

Lancashire County Council - Questions to Management

| Auditor question | Response |
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| What do you regard as the key events or issues that will have a significant impact on the financial statements for 2017/18? | There are no specific events that have had a significant impact on the financial statements for 2017/18 however, the continuing increase in the demand for services and reductions in central government funding has meant that a depletion of reserves will be seen in the movement in usable reserves. |
| Have you considered the appropriateness of the accounting policies adopted by the Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? | <p>The accounting policies have been reviewed, and the policies to be adopted for the 2017/18 accounts were approved by the Audit, Risk and Governance committee in January 2018.</p> <p>There have been no events or transactions that have caused a change to the accounting policies since 2016/17.</p> |
| Are you aware of any changes to the Councils regulatory environment that may have a significant impact on the Authority's financial statements? | No. |
| What policies and procedures are in place to identify applicable legal and regulatory requirements to ensure the Council is complying with those requirements? | <p>There are a number of policies and procedures that are available to all employees via the intranet. These include:</p> <ul style="list-style-type: none"> - The constitution - Scheme of delegation - Political decision making arrangements - Assurance statements <p>This is supplemented by internal audit reviews.</p> <p>Also, all committee reports are required to undergo an internal clearance process whereby relevant input is obtained from finance, legal, procurement, HR and other support services, before decisions are taken.</p> |
| How would you assess the process for reviewing the effectiveness of internal control and what are the results? | <p>The adequacy and effectiveness of internal control is assessed through an annual programme of internal audit work, and through management's own assessment of their controls' effectiveness. For 2017/18 directors have also been asked to provide statements of assurance over their services.</p> <p>The results of these assessments are that, overall, only limited assurance can be taken that the Council's internal controls are adequately designed and effectively operated.</p> |

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| <p>How does the Council's risk management processes link to financial reporting?</p> | <p>The Council's financial position is identified as a key risk on the Council's risk register. The Council's senior management and political leadership regularly receive reports on the Council's current and longer term financial position.</p> <p>Financial reports are produced routinely on a monthly basis with an annualised forecast produced by budget holders with support from the finance team for more complex service areas such as adult social care.</p> <p>Budgets are composed on a hierarchical basis, such that the level of reporting from detail to corporate summary can be obtained dependant on need.</p> <p>The financial position is reported to Cabinet on a quarterly basis, which provides a commentary on the main risks and opportunities to date. Particularly focussing on the high value and demand led services such as Waste, Children and Adult's social care.</p> <p>Corporate accountability for budgets is held at Director and Heads of Service levels, allowing for corrective actions to be employed effectively at an appropriate scale.</p> <p>The Council continues to look to improve the integration of reporting across finance, performance and human resources such as to further support risk management outcomes.</p> |
| <p>How would you assess the Council's arrangements for identifying and responding to the risk of fraud?</p> | <p>The senior audit investigator supports the Council's participation in the National Fraud Initiative, supports managers where there are reasons to consider that there may be a risk of fraud, and in some cases directly investigates allegations of fraud or impropriety.</p> |
| <p>What has been the outcome of these arrangements so far this year?</p> | <p>There were 49 new investigations in 2017/18, of which nine were investigated by the Internal Audit service and 40 by operational managers. Of these, 16 are continuing.</p> <p>No single issue has had a material impact on the Council, or would prompt a reassessment of the Council's overall control environment. However there are a small number of outcomes to report that may be of interest to Grant Thornton.</p> <p>The proactive counter fraud data matching exercise that concluded in December 2017 identified overpayments in relation to pensions, VAT, and duplicate payments amounting to almost £91k in total which are being reclaimed. Further matches were received in December 2017 that are currently being</p> |

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| | <p>investigated in relation to pensions, residential care homes and personal budgets.</p> <p>During the year funds were recovered from a former employee convicted of fraud. The senior audit investigator is continuing to work to recover additional funds where possible.</p> <p>The Council, like other organisations, is often targeted by fraudsters attempting to replace suppliers' bank details with their own bank details. On one occasion (as far is as known) fraudsters intercepted emails between a supplier and a Council officer and successfully impersonated the supplier.</p> <p>A full review of the procedures for changing bank account details has been undertaken by the Procurement Information Management Team with assistance from the Internal Audit service and the process by which bank account details are changed has since been strengthened.</p> <p>The Debt Recovery team involve the senior audit investigator where there are indications of fraud relating to unpaid service user contributions. He was involved in four cases of fraud by the relatives of the service users or by the owners of care homes. Two of these cases remain ongoing.</p> <p>As last year, the greatest single source of investigations for the senior audit investigator is direct payments to social care service users. Over 2017/18 he has been involved in 22 cases relating to direct payments (some of which are ongoing from earlier years).</p> |
| <p>What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p> | <p>Clearly all financial systems are susceptible to fraud. However the transactions that yield the greatest number of potential and actual frauds as well as some of the largest values, are direct payments to service users or their representatives. Procurement is also another class of transaction considered to be most at risk to fraud.</p> |
| <p>Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p> | <p>The Council's whistleblowing helpline received 15 referrals (although some related to the same issues) of which six related to financial issues and nine to human resource concerns. All have been investigated either by the senior audit investigator or by the Human Resources service.</p> <p>The whistleblowing issues investigated have resulted in:</p> <ul style="list-style-type: none"> - Ongoing investigations of safeguarding concerns and allegations of falsifying records; |

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| | <ul style="list-style-type: none"> - A reminder being given about the Council's no-smoking policy; - An investigation into the provision of inappropriate advice; - Three allegations about bullying and harassment addressed; and - Insufficient evidence to uphold seven other allegations. |
| <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p> | <p>The Internal Audit service provides a progress report to each meeting of the Audit, Risk and Governance Committee that highlights any unmitigated risks arising from the audit work undertaken. The committee has a record of interest in such matters and periodically invites directors to explain their responses to the risk issues raised and provide assurance regarding the action being taken. The risk management process is robust and all services update their risk and opportunity registers quarterly. During 2017/18 these service registers have been assessed by the Monitoring Officer, and a corporate risk and opportunity register prepared and presented to the Corporate Management Team. This corporate risk and opportunity register is then reported to both the 'Cabinet Committee for Performance Improvement' and 'Audit, Risk and Governance Committee' on a quarterly basis.</p> |
| <p>As a management team, how do you communicate to staff and employees your views on business practices and ethical behaviour?</p> | <p>There are several mechanisms that include:</p> <ul style="list-style-type: none"> - Induction - Intranet pages - Staff notices - Cascade briefings - PDRs - Bite sized briefings - Specific training - Staff conferences - Blogs - Videos |
| <p>What are your policies and procedures for identifying, assessing and accounting for litigation and claims?</p> | <p>The County Council identifies litigation and claims from several sources that include service managers, external bodies serving notice and individuals submitting claims through established claims procedures. The Litigation team within the Council's Legal services deals with on-going claims and litigation on issues such as highways, child protection and employment issues. The Council maintains extensive records relating to both historic and current cases.</p> |

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| | The Council generally self-insures for claims up to £1m, above which insurance is procured. A provision is held on the Council's balance sheet to cover the accruing liabilities as valued by an external actuarial review. |
| Is there any use of financial instruments, including derivatives? | <p>Yes, the financial instruments recognised in the comprehensive income and expenditure statement are detailed in a note to the statement of accounts, and include:</p> <ul style="list-style-type: none"> - Financial liabilities at amortised cost - Financial assets: loans and receivables - Financial assets: available for sale - Other assets and liabilities shown at fair value through profit and loss |
| What is the current position of those issues included in the 2016/17 accounts as contingencies and provisions at 31 March 2017? | <p>Provisions are set aside to provide for specific expenses for which the exact cost and timing are still uncertain. At 31 March 2017, these comprised:</p> <ul style="list-style-type: none"> - Insurance provision - Business Rates appeals <p>Insurance provision - Funds are set aside to cover liability claims in respect of employer's liability, public liability or buildings insurance which are below our insurance excess and our self-insured limits. A provision will continue to be made at March 2018 to cover ongoing liabilities.</p> <p>Business rates appeals - This provision accounts for the share of the business rates appeals impact estimated by the 12 Lancashire Districts. A provision will continue to be made at March 2018 for the revised impact estimate.</p> |
| Are you aware of any significant transaction outside the normal course of business? | No. |
| Are you aware of any changes in circumstances that would lead to impairment of non-current assets? | No. |
| Are you aware of any guarantee contracts? | The Council provides a pension indemnity to its wholly owned companies: Active Lancashire and Marketing Lancashire. |
| Are you aware of allegations of fraud, errors, or other irregularities during the period? | The matters raised during 2017/18 have been set out earlier in this document and we are aware of no other allegations. A report is being prepared for the Audit, Risk and Governance Committee to consider at its meeting on 30 April that will provide more detailed information on each case and the work undertaken in response. |

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| <p>Are you aware of any instances of non-compliance with laws or regulations or is the Authority on notice of any such possible instances of non-compliance?</p> | <p>A number of data breaches were reported to the Information Commissioner's Office.</p> <p>However, 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.</p> |
| <p>Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?</p> | <p>No examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities are known to the Finance, Legal and Internal Audit service or Trading Standards and Scientific Services.</p> |
| <p>Are you aware of any transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?</p> | <p>No.</p> |
| <p>Where the financial statements include amounts based on significant estimates, how have the accounting estimates been made, what is the nature of the data used, and the degree of estimate uncertainty inherent in the estimate?</p> | <p>Not applicable.</p> |
| <p>Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?</p> | <p>No.</p> |
| <p>What is the current position in respect of any of the prior years reported internal control deficiencies?</p> | <p>A considerable programme of improvements to services, systems and process is under way, although this is also closely related to cost-saving measures.</p> |
| <p>Can you provide details of those solicitors utilised by the Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?</p> | <p>The County Council utilises external solicitors and Counsel on a range of issues. The Litigation team within the Council's Legal services deals with on-going claims and litigation on issues such as highways, child protection and employment issues. The Council maintains extensive records relating to both historic and current cases.</p> |
| <p>Although the public sector interpretation of IAS1 means that unless services are being transferred out of the public sector then the financial statements should be prepared on a going concern</p> | <p>The provisions in the CIPFA Code of Practice on Local Authority Accounting on the going concern accounting requirements reflect the economic and statutory environment in which local authorities operate. These</p> |

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| <p>basis, management is still required to consider whether there are any material uncertainties that cast doubt on the Council's ability to continue as a business.</p> <p>a) What is the process for undertaking a rigorous assessment of going concern?</p> <p>b) Is the process carried out proportionate in nature and depth to the level of financial risk and complexity of the organisation and its operations?</p> <p>c) How will you ensure that all available information is considered when concluding the organisation is a going concern at the date the financial statements are approved?</p> <p>d) Has the management team carried out an assessment of the going concern basis for preparing the financial statements and what was the outcome of that assessment?</p> | <p>provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, it would not, therefore, be appropriate for their financial statements to be prepared on anything other than a going concern basis.</p> <p>The Council has however conducted an assessment of the going concern basis for preparing the accounts.</p> <p>The main factors which underpin the Council's assessment of its going concern status include:</p> <ul style="list-style-type: none"> - The Council has set a balanced revenue budget for 2018/19; - The Council forecasts its financial position over the medium term, currently to 2021/22, identifying relevant risks and opportunities; - The Council has a strong record in bridging the gap between forecast expenditure and funding; - The Council has a robust financial monitoring framework; - The Council is able to raise revenue through local taxation. |
| <p>Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p> | <p>As a large and complex organisation, the Council uses a wide range of internal and external advisors to support the proper discharge of its responsibilities.</p> |
| <p>Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements of the Council?</p> | <p>Neither the Internal Audit service nor the Procurement service are aware of any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements of the Council.</p> |
| <p>Have any reports been made under the Bribery Act?</p> | <p>No.</p> |