |                |
| <b>Service delivery</b>                    |  |  |  |   |                |
| Children's services                        | Escalation of matters of strategic or political importance through to the Operations and Delivery management team and beyond if appropriate                | Compliance testing of the escalation as appropriate of issues arising within individual caseloads or social care teams.<br>This work could be replicated in other service areas but will be piloted here first.              | Controls to mitigate a significant risk, and supporting work relating to risk management | Discussions are continuing with senior management and, although it was previously thought that this work would be deferred until 2017/18, we intend to complete this within 2016/17's work programme.   |                |
|  | Identification of, and responses to, external feedback on children's services and schools  | Assessment of the potential sources of feedback and operational services' responses to these including escalation of the information to senior management.   | Controls to mitigate a significant risk  | This audit work is continuing but nearing completion, focussing on the control frameworks relating to the county's schools and children with special educational needs or disabilities.   |                |
| Children's services continued              | Data held on LCS (Lancashire Children's Services system)   | Compliance testing of the completeness and accuracy of the data records held on LCS.   | Controls to mitigate a significant risk  | This work has been removed from the plan as Newton Europe Ltd, the Department for Education   | Not applicable |

Lancashire County Council internal audit plan 2016/17: progress as at 13 March 2017

| Service area                         | Operational area of activity  | Audit work   | Planning principle   | Progress/ findings   | Assurance      |
|--------------------------------------|---|--|--|--|----------------|
|                                      | provided by Liquidlogic)  |  |  | and Ofsted are all currently working in this area.   |                |
|                                      | Oversight of schools' financial management  | Risk and control evaluation of the arrangements to oversee schools' financial management.  | Coverage of controls across the organisation                               | This work is complete and a draft report has been issued for discussion with management.   |                |
|                                      | Certification of claims made under the Working Together with Families Programme                               | Testing to certify that central government's grant funding requirements have been met. We are required to test 10% of the claims submitted.                                      | Requirement to comply with funding terms                                   | A claim was submitted for sixteen cases in January 2017 and a further 93 cases will be submitted shortly. We have therefore undertaken testing to confirm that the claims will be made in accordance with the funding requirements.  | Not applicable |
| Adults' services                     | Case management: supervision and support to front-line social workers to ensure safeguarding of service users | Risk and control evaluation of supervision and support arrangements under the new team management arrangements, with full compliance testing.                                    | Controls to mitigate significant risks in a number of individual instances | The service's managers are already aware that current supervision arrangements are not complied with; they are onerous and no longer reflect the new staff structure and the revised operational framework for adult social care. New policies and procedures have been drafted and are being piloted. | Limited        |
|                                      | Data held on LAS (Lancashire Adult Services system provided by Liquidlogic)                                   | Compliance testing of the completeness and accuracy of the data records held on LAS.   | Controls to mitigate a significant risk                                    | This audit is being undertaken in conjunction with the three audits of case management below, all of which impact on the data held on LAS. Work is continuing.   |                |
|                                      | Case management: assignment of officers to cases  | Risk and control evaluation of assignment of cases and workloads, with compliance testing following implementation of new team working arrangements.                             | Controls to mitigate significant risks in a number of individual instances | A single risk and control framework has been developed for these three areas of case management and work is continuing. We intend to discuss our work and findings with the Adult Services leadership team in April.   |                |
|                                      | Case management: timely completion of action to statutory and advisory deadlines                              | Compliance testing of the timeliness of case management action against the deadlines set in legislation and the council's policies.  | Controls to mitigate significant risks in a number of individual instances |  |                |
|                                      | Case management: delegation of responsibilities to accredited social workers                                  | Compliance testing of the accreditations awarded to social workers to facilitate their taking on enhanced responsibilities for case management decisions.                        | Coverage of controls across the organisation                               |  |                |
| Public health and wellbeing services | Commissioning and oversight of commissioned public health service provision                                   | Risk and control evaluation of joint working with the NHS and voluntary sector to provide services within Lancashire.  | Coverage of controls across the organisation                               | Controls to oversee contracts for the provision of public health services are in place and operating effectively.  | Substantial    |
|                                      | Operation of the Health and Wellbeing Board   | Assessment of the constitution and operation of the Board against professional guidance, local requirements and current best practice,   | Coverage of controls across the organisation                               | The Lancashire Health and Wellbeing Board has been appropriately constituted and is acting in accordance with its terms of reference.  | Substantial    |
| with Corporate commissioning         | Operation of the Better Care Fund   | Including assessment of the governance arrangements for the council's use of the Better Care Fund.   | Coverage of controls across the organisation                               | The procedures operated within the council to administer the fund are adequate and effective.  | Substantial    |
| Corporate commissioning              | Commissioning, design and monitoring of the capital programme   | Risk and control evaluation of the revised procedures to oversee the whole capital programme, including elements managed by the council for the Lancashire Economic Partnership. | Controls to mitigate a significant risk                                    | A risk and control framework is being documented and agreed with management, and detailed testing of its effectiveness will be undertaken during 2017/18.  |                |
|                                      | Provision of school places  | Risk and control evaluation of the provision of school places.   | Coverage of controls across the organisation                               | Effective controls are operated to ensure that the council's statutory responsibilities are fully met.   | Full           |
|                                      | Operation of the Premises Compliance Team in strategic premises management                                    | Assessment of risk and controls in relation to the council's property assets.  | Coverage of controls across the organisation                               | Since compliance officers were not in place during the year, and given the changes still going on in this area, this work has been deferred into 2017/18.  | Not applicable |
|                                      | Certification of claims made through the Challenge Fund to the Department for Transport                       | Testing to certify that central government's grant funding requirements have been met.   | Requirement to comply with funding terms                                   | The council's use of £5.1 million of grant funding for M65 motorway infrastructure and £5 million for its lighting under the Challenge Fund has been certified   | Not applicable |

| Service area                  | Operational area of activity  | Audit work  | Planning principle   | Progress/ findings  | Assurance      |
|-------------------------------|---|---|--|---|----------------|
|                               |   |   |  | as meeting the conditions of that funding.  |                |
| Economic development          | Lancashire Economic Partnership (LEP): governance and accountability          | Assessment of the constitution and operation of the Partnership against guidance and local requirements, to ensure the success of the partnership and the effective use of its individual funding streams (Lancashire Enterprise Zone, City Deal, Boost Business Lancashire, Growing Places Fund, Growth Deal Programme). | Controls to mitigate a significant risk                                    | The operation of the LEP is heavily circumscribed by central government and the council is compliant with those requirements.   | Substantial    |
|                               |   | Establish and assess the assurance framework for the programme, including assurance available from other areas of audit work and any work by other organisations.   | Maximising the value of audit work in other control areas                  | The assurance framework for the LEP was audited by the North West office of the former Department for Business and Skills and by the Government Internal Audit Office, both of which identified only minor administrative points.   | Substantial    |
|                               | Local Growth Fund certification   | We have certified that the Department for Communities and Local Government's requirements in respect of Growth Deal funding have been met.  | Requirement to comply with funding terms                                   | The council's use of £39.35 million of grant funding under the Local Growth Fund has been certified as meeting the conditions of that funding.  | Not applicable |
| Emergency planning            | Adequacy of the plans in place to address emergencies and civil contingencies | Risk and control evaluation of the adequacy of emergency planning, including involvement of appropriate partners and adequacy of testing.   | Controls to mitigate a significant risk                                    | There are good practices in place to ensure that emergency response plans are effective, viable, and up to date. There are also areas where action is still required to enhance compliance with the Civil Contingencies Act, but these areas have already been identified and action is being taken or is planned for 2017. | Substantial    |
| Pension fund administration   | Administration of the fund to serve its members                               | Risk and control evaluation, with annual compliance testing, whilst the council has no other source of assurance over this.   | Controls to mitigate significant risks in a number of individual instances | This work is close to completion.   |                |
|                               | Accounting for the fund   | Risk and control evaluation, with annual compliance testing, whilst the council has no other source of assurance over this.   | Controls to mitigate a significant risk                                    | There are no significant issues in relation to accounting for the transactions of the Pension Fund, although officers retaining inappropriate access to the council's financial system is a common theme across a number of systems.  | Substantial    |
|                               | Fund investment management  | Assessment with management of the assurance framework and available assurance over the Fund's investments.  | Controls to mitigate a significant risk                                    | This work has recently begun and will continue into April 2017.   |                |
|                               |   | Follow-up of actions agreed in relation to monitoring the performance of the Pension Fund's investments.  | Follow-up as required by professional standards                            | This work has begun and will be undertaken at the same time as that on investment management above.   |                |
| <b>Service support</b>        |   |   |  |   |                |
| Business systems              | Monitoring of the contract with BTLS  | Risk and control evaluation of contract monitoring, with compliance testing.  | Coverage of controls across the organisation                               | Monitoring of the contract within the council is effective.   | Substantial    |
| <b>Business processes</b>     |   |   |  |   |                |
| Financial processes           | Treasury management   | Risk and control evaluation of the controls in place, with annual compliance testing.   | Controls to mitigate a significant risk                                    | Compliance testing for 2016/17 has begun and will be completed during April 2017.   |                |
| Financial processes continued | Oracle general ledger   | Risk and control evaluation of the controls in place, with annual compliance testing.   | Controls to mitigate a significant risk                                    | We found no issues other than officers retaining inappropriate access to the system.  | Substantial    |
|                               | Accounts receivable and debt management: central controls                     | Risk and control evaluation of the controls in place, with annual compliance testing.   | Controls to mitigate a significant risk                                    | Work for 2015/16 was reported in September 2016 and, since the action agreed by the Finance Team  | Limited        |

| Service area       | Operational area of activity  | Audit work   | Planning principle   | Progress/ findings  | Assurance          |
|--------------------|---|--|--|---|--------------------|
|                    |   |  |  | was scheduled to be implemented during the remainder of 2016/17, we have not undertaken any further work (including follow-up of the agreed actions) on this system during the rest of the year.  |                    |
|                    | Accounts receivable and debt management: feeder system controls   | Risk and control evaluation of the controls in place, with annual compliance testing of a sample of feeder systems.  | Controls to mitigate a significant risk                                    | The work reported above on the central controls supporting the accounts receivable system and debt management also addressed the main feeder system, Controcc, which supports adult social care. Testing also incorporated samples from the Symology, CART and MICE systems and the local arrangements within the services that use them (highways assets, transport and street lighting) and therefore no additional work will be separately undertaken this year. | Limited (as above) |
|                    | Cash and banking: central controls including checks over completeness and compliance in other locations | Risk and control evaluation of the controls in place, with annual compliance testing.  | Controls to mitigate a significant risk                                    | The income identification and allocation process is effective and has been improved by greater automation in recent years. However we noted issues in the operation of the Streamline system we tested at three locations around the county, and also in the operation of the ParentPay system in three schools.  | Substantial        |
|                    | Oversight of payroll payments   | Risk and control evaluation of the council's monitoring and oversight of BTLS's processes, with annual compliance testing.   | Controls to mitigate a significant risk                                    | Controls to oversee the processing by BTLS of payroll transactions on behalf of the council are effective.  | Substantial        |
|                    | Accounts payable: central controls  | Risk and control evaluation of the controls in place, with annual compliance testing.  | Controls to mitigate a significant risk                                    | We have prepared a draft report for discussion with the director of resources.  |                    |
|                    | VAT   | Risk and control evaluation of the controls in place, with periodic compliance testing.  | Coverage of controls across the organisation                               | Work has begun, including follow-up of the actions agreed in 2015/16.   |                    |
| Investment         | Implementation of the treasury management strategy, including refinancing the council's debt            | Compliance testing of operational policies and procedures, and work with management to understand the nature of the representations being given to lenders and credit rating agencies. | Controls to mitigate a significant risk                                    | This work is almost complete but will continue into April 2017.   |                    |
|                    | Compliance with borrowing limits and any other restrictions on investment                               | Evaluation of the in-service compliance programme and management's responses to its findings.  | Controls to mitigate a significant risk                                    | This work is being undertaken with that above, and will continue into April.  |                    |
| Procurement        | Central procurement: compliance with legislation, financial regulations and standing orders             | Risk and control evaluation with annual compliance testing.  | Controls to mitigate a significant risk                                    | The Procurement Service has established procedures to ensure that all procurement exercises follow the council's procurement rules and strategy, and the control exerted by that central team is effective.   | Substantial        |
| Payroll processing | Effectiveness of inputs to the system: the inputs required and how they are processed                   | Risk and control evaluation focussed on system inputs.   | Controls to mitigate significant risks in a number of individual instances | This audit has been deferred until 2017/18 as work is being undertaken within BTLS and with the council's HR Service to improve the inputs to the system provided by the council.   | Not applicable     |
|                    | Processing of payments by BTLS, using information supplied by   | Risk and control evaluation, with annual compliance testing.   | Controls to mitigate significant risks in a number                         | We found no control issues in the process operated by BTLS to process payroll payments to the council's   | Full               |

Lancashire County Council internal audit plan 2016/17: progress as at 13 March 2017

| Service area                  | Operational area of activity  | Audit work  | Planning principle                      | Progress/ findings  | Assurance |
|-------------------------------|---|---|---|---|-----------|
|                               | LCC   |   | of individual instances                 | staff.  |           |
| Human resources (and finance) | Amendments to the council's establishment: completeness, accuracy and currency of records                     | Risk and control evaluation to ensure that the staff establishment, hierarchies and budgets are aligned, with full compliance testing.  | Controls to mitigate a significant risk | Work to establish the scope of this work has begun and will continue into 2017.   |           |
| ICT                           | Possible work may include general IT controls, IT security and continuity planning, and application controls. | External advice is required, including discussions with BTLS, to properly assess the ICT audit work that is appropriate and achievable. | Controls to mitigate significant risks  | Discussions with BTLS are progressing into 2017/18, but some assurance over the controls operated on the council's behalf to manage the risks around the use of ICT systems is available and has been provided. |           |



## **Audit and Governance Committee**

Meeting to be held on Monday, 3 April 2017

Electoral Division affected:  
(All Divisions);

## **Internal Audit Planning for 2017/18**

Appendix 'A' refers

Contact for further information:

Ruth Lowry, Head of Internal Audit Service,  
ruth.lowry@lancashire.gov.uk

### **Executive Summary**

This report explains the approach to establishing the plan of work to be undertaken by the County Council's Internal Audit Service for 2017/18.

### **Recommendation**

The Audit and Governance Committee is asked to consider the process by which the Internal Audit Service annual plan will be prepared for 2017/18.

### **Background and Advice**

This paper explains how the internal audit plan for 2017/18 will be constructed. It sets out the planning principles that will be followed, the information required, and how potential areas of audit work will be assessed to prioritise them and construct an effective plan with limited resources.

The new Committee will be asked in June 2017 to approve a full plan of audit work for the year and beyond.

### **Consultations**

### **Implications:**

This item has the following implications, as indicated:

The Internal Audit Service will continue to work to the current audit plan, the 'Strategic Internal Audit Plan: 2015/16, 2016/17 and Beyond', until June 2017, although some areas of new work may be begun where these will be helpful to the County Council's managers.

### **Risk management**

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

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

| Paper | Date | Contact/Tel |
|-------|------|-------------|
|-------|------|-------------|

NA

Reason for inclusion in Part II, if appropriate

NA



## Strategic internal audit planning and principles for 2017/18

### 1. Introduction

- 1.1. This paper explains how the internal audit plan for 2017/18 will be constructed. It sets out the planning principles that will be followed, the information required, and how potential areas of audit work will be assessed to prioritise them and construct an effective plan with limited resources.
- 1.2. It will provide an outline of the matters that will be included in the plan for 2017/18 but this will be subject to further development over the coming months and a more detailed plan will be set out in June 2017 for the Committee that will be formed by the Council's next Administration for the remainder of the year and beyond.

### 2. Context

- 2.1. During 2016/17 the Council commissioned a review of its budget from PricewaterhouseCoopers that validated the financial position reported by the Council in its medium term financial strategy. Their report confirmed that, even if the Council were to reduce its cost base to the median of the lowest quartile of comparable councils' expenditure by 2020/21, it would still incur an in-year deficit of approximately £79 million in that year, and a cumulative deficit by 31 March 2021 of £227 million. The budget now approved for 2017/18 is supported by a contribution from reserves of £57 million, and the need for a further contribution of £87 million in 2018/19 is currently forecast. The Council has therefore recognised that it is critical that significant additional savings are identified as quickly as possible during 2017/18 and delivered during 2018/19 or sooner.
- 2.2. The turbulence of recent years will therefore continue and will affect almost all of the Council's services. Although service restructures are ongoing, at this point not all of the council's services have completed the process. In particular, adults' social care services are currently subject to restructuring as well as to significant process changes; and children's social services are subject to ongoing improvement and review by Ofsted, which has recently reconfirmed its assessment that these services are inadequate.
- 2.3. A new Council will be elected in May 2017 and will form a new Administration, and a new Audit and Governance Committee will be appointed. A more fully developed plan will be taken to that Committee at its meeting in June for its consideration and approval.

### 3. The purpose of the audit plan

- 3.1. The Council is responsible for a wide range of services across the county and its members and senior management should be aware both of the risks to achieving their service objectives and the risks inherent in their work. Each of these risks should be managed by controls designed to reduce the risk to a corporately acceptable level, and which operate effectively and consistently in practice. The Chief Executive, Audit and Governance Committee, and ultimately the Council, need assurance that these controls have been adequately designed and are operating effectively. In due course the Chief Executive and the Leader of the Council will jointly sign an Annual Governance Statement (AGS).

- 3.2. The Audit and Governance Committee is required by its current terms of reference to review and approve the Council's AGS. It is also required to consider the Head of Internal Audit's annual report and opinion. The Head of Internal Audit is required by professional standards to provide an opinion addressing governance, risk management and control and thereby to provide assurance that the risks to the Council's objectives are being adequately and effectively controlled. The Committee should therefore consider and approve an internal audit plan designed to provide the assurance that the Council, Committee, Leader and Chief Executive of the council need.

#### **4. Statutory and professional requirements relating to internal audit**

- 4.1. Internal audit's function is established by the Accounts and Audit Regulations 2015, which are supported by professional standards for internal audit in the public sector and an advisory note specifically for local government in the United Kingdom. The key requirements of the Regulations and of the Public Sector Internal Audit Standards (PSIAS) are set out below.

##### **Relevant regulations**

Internal audit: "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance."  
*Regulation 5. (1)*

Review of internal control system: "A relevant authority must, each financial year (a) conduct a review of the effectiveness of the system of internal control [...] and (b) prepare an annual governance statement."

*Regulation 6. (1)*  
*Accounts and Audit Regulations 2015*

##### **Definition of internal auditing**

"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

"The provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control."

"Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organisation's control processes."

*Public Sector Internal Audit Standards, 2016*  
*published by the Relevant Internal Audit Standard Setters*

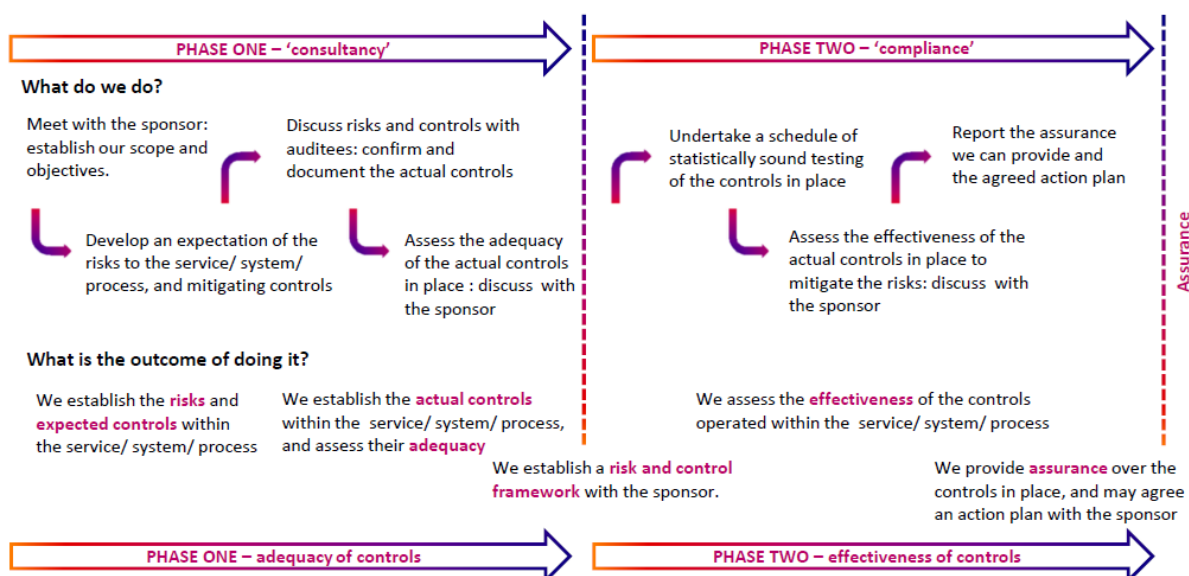
- 4.2. The Regulations therefore establish the requirement for an internal audit function and its provision of an opinion on the council's governance, risk management and control processes, following public sector internal auditing standards. Professional standards likewise mandate the provision of such an

opinion. They also recognise that internal audit involves the provision of both assurance and consultancy services, but assurance is its primary function and any consultancy work must inform the assurance opinion.

**5. The audit approach adopted by the County Council's Internal Audit Service**

5.1. The Internal Audit Service follows a risk-based audit methodology, working closely with the Council's managers to understand the risks to the service, system or process being audited and then testing the controls in place. The audit process therefore involves two phases: establishing a framework of risks and controls and then testing those controls. During the first phase we work closely with the service's managers to document a risk and control framework for a service, system or process, which enables us to assess the adequacy of the controls designed to mitigate the risks identified. During the second phase we test the effectiveness of the controls in place.

**A risk-based audit methodology in two phases**



5.2. The way this approach is applied to any audit varies depending on what assurance can firstly be given by the council's managers that risks are adequately and effectively mitigated.

**Full audit including both phases of work**

5.3. Where assurance is required over a control system that has not previously been audited in its present form, for example because it is new or has been recently changed, but its managers believe that the risks are adequately and effectively controlled, we undertake a full review including both audit phases. We will provide an opinion on the basis of this work.

**Work on phase one only**

5.4. Where the managers of a service, system or process are aware that there are matters to address and are unwilling to assert that risks are adequately and effectively controlled, they may seek support to design and implement appropriate controls. The first phase of any audit may be regarded as consultancy as we work with a service's managers to consider the controls they operate to manage the risks to their service's objectives. This analysis

can be undertaken at any time, particularly whilst a service is in the process of transformation, and can assist managers to design effective procedures. We can use this approach to add value to the organisation without providing any further assurance but, although it would need to be checked and revised, this work may serve as the first phase of a full audit at a later date, perhaps in the following year. (See paragraph 6.10 below.)

### **Work on phase two only**

- 5.5. The second phase of an audit is intended to provide assurance over the effective operation of control systems that have already been assessed as being adequately designed. This may follow immediately after the first phase as part of a full audit, or we may undertake compliance testing annually of systems we have previously audited because they are fundamental to the council's overall control and remain largely unchanged.
- 5.6. Where the service, system or process has been audited before but is of such significance to the council that further assurance is required over its continued effective operation, we will undertake repeated compliance testing of key controls.

### **Follow-up work**

- 5.7. Where managers can confirm that action has been taken as agreed during a previous audit to mitigate any high or medium risks identified we will seek evidence to support this, but we will not generally follow up actions designed to mitigate only low risks.

### **Degrees of assurance**

- 5.8. The assurance we provide falls into four categories: full, substantial, limited and none.
- 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.

## **6. Planning principles**

- 6.1. Having identified the requirement to provide an overall opinion on governance, risk management and control process a number of principles guide the decisions regarding the work to include in the annual audit plan. These are set out below and address the practical interpretation and application of professional requirements within the county council.

### Internal audit coverage to support an annual overall opinion

- 6.2. An internal audit plan designed to provide the evidence necessary to support an opinion on governance, risk management and control should arguably encompass the following:
- Coverage of the key components of each part of the opinion: aspects of the Council's governance, risk management and control.
  - Sufficient coverage of controls across the Council's operations as a whole, so that a fair assessment may be made across the organisation.
  - Coverage of the controls that serve to mitigate the Council's most significant risks to an acceptable level, and particularly those that operate most widely across the council.
  - Assessment of the actions being taken to develop improved controls in the areas of greatest unmitigated risk.
- 6.3. It will therefore be necessary as a minimum to audit aspects of the Council's governance and risk management processes, as well as a range of control processes.
- 6.4. A control framework applicable to the Council's governance, risk management and control has been drafted and summarised in the diagram shown below. The internal audit plan will be designed to address, proportionately, the coverage required across this controls framework to cover the whole organisation. Where the council achieves its objectives in conjunction with partners we will also seek assurance over the work of those key partnerships.

| A framework for governance, risk management and control                 |                                       |  |  |   |   |
|---|---------------------------------------|--|--|---|---|
| <b>Governance and democratic oversight</b>                              |                                       |  |  |   |   |
| Corporate governance framework  | Decision-making                       | Oversight and scrutiny                               |  | Policy setting  |   |
| <b>Business effectiveness</b>   |                                       |  |  |   |   |
| Risk management   | Performance monitoring and management | Organisational design                                | Financial governance and planning  | Working in partnership with others                            |   |
| <b>Service delivery</b>   |                                       |  |  |   |   |
| Development and corporate services                                      | Commissioning                         | Operations and delivery                              |  |   |   |
|   |                                       | Adult services                                       | Children's services  | Community   | Public health   |
| Economic development<br>Design & construction<br>Planning & environment | Asset management                      | Social care<br>Learning disabilities & mental health | Social care<br>Adoption & fostering<br>SEN & disability<br>Traded services | Highways<br>Public & integrated transport<br>Waste management | Health equity, welfare & partnerships<br>Wellbeing, prevention & early help<br>Emergency planning |
| <b>Service support</b>  |                                       |  |  |   |   |
| Legal services  | Core business systems development     | Programme management                                 | Business intelligence  | Customer contact  |   |
| <b>Business processes</b>   |                                       |  |  |   |   |
| Financial systems and processes   | Procurement                           | Facilities management                                |  | Human resources   |   |
| Budget monitoring   | Contract monitoring and management    | Information management                               |  | Payroll processing  |   |
| Investment  |                                       | Business continuity                                  |  | ICT systems   |   |

**Relationship to the risk management process**

- 6.5. A risk-based audit plan will take into consideration the risks assessed as most significant by the organisation's managers, and should seek to provide assurance over the operation of the controls that serve to reduce the most significant risks to the greatest degree. This information will be taken from the council's corporate and service-based risk registers.
- 6.6. The corporate risk register provides a snapshot at any point in time of the matters that present the greatest unmitigated risk to the council. They are therefore matters that the Council's Management Team will be working most actively to manage but they will not yet be regarded as adequately or effectively controlled. These are areas over which advisory work may be more appropriate than assurance.
- 6.7. Using risk registers prepared by individual services and working with the council's managers we aim to identify the areas with the greatest inherent risk, but where these risks are regarded as having been effectively mitigated by strong controls. These are the controls on which the council is placing the greatest reliance and over which it therefore needs the greatest assurance.
- 6.8. The outcome of our work is primarily assurance that controls are adequately and effectively designed to mitigate risks to the Council's objectives, but also pragmatic action plans intended to enable managers to mitigate risk where the council remains exposed to an unacceptable degree of risk. The judgement regarding what degree of risk is acceptable is for the council rather than the Internal Audit Service to make. Where action plans have been agreed we will follow them up and assure the Committee that action is being taken.
- 6.9. The audit plan will therefore be focussed on the key areas of risk to the Council, which may alter during the course of the year. It will be flexible and individual assignments may be added to it, or removed from it over time.

**The audit response to significant risks known to be not acceptably mitigated**

- 6.10. The requirement for audit assurance arguably depends on whether or not risks are regarded by management as being mitigated to an acceptable degree. An internal audit function would normally aim (as a minimum) to substantiate assertions by management that an organisation's risks are adequately and effectively controlled but, where a management team is unable to make such an assertion it is highly unlikely that an internal audit would conclude any more positively. Similarly, where risks are recorded on the corporate risk register as being inadequately mitigated they are by definition subject to work by the organisation's most senior managers and any internal audit assurance work is unlikely to conclude that the service, system or process is as yet subject to adequate or effective control. Therefore, where management is unwilling to provide positive assurance, the internal audit service will not generally plan any other assurance work. However this negative assurance will inform the head of internal audit's overall opinion.

- 6.11. The Internal Audit Service may instead plan to provide consultancy to support the organisation and its managers, rather than assurance, in these cases as set out in paragraph 5.4 above.
- 6.12. There are a number of areas where management is continuing to make control improvements during 2017 and 2018. The plan will therefore need to be flexible and may be amended during the year. Large areas of the council that are subject to further significant improvement work include:
- Actions to stabilise and secure the council's financial position, including further cost-cutting measures and service reductions.
  - Children's social care, as action is taken in response to on-going monitoring visits by Ofsted.
  - Adults' social care, as the service works with Newton Europe to reconfigure the way it operates, and is restructured.
  - The transition of service users between children's and adult's social care support services.
  - Implementation and operation of the council's ICT strategy.
  - Asset management, following the implementation of new systems to manage highways and property assets.
  - Improved financial systems, in particular the council's income and debt collection, and payments to suppliers of social services.

#### **The council's 'lines of defence'**

- 6.13. The Internal Audit Service is only the council's third line of defence in a model that represents management as the first line, responsible for directly assessing, controlling and mitigating risks; and any in-service compliance function that confirms these controls as the second. For example the social care services impose independent compliance checks on front-line staff and their managers to ensure that social work is adequately supervised and its quality regularly checked. Where such 'second line' compliance functions are available, we focus our audit work on assessing the control exerted by them rather than on repeating their work.

#### **Period covered by the audit plan**

- 6.14. Because the overall opinion covers a twelve month period, the evidence to support it must relate to the controls in operation for that period. The plan therefore chiefly addresses work for just one year, but projections may be made into audit requirements for future years. The work in any annual plan will rarely be fully complete at the end of the year but we will always plan to report on the year's work by the time the council prepares its annual governance statement shortly after the year end.

#### **Other sources of assurance**

- 6.15. There may be other sources of assurance available to the committee and Council from external organisations, for example the external auditor or Ofsted, and when we become aware of such assurance we will not duplicate work in that area but will take it into account if it is relevant to the overall

opinion on governance, risk management and control. We will ensure as far as possible that the committee is made aware of such assurance.

### **Internal audit sponsorship and auditors' engagement with management**

- 6.16. We need to direct our audits to individuals who are able to sponsor the work and take responsibility for any remedial actions required to mitigate any unacceptable risks: these will normally be the council's directors. We therefore need to work with the council's directors, but also the heads of service and key managers, to scope our work and agree the audit outcomes.
- 6.17. Where controls are operated by BT Lancashire Ltd (BTLS) to manage the council's risks then, by agreement, we will work with the relevant directors within BTLS to provide assurance over the controls the council relies upon in the same way as if the controls were operated by the county council itself.
- 6.18. Some business processes are the responsibility of more than one service area and, where processes span more than one service, we may plan a short series of individual but connected audits. These may in turn require sponsorship at a more senior level within the organisation and we will consult the Management Team on the best way to approach such work.
- 6.19. The Internal Audit Service has no specific in-house expertise in the specialist area of technical ICT audit work. It is already working with BTLS to identify appropriate sources of assurance and this will continue into 2017/18.

### **Funding and grant certification work**

- 6.20. The Internal Audit Service is required as part of the funding requirements of certain central government departments to certify certain aspects of the way funding has been spent. This provides little direct assurance to the county council but is necessary to secure elements of its funding.
- 6.21. We are aware of the testing requirements imposed by the Department for Work and Pensions on its Troubled Families Programme and are working with the Wellbeing Prevention and Early Help Service to process funding claims under this programme.
- 6.22. We are also aware of the need to certify funding claims in relation to capital improvements to the county's highways and also various strands of economic development. However although we make some efforts to understand what funding may be subject to certification, new requirements occasionally emerge during the year.

## **7. Inputs to the planning process**

- 7.1. At this point some consultation has taken place with some members of the council's Management Team, directors and heads of service. However further discussion will be necessary to ensure a fuller understanding of the risks to the council's services and the areas that will be most appropriately subject to detailed audit work. Discussions have been arranged with a number of key directors and managers and will take place over the coming weeks.
- 7.2. The Internal Audit Service has regular access to Management Team's agendas and papers, and access on request to the papers of the council's other management teams, including service risk registers. These will be

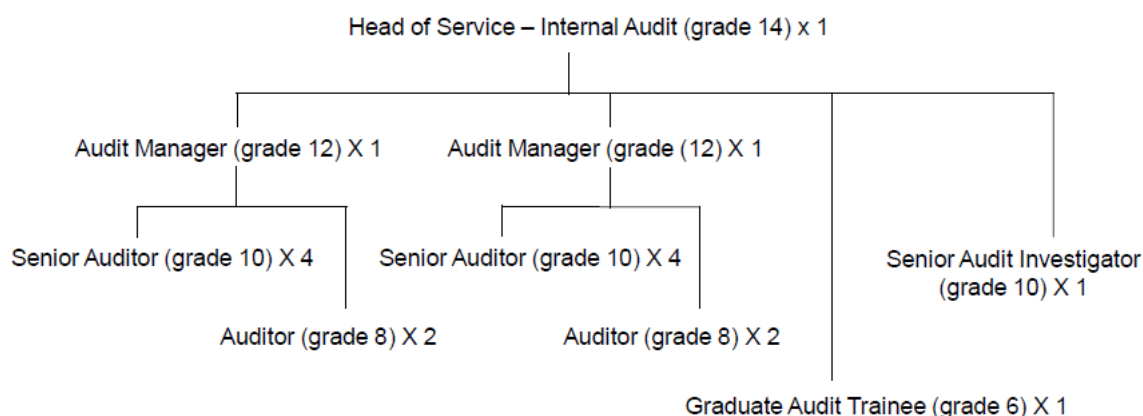


reviewed in more detail and will support the forthcoming discussions with directors and managers. Management Team regularly considers financial reports from the director of resources which set out the expenditure in each of the council's services, and these provide an indication of the scale of the services as well as the council's financial position. Information from the new team set up to monitor and control the council's staff resources has also been obtained and likewise provides an indication of the scale of the council's services in terms of the numbers of staff employed.

- 7.3. During the last year the council's risk management process has been formalised and risk registers are now routinely available for each of the council's services, as well as being prepared at a corporate level. These registers will be reviewed to identify the risks that individual services assess as most significant and the controls that mitigate these. We will also identify the services that are inherently the most significant to the council in terms of their budgets and numbers of staff.

### Audit resources

- 7.4. The plan will also take account of the internal audit resources available and, for the first time in some years, the service will start the year with all the posts in its establishment filled. Having been restructured, the service now employs 17 staff as follows:



## 8. Internal audit work for the first quarter of 2017/18

- 8.1. Work is nearing completion on a number of audits in the previous plan and draft reports have been prepared but will be finalised relating to:
- Corporate performance monitoring.
  - Oversight by the council of schools' financial management.
  - The accounts payable system.
  - Controls over VAT levied and paid by the council.
- 8.2. Work has only recently begun or is continuing on audits in the previous plan, relating to:
- Compliance with the scheme of delegation to officers.
  - The effective operation of the Audit and Governance Committee.

- Specific aspects of the Council's oversight of the pension fund.
  - The escalation of matters of matters of strategic or political importance, specifically within areas of children's services.
  - The identification of and responses to external feedback on children's services and schools.
  - Data held on the Lancashire Adult Services system.
  - Case management in adult social care, specifically the assignment of officers to cases, timely completion of action, and delegation of responsibilities to accredited social workers.
  - The commissioning, design and monitoring of the capital programme. Work during 2016/17 has covered the first phase of our audit process but will continue into 2017/18, when controls testing will take place.
  - The administration of the Pension Fund to serve its members.
  - The management of the Pension Fund's investments.
  - Treasury management of the council's funds.
- 8.3. By agreement with directors and key managers where necessary, we will undertake or extend work previously set out in the plan for 2015/16, 2016/17 and beyond as follows:
- Further compliance testing of risk management, especially as the new system becomes further embedded and the procedures are amended to address the practical issues that arose during the first year of operation.
  - Completion of the audit of the operation of the Audit and Governance, and work with the new administration to implement any amendments to the committee's operation, for example to its terms of reference.
  - Continuation of the audit of the commissioning, design and monitoring of the capital programme into the second phase of the audit process – testing the effectiveness of the controls documented in 2016/17.
  - Audit of the operation of the Premises Compliance Team in strategic premises management and the council's compliance with applicable legislation.
  - Continuation of the audit of controls over the council's over, and ensuring the alignment of, the council's establishment and budgets.
  - Revision of the full audit, and follow up of the action plan to address, accounts receivable and debt management.
  - Full audit of the accounts payable system, particularly in respect of payments to providers of both adults' and children's social care and the linkages with the Liquidlogic software.
  - Compliance testing of the more stable financial systems, and extension of full audit work to more of the feeder systems.

- Audit of the effectiveness of inputs to the payroll processing system, following work by the council's Human Resources service and BTLS to improve these.
  - Certification of the Growth Hub funding to the Lancashire Enterprise Partnership as required by the terms of the grant from the Department for Business, Innovation and Skills.
- 8.4. New audit work, not yet begun or discussed in any detail with the council's managers, could be undertaken if this can be accommodated in the following areas:
- The way that contracts are monitored by services across a sample of key contracts.
  - The use of agency workers, focussing particularly on their employment (and tax) status and references.
  - Audits of the identity checks undertaken on potential service users before access is granted to a sample of services.
  - Compliance with the council's policies relating to the use of closed circuit television and other public or covert surveillance.
- 8.5. A much fuller assessment of the work of the Internal Audit Service for 2017/18 will be brought to the Audit and Governance Committee at its meeting in June 2017, after further discussions and agreement with the council's Management Team, directors and heads of service.
- 9. The Internal Audit Service's responsibilities in relation to fraud and investigations**
- 9.1. In addition to our audit work the Internal Audit Service provides support to the council's management team in managing the risk of fraud. It provides an investigatory service to support management in responding to instances of suspected fraud or impropriety and also undertakes proactive work to identify and pursue indications of potentially fraudulent activity, both through corporate systems testing and through additional testing of other areas particularly susceptible to fraud.
- 9.2. There are some synergies in the skills required of both internal audit and investigations work, and the information arising around the investigation of allegations of fraud or impropriety may also indicate potential lapses in controls or of the culture of the organisation, which are of interest to internal auditors.
- 9.3. Our audit plan will integrate our assurance work (specifically our compliance testing) with our proactive counter fraud testing, particularly in areas susceptible to fraud and misappropriation of assets. In particular we have recently been provided by a large number of data matches to investigate under the National Fraud Initiative and will work to understand the reasons for these matches throughout the course of the year.



## **Audit and Governance Committee**

Meeting to be held on 3 April 2017

|                                     |
|-------------------------------------|
| Electoral Division affected:<br>All |
|-------------------------------------|

## **External Audit Update Report**

(Appendix 'A' refers)

Contact for further information:

Karen Murray, 0161 234 6364, Director, Grant Thornton

[karen.l.murray@uk.gt.com](mailto:karen.l.murray@uk.gt.com)

### **Executive Summary**

Update report including progress to date with the 2016/17 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 County Council.

### **Recommendation**

The Committee is asked to note the update report.

### **Background and Advice**

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

### **Consultations**

The report has been shared with the 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/Service/Tel |
|-------|------|---------------------|
|-------|------|---------------------|

N/A

Reason for inclusion in Part II, if appropriate

N/A

Audit and Governance Committee  
Progress and Update Report for  
Lancashire County Council  
*Year ended 31 March 2016*

3 April 2017

**Karen Murray**

Engagement Lead

**T** 0161 234 6364

**E** karen.l.murray@uk.gt.com

**Caroline Stead**

Senior Manager

**T** 0161 234 6355

**E** caroline.l.stead@uk.gt.com

**Ian Pinches**

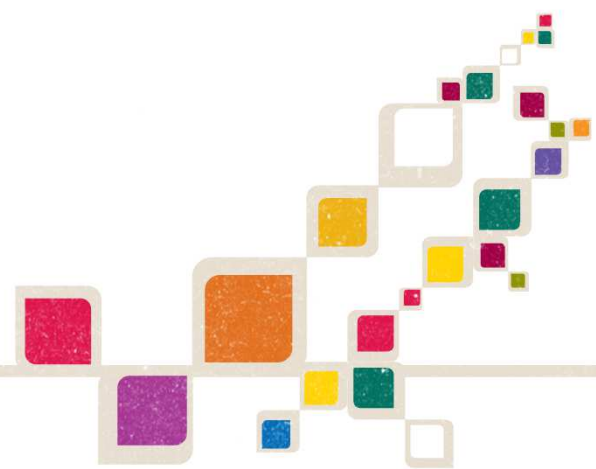
Assistant Manager

**T** 0161 234 6359

**E** ian.m.pinches@uk.gt.com



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.



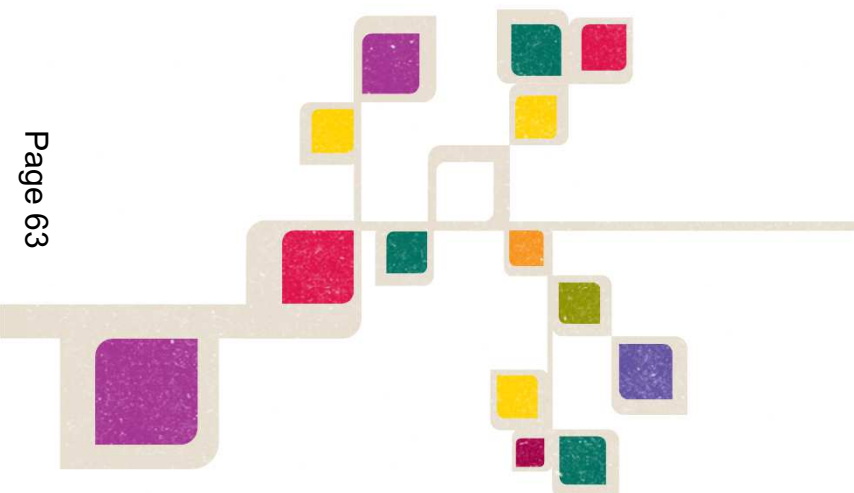


# Contents

---

| Contents                          | Page |
|-----------------------------------|------|
| Introduction                      | 4    |
| Progress at April 2017            | 5    |
| Emerging issues and developments: |      |
| Technical Matters                 | 7    |
| Sector issues and developments    | 10   |
| Grant Thornton                    | 16   |

---



# Introduction

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

Members of the Audit and Governance Committee can find further useful material on our website [www.grantthornton.co.uk](http://www.grantthornton.co.uk), where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

- CFO Insights – reviewing council's 2015/16 spend (December 2016);  
<http://www.grantthornton.co.uk/en/insights/cfo-insights-reviewing-councils-201516-spend/>
- Fraud risk, 'adequate procedures', and local authorities (December 2016);  
<http://www.grantthornton.co.uk/en/insights/fraud-risk-adequate-procedures-and-local-authorities/>
- New laws to prevent fraud may affect the public sector (November 2016);  
<http://www.grantthornton.co.uk/en/insights/new-laws-to-prevent-fraud-may-affect-the-public-sector/>
- Brexit: local government = transitioning successfully (December 2016)  
<http://www.grantthornton.co.uk/en/insights/brexit-local-government--transitioning-successfully/>

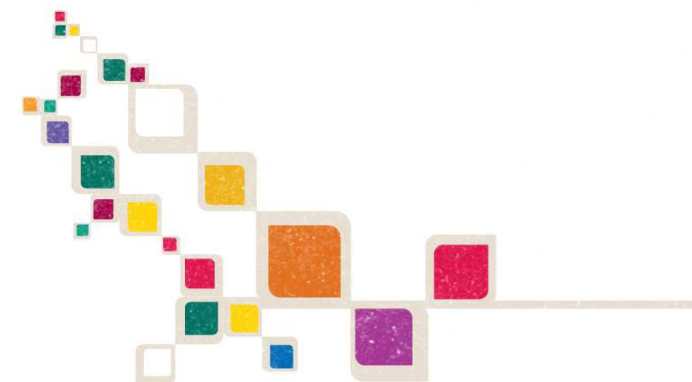
If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.



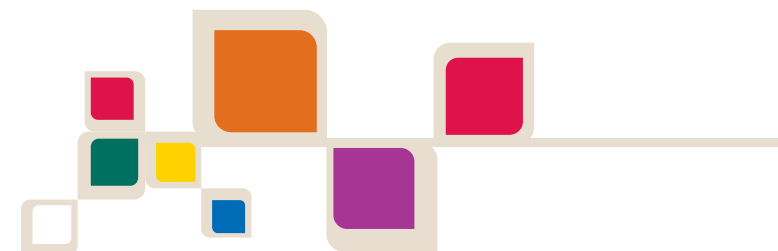
**Karen Murray**  
Engagement Lead  
T 0161 234 6364  
M 07880 456 205  
E [karen.l.murray@uk.gt.com](mailto:karen.l.murray@uk.gt.com)



**Caroline Stead**  
Engagement Manager  
T 0161 234 6365  
M 07880 456 208  
E [caroline.l.stead@uk.gt.com](mailto:caroline.l.stead@uk.gt.com)

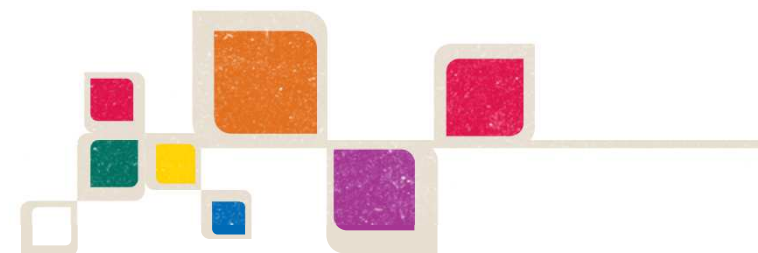


# Progress at April 2017



| 2016/17 work  | Planned Date          | Complete?       | Comments  |
|---|-----------------------|-----------------|---|
| <p><b>Fee Letter</b><br/>We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016</p>   | April 2016            | Yes             | We issued the fee letter for 2016/17 in April 2016, with no change to the scale fee proposed.   |
| <p><b>Accounts Audit Plan</b><br/>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 2016/17 financial statements.</p>   | April 2017            | Yes             | Our Audit Plan for 2016/17 is included on this agenda.  |
| <p><b>Interim accounts audit</b><br/>Our interim fieldwork visit plan includes:</p> <ul style="list-style-type: none"> <li>• updated review of the Council's control environment</li> <li>• updated understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• Value for Money conclusion risk assessment.</li> </ul> | January to April 2017 | In progress     | Our interim audit started in January 2017 and we expect to complete this part of our work programme in early April 2017. A summary of work completed to date is reported in our Audit Plan. |
| <p><b>Final accounts audit</b><br/>Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2016/17 financial statements</li> <li>• proposed opinion on the Council's accounts</li> <li>• proposed Value for Money conclusion</li> <li>• review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17</li> </ul>   | June to July 2017     | Not yet started | We anticipate scheduling our work on the Council's statement of accounts in June and July 2017.   |

# Progress at April 2017



| 2016/17 work   | Planned Date                | Complete?              | Comments   |
|--|-----------------------------|------------------------|--|
| <p><b>Value for Money (VfM) conclusion</b></p> <p>The scope of our work is unchanged to 2015/16 and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".</p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> <li>• Informed decision making</li> <li>• Sustainable resource deployment</li> <li>• Working with partners and other third parties</li> </ul> | <p>January to July 2017</p> | <p>In progress</p>     | <p>We have undertaken our risk assessment alongside our interim work and the areas of significant risk identified are reported to you in the Audit Plan.</p> <p>Between March and July we will complete any further work required from the risk assessment. We will report the final outcome of our work in our Audit Findings Report.</p> |
| <p><b>Annual Audit Letter</b></p> <p>Our Annual Audit Letter summarises the key findings arising from the work that we have carried out for the year ended 31 March 2017.</p>  | <p>October 2017</p>         | <p>Not yet started</p> | <p>We will issue an Annual Audit Letter to the Council in line with specified deadlines after the audit of the 2016/17 financial statements.</p>   |

# Technical Matters



# Telling the story – Changes in 2016/17 CIPFA Code

CIPFA has been working on the 'Telling the Story' project, which aims to streamline the financial statements and improve accessibility to the user. This has resulted in changes to CIPFA's 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

The main changes affect the presentation of the Comprehensive Income and Expenditure Statement ('CIES'), the Movement in Reserves Statement ('MIRS') and segmental reporting disclosures. A new Expenditure and Funding Analysis has been introduced.

The key changes are:

- the cost of services in the CIES is to be reported on basis of the local authority's organisational structure rather than the Service Reporting Code of Practice (SERCOP) headings
- an 'Expenditure & Funding Analysis' note to the financial statements provides a reconciliation between the way local authorities are funded and the accounting measures of financial performance in the CIES
- the changes will remove some of the complexities of the current segmental note
- other changes to streamline the current MIRS providing options to report Total Comprehensive Income and Expenditure (previously shown as Surplus and Deficit on the Provision of Services and Other Comprehensive Income and Expenditure lines) and removal of earmarked reserves columns.

Other amendments have been made to the Code:

- changes to reporting by pension funds in relation to the format and fair value disclosure requirements to reflect changes to the Pensions SORP
- other amendments and clarifications to reflect changes in the accounting standards.

# Delivering Good Governance

In April, CIPFA and SOLACE published 'Delivering Good Governance in Local Government: Framework (2016)' and this applies to annual governance statements prepared for the 2016/17 financial year.

The key focus of the framework is on sustainability – economic, social and environmental – and the need to focus on the longer term and the impact actions may have on future generations.

Local authorities should be:

- reviewing existing governance arrangements against the principles set out in the Framework
- developing and maintaining an up-to-date local code of governance, including arrangements for ensuring on-going effectiveness
- reporting publicly on compliance with their own code on an annual basis and on how they have monitored the effectiveness of their governance arrangements in the year and on planned changes.

The framework applies to all parts of local government and its partnerships and should be applied using the spirit and ethos of the Framework rather than just rules and procedures.

# Sector issues and developments





# Local Government Finance Settlement

## National developments

The final local government settlement for 2017/18 was published on 20 February. The settlement reflects the Government's aim that all councils will become self funding, with central government grants being phased out. This is year two of the four year offer, which has been accepted by 97% of councils.

There is an expectation that councils will continue to improve efficiencies with measures including further developments in digital technology, new delivery models and innovative partnership arrangements.

### 100% business rates retention

The announcement has an increased focus on business rates, with the expectation that by the end of the current Parliament, local government will keep 100% of the income raised through business rates. The exact details of the reforms are yet to be determined. This includes confirming which additional responsibilities will be devolved to local government and funded through these retained rates. Pilots of the reforms are taking place across the country from April 2017.

The results of a recent Municipal Journal survey *2017 State of Local Government Finance* have recently been published.

[http://downloads2.dodsmonitoring.com/downloads/Misc\\_Files/LocalGovFinance.pdf](http://downloads2.dodsmonitoring.com/downloads/Misc_Files/LocalGovFinance.pdf)

Respondents expressed concern about the lack of detail in the proposals, uncertainty around equalisation measures and the scale of appeals.

Nearly 50% of Councils responding believe they will lose from the transition to 100% retention of business rates. Views were evenly split as to whether the proposals would incentivise local economic growth.

### Social Care Funding

Funding allocations reflect increased funding of social care with a stated £3.5 billion of funding for social care by 2019/2020.

In this year's settlement £240 million of new homes bonus has been redirected into the adult social care grant. In addition councils are once again be able to raise the precept by up to 3% for funding of social care.

Recognising that funding is not the only answer, further reforms are to be brought forward to support the provision of a sustainable market for social care. There is an expectation that all areas of the country move towards the integration of health and social care services by 2020.

**Paul Dossett Head of Local Government in Grant Thornton LLP** has commented on the Government proposals for social care funding (see link for full article).

"The government's changes to council tax and the social care precept, announced by the Secretary of State for DCLG as part of the latest local government finance settlement, will seem to many as nothing more than a temporary fix. There is real concern about the postcode lottery nature of these tax-raising powers that are intended to fund our ailing social care system."

"Our analysis on social care shows that the most deprived areas in the UK derive the lowest proportion of their income from council tax."

"Conversely, more affluent areas collecting more council tax will potentially receive a bigger financial benefit from these measures."

"Our analysis shows that the impact and effectiveness of the existing social care precept is not equal across authorities. So any further changes to tax raising powers for local government will

*"Social care precept changes will not help those living in more deprived areas"*

*"The UK has a long tradition of providing care to those who need it most. If that is to continue, the government must invest in a robust social care system that can cater for all based on needs and not on geography. From a taxpayer's perspective this is a zero sum game. For every £1 not invested in social care, the cost to the NHS is considerably more"*

not tackle the crisis of social care in our most disadvantaged communities and arguably make only make a small dent in the cost demands in our more affluent communities."

Links:

<https://www.gov.uk/government/speeches/final-local-government-finance-settlement-2017-to-2018>

<http://www.grantthornton.co.uk/en/news-centre/local-government-financial-settlement-comment-social-care-precept-changes-will-not-help-those-living-in-more-deprived-areas/>

<http://www.grantthornton.co.uk/en/insights/council-tax-alone-wont-solve-the-social-care-crisis/>

# Pooling of LGPS

From 1 April 2018 £200bn of assets from 90 LGPS funds across England and Wales will be merged into six 'British Wealth Funds'. By pooling investment, costs can be reduced through economies of scale and through sharing of expertise, while the schemes can maintain overall investment performance. Pension funds will continue to be managed and maintained by the separate administering authorities. The selection of fund managers will be made by the investment pool operator on behalf of a pool of co-operating administrative authorities, while individual investment strategies, including asset allocation, will remain the responsibility of the individual administrative authority.

Potentially eight pools are to be established across the country with total assets ranging from £13bn in both the LPP and Wales pool, to £36bn in the Border to Coast pool. It is expected that assets will be transferred to the pools as soon as practicable after 1 April 2018.

Tasks to be completed by April 2018 include:

- creating legal structures for pools
- transferring staff
- creating supervisory boards/ committees
- obtaining FCA authorisations
- appointing providers
- assessing MiFID II implications
- determining pool structures for each asset type

The funds themselves will retain responsibility for:

- investment strategy
- asset allocation

- having a responsible investment strategy
- reporting to employers and members

### Governance arrangements

There is no mandatory membership of oversight structures. It is for each pool to develop the proposals they consider appropriate. The majority of decision making remains at the local level and therefore the involvement of local pension boards in those areas would not change. Scheme managers should consider how best to involve their pension boards in ensuring the effective implementation of investment and responsible investment strategies by pools, which could include representation on oversight structures.

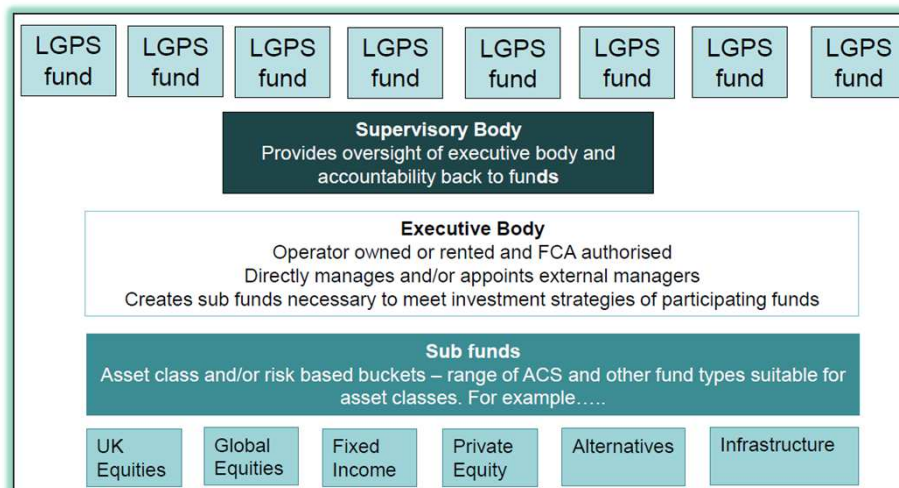
CIPFA in the recent article *Clear pools: the future of the LGPS* highlights the need for good governance particularly in view of the complex web of stakeholders involved in investment pooling. Robust governance will be vital to ensuring a smooth transition and continuing operation of the funds

## National developments

### Challenge question:

- Is your CFO keeping you up to date on developing arrangements in your area?

Link:  
<http://www.cipfa.org/cipfa-thinks/cipfa-thinks-articles/clear-pools-the-future-of-the-lgps?>



typical structure of LGPS Pool

# Fixing our broken housing market

DCLG published its housing White Paper on 7 February 2017. It opens with the statement:

“The housing market in this country is broken, and the cause is very simple: for too long, we haven’t built enough homes.”

It goes on to summarise three key challenges in the housing market.

1. Over 40 per cent of local planning authorities do not have a plan that meets the projected growth in households in their area.
2. The pace of development is too slow. There is a large gap between permissions granted and new homes built. More than a third of new homes that were granted planning permission between 2010/11 and 2015/16 have yet to be built.
3. The structure of the housing market makes it harder to increase supply. Housing associations have been doing well – they’re behind around a third of all new housing completed over the past five years – but the commercial developers still dominate the market.

The proposals in the White Paper set out how the Government intends to boost housing supply and, over the long term, create a more efficient housing market whose outcomes more closely match the needs and aspirations of all households and which supports wider economic prosperity.

It states that the challenge of increasing housing supply cannot be met by the government acting alone and summarises how the government will work with local authorities, private developers, local communities, housing associations and not for profit developers, lenders, and utility companies and infrastructure providers.

For local authorities, the government is:

- offering higher fees and new capacity funding to develop planning departments, simplified plan-making, and more funding for infrastructure;
- will make it easier for local authorities to take action against those who do not build out once permissions have been granted; and
- is interested in the scope for bespoke housing deals to make the most of local innovation.

The government is looking to local authorities to be as ambitious and innovative as possible to get homes built in their area. It is asking all local authorities to:

- develop an up-to-date plan with their communities that meets their housing requirement (or, if that is not possible, to work with neighbouring authorities to ensure it is met);
- decide applications for development promptly; and
- ensure the homes they have planned for are built out on time.

The White Paper states that it is crucial that local authorities hold up their end of the bargain. It goes on to say that where local authorities are not making sufficient progress on producing or reviewing their plans, the Government will intervene. It also notes that where the number of homes being built is below expectations, the new housing delivery test will ensure that action is taken.

The White Paper goes on to consider in more detail:

- Planning for the right homes in the right places
- Building homes faster
- Diversifying the market
- Helping people now

## National developments

### Challenge questions:

- Have you been briefed on the White Paper and the implications for your statutory housing function?
- Is the Council planning to respond to the consultation?

Consultation on the White Paper will begin on 7 February 2017. The consultation will run for 12 weeks and will close on 2 May 2017.

The White Paper is available at:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/590464/Fixing\\_our\\_broken\\_housing\\_market\\_-\\_print\\_ready\\_version.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/590464/Fixing_our_broken_housing_market_-_print_ready_version.pdf)

# Local Government Association

Below is a selection of reports issued recently which may be of interest to audit and governance committee members. These are available on the website: <http://www.local.gov.uk/publications>



## Provisional LG Finance Settlement for 2017/18

**12 January 2017**

The LGA has published its responses to the DCLG consultation on proposals for the local government finance settlement for 2017 to 2018 and for the approach to future local government finance settlements.

<http://www.local.gov.uk/documents/10180/8150261/Local+Government+Finance+Settlement+1718+LGA+response.pdf/dd8d32e1-ec9f-4314-8121-7aae2195f89f>



## A councillor's workbook on neighbourhood and community engagement

**11 January 2017**

Neighbourhood and community engagement has a rightful place as one of the key processes involved in planning and decision making. As such, it should not be viewed as an additional task, but as a core part of the business



## Building our homes, communities and future: The LGA housing commission final report

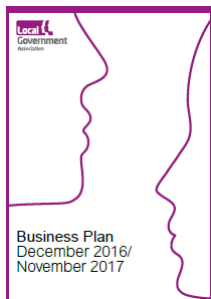
**22 December 2016**

The Local Government Association (LGA) Housing Commission was established to help councils deliver their ambition for places. It has been supported by a panel of advisers and has engaged with over 100 partners; hearing from councils, developers, charities, health partners, and many others. All partners agree that there is no silver bullet, and all emphasise the pivotal role of councils in helping provide strong leadership, collaborative working, and longer-term certainty for places and the people that live there.

# Local Government Association

Below is a selection of reports issued recently which may be of interest to audit committee members. These are available on the LGA website:

<http://www.local.gov.uk/publications>



## Business Plan December 2016/November 2017

**30 December 2016**

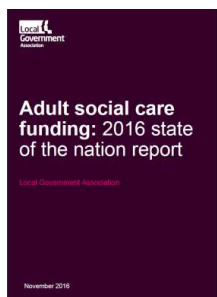
Britain's exit from the EU means that we are reshaping the way our country is run. Our vision is one of a rejuvenated local democracy, where power from Westminster and from the EU is significantly devolved to local level and citizens feel they have a meaningful vote and real reason to participate in civic life and their communities.



## Stronger together: shared management in local government

**29 November 2016**

Around 45 councils across England share a chief executive and senior management team in about 20 different partnerships. Most also share at least some services. These councils have already delivered savings of at least £60 million through greater efficiencies and the other benefits of collaboration, with more savings planned



## Adult social care funding: 2016 state of the nation report

**2 November 2016**

Adult social care is an absolutely vital public service that supports some of our most vulnerable people and promotes the wellbeing and independence of many more

# Grant Thornton



# Apprentice Levy-Are you prepared?

Grant Thornton update

## What is the levy?

The UK has been struggling on productivity, now estimated to be 20% behind the G7 average. Developing apprenticeships is set to play a key part in tackling this and bridging the skills gap.

Announced by government in July 2015, the levy is to encourage employers to offer apprenticeships in meeting their skill, workforce and training needs, developing talent internally. The levy is designed to give more control to employers, through direct access to training funds and creation of apprenticeships through the Trailblazer process.

## What is the levy?

From April 2017, the way the government funds apprenticeships in England is changing. Some employers will be required to pay a new apprenticeship levy, and there will be changes to the funding for apprenticeship training for all employers.

All employers will receive an allowance of £15,000 to offset against payment of the levy. This effectively means that the levy will only be payable on paybill in excess of £3 million per year.

The levy will be payable through Pay As You Earn (PAYE) and will be payable alongside income tax and National Insurance.

Each employer will receive one allowance to offset against their levy payment. There will be a connected persons rule, similar the Employment Allowance connected persons rule, so employers who operate multiple payrolls will only be able to claim one allowance.

Employers in England are also able to get 'more out than they put in', through an additional government top-up of 10% to their levy contribution.

When employers want to spend above their total levy amount, government will fund 90% of the cost for training and assessment within the funding bands.

The existing funding model will continue until the levy comes into effect May 2017. The levy will apply to employers across all sectors.

Paybill will be calculated based on total employee earnings subject to Class1 National Insurance Contributions. It will not include other payments such as benefits in kind. It will apply to total employee earnings in respect of all employees.

## What will the levy mean in practice

Employer of 250 employees, each with a gross salary of £20,000:

Paybill:  $250 \times £20,000 = £5,000,000$

Levy sum:  $0.5\% \times = £25,000$

Allowance:  $£25,000 - £15,000 = £10,000$  annual levy

## How can I spend my levy funds?

The funding can only be used to fund training and assessment under approved apprenticeship schemes. It cannot be used on other costs associated with apprentices, including wages and remuneration, or training spend for the wider-team.

Through the Digital Apprenticeship Service (DAS), set up by government, employers will have access to their funding in the form of digital vouchers to spend on training.

Training can be designed to suit the needs of your organisation and the requirements of the individual in that role, in addition to specified training for that apprenticeship. Training providers must all be registered with the Skills Funding Agency (SFA).

## What do I need to start thinking about now?

- How much is the levy going to cost and have we budgeted for it?
- How do we ensure compliance with the new system?
- Which parts of my current spend on training are applicable to apprenticeships?
- Are there opportunities to mitigate additional cost presented by the levy?
- How is training in my organisation structured?
- How do we develop and align to our workforce development strategy

# Off-payroll working and salary sacrifice in the public sector

## Grant Thornton update

### Off-payroll working

The Chancellor's Autumn Statement 2016 speech delivered a number of changes that will impact the UK business environment and raise considerations for you as an employer.

In particular, the Chancellor announced that the measures that were proposed in Budget 2016 that could affect services supplied through personal service companies (PSCs) to the public sector will be implemented.

At present, the so-called IR35 rules require the worker to decide whether PAYE and NIC are due on the payments made by a PSC following an engagement with a public sector body. The onus will be moved to the payer from April 2017. This might be the public sector body itself, but is more likely to be an intermediary, or, if there is a supply chain, to the party closest to the PSC.

The public sector body (or the party closest to the PSC) will need to account for the tax and NIC and include details in their RTI submission.

The existing IR35 rules will continue outside of public sector engagements.

**HMRC Digital Tool** – will aid with determining whether or not the intermediary rules apply to ensure of “consistency, certainty and simplicity”.

When the proposals were originally made, the public sector was defined as “those bodies that are subject to the Freedom of Information rules”. It is not known at present whether this will be the final definition. Establishing what bodies are caught is likely to be difficult however the public sector is defined.

A further change will be that the 5% tax free allowance that is given to PSCs will be removed for those providing services to the public sector.

This will increase costs, move responsibility to the engager and increase risks for the engager

### Salary sacrifice

The Chancellor's Autumn Statement 2016 speech also introduced changes to salary sacrifice arrangements. In particular, the proposals from earlier this year to limit the tax and NIC advantages from salary sacrifice arrangements in conjunction with benefits will be implemented from April 2017.

Although we await the details, it appears that there is a partial concession to calls made by Grant Thornton UK and others to exempt the provision of cars from the new rules (to protect the car industry). Therefore, the changes will apply to all benefits other than pensions (including advice), childcare, Cycle to Work schemes and ultra-low emission cars.

Arrangements in place before April 2017 for cars, accommodation and school fees will be protected until April 2021, with others being protected until April 2018.

These changes will be implemented from April 2017.

As you can see, there is a limited opportunity to continue with salary sacrifice arrangements and a need also to consider the choice between keeping such arrangements in place – which may still be beneficial – or withdrawing from them.

#### Issues to consider

- Interim and temporary staff engaged through an intermediary or PSC
- Where using agencies ensure they're UK based and operating PAYE
- Update on-boarding / procurement systems, processes and controls
- Additional take on checks and staff training / communications
- Review of existing PSC contractor population before April 2017
- Consider moving long term engagements onto payroll
- Review the benefits you offer - particularly if you have a flex renewal coming up
- Consider your overall Reward and Benefit strategy
- Consider your Employee communications





© 2017 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

**[grantthornton.co.uk](http://grantthornton.co.uk)**



## **Audit and Governance Committee**

Meeting to be held on 03 April 2016

|                                      |
|--------------------------------------|
| Electoral Division affected:<br>None |
|--------------------------------------|

## **External Audit - Lancashire County Council Audit Plan 2016/17**

(Appendix 'A' refers)

Contact for further information:

Karen Murray, Grant Thornton UK LLP, 0161 234 6364, Director,

karen.l.murray@uk.gt.com

### **Executive Summary**

The Annual 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 Local Audit & Accountability Act 2014 (the Act) and the Code of Audit Practice for Local Government.

This audit plan is specific to the financial year 2016/17 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 2016 and of its expenditure and income for the year then ended;
  - have been prepared in accordance with proper accounting practice.

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

### **Recommendation**

The Committee is asked to agree the External Audit plan for the audit of the Lancashire County Council for 2016/17, and the fees therein.

### **Background and Advice**

Attached at Appendix 'A' is the external auditor's Annual Audit Plan for the audit of the Lancashire County Council. The plan sets out the main risk areas which the audit will focus on, and Karen Murray, Engagement Lead, will attend the meeting to present the report and answer any questions.

## **Consultations**

The report has been agreed with the Director of Financial Services.

## **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/Tel |
|-------|------|-------------|
|-------|------|-------------|

N/A

Reason for inclusion in Part II, if appropriate

N/A

# The Audit Plan for Lancashire County Council

**Year ended 31 March 2017**

April 2017

**Karen Murray**

Director

T 0161 234 6364

E [karen.l.murray@uk.gt.com](mailto:karen.l.murray@uk.gt.com)

**Caroline Stead**

Senior Manager

T 0161 234 6355

E [caroline.l.stead@uk.gt.com](mailto:caroline.l.stead@uk.gt.com)

**Ian Pinches**

Assistant Manager

T 0161 234 6359

E [ian.m.pinches@uk.gt.com](mailto:ian.m.pinches@uk.gt.com)





Lancashire County Council  
PO Box 78  
County Hall  
Fishergate  
Preston  
Lancashire  
PR1 8XJ  
3 April 2017

Grant Thornton UK LLP  
4 Hardman Square  
Spinningfields  
Manchester  
M3 3EB  
T +44 (0) 161 953 6900  
[www.grant-thornton.co.uk](http://www.grant-thornton.co.uk)

Dear Members of the Audit and Governance Committee

**Audit Plan for Lancashire County Council for the year ending 31 March 2017**

This Audit Plan sets out for the benefit of those charged with governance (in the case of Lancashire County Council, the Audit and Governance Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

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 planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We look forward to working with you during the course of the audit.

Yours sincerely

Karen Murray

Engagement Lead

**Chartered Accountants**

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority.  
Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. Please see [grant-thornton.co.uk](http://grant-thornton.co.uk) for further details.

---

# Contents

## Section

Understanding your business and key developments

Materiality

Significant risks identified

Other risks identified

Group audit scope and risk assessment

Value for Money

Other audit responsibilities

Results of interim audit work

The audit cycle

Audit fees

Independence and non-audit services

Communication of audit matters with those charged with governance

Page 85

# Understanding your business and key developments

## Developments

### Highways network asset (HNA)

On the 14 November, 2016 CIPFA/LASAAC announced a deferral of measuring the Highways Network Asset at Depreciated Replacement Cost in local authority financial statements for 2016/17. This deferral is due to delays in obtaining updated central rates for valuations.

CIPFA/LASAAC reviewed this position at its meeting in March 2017 with a view to implementation in 2017/18. It decided that currently, and in particular in the absence of central support for key elements of the valuation, the benefits are outweighed by the costs of implementation.

### Integration with health sector

The responsibilities of local government now include public health. Pooled budgets including the Better Care Fund (BCF) are operated by the Council in conjunction with other local partners. More widely there is a recognition of a need for closer working with health partners to deliver the right health and social care to the people of Lancashire.

### Property strategy

During the year, the Council has, as part of its financial planning, made decisions about the ways in which it will use properties to deliver services going forward. We will continue to review the accounting treatment of the properties as the use changes to ensure they are correctly classified.

## Key challenges

### Autumn Statement

The Chancellor detailed plans in the Autumn Statement to increase funding for Housing and Infrastructure, and further extend devolved powers to Local Authorities.

The demand and cost pressures on adult and children's social care continue to provide a challenge across the sector. This is replicated in Lancashire although significant work is being done to manage the position, including using external support to identify opportunities to transform services.

The pressures on adult social care were recognised in the spring 2017 Budget which announced additional funding of £2bn over the next three years to the local government sector.

### Financial Position

The Council has set a balanced budget for 2017/18 and has kept its medium term financial plan under review throughout the year.

The Council knows that urgent action must be taken to reduce medium term funding gap through its transformation programme. This programme will drive radical change to the way services are provided. As part of this, the Council's base budget review is designed to identify the services the Council will provide. This links to the Council's property strategy. The Council has consulted on detailed plans about how it will use its asset base to deliver services in future years.

## Financial reporting changes

### CIPFA Code of Practice 2016/17 (the Code)

Changes to the Code in 2016/17 reflect aims of the 'Telling the Story' project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements.

The changes affect the presentation of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statements, segmental reporting disclosures, and a new Expenditure and Funding Analysis note has been introduced. The Code also requires these amendments to be reflected in the 2015/16 comparatives by way of a prior period adjustment.

### Earlier closedown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year.

### Decluttering

In 2015/16 the Council made changes to the presentation of the statement of accounts to make them more understandable for users. The finance team intend to review the accounts again this year in response to the changes to the Code to continue to make the accounts more user friendly.

## Our response

- We will discuss with you your progress in implementing the HNA requirements, highlighting any areas of good practice or concern which we have identified.
- We aim to complete all our substantive audit work of your financial statements by the end of July.
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the financial reporting changes in the 2016/17 Code.
- We will review the Council's progress in working with partners, as part of our work in reaching our VFM conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2016/17 through on-going discussions and have invited members of your finance team to our technical update workshops.



# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Council. In line with previous years, we have calculated financial statements materiality based on a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £33m (being 1.5% of gross revenue expenditure). In the previous year, we determined materiality to be £32m (being 1.5% of gross revenue expenditure). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £1.6m.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified the following items where separate materiality levels are appropriate:

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

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

# Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

| Significant risk  | Description  | Audit procedures   |
|---|--|--|
| <b>The revenue cycle includes fraudulent transactions</b> | Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams may be misstated due to the improper recognition of revenue.            | <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"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• The culture and ethical frameworks of local authorities, including Lancashire County Council, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore we do not consider this to be a significant risk for Lancashire County Council.</p> |
| <b>Management over-ride of controls</b>                   | Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. | <p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Discussions with management about any unusual significant transactions</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation</li> <li>• Review of unusual significant transactions</li> </ul>   |

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

## Significant risks identified (continued)

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

| Significant risk   | Description   | Audit procedures  |
|--|---|---|
| <p><b>Valuation of property, plant and equipment</b></p> | <p>The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements. In 2016/17 the Council has also made decisions about the use of properties, as part of the property strategy which could impact on the value to be included in the Statement of Accounts.</p> | <p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>Review of management's processes and assumptions for the calculation of the estimate.</li> <li>Review of the competence, expertise and objectivity of any management experts used.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Review of the instructions issued to valuation experts and the scope of their work.</li> <li>Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions.</li> <li>Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding.</li> <li>Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register.</li> <li>Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.</li> <li>We will review the classification and valuation of properties in line with the decisions in the property strategy to ensure the valuations included in the accounts reflects the use of the property at the end of the financial year.</li> </ul> |
| <p><b>Valuation of pension fund net liability</b></p>    | <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p>   | <p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>We have identified the controls put in place by management to ensure that the pension fund liability is not materially misstated.</li> </ul> <p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out.</li> <li>We will undertake procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>   |

# Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

| Reasonably possible risks | Description of risk  | Audit procedures   |
|---------------------------|--|--|
| Operating expenses        | Year end creditors and accruals are understated or not recorded in the correct period. | <p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>We have walked through the controls in place over your operating expenditure.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Analysis of year-end accruals to confirm that these reflect amounts outstanding at the year-end.</li> <li>Testing of new year payments to confirm the completeness of the accruals included in the statement of accounts.</li> </ul>                            |
| Employee remuneration     | Employee remuneration accruals are understated   | <p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>We have walked through the controls in place relating to the payment of the Council's staff.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Reconciling the total payroll costs in the payroll system to the general ledger and the financial statements.</li> <li>Undertaking a trend analysis of pay by month to confirm there are no unusual fluctuations throughout the year.</li> </ul> |

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

## Other risks identified (continued)

| Other risks  | Description of risk   | Audit procedures   |
|--|---|--|
| <p>Changes to the presentation of local authority financial statements</p> | <p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p> | <p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• We will document and evaluate the process for the recording the required financial reporting changes to the 2016/17 financial statements.</li> <li>• We will review the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure.</li> <li>• We will review the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS).</li> <li>• We will test the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES.</li> <li>• We will test the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger.</li> <li>• We will test the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements.</li> <li>• We will review the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.</li> </ul> |

---

# Other risks identified (continued)

## Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous sections but will include:

- Heritage assets
- Assets held for sale
- Cash and cash equivalents
- Trade and other receivables
- Borrowings and other liabilities (long and short term)
- Provisions
- Useable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Schools balances and transactions
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note

# Group audit scope and risk assessment

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

| Components                             | Significant? | Level of response required under ISA (UK and Ireland) 600 | Planned audit approach  |
|--|--------------|---|---|
| Lancashire County Council              | Yes          | Comprehensive   | Full scope UK statutory audit performed by Grant Thornton UK  |
| Lancashire County Developments Limited | Yes          | Targeted  | We will review the consolidation undertaken by the Council and review the work undertaken by the company's auditor on those entries that are material to the financial statements of the Group. |

#### Audit scope:

**Comprehensive** – the component is of such significance to the group as a whole that an audit of the components financial statements is required

**Targeted** – the component is significant to the Group, audit evidence will be obtained by performing targeted audit procedures rather than a full audit

**Analytical** – the component is not significant to the Group and audit risks can be addressed sufficiently by applying analytical procedures at the Group level

#### Involvement in the work of component auditors

The nature, time and extent of our involvement in the work of the company auditor will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the company auditor audit documentation and meeting with appropriate members of management.

# Value for Money

## Background

The Code requires us to consider 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.

The National Audit Office (NAO) issued its guidance for auditors on value for money work for 2016/17 in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

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

This is supported by three sub-criteria as set out opposite:

| Sub-criteria                                  | Detail  |
|---|---|
| Informed decision making                      | <ul style="list-style-type: none"> <li>Acting in the public interest, through demonstrating and applying the principles and values of sound governance</li> <li>Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management.</li> <li>Reliable and timely financial reporting that supports the delivery of strategic priorities.</li> <li>Managing risks effectively and maintaining a sound system of internal control.</li> </ul> |
| Sustainable resource deployment               | <ul style="list-style-type: none"> <li>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.</li> <li>Managing and utilising assets effectively to support the delivery of strategic priorities.</li> <li>Planning, organising and developing the workforce effectively to deliver strategic priorities.</li> </ul>   |
| Working with partners and other third parties | <ul style="list-style-type: none"> <li>Working with third parties effectively to deliver strategic priorities.</li> <li>Commissioning services effectively to support the delivery of strategic priorities.</li> <li>Procuring supplies and services effectively to support the delivery of strategic priorities.</li> </ul>  |



---

# Value for Money (continued)

## **Risk assessment**

We have carried out an initial risk assessment based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies, including Ofsted.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We have identified significant risks which we are required to communicate to you. These are set out overleaf.

## **Reporting**

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 include our conclusion in our auditor's report on your financial statements.

# Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

| Significant risk   | Link to sub-criteria  | Work proposed to address   |
|--|---|--|
| <p><b>Internal control</b><br/>           In 2015/16 Internal Audit did not complete a full programme of work. As a result, the Head of Internal Audit was not able to provide an opinion on the overall system of internal control. For 2016/17, there is an audit plan in place and which has been approved by the Audit and Governance Committee. It is being delivered by a strengthened internal audit team. However, the plan has been developed to reflect the Council's progress with its transformation agenda and as a result, will support a limited assurance opinion, notwithstanding the outcomes of the specific reviews within the plan.<br/>           There are other sources of information and assurance that management will need to draw on to support the annual review of the effectiveness of the system of internal control.</p> | <p>This links to the Council's arrangements for managing risks effectively and maintaining a sound system of internal control, demonstrating and applying the principles and values of sound governance, and planning, organising and developing the workforce effectively to deliver strategic priorities.</p>   | <p>We will review the head of internal audit opinion and the AGS to confirm that the work completed is reflected in both.</p>  |
| <p><b>Financial position, service transformation and working in partnership</b><br/>           The Council's MTFP is predicated on the delivery of significant savings to move the Council to a lower cost profile. The plan links to a programme that includes a number of key projects and investments, which are significant both in scale and financial terms in transforming the way the Council delivers services.<br/>           This sits alongside various partnership arrangements in which the Council is involved, including the shadow combined authority and the local health and wellbeing board which are intended to support wider public service reform.</p>   | <p>This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making and to the Council's arrangements for working effectively with third parties to deliver strategic priorities, managing risks effectively and maintaining a sound system of internal control.</p> | <p>We will review the project management and risk assurance frameworks established by the Council in respect of the more significant projects, to establish how the Council is identifying, managing and monitoring these risks.<br/><br/>           We will review the arrangements the Council has in place to work with other bodies in Lancashire.</p> |
| <p><b>Ofsted inspection of children's services</b><br/>           Ofsted issued a report on the Council's children's services in 2015/16 which rated these as 'inadequate'. The Council is currently subject to follow up review. Until such time as Ofsted has confirmed that adequate arrangements are in place this remains a significant risk to the Council's arrangements.</p>   | <p>This links to the Council's arrangements for managing risks effectively and maintaining a sound system of internal control, demonstrating and applying the principles and values of sound governance, and planning, organising and developing the workforce effectively to deliver strategic priorities.</p>   | <p>We will review the Council's monitoring of its improvement plan arrangements and we will consider any further reports from Ofsted as they become available. We will take these into account in forming our conclusion.</p>  |

---

# Other audit responsibilities

In addition to our responsibilities under the Code of Practice in relation to your financial statements and arrangements for economy, efficiency and effectiveness we have a number of other audit responsibilities, as follows:

- We will undertake work to satisfy ourselves that the disclosures made in your Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We consider our other duties under the Act and the Code, as and when required, including:
  - We will give electors the opportunity to raise questions about your financial statements and consider and decide upon any objections received in relation to the financial statements;
  - issue of a report in the public interest; and
  - making a written recommendation to the Council, copied to the Secretary of State
- We certify completion of our audit or report to you if we are unable to do so.

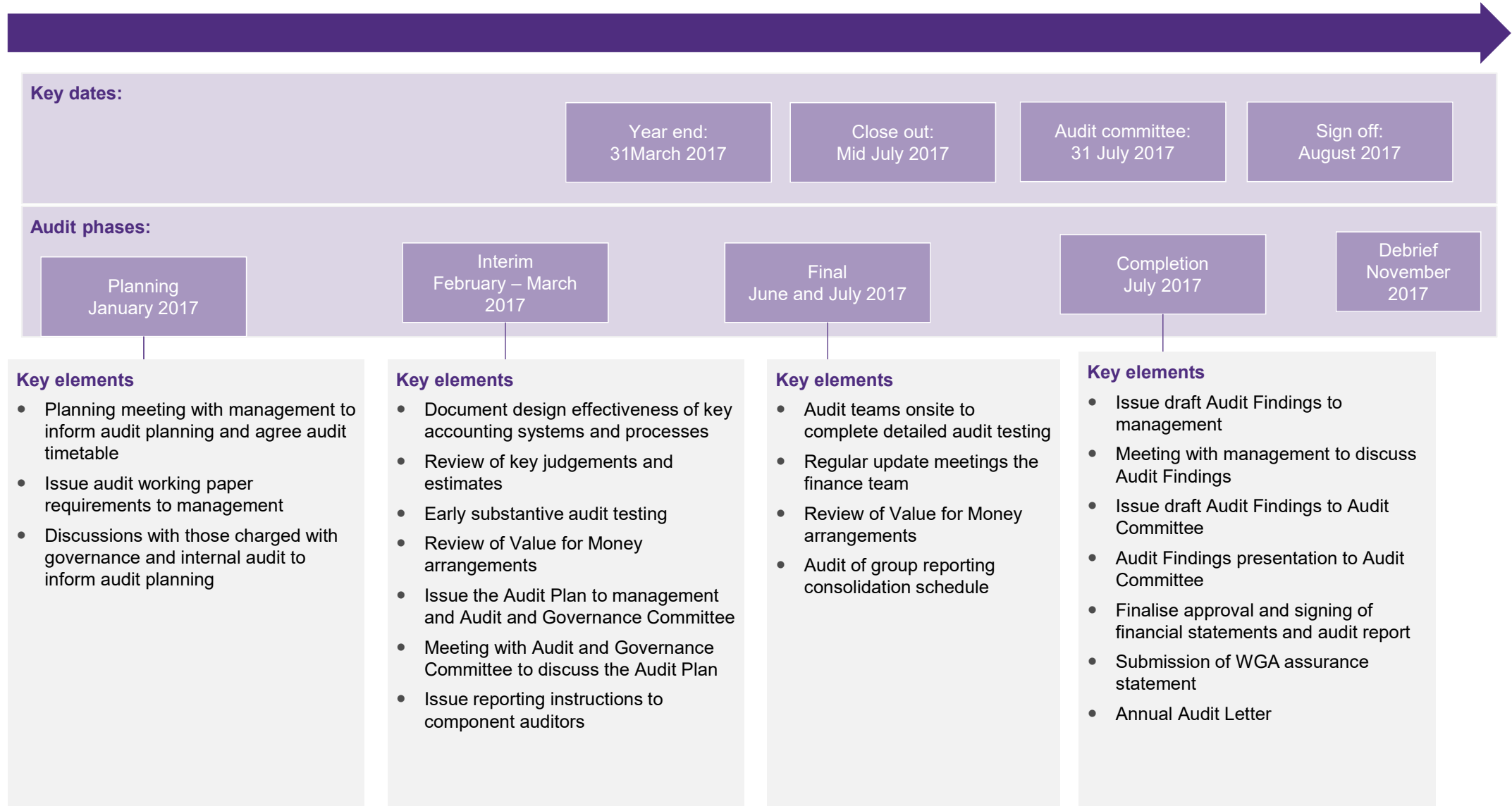
# Results of interim audit work

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  |
|--|--|---|
| <b>Internal audit</b>                            | <p>We have completed a high level review of internal audit's overall arrangements. Internal audit are completing work in line with the plan agreed by the Audit and Governance committee. This plan does not cover the full operating environment of the Council. This means there are some areas where the Head of Internal Audit will not be able to include the level of assurance obtained in her overall internal audit opinion to support the Council's Annual Governance Statement.</p> <p>We have also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p> | Our review of internal audit work has not identified any weaknesses which impact on our audit approach.                   |
| <b>Entity level controls</b>                     | <p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>   | Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements |
| <b>Review of information technology controls</b> | Our information systems specialist is undertaking a high level review of the general IT control environment, as part of the overall review of the internal controls system.  | We will report the results of this work to the Audit and Governance Committee once completed.                             |
| <b>Walkthrough testing</b>                       | <p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <ul style="list-style-type: none"> <li>• Employee remuneration</li> <li>• Operating expenses</li> <li>• Valuations of Property, Plant &amp; Equipment</li> </ul> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>  | Our work has not identified any weaknesses which impact on our audit approach.  |
| <b>Early substantive testing</b>                 | We have agreed that we will undertake early substantive testing of transactions in relation to income, expenditure, payroll, property, plant and equipment additions and the valuation of land and buildings. We are working with your finance team to complete this testing now.  | We will report the results of this work to the Audit and Governance Committee once completed.                             |

# The audit cycle

## The audit timeline



# Audit Fees

## Fees

|   | £              |
|---|----------------|
| Council audit                           | 112,995        |
| <b>Total audit fees (excluding VAT)</b> | <b>112,995</b> |

## 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
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

## Grant certification

- There are no grants received by the Council which we are required to certify under the remit of Public Sector Audit Appointments Limited
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

## Fees for other services

Fees for other services detailed on the following page, 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.

## What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Feed back on your systems and processes
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Regular sector updates
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Regular contact to discuss strategy and other important areas
- A review of accounting policies for appropriateness and consistency
- Annual technical updates for members of your finance team
- Regular Audit and Governance Committee Progress Reports

# Independence and non-audit services

Ethical Standards and ISA (UK and Ireland) 260 require us to give you timely disclosure of matters relating to our independence. In this context, we disclose the following to you:

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to Lancashire County Council. The following audit related and non-audit services were identified for the Council for 2016/17:

## Fees for other services

| Service  | Fees £        | Planned outputs   |
|--|---------------|---|
| <b>Audit related</b>                                       |               |   |
| Reasonable assurance report – Teachers' pensions return    | 4,200         | Reasonable assurance report                             |
| Reasonable assurance report – Growth Hub funding           | 4,000         | Reasonable assurance report                             |
| Reasonable assurance report – Local Transport              | 2,500         | Reasonable assurance report                             |
| <b>Non-audit related</b>                                   |               |   |
| Tax compliance work for Lancashire County Developments Ltd | <b>17,760</b> | Tax compliance work for 2015/16, undertaken in 2016/17. |

The amounts detailed are fees agreed to-date for audit related and non-audit services (to be) undertaken by Grant Thornton UK LLP (and Grant Thornton International Limited network member Firms) in the current financial year. Full details of all fees charged for audit and non-audit services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

The above services are consistent with the Council's policy on the allotment of non-audit work to your auditors.

# Communication of audit matters with those charged with governance

International Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) 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

As auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

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

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

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

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

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.

|   | Audit Plan | Audit Findings |
|---|------------|----------------|
| <b>Our communication plan</b>   |            |                |
| Respective responsibilities of auditor and management/those charged with governance   | ✓          |                |
| Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications  | ✓          |                |
| Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought   |            | ✓              |
| Confirmation of independence and objectivity  | ✓          | ✓              |
| A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.<br>Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.<br>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  | ✓          | ✓              |
| Matters in relation to the group audit, including:<br>Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud  | ✓          | ✓              |





© 2017 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

**[grant-thornton.co.uk](http://grant-thornton.co.uk)**



## **Audit & Governance Committee**

Meeting to be held on 03 April 2017

|                                      |
|--------------------------------------|
| Electoral Division affected:<br>None |
|--------------------------------------|

## **External Audit - Lancashire County Pension Fund Audit Plan 2016/17**

(Appendix 'A' refers)

Contact for further information:

Karen Murray, Grant Thornton UK LLP, 0161 234 6364, Director,  
karen.l.murray@uk.gt.com

### **Executive Summary**

The Annual 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 Local Audit & Accountability Act 2014 (the Act) and the Code of Audit Practice for Local Government.

This audit plan is specific to the financial year 2016/17 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 Pension Fund as at 31 March 2017 and of its expenditure and income for the year then ended; and
  - have been prepared in accordance with proper accounting practice.

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

### **Recommendation**

The Committee is asked to agree the External Audit plan for the audit of the Lancashire County Pension Fund for 2016/17, and the fees therein.

### **Background and Advice**

Attached at Appendix 'A' is the external auditor's Annual Audit Plan for the audit of the Lancashire County Pension Fund. The plan sets out the main risk areas which the audit will focus on, including:

- the two default risks as highlighted in ISA+315 applicable to all audits on the revenue cycle includes fraudulent transactions and management override of controls;
- the risk of incorrect valuations on Level 3 investments, which by their nature require a significant degree of judgement to reach an appropriate valuation at year end; and
- other key risks areas around member data, investments, contributions and benefits payable.

The fee for the audit of the pension fund has been set at £34,169, which is the scale fee set by the Audit Commission. A fee of £1,737 is set to cover the IAS19 assurance work which is subject to separate approval from the Public Sector Audit Appointments Limited. Please note the total audit fee is the same as that charged in 2014/15 and 2015/16.

(Note: The scale fee set previously by the Audit Commission for pension fund audits is based on a formula linked to the size of the net assets of the fund and has no specific risk factors linked to it).

Members of the Grant Thornton audit team will attend the meeting to present the report and answer any questions.

### **Consultations**

The report has been agreed with the Head of Fund and 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/Tel |
|---|------|-------------|
| N/A   |      |             |
| Reason for inclusion in Part II, if appropriate |      |             |
| N/A   |      |             |

# The Audit Plan for Lancashire County Pension Fund

---

**Year ended 31 March 2017**

March 2017

**Karen Murray**

Director

T +44 (0) 161 234 6364

E [karen.l.murray@uk.gt.com](mailto:karen.l.murray@uk.gt.com)

**Marianne Dixon**

Manager

T +44 (0) 113 200 2699

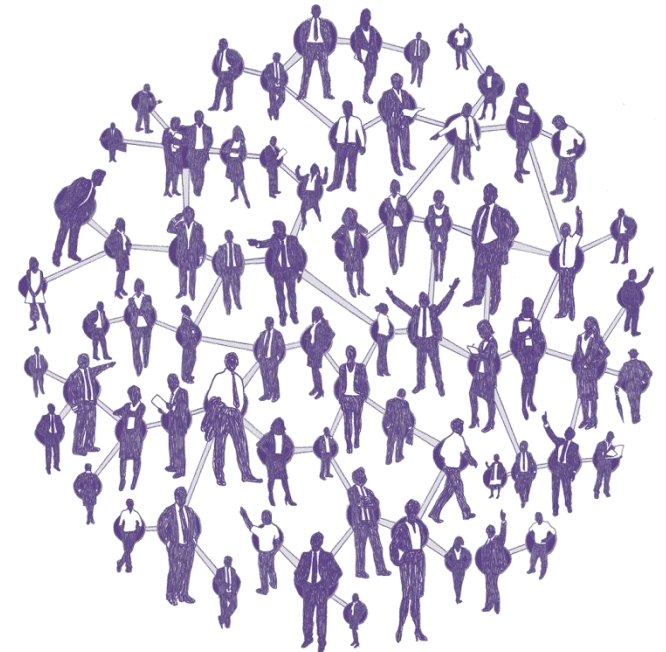
E [marianne.dixon@uk.gt.com](mailto:marianne.dixon@uk.gt.com)

**Ian Pinches**

Assistant Manager

T +44 (0) 161 234 6359

E [ian.m.pinches@uk.gt.com](mailto:ian.m.pinches@uk.gt.com)





Lancashire County Pension Fund  
PO Box 78  
County Hall, Preston  
Lancashire, PR1 8XJ

9 March 2017

Dear Members of the Audit & Governance Committee

### **Audit Plan for Lancashire County Pension Fund for the year ending 31 March 2017**

This Audit Plan sets out for the benefit of those charged with governance (in the case of Lancashire County Pension Fund, the Audit & Governance Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Fund and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to give an opinion on the Fund's financial statements.

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

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 planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We look forward to working with you during the course of the audit.

Yours sincerely

Karen Murray

Engagement Lead

Grant Thornton UK LLP  
4 Hardman Square  
Spinningfields  
Manchester  
M3 3EB  
T +44 (0) 161 953 6900  
[www.grant-thornton.co.uk](http://www.grant-thornton.co.uk)

#### **Chartered Accountants**

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No. OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. Please see [grant-thornton.co.uk](http://grant-thornton.co.uk) for further details.

---

# Contents

## Section

Understanding your business and key developments

Materiality

Significant risks identified

Other risks identified

Results of interim audit work

The audit cycle

Audit fees

Independence and non-audit services

Communication of audit matters with those charged with governance

Page 109

# Understanding your business and key developments

## Developments

### Investment Regulations

The new investment regulations came into force on 1 November 2016 and require administering authorities to publish new Investment Strategy Statements by 1st April 2017. The statement must be in accordance with guidance issued by the Secretary of State and include a variety of information. This will include the administering authority's assessment of the suitability of particular investments and types of investments, the authority's approach to risk, including the ways in which risks are to be measured and managed and the authority's approach to pooling investments, including the use of collective investment vehicles and shared services. These regulations also provide the Secretary of State with the power to intervene in the investment function of a fund if he/she is satisfied that the authority is failing to act in accordance with the regulations.

### Triennial actuarial valuation of the fund

The results of the triennial review have now been reported. Overall the funding level has improved from the date of the last valuation. Members will need to consider the outcome of this review and the impact this will have on the fund in future investment decisions.

### Local Pensions Partnership

During 2016/17, the Local Pension Partnership (LPP), your new Asset & Liability Management (ALM) partnership, has started operating. This is an FCA-regulated Authorised Contractual Scheme entered into with London Pension Fund Authority.

## Key challenges

### Pooling Governance

Arrangements for pooling of investments continue to develop, with DCLG expecting all administering authorities to be transferring liquid assets from April 2018. For the Lancashire LGPS, this process has already started this year with LPP becoming operational.

The structure and governance of these arrangements are likely to have a significant impact on how the investments are managed, who makes decisions and how investment activities are actioned and monitored.

Although much of this operational responsibility will move to the investment pool operator, it is key that administering authorities (through Pension Committees and Pension Boards) continue to operate strong governance arrangements, particularly during the transition phase where funds are likely to have a mix of investment management arrangements.

| Measure                     | Value 15/16 |
|-----------------------------|-------------|
| Net assets under management | £6,036.2m   |
| Total membership            | 162.466     |
| Number of employers         | 369         |

## Financial reporting changes

### CIPFA Code of Practice 2016/17 (the Code)

The main change to the Code for Pension Funds is the extension of the fair value disclosures required under the Code from 2016/17.

The greatest impact is expected to be for those Funds holding directly owned property and/or shares and Level 3 investments. These changes are reflected in CIPFA's pension fund example accounts alongside further changes, including an analysis of Investment Management expenses in line with CIPFA's Local Government Pension Scheme Management Costs guidance, a realignment of investment classifications, and an additional disclosure note covering remuneration of key management personnel which has been included in related party transactions.

### Earlier closedown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year. This will impact not only upon the production of the Fund accounts but also on earlier requests for information from employers within the Fund.

## Our response

- We will discuss with you your progress in implementing the requirements of the new investment regulations, highlighting any areas of good practice or concern which we have identified.
- We will discuss your progress in implementing revised governance structures, and share our experiences gained nationally.
- We aim to complete all our substantive audit work of your financial statements by 21 July 2017.
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the changes in the 2016/17 Code.



# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Fund. In line with previous years, we have calculated financial statements materiality based on a proportion of net assets for the Fund. For purposes of planning the audit we have determined overall materiality to be £60,362k (being 1% of net assets). In the previous year, we determined materiality to be £58,307k (being 1% of net assets). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £3,018k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified the following items where separate materiality levels are appropriate:

| Balance/transaction/disclosure                        | Explanation  | Materiality level  |
|---|--|--|
| Related party transactions                            | Due to public interest in these disclosures  | £20K, however individual misstatements will be evaluated with reference to how material they are to the other party. |
| Disclosures of senior manager salaries and allowances | Due to public interest in these disclosures and the statutory requirement for them to be made. | £5k  |

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

# Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

| Significant risk  | Description  | Audit procedures  |
|---|--|---|
| <b>The revenue cycle includes fraudulent transactions</b> | <p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams 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 Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• The culture and ethical frameworks of local authorities, including Lancashire County Council as the administering authority, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore we do not consider this to be a significant risk for Lancashire County Pension Fund.</p> |
| <b>Management override of controls</b>                    | <p>Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p>  | <p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Documentation and identification of the process and key controls around journal entries</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation</li> <li>• Review of unusual significant transactions</li> </ul>   |

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

## Significant risks identified (continued)

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

| Significant risk   | Description  | Audit procedures   |
|--|--|--|
| <p><b>The expenditure cycle includes fraudulent transactions</b></p> | <p>Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered.</p>  | <p>We have considered this risk and do not consider it to require additional audit procedures because historic trends indicate:</p> <ul style="list-style-type: none"> <li>• 81% relates to benefit payments, which is addressed by our procedures in response to the identified risk in this area (see Other Risks)</li> <li>• 15% relates to management expenses, which is addressed by our procedures in response to the identified risk in this area (see Other Risks)</li> <li>• 4% relates to commissioning of payments on account of leavers, which is addressed by our procedures in response to the identified risk in this area.</li> </ul>  |
| <p><b>Level 3 Investments Valuation is incorrect</b></p>             | <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments, by their very nature, require a significant degree of judgement to reach an appropriate valuation at year end.</p> | <p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• We have updated our understanding of your process for valuing level 3 investment through discussions with relevant personnel from the Pension Fund.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• For a sample of investments, test valuations by obtaining and reviewing the audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31<sup>st</sup> March with reference to known movements in the intervening period.</li> <li>• Review the qualifications of the fund managers and custodian as experts to value the level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached.</li> <li>• Review the competence, expertise and objectivity of any management experts used.</li> </ul> |

# Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

| Reasonably possible risks                      | Description of risk   | Audit procedures   |
|--|---|--|
| <b>Investment Income</b>                       | Investment activity not valid.<br>Investment income not accurate.<br>(Accuracy) | <b>Work planned:</b> <ul style="list-style-type: none"> <li>We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances</li> <li>Complete a predictive analytical review for different types of investments</li> <li>For direct property investments, we will rationalise income against a list of properties for expected rental income.</li> </ul>  |
| <b>Investment purchases and sales</b>          | Investment activity not valid.<br>Investment valuation not correct.             | <b>Work planned:</b> <ul style="list-style-type: none"> <li>We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances</li> <li>We will test a sample of purchases and sales to ensure are appropriate.</li> </ul>   |
| <b>Investment values – Level 2 investments</b> | Valuation is incorrect. (Valuation net)   | <b>Work planned:</b> <ul style="list-style-type: none"> <li>We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances</li> <li>We will test a sample of level 2 investments to independent information from the custodian / fund managers on units and on unit prices where the custodian does not provide independent pricing confirmation.</li> <li>For direct property investments, we will agree values in total to valuer's report and undertake steps to gain reliance on the valuer as an expert.</li> </ul> |

## Other risks identified (continued)

| Reasonably possible risks | Description of risk   | Audit procedures   |
|---------------------------|---|--|
| <b>Contributions</b>      | Recorded contributions not correct (Occurrence)   | <p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>We have carried out procedures and walkthrough testing to understand the pension fund's arrangements for gaining assurance over recorded contributions.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>We will test the controls over occurrence, completeness and accuracy of contributions,</li> <li>We will rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.</li> </ul> |
| <b>Benefits payable</b>   | Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence) | <p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>We have carried out procedures and walkthrough testing sufficient to understand the pension fund's arrangements for gaining assurance over benefit payments.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>We will test the controls over completeness, accuracy and occurrence of benefit payments,</li> <li>We will rationalise the pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained.</li> </ul>         |
| <b>Member Data</b>        | Member data not correct. (Rights and Obligations)   | <p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>We have carried out procedures and reviews sufficient to understand the pension fund's arrangements for gaining assurance over the accuracy of member data.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>We will undertake controls testing over annual/monthly reconciliations and verifications with individual members</li> <li>We will perform sample testing of changes to member data made during the year to source documentation.</li> </ul>   |

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

---

## Other risks identified (continued)

### Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

### Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous sections but will include:

- Transfers in & out
- Management & administrative expenses
- Cash deposits
- Actuarial Valuation and Actuarial Present Value of Promised Retirement Benefits
- Financial Instruments
- Funding Arrangements Note

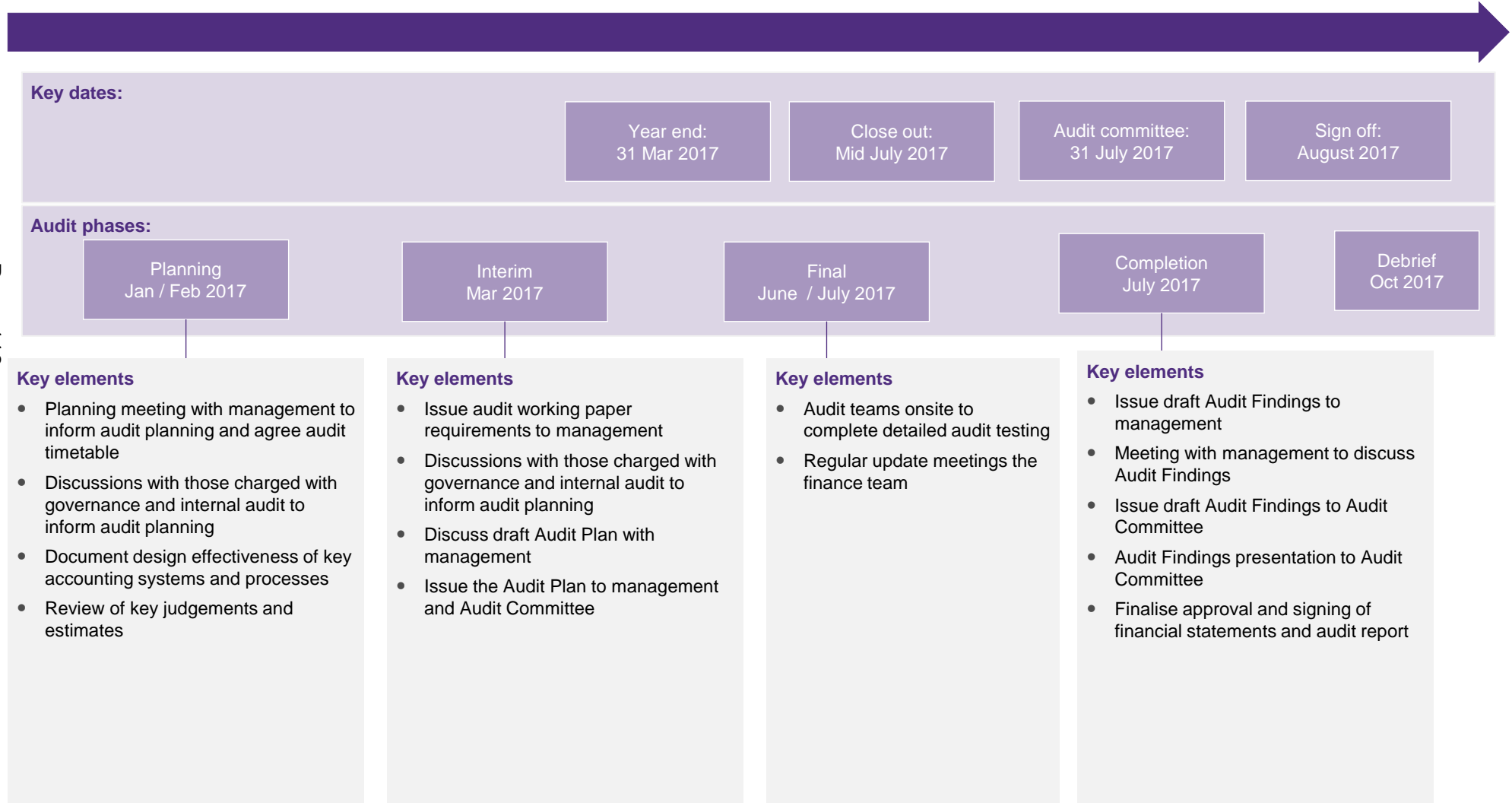
# Results of interim audit work

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   |
|-------------------------------|--|--|
| <b>Internal audit</b>         | <p>We have completed a high level review of internal audit's overall arrangements.</p> <p>We have also reviewed internal audit's work on the Fund's key financial systems to date.</p>   | <p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Fund and that internal audit work contributes to an effective internal control environment.</p> <p>We have not identified any weaknesses which impact on our audit approach.</p> |
| <b>Entity level controls</b>  | <p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul> | <p>Our work has identified no material weaknesses which are likely to adversely impact on the Fund's financial statements</p>  |
| <b>Journal entry controls</b> | <p>We have reviewed the Fund's journal entry policies and procedures as part of determining our journal entry testing strategy. We have not identified any material weaknesses which are likely to adversely impact on the Fund's control environment or financial statements.</p>   | <p>Our review of journal policies and procedures has not identified any issues.</p> <p>We will carry out additional work including testing on journals transactions for the full year, by extracting 'unusual' entries for further review.</p>   |

# The audit cycle

## The audit timeline





# Audit Fees

## Fees

|   | £             |
|---|---------------|
| Pension fund audit                      | 34,169        |
| IAS 19 fee variation                    | 1,737         |
| <b>Total audit fees (excluding VAT)</b> | <b>35,906</b> |

## 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 Fund and its activities, have not changed significantly
- The Fund will make available management and accounting staff to help us locate information and to provide explanations
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

## Fees for other services

Fees for other services are detailed on the following page, 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.

## What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Feed back on your systems and processes
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Regular sector updates
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Regular contact to discuss strategy and other important areas
- A review of accounting policies for appropriateness and consistency
- Annual technical updates for members of your finance team

# Independence and non-audit services

Ethical Standards and ISA (UK and Ireland) 260 require us to give you timely disclosure of matters relating to our independence. In this context, we disclose the following to you:

We confirm that the Assistant Manager of our team has a family member who works within the Fund's benefits administration team at Local Pensions Partnership. To avoid any potential conflicts, this member of our team does not undertake and work on the benefits payable elements of the accounts and is not responsible for the planning or supervision of such work.

We have complied with the Auditing Practices Board's Ethical Standards and we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to Lancashire County Pension Fund. The following audit related and non-audit services were identified for the Fund for 2016/17:

## Fees for other services

| Service                  | Fees £ |
|--------------------------|--------|
| <b>Audit related</b>     |        |
| None                     | 0      |
| <b>Non-audit related</b> |        |
| None                     | 0      |

The amounts detailed are fees agreed to-date for audit related and non-audit services (to be) undertaken by Grant Thornton UK LLP (and Grant Thornton International Limited network member Firms) in the current financial year. Full details of all fees charged for audit and non-audit services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

The above services are consistent with the Administering Authority's policy on the allotment of non-audit work to your auditors.

# Communication of audit matters with those charged with governance

International Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) 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 Fund.

## Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

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

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

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

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

It is the responsibility of the Fund 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 Fund is fulfilling these responsibilities.

| Our communication plan  | Audit Plan | Audit Findings |
|---|------------|----------------|
| Respective responsibilities of auditor and management/those charged with governance   | ✓          |                |
| Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications  | ✓          |                |
| Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought   |            | ✓              |
| Confirmation of independence and objectivity  | ✓          | ✓              |
| A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.<br>Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.<br>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  | ✓          | ✓              |



© 2017 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

**[grant-thornton.co.uk](http://grant-thornton.co.uk)**