

The Audit Findings for Lancashire County Council

Year ended 31 March 2016

September 2016

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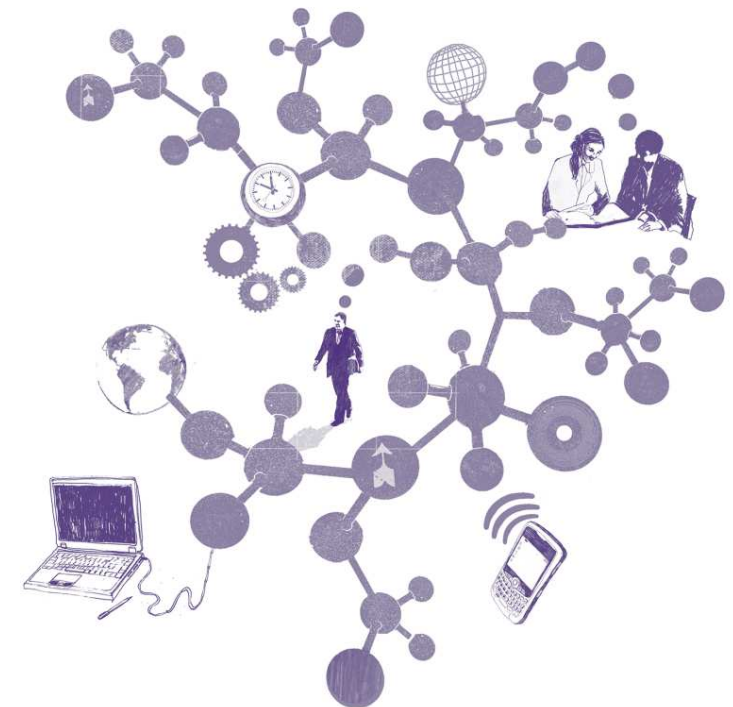
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26 September 2016

Dear Members of the Audit and Governance Committee

Audit Findings for Lancashire County Council for the year ending 31 March 2016

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Lancashire County Council, the Audit and Governance Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

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.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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 would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours faithfully

Karen Murray

Chartered Accountants

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Section 1: Executive summary

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Purpose of this report

This report highlights the key issues affecting the results of Lancashire County Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 9 May 2016. Our audit is substantially complete although we are finalising our procedures in the following areas:

- completion of final items of testing, particularly around property, plant and equipment and grants income
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion, and
- completing our work on your Whole of Government Accounts return

We received draft financial statements at the commencement of our work.

Key audit and financial reporting issues

Financial statements opinion

We have identified no adjustments affecting the group and Council's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2016 recorded net expenditure of at the cost of services of £932.1m. This has not changed in the revised accounts. We have agreed a number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- The accounts presented for audit were of good quality. The Council had, as part of close down considered the format and contents of the accounts to declutter them.
- Group accounts were prepared for the first time, reflecting the value of the investment properties held by Lancashire County Developments limited.

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Findings

We draw your attention in particular to control issues identified in relation to:

- our update of your information technology controls identified some areas where there were weaknesses in the controls in place.
- your internal audit department has not delivered a full a audit plan to support an opinion on your system of internal control.

Further details are provided within section two of this report.

Value for Money

Our review of the Council's arrangements to secure economy, efficiency and effectiveness has highlighted the following issues which will give rise to a "except for" qualified VFM conclusion.

The Council has received an inadequate Ofsted inspection of its children's services. The work of internal audit has been insufficient to provide an opinion on the overall system of internal control at the Council.

Further detail of our work on Value for Money are set out in section three of this report.

Certificate of completion

We are unable to issue our certificate of completion of the audit. We cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of matters arising from 2012/13.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Financial Resources.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Director of Financial Resources and the finance team.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2016

Section 2: Audit findings

01. Executive summary

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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 standard states that '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'.

As we reported in our audit plan, we determined overall materiality to be £32m (being 1.5% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We 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 accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £1.61m. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we expected that the disclosures in the accounts would be correct separate materiality levels were appropriate. These remain the same as reported in our audit plan

Balance/transaction/disclosure	Explanation
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.
Disclosures of transactions with related parties	Due to the public interest in these disclosures.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Lancashire County Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Lancashire County Council, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any material issues in respect of revenue recognition.</p>
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have:</p> <ul style="list-style-type: none"> • undertaken a review of entity level controls • tested of journal entries • reviewed the accounting estimates, judgements and decisions made by management • reviewed unusual significant transactions 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings against significant risks 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 address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	Valuation of Property Plant and Equipment - in respect of the waste plants owned by the Council.	<p>We have:</p> <ul style="list-style-type: none"> discussed the timeline of the plans with officers. reviewed the information shared with the Council's external valuers setting out the impact of these plans on the service and therefore the Council's valuations for the sites assessed the information used by the valuer to value the assets and the qualifications of the valuer in making the valuations required. reviewed the valuation report and discussed with management how this would be accounted for in the financial statements 	<p>Recognising the specialist nature of the Council's waste plants, officers agreed to seek an external valuation to consider the impact of the changes to the service levels of the plant on the valuation included in your statement of accounts. This was received on the 2 September 2016.</p> <p>The valuation report reflects a downward valuation of £22m against the net book value of the plant recognised in the balance sheet as at 1 April 2015.</p> <p>We have queried with management the appropriateness of the date of the valuation as the valuation obtained is at 1 April 2015. Management went back to the valuer to confirm the impact of the current operating scenario in respect of the waste plant at the closing balance sheet date of 31 March 2016. This confirmed that the net book value of the plant, would reduce by £22m, and the gross book value by £26m.</p> <p>This has not been amended on the grounds of materiality. It is therefore included as an unadjusted misstatement in your accounts.</p>
4.	Valuation of pension fund net liability	<p>We have:</p> <ul style="list-style-type: none"> Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. gained an understanding of the basis on which the valuation is carried out. undertaken procedures to confirm the reasonableness of the actuarial assumptions made. reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work has not identified any material issues in respect of the valuation of your net pension fund liability.</p>

Audit findings against significant risks continued

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
5.	Social care income and expenditure	<p>We have:</p> <ul style="list-style-type: none"> • Identified the controls in place in the system • Undertaken walkthrough testing of the controls to confirm they operate as we understand • Sample tested transactions processed through the system during the year • Reviewed the processes for identifying year end accruals of income and expenditure • Sample tested year end balances for accruals of income and expenditure. 	<p>Our audit work has not identified any material issues in respect of your social care income and expenditure.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	We have: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the payroll transaction cycle • undertaken walkthrough testing of the key controls to assess the whether those controls were operating in line with our understanding • reviewed the reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems and interfaces. • sample tested payroll transactions. • undertaken a trend analysis of monthly payroll costs. 	Our audit work has not identified any significant issues in relation to the risk identified
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	We have: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the operating expenditure transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were operating in line with our understanding • substantively tested a sample of expenditure transactions • reviewed managements processes to raise accruals and to ensure the accruals recognised are materially complete. • substantively tested a sample of creditor balances and accruals recognised in the year end balance sheet. • tested cash payments made after the year-end to identify potential unrecorded liabilities and gain assurance over the completeness of the payables balance in the accounts. 	Our audit work has not identified any significant issues in relation to the risk identified



Group audit scope and risk assessment

ISA (UK&I) 600 requires that as Group auditors we 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.

Component	Significant?	Level of response required under ISA 600	Risks identified	Work completed	Assurance gained & issues raised
Lancashire County Developments Limited (LCDL)	No	Targeted	This is the first time these accounts have been consolidated into the financial statements for the Council. We will review the process by which this has been undertaken and ensure the Council has made all required disclosures.	We are the auditor for the Company. We have made arrangements to undertake sufficient work to give our opinion on the Group Accounts alongside our work on the main audit.	<p>Your group accounts reflect the draft statements prepared.</p> <p>Following the external audit, due to the transition from UK Generally Accepted Audit Practice (UK GAAP) to FRS 102, there have been some amendments made to the LCDL accounts around the recognition of changes to the treatment of investment properties. There is also a different treatment of deferred tax to show the potential tax charge if the properties were to be sold.</p> <p>Overall the amendments are not material to the group position. They are included as unadjusted misstatements in the statement of accounts.</p>



Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<p>Revenue recognition</p>	<p>The expenditure and income of the Council is accounted for in the financial year in which the activity it relates to takes place, regardless of when cash payments are made or received. In particular:</p> <ul style="list-style-type: none"> • Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services • Revenue relating to such things as council tax, general rates etc. are measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates. 	<p>Our testing of income found that the Council recognises income in line with its accounting policy.</p> <p>The policy is disclosed in line with the requirements of the CIPFA code.</p>	
<p>Judgements and estimates</p>	<ul style="list-style-type: none"> • Key estimates and judgements include: <ul style="list-style-type: none"> – Useful life of PPE – Revaluations – Impairments – Accruals – Valuation of pension fund net liability – Provision for NNDR appeals – Other provisions 	<ul style="list-style-type: none"> • We have reviewed the estimates and judgements made in the accounts. • At the Council meeting of 16 February 2016, the Council reviewed and amended its policy on Minimum Revenue Provision. As a result of the new policy, the amount charged to the General Fund in 2015/16 is £8.8m lower than if it had been calculated on the previous basis. 	

Assessment

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Director of Financial Resources, as 151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have considered the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	
Other accounting policies		We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	

Assessment

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed, with the exception of the additional disclosure made in respect of the interim Director of Financial Resources.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council, including specific representations in respect of the Group. This will also include representations to confirm the unadjusted misstatements included in the accounts.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to your bank and to confirm your significant investments. This permission was granted and the requests were sent. They were received confirming the values included in your accounts.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.

Other communication requirements continued




	Issue	Commentary
7.	Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <p>We have not identified any issues we would be required to report by exception in the following areas</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit. • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group acquired in the course of performing our audit, or otherwise misleading.
8.	Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold of £350m we are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>This work is underway but not yet completed. We will submit our assurance statement ahead of the 12 October deadline.</p>

Internal controls



The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.		<p>As reported in the Council's Annual Governance Statement , Internal audit has not completed a full programme of work in 2015/16. As a result, the Head of Internal Audit has not been able to give an overall opinion on the Council's system of internal control.</p> <p>The work of the team has focused on the core financial systems. Of this plan, work on the cash and bank, accounts receivable and debt management and treasury management was completed after the end of the financial year. As at the 7/9/2016 the report on cash and bank was still in draft.</p> <p>Looking ahead, an audit plan setting out the areas that will form the 2016/17 internal audit work programme was approved by the Audit and Governance Committee.</p>	Ensure the approved plan for 2016/17 is delivered with variations reported to the Audit and Governance committee.
2.		<p>The Fixed Asset Register and listing of revaluations completed did not agree to the draft financial statements.</p> <p>Further investigation identified that an earlier and inaccurate revaluation of the waste plants had been processed through fixed asset register and accounts. It was then reversed out in the accounts but not in the asset register.</p>	All accounting records should agree directly to the statement of accounts.
3.		Two County Council members have not completed their related party disclosure declarations.	All declarations should be completed annually.

Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	X	Review of users and their privileges shows a number of individuals have access to business processes which raise a risk within Oracle in respect of segregation of duties.	<ul style="list-style-type: none"> The Council is reviewing the level of privileges available to users with a view to ensuring these are appropriate and to reduce these as appropriate. As part of our audit work for 2015/16 we reviewed all instances where individuals could have raised or amended purchase orders and raised or amended invoices. We did not identify any instances of users who had raised purchase orders and either raised or amended the invoice. However, we identified 10 users who had amended a purchase order and also raised or amended an invoice. However the quantity of purchase orders involved is immaterial.
2.	X	Default responsibilities had been issued to some users. As a result, some users have been allowed too much access to the system.	<ul style="list-style-type: none"> The total number of users has been reduced. However, there are still some users who have a higher level of access than they need.
3.	X	Access rights and responsibilities are not periodically reviewed. This means that some access rights could be incorrectly given to members of the team.	<ul style="list-style-type: none"> The Council is reviewing the level of access as part of its restructure process.
4.	✓	Our testing of purchase order accruals in 2014/15 identified an item accrued for but which did not relate to Council expenditure because it had been cancelled in the new financial year. We extended our sample testing and found a further three accruals which did not relate to expenditure.	<ul style="list-style-type: none"> The Council has undertaken a process to review accruals to ensure all items accrued for relate to committed expenditure.

Assessment

- ✓ Action completed
- X Not yet addressed

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the statement of accounts .

Detail	Original Figure	Revised Figure
1 Cash flow note 32. On the working paper which is used to prepare the cash flow working paper the interest received and interest paid figures had been incorrectly entered. This affects the note only.		
Interest paid	(36.1)	(28.7)
Interest received	27.6	35.1

Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £	Balance Sheet £	Reason for not adjusting
<p>1 PPE – waste plant The Executive Scrutiny committee received a report on 19 February 2016 which set out several recommendations about the future use of the plants and changes to the services delivered from these sites. The Council obtained an external valuation to identify whether the decisions taken to change the way the plants were used had an impact on the valuation of the assets held by the Council. This valuation was received on 2 September 2016. The impact on the net book value of the asset included in the Council's balance sheet at 31 March 2016 is a reduction in value of £22m.</p>		£22m	Materiality
<p>2 Group Accounts The Group Accounts for the Council were prepared using the draft financial statements for the company. However, there have been some amendments to the company accounts which impact on the group consolidation. These are not material and therefore the Council has not amended the group accounts</p>	<p>2014/15 – increase in net expenditure of £3.1m 2015/16 increase in net expenditure of £1.4m</p>	<p>2014/15 £0.5m 2015/16 £1.9m</p>	Materiality

Impact of uncorrected misstatements in the prior year

Detail	Comprehensive Income and Expenditure Statement £m	Balance Sheet £m	Reason for not adjusting
1 Included within the long term debtors balance for 2014/15 was £3.3m of debtors which should be classified as short term.		£3.3	This has been amended in the 2015/16 accounts.
2 The WGA submission identified a grant paid to the Council by the Department of Education which had been classified in note 13 to accounts as other government grants.	£2.3		Classification in note 13 to the 2014/15 accounts only. No ongoing issue for 2015/16.
Overall impact	£2.3	£3.3	

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	£900,317 income £909,843 expenditure	Note 5 Amounts reported for Resource allocation decisions	<p>The income and expenditure related to schools was originally included as an amount not reported to management in Note 5 because these amounts are not reported in the revenue outturn report to Cabinet.</p> <p>We have confirmed with management that income and expenditure relating to schools is reported to the Early Years, Schools Block and High Needs Block Working Groups, Schools Forum and Cabinet Member for Children, Young People and Schools. Because of this the note been amended to include them in the segmental analysis as they are reported to management.</p>
2 Disclosure	£140	Officers remuneration	The payments made in relation to the interim holder of the Director of Financial Resources post were not originally included in the note. The Council have added additional disclosures.
3 Disclosure	£140	Related Party Transactions	Additional disclosure included for the payments made to the company paid in relation to the Interim Director of Financial Resources as above to comply with disclosure requirements for such transactions.
4 Disclosure	£6.5m	Capital Adjustment account	An adjustment of £6.5m has been made to increase the Capital Grants and contributions credited to the Comprehensive Income and Expenditure Statement and to reduce the application of capital grants to capital financing from the Capital Grants Unapplied Account. This means the note is now consistent with the rest of the accounts.

Section 3: Value for Money

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06. Communication of audit matters

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 (the Act) and the NAO Code of Audit Practice (the Code) to satisfy ourselves that 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.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

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.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in March 2016 and identified the following significant risks, which we communicated to you in our Audit Plan dated May 2016.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness. We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The work of internal audit has not been sufficient to give an overall opinion on the system of internal control at the Council.
- Ofsted, as the external regulator of your children's services, have inspected your provision and found that children's services in Lancashire are inadequate across two of the three domains

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work later in this section

Follow up from findings in 2014/15

Other weaknesses in the Council's governance framework identified in 2014/15 are being addressed:

The action taken to improve the operation of the Council's procurement service has been reported to the Audit and Governance Committee at its 25 January 2016 meeting. Revised procurement rules have now been approved by the Council.

The Council's arrangements for identifying, assessing and reporting risks has continued to develop. The risk register is now updated regularly and reported to management team, the Audit and Governance Committee and the Cabinet Committee on Performance improvement. The Council is continuing to embed its risk management processes across departments.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- except for the matter we identified in respect of your internal control arrangements, and the outcome of your Ofsted inspection of children's services, the Council had proper arrangements in all significant respects. We therefore propose to give a qualified 'except for' conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources. The text of our proposed report can be found at Appendix B.

Our findings are set out in more detail in the following pages.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendation for improvement as follows:

RECOMMENDATIONS

Management's response to these can be found in the Action Plan at Appendix A.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment.

Significant risk	Work to address	Findings and conclusions
<p>Ofsted inspection of children's services Ofsted issued a report on the Council's children's services in 2015 which rated these as 'inadequate'. The Council is currently subject to follow up review.</p>	<p>We have continued to liaise with officers and review updates as they become available.</p>	<p>The Council's Children's Services were subject to an Ofsted inspection in 2015. The report, published on 27 November 2015 assessed the aspects of the service as follows:</p> <ul style="list-style-type: none"> • Children who need help and protection - inadequate • Children looked after and achieving permanence - requires improvement • Adoption performance - requires improvement, • Experiences and progress of care leavers – inadequate, • Leadership, Management and governance - inadequate. <p>The report identified wide ranging areas for improvement across the service with concerns raised around the failure of the Council to work with other key agencies in strategy discussions, risk assessments being undertaken without reference to, or knowledge of, significant history, complex work assigned to insufficiently qualified or experienced practitioners, and a lack of effective management oversight. The inspection also identified that performance management information was very poor, providing insufficient information to provide management and members with the right information to hold the service to account.</p> <p>The Council has responded quickly to the report and subsequent Improvement Notice issued by Ofsted. An Improvement Board was set up with an Independent Chair. The chair has the responsibility to develop an Improvement Plan which was subsequently agreed with Ofsted. An interim Director of Children's Services, shared with Blackburn with Darwen Council, is now in place.</p> <p>The Improvement Board meets on a monthly to consider the progress against the improvement plan, with an "improvement board 12 week plan" being considered at each meeting. This 12 week plan provides focus to three key areas identified for improvement – workforce, managing change and managing demand. Multi-agency focus groups have also been established to identify key issues and barriers to better working practice. The feedback to the improvement board is that communication and information sharing is an area for improvement.</p> <p>Progress is being made in a number of areas. In particular, the Council has worked to address the challenges in recruitment of staff (with agency staff currently being used to reduce workloads), accuracy of performance information, and the implementation of a new operating model. However, at the time of this report, the current version of the progress plan notes feedback from both Ofsted and the Department for Education indicates the pace of progress needs to be faster. At the start of September Ofsted visited the Council again for a follow up, although the feedback from this visit has not yet been received.</p>

Significant risk	Work to address	Findings and conclusions
<p>Internal control The Council's Head of Internal Audit was unable to provide an overall opinion on the Council's system of internal control in 2014/15 because of the limited nature of the internal audit plan.</p> <p>In 2015/16, the Council's internal audit plan focuses work on key financial systems. It is therefore unlikely that the Head of Internal Audit will be able to provide an overall opinion again for this year.</p> <p>There is an outline plan in place for 2016/17 which identifies key areas of audit coverage. If this plan is refined and delivered as expected, it is likely that the Head of Internal Audit will be able to reach a conclusion on the Council's system of internal control.</p>	<p>We update our assessment of the Council's arrangements in the light of the year end report from the Head of Internal Audit and the Annual Governance Statement.</p>	<p>At the Audit and Governance Committee on 9 May 2016 the Head of Internal Audit reported that the audit plan for 2015/16 would concentrate on the following financial systems:</p> <ul style="list-style-type: none"> • general financial ledger • cash and banking • accounts payable system • accounts receivable and debt management system • payroll • treasury management and • VAT <p>The work planned by internal audit for the year was insufficient to support an overall opinion on the internal control framework of the Council.</p> <p>The planned work on the general financial ledger, accounts payable, payroll and VAT was completed and reported to the May committee meeting. The remaining work was scheduled for after the end of the financial year because members of the audit team were seconded into the finance service to provide capacity on key projects during 2015 and the early part of 2016. As a result, the work on cash and banking, accounts receivable, and treasury management was completed following the end of the financial year. As at 7 September 2016 the cash and banking report was still at draft stage.</p> <p>The draft Annual Governance Statement presented to members at the Audit and Governance committee held on 30 June 2016 recognises the internal audit service has not been able to deliver a plan which would support an overall opinion for 2015/16 and acknowledges that the work delivered by internal audit has not been sufficient in scope for a Council the size and complexity of Lancashire County Council.</p> <p>Looking ahead, the Audit and Governance Committee has approved a plan for 2016/17 which includes a fuller programme of work. This has been designed to support an overall head of internal audit opinion for 2016/17.</p>

Key findings

Significant risk	Work to address	Findings and conclusions
<p>Financial position, planning and service transformation projects</p> <p>The Council's financial plan has been refreshed throughout the year in recognition of the significant financial challenge facing the Council in delivering good quality services for residents and taxpayers over the medium term.</p> <p>The plan requires significant savings to be made over the next few years. Consultation has now begun on some of the changes being made to the scope and scale of services to be provided.</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.</p>	<p>The Council faces a significant financial challenge in the short to medium term. A significant amount of work is needed to understand the level of service that can be provided within the budget available, and then to make a reality of this delivery.</p> <p>In November 2015, the Council set out the scale of the financial challenges facing it in the update to the medium term financial strategy. When Cabinet received the updated medium term financial strategy it out that significant savings were needed as a funding gap of £262m over the five years to 2020/21 has been identified. At this stage, an overspend of £19.666m was also forecast for 2015/16. In the update taken to members in January 2016, as part of the budget setting council meeting, the in year overspend was forecast at £9.581m against the revenue outturn for 2015/16 but a further on-going pressure on budgets of £35.766m was identified. The Council was now reporting a funding gap of £200.5m for the period 2016/17 - 2020/21 after the impact of the financial settlement, new financial pressures and the £64.8m of savings proposals agreed by Cabinet in November. In September this funding gap has reduced to £147.944m, reflected in the change in council tax funding assumptions.</p> <p>At the end of 2015/16, the Council had successfully delivered within its planned revenue budget. The final outturn position reported to members was £726.074m compared with a revenue budget of £726.675m set in February 2015. The final position, which is an overall underspend of £0.6m on services reflects a mixed picture across the Council's services. For example, there are overspends of £16.977m in adult services (largely relating to commissioned social care), £1.379m in children's services (where a significant overspend on Children's social care- £9.570m has been offset by other underspends), and £2.939m in commissioning, and £4.107m in development and corporate services. However, there was an underspend of £22.070m in Chief Executives, of which the most significant elements were higher than budgeted interest received and a lower Minimum Revenue Provision (MRP) charge. The reduction in MRP is partly due to lower than anticipated borrowing but also reflects the change in MRP policy agreed at Council on 11 February 2016. At the end of the financial year, the Council had £36m in the County Fund (unchanged from 2014/15) and £364.5m in earmarked revenue reserves (£376.1m in 2014/15).</p> <p>Despite the underspend in 2015/16, 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. A key element of this is Council's property strategy and the Council has now consulted on detailed plans about how it will use its asset base to deliver services in future years. The proposal identified 130 premises preferred for retention as neighbourhood centres, with a further 106 premises identified for closure.</p> <p>The Council is working with external consultants to assess the future operating model for the Council and to test the financial resilience of future service plans. Additionally, external support is also being used to support plans for transformation of the delivery of social care.</p> <p>The Council's risk register clearly documents the risks to the on-going financial position, the longer term financial viability and the risks around transformation.</p>

Key findings

Significant risk	Work to address	Findings and conclusions
<p>Waste plant In February 2016 the executive scrutiny committee considered a report on the proposed waste processing requirements and specification for services delivered by Global Renewables Lancashire Operations Limited (GRLOL). This recommended that elements of the plant were closed with immediate effect or by the end of the financial year 2015/16.</p> <p>On further discussion with officers, we understand the planned timetable for operational mothballing these assets stretches beyond the timescale agreed by members. We are also concerned that, as part of the decision making process, the impact on the valuation of the assets was not considered.</p>	<p>We have reviewed the decision making process the Council followed to understand that members considered all relevant information to make their decision.</p>	<p>Over recent years, the Council has been looking at ways to reduce the costs of waste disposal provided at two facilities in Lancashire. As part of the wider consideration of budget options in November 2015, a policy was agreed to reduce the processing activities and costs at the two plants as these were no longer considered to economic. Where this occurred, the plant and equipment was to be mothballed and maintained. As part of this decision, the service would cease composting of co-mingled food and garden waste. Alongside this was a commitment to downsize the waste company operating the facilities on behalf of the Council.</p> <p>Following this decision, the service options were considered in more detail. The recommendations made to the Cabinet Member for Environment, Planning and Cultural Services included that:</p> <ul style="list-style-type: none"> • waste transfer operations were established for residual waste, • In Vessel Composting processes ceased with immediate effect • redundant processing equipment be protected and preserved; and • a new operating structure with the Council be agreed by GRLOL. <p>This decision was taken on the basis of the lowest cost, lowest risk option, which at the time was to divert the residual waste to landfill. However, further discussion with contract holders for the waste output identified some options to use existing relationships to provide a lower specification output. As a result, some elements of the original service provision continue although on a reduced scale.</p> <p>Following our audit plan, the Audit and Governance committee requested and received a report on the decision taken and the financial impact.</p> <p>The plans for the downsizing of the company are continuing. This is expected to lead to a greatly reduced workforce at the company.</p> <p>The Council is committed to exploring the options for the future use of the two facilities and the equipment currently being preserved. A soft market testing exercise has been commenced but is not yet concluded so the longer term viability of the sites is unclear.</p> <p>The Council has discussed with its external valuer whether the changes in the service provision currently agreed impact on the carrying value of the assets. We received a draft of this on the 2 September 2016.</p>

Key findings

Significant risk	Work to address	Findings and conclusions
<p>Better care fund The Council has entered into a Section 75 agreement with local Clinical Commissioning Groups (CCGs). This has created pooled budgets for the delivery of certain schemes.</p>	<p>We have reviewed the arrangements for ensuring the governance of the Better Care Fund.</p>	<p>There are appropriate governance structures in place for the delivery of the Better Care Fund across Lancashire. The Lancashire Health and Wellbeing Board (HWB) takes overall accountability for the implementation of the Better Care Fund, and is supported by the BCF Steering Group, which reports directly to the HWB and manages the delivery of the BCF schemes. The Steering Group's aims are to review progress against the plan, scrutinise performance and finances and report by exception to the HWB.</p> <p>There is also a Programme Managers group, which is responsible at a local level for the delivery of the Better Care Fund. Within its terms of reference the group is also responsible for the submission of quarterly performance reports for use by the Health and Wellbeing Board.</p> <p>Meetings are held frequently and there is representation from NHS England, district councils and the third sector. The groups appear to be an effective forum for working through specific issues together.</p> <p>There has however been a lack of financial monitoring and performance reports in relation to the Better Care Fund within both the Steering Group and the Programme Managers Group. This has been recognised by both groups and is expected to be addressed early in 2016/17. Quarterly performance/spend returns are produced for NHS England but these are at a very high level and do not assess whether desired outcomes are being achieved. There is a risk register which is brought to the Programme Managers' Group for review, but members of this group have recognised that more consideration of risks needs to be given by them.</p> <p>Over the medium term, the five year Sustainability and Transformation plans being developed for the wider health economy will need to be supported by strongly defined and clear governance arrangements. Work is on-going to agree the appropriate arrangements to support this. Clarity over the detailed reporting and monitoring arrangements at the outset will be a key requirement of these new arrangements.</p>

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Other statutory powers and duties

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Other statutory powers and duties

We set out below details of other matters which we, as auditors, are required by the Act and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	Public interest report	<ul style="list-style-type: none">• We have not identified any matters that would require a public interest report to be issued in respect of 2015/16.
2.	Written recommendations	<ul style="list-style-type: none">• We have not made any written recommendations that the Group is required to respond to publicly.
3.	Application to the court for a declaration that an item of account is contrary to law	<ul style="list-style-type: none">• We have not used this duty
4.	Issue of an advisory notice	<ul style="list-style-type: none">• We have not used this duty
5.	Application for judicial review	<ul style="list-style-type: none">• We have not used this duty

Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

We confirm below our final fees charged for the audit and provision of non-audit services

Fees		
	Proposed fee £	Final fee £
Council audit	112,995	112,995
Audit of subsidiary company LCDL Ltd	31,130	31,130
Total audit fees (excluding VAT)	144,125	144,125

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Grant certification

Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services	
Service	Fees £
Audit related services:	
• Teacher's Pensions return, reasonable assurance engagement	4,200
• Initial teacher training reasonable assurance engagement	2,000
• Local Transport Plan Major projects reasonable assurance engagement	2,500
Non-audit services	
Risk management workshop	3,684
Tax services to subsidiary company	20,200

Independence and ethics

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

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

Section 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report 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.a.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 (<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.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and 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.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓
Significant matters in relation to the Group audit including: 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	✓	✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	A full internal audit plan should be delivered in 2016/17.	High	Management Team recognise the importance of the Audit Plan for 2016/17 being delivered with a sufficient breadth of work to enable the Head of Internal Audit to provide an overall opinion on the Council's governance framework. The Annual Governance Statement for 2016/17 includes an unequivocal assurance by Management Team that sufficient audit work will be undertaken during 2016/17 to ensure that this is the case and have approved a new staffing structure for Internal Audit for this purpose as well as authorising the use of additional, external resources on a temporary basis if this is necessary to deliver the Audit Plan and Opinion.	March 2017
2	All accounting records should agree directly to the statement of accounts	Low		
3	All declarations for related party disclosures should be completed annually	Low	Related party declarations are annually pursued, with response rates for 2015/16 having considerably improved from the previous year	March 2017
4	Continue the review of the level of privileges available to users with a view to ensuring these are appropriate and to reduce these as appropriate.	High	We will review the list of responsibilities in line with the systems and control document to ensure these have not changed.	October 2016
5	Review access to financial systems regularly to ensure that levels of access are appropriate	Medium	We will review the access to financial systems regularly and amend if required	October 2016

Appendix B: Audit opinion

We anticipate we will provide the Group with an unqualified opinion on the statement of accounts and an "except for" qualified VFM conclusion.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LANCASHIRE COUNTY COUNCIL

We have audited the financial statements of Lancashire County Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Group and Authority Movement in Reserves Statements, the Group and Authority Comprehensive Income and Expenditure Statements, the Group and Authority Balance Sheets, the Group and Authority Cash Flow Statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Narrative Report, the Group Narrative Report, and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements: present a true and fair view of the financial position of the Authority and Group as at 31 March 2016 and of the Authority's and Group's expenditure and income for the year then ended; and have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report, and the Annual Governance Statement is consistent with the Group audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if: in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or we issue a report in the public interest under section 24 of the Act; or we make a written recommendation to the Authority under section 24 of the Act; or we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, except for the effects of the matters described in the basis for qualified conclusion paragraph, we are satisfied that, in all significant respects, the Authority put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Basis for qualified conclusion

In considering the Authority's arrangements for securing efficiency, economy and effectiveness we identified the following matters:

In November 2015, Ofsted issued its report on the inspection of the Authority's services for children in need of help and protection. The overall judgement was that children's services were rated as inadequate. The report concluded that there were wide ranging areas for improvement across the service with concerns raised around the failure of the Council to work with other key agencies in strategy discussions, risk assessments being undertaken without reference to, or knowledge of, significant history, complex work assigned to insufficiently qualified or experienced practitioners, and a lack of effective management oversight. The inspection also identified that performance management information was very poor, providing insufficient information to provide management and members with the right information to hold the service to account.

This matter is evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management, and for planning, organising and developing the workforce effectively to deliver strategic priorities.

At the Audit and Governance Committee on 9 May 2016 the Head of Internal Audit reported that the audit plan for 2015/16 would concentrate on key financial systems. The work completed has been insufficient for the Council's Chief Internal Auditor has been unable to give an overall opinion on the operation of the Council's system of internal control for the year.

This matter is evidence of weaknesses in proper arrangements for managing risks effectively and maintaining a sound system of internal control, demonstrating and applying the principles and values of good governance.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of matters brought to our attention by the Council in 2013. We are satisfied that these matters do not have a material effect on the financial statements or a significant impact on our value for money conclusion.

Karen Murray

Karen Murray
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

4 Hardman Square
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M3 3EB
27 September 2016



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