



# Audit & Governance Committee Update for Lancashire County Council and Pension Fund

**Year ended 31 March 2013**

June 2013

**Karen Murray**

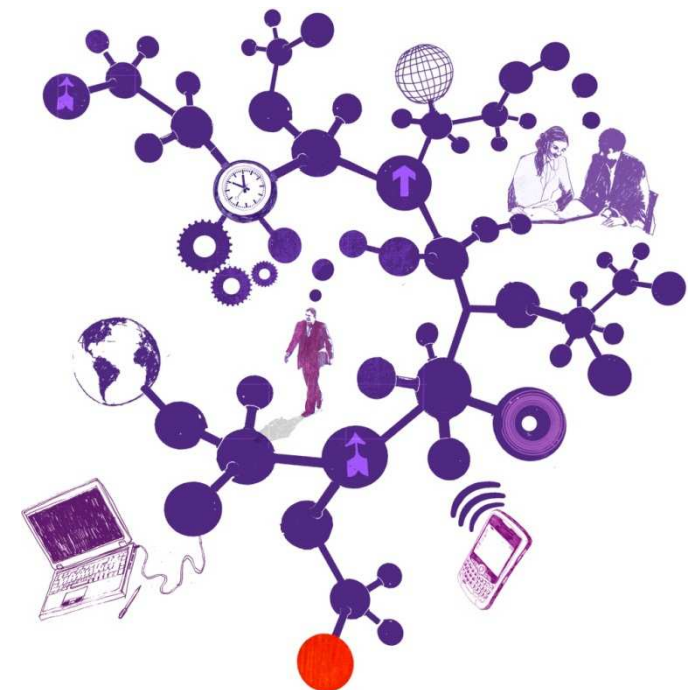
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# Introduction

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

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

Members of the Audit Committee can find further useful material on our website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk), where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Towards a tipping point?', 'The migration of public services', 'Local Government Governance Review 2012', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

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

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## Progress at May 2013

Work	Planned date	Complete?	Comments
<p><b>2012-13 Accounts Audit Plans</b></p> <p>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 2012-13 financial statements on the accounts of the Lancashire County Pension Fund.</p>	March 2013	Yes	Presented to the March Audit & Governance Committee
<p><b>Interim accounts audit</b></p> <p>Our interim fieldwork visit will include the following:</p> <ul style="list-style-type: none"> <li>• updated review of the Council's control environment</li> <li>• update 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>• early work on the Value for Money conclusion.</li> </ul>	January to May	Yes	<p>There are no issues to report at this stage from interim accounts audit coverage.</p> <p>Before commencing our final accounts audit we will complete and conclude some early testing of how the authority has accounted for its investment transactions.</p>
<p><b>2012-13 final accounts audit</b></p> <p>Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2012-13 financial statements</li> <li>• proposed opinion on the Council's accounts</li> <li>• proposed Value for Money conclusion.</li> </ul>	July to September	On track	<p>We will complete those elements of our work relating to year end transactions and begin our detailed testing in relation to the financial statements.</p> <p>Meetings have been scheduled with Finance staff to discuss issues arising during the course of the final accounts audit</p>

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## Progress at May 2013

Work	Planned date	Complete?	Comments
<b>Value for Money (VfM) conclusion</b>  The scope of our work to inform the 2012/13 VfM conclusion comprises considering whether the Council has appropriate arrangements in place for <ul style="list-style-type: none"><li>• Securing financial resilience; and</li><li>• for challenging how it secures economy, efficiency and effectiveness.</li></ul>	February to August 2013	On track	This assessment is currently being undertaken.
<b>Other areas of work</b>  Certification of grant claims	September to November 2013	On track	

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# Emerging issues and developments

## Accounting and audit issues

### Local government accounts timetable

The key dates in the local government accounts timetable are as follows:

- by 30 June - the responsible financial officer certifies the presentation of the draft statement of accounts
- by 30 September:
  - the responsible financial officer recertifies the presentation of the final statement of accounts before members' approval
  - members approve the statement of accounts
  - the statement of accounts is published, with the audit opinion, certificate and audit report if issued by the auditor.

The key dates for Whole of Government Accounts are:

- by 31 July - submission of unaudited WGA L-Pack by authority
- by 7 October - submission of audited WGA L-Pack by auditor

Challenge questions:

- Has your County Treasurer produced a robust and adequately resourced timetable for the production and submission of its 2012/13 financial statements?
- Has this been discussed and agreed with the External Auditors?

# Emerging issues and developments

## Accounting and audit issues

### UK Public Sector Internal Audit Standards

From 1 April 2013, the UK Public Sector Internal Audit Standards (PSIAS) are to be used throughout the public sector. The PSIAS are based on existing International Standards for Internal Audit, but have been adapted for use in the public sector.

The objectives of the PSIAS are to:

- define the nature of internal auditing within the UK public sector
- set basic principles for carrying out internal audit in the UK public sector
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

The key changes are:

- the term 'chief audit executive' is used rather than 'head of internal audit' or 'chief internal auditor'.
- the requirement for an internal audit charter. This must formally define the purpose, authority and responsibility of the internal audit activity, as well as the nature of consulting services and the terms 'board' and 'senior management'. It will also cover arrangements for avoiding conflicts of interest if internal audit carries out any non-audit activities.
- there is no longer a requirement to produce an audit strategy. Instead, a risk-based plan must incorporate or be linked to a strategic or high-level statement which sets out how the internal audit service will be provided and developed in accordance with the charter and how it will link to the organisation's objectives and priorities.
- the chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. This includes internal and external assessments. The QA&IP is designed to assess the efficiency and effectiveness of internal audit as well as identify opportunities for improvement. The chief audit executive will have to include a statement on the results of the QA&IP in an annual report.

Challenge questions:

- Do you have an action plan in place to deal with any issues arising from the 2012 review of internal audit?



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# Emerging issues and developments

## Grant Thornton

### Local Government Governance report

In February, we published 'Local Government Governance Review 2013', our second annual review into local government governance. The report is based on:

- survey responses from over 60 council senior officers and members on governance reporting and the supporting processes
- a desk top review of 2011/12 Annual Governance Statements and explanatory forewords for 153 councils, against our best practice checklists based on the CIPFA/SOLACE framework and guidance notes.

Good governance is essential to both council leaders and the public. It supports leaders in making the best decisions, reduces the likelihood of things going wrong and protects them when problems do occur. It inspires confidence in the public that the best decisions are being taken for the right reasons, that the quality of service is protected and that public money is being wisely spent.

The key findings included:

- one third of survey respondents do not consider that council accounts are aimed at the public and the length and technical complexity makes them difficult to understand
- many council Annual Governance Statements follow too rigidly the example text in the CIPFA/SOLACE guidance, rather than reflecting the unique features and challenges of their own organisation
- explanatory forewords are often far from 'explanatory', being hard to read and not aligned to councils' strategic goals
- on-going governance processes and year-end statements are commonly two distinct exercises.
- there is often a lack of understanding within local authorities about what the governance framework is for and how it fits together
- although external alliances are becoming increasingly important in service delivery, 21% of survey respondents are not clear about council roles and responsibilities when working in partnerships.

Challenge questions:

- Have you considered the findings of the report?
- Do you need to take action do you plan to take to improve your governance arrangements?

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# Emerging issues and developments

## Local government guidance

### Financial sustainability of local authorities

In January, the National Audit Office published 'Financial sustainability of local authorities'. The report examined central government's approach to local authority funding, and reviewed local authorities' financial sustainability against a background of changes to their funding. It has three parts:

- Funding local authority services - setting out the background to the current funding arrangements and the reduction in local authority funding from the government's 2010 spending review
- Local authority budget management - setting out how local authorities have responded to their reduced income
- Maintaining financial sustainability - covering the growing challenges to local authorities' financial sustainability, managing financial risks and opportunities, and the increasing need for central government to make informed decisions as financial and service pressures increase.

Some of the key findings were:

- so far, local authorities have absorbed reductions in central government funding but there is some evidence that services have been reduced
- local authorities may find it harder over the rest of the spending review period to absorb funding reductions and maintain services
- local authorities' ability to make savings while maintaining service levels depends on local circumstances
- by reducing ring-fencing of its grants, central government aims to give local authorities greater spending flexibility
- the government is making changes that create financial opportunities for local authorities but also increase their financial risks and uncertainty, for example, the partial localisation of business rates and the arrangements for council tax benefit
- the accountability framework for local government to address widespread financial failure is untested.

Challenge questions:

- Can the Council learn from how other local authorities have responded to their reduced income?



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