

Lancashire County Council and Lancashire County Pension Fund - Questions to Management 2019/20

Auditor question	Response for Lancashire County Council	Response for Lancashire County Pension Fund
<p>What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?</p>	<p>There are no specific events that have had a significant impact on the financial statements for 2019/20.</p>	<p>Continued pooling of investments and the reporting of post-pooling management expenses.</p> <p>Reporting on the implications of the McCloud case on the IAS 19 liability. Until further information is known, the intention is to follow the 2018/19 accounting treatment.</p> <p>The Fund will follow The Chartered Institute of Public Finance and Accountancy (CIPFA) guidance in preparing the annual report and accounts.</p>
<p>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>	<p>The accounting policies have been reviewed, and the policies to be adopted for the 2019/20 accounts will be subject to approval by the Audit, Risk and Governance committee in January 2020.</p> <p>There have been no events or transactions that have caused a change to the accounting policies since 2018/19. However, the accounting policies have been streamlined in line with CIPFA guidance.</p>	<p>There have not been any events or transactions that will result in new or changed accounting policies.</p> <p>The Fund follows the CIPFA code of practice and guidance specific to the accounts of Local Government Pension Scheme (LGPS) Funds.</p>
<p>Are you aware of any changes to the council's regulatory environment that may have a significant impact on the authority's financial statements?</p>	<p>No.</p>	<p>No.</p>
<p>What policies and procedures are in place to identify applicable legal and regulatory requirements to ensure the council is complying with those requirements?</p>	<p>There are a number of policies and procedures that are available to all employees via the intranet. These include:</p> <ul style="list-style-type: none"> - The constitution - Scheme of delegation - Political decision making arrangements 	<p>Head of Fund is designated as the officer responsible for the management of the Fund.</p> <p>Pension Fund Committee approves the annual governance compliance statement which is prepared by the Head of Fund.</p>

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	<p>- Assurance statements</p> <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>	<p>Pension Fund Committee undertakes training to ensure possession of the sufficient skills, information and resources.</p> <p>Local Pensions Board assists the council in ensuring compliance with LGPS and other regulations.</p> <p>The Fund is a member of the CIPFA pension network and other local networking groups.</p> <p>There is regular attendance of training and conference events to remain fully aware of current and developing laws and regulations.</p>
<p>How would you assess the process for reviewing the effectiveness of internal control and what are the results?</p>	<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.</p> <p>The results of these assessments are likely to be that, overall, moderate assurance can be taken that the council's internal controls are adequately designed and effectively operated.</p>	<p>The adequacy and effectiveness of internal control is assessed through an annual programme of internal audit work. The council's oversight of the Pension Fund is audited by the council's own internal audit service which has given substantial assurance when reporting on oversight of the Pension Fund. Substantial assurance concludes that the framework of control is adequately designed and/ or effectively operated.</p> <p>The service company appointed to administer the fund has appointed its own internal auditor who also follows an annual programme of internal audit work.</p>
<p>How does the council's risk management processes link to financial reporting?</p>	<p>The council's financial position is identified as a risk factor on the council's risk register.</p> <p>The council's senior management and political leadership regularly receive reports on the council's current and longer term financial position.</p> <p>Financial reports are produced routinely on a monthly basis with an annualised forecast produced by budget holders with support from the finance team for more complex service areas such as adult social care.</p>	<p>Any significant identified risk areas are accounted for in accordance with the CIPFA Code and additional CIPFA guidance.</p> <p>A budget is approved by Pension Fund Committee on an annual basis and actual financial performance is monitored against budget on a quarterly basis with commentary to support variances and updated forecasts reported to the Committee on a quarterly basis.</p>

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	<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>The senior audit investigator supports the council's participation in the National Fraud Initiative, which incorporates data relating to the Pension Fund.</p>
<p>What has been the outcome of these arrangements so far this year?</p>	<p>No single issue is likely to have a material impact on the council, or would prompt a reassessment of the council's overall control environment.</p>	<p>The National Fraud Initiative (NFI) exercise is nearing completion with a small number of cases still under investigation. To date the NFI exercise has identified overpayments totalling £55k which relate to 55 cases, mainly in respect of pensioners who are deceased but where pension payments continued. Arrangements have been put in place to recover these overpayments.</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.</p>	<p>The largest financial sums lie in the Fund's investments, but the greatest numbers of individual transactions are with the Fund's members: both areas could be susceptible to fraud.</p>

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<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 continues to receive referrals relating both to financial issues and to human resource concerns. All are considered and investigated either by the senior audit investigator or by the human resources service.</p>	<p>No.</p>
<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.</p> <p>The risk management process is robust and all services update their risk and opportunity registers quarterly. During 2019/20 these service registers have been assessed by the Deputy Monitoring Officer, and a corporate risk and opportunity register prepared and presented to the Corporate Management Team. This corporate risk and opportunity register is then reported to both the 'Cabinet Committee for Performance Improvement' and 'Audit, Risk and Governance Committee' on a quarterly basis.</p>	<p>The Pension Fund maintains a risk register which includes consideration of fraud risk. This register is reviewed and updated on a quarterly basis and any changes are presented to the Pension Fund committee and the Local Pensions Board on a six monthly basis.</p> <p>All reports considered by the Pension Fund Committee identify the key risks involved in any proposed decision and the nature of mitigation, together with any legal or other issues that might arise.</p> <p>The Pension Fund Committee reports directly to Full Council reporting any breaches or risks.</p> <p>The Local Pensions Board has a remit to report directly to Full Council and also directly to the Pensions Regulator in respect of Code of Practice breaches.</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 - Performance Development Reviews - Bite sized briefings - Specific training - Staff conferences - Blogs - Videos 	<p>Staff employed within the Lancashire County Pension Fund (LCPF) team are employees of Lancashire County Council and must comply with the council's Code of Conduct for employees. Officers who are members of professional accounting bodies are also covered by professional conduct requirements.</p> <p>The 'seven principles of public life', requiring the highest standards of conduct apply to the Board, officers of and advisors to the Fund.</p> <p>Advisors to the Fund such as actuaries, legal and accounting firms are also covered by their own industry specific ethical standards and professional conduct requirements.</p>

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<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> <p>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.</p>	<p>The county council's legal procedures apply to LCPF.</p>
<p>Is there any use of financial instruments, including derivatives?</p>	<p>Yes, the financial instruments recognised in the comprehensive income and expenditure statement are detailed in a note to the statement of accounts. These include:</p> <ul style="list-style-type: none"> - Financial assets and liabilities at amortised cost - Other financial assets measured at fair value 	<p>Yes. The investments of the Fund.</p>
<p>What is the current position of those issues included in the 2018/19 accounts as contingencies and provisions at 31 March 2019?</p>	<p>Provisions are set aside to provide for specific expenses for which the exact cost and timing are still uncertain. At 31 March 2018, 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 2019 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 2019 for the revised impact estimate.</p>	<p>No provisions or contingencies were included in the accounts of the Fund for 2018/19.</p>

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Are you aware of any significant transaction outside the normal course of business?	No.	No.
Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No.	No.
Are you aware of any guarantee contracts?	The council provides a pension indemnity to its wholly owned companies: Active Lancashire and Marketing Lancashire.	There are no guarantee contracts.
Are you aware of allegations of fraud, errors, or other irregularities during the period?	<p>At this point there have been no significant instances of fraud, error, or other irregularity during the period either singly or collectively.</p> <p>A report will be prepared for the Audit, Risk and Governance Committee to consider at its meeting on 27 July 2020 that will provide information on each case and the work undertaken in response.</p>	No.
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>A number of data breaches were reported to the Information Commissioner's Office. 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.</p> <p>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. However, each year Directors complete an assurance statement confirming compliance.</p>	No.

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<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 are known to the Finance, Legal and Internal Audit service or Trading Standards and Scientific Services.</p> <p>In April 2019 the council was requested by HMRC to carry out a review of supplies of staff to identify any supplies which had not been subject to VAT ahead of a Business Risk Review that is due to take place.</p>	<p>No.</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>Yes.</p> <p>These are noted in the statement of accounts, and include:</p> <ul style="list-style-type: none"> - Property, plant and equipment valuations - Property, plant and equipment depreciation - Fair value estimations - Impairment of debtors - Pensions liability 	<p>Yes.</p> <p>Disclosures are included in the statement of accounts outlining areas of estimation uncertainty and significant judgements.</p> <p>The valuation of investments, particularly those classed as Level 3 in the fair value hierarchy, is subject to professional judgement and estimation techniques.</p> <p>Estimation of the liability to pay future pensions benefits is also based on professional judgment and complex assumptions.</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>Property, plant and equipment valuations - The council commissions a rolling programme of valuations. Valuations are undertaken by qualified valuers within the council's estates department in accordance with the Royal Institute of Chartered Surveyors (RICS) professional standards using recognised measurement techniques.</p> <p>Property, plant and equipment depreciation - Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets.</p> <p>Fair value estimations - When the fair values of investment properties, surplus assets and assets held for sale cannot be measured based on quoted prices in active markets, their fair value is measured</p>	<p>Estimates and judgements are based on best industry practice in respect of the valuation of level 3 investments and investment properties. Where applicable, industry standards are applied.</p> <p>For private equity and infrastructure assets the valuations are assessed using Internal Private Equity and Venture Capital Valuation Guidelines or equivalent.</p> <p>Long term credit investments are valued at the Fund's percentage holding based on audited net asset value provided by external investment managers.</p> <p>Real estate is valued according to Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation</p>

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<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>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 still under way, although this is also closely related to cost-saving measures.</p> <p>Managers regularly provide information about the status of each action arising as a result of internal audit work and these are generally being progressed.</p>	<p>The internal audit service gave substantial assurance over the oversight of the pension fund and no internal control deficiencies were reported.</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>Pinsent Masons – ongoing class action litigation in respect of manufacture overseas dividends.</p> <p>In-house and external solicitors (Pinsent Masons and DAC Beachcroft) used for investment property, other Fund legal matters and for review of other contracts and tender bids.</p>

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<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 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>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 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 2019/20; - The council forecasts its financial position over the medium term, currently to 2023/24, identifying relevant risks and opportunities which have been subjected to scenario stress testing; - 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>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 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 Funding level of the Fund gives some assurance regarding the going concern basis for the Fund.</p> <p>Cash flow is monitored by the Pension Fund committee and the Fund's advisors on a quarterly basis with particular emphasis on the bridging of contributions income and benefits payable with investment income.</p>

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Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	As a large and complex organisation, the council uses a wide range of internal and external advisors to support the proper discharge of its responsibilities.	Mercer – general actuarial enquiries, triennial valuation, International Accounting Standards (IAS) 19 assumptions and accounting schedules. KPMG – tax issues. Independent advisors to the Fund – investment panel throughout the year.
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?	At this point 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 council's financial statements.	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 Pension Fund's financial statements.
Have any reports been made under the Bribery Act?	No.	No.