

4 April 2012

Sam Chapman  
Chair of the Audit Committee  
Lancashire County Council

Dear Sam

**Audit of Lancashire County Council and Lancashire County Pension Fund Financial Statements  
for the year end 31 March 2012**  
**Understanding how the Audit Committee gains assurance from management**

I have a good understanding of how the Audit Committee together with the standards committee gain assurance over management processes and arrangements. However, auditing standards require me to formally update my understanding annually. Therefore, I am writing to ask that you please provide a response to the following questions. Where your response to questions 2 to 5 is 'yes', please provide details.

**Fraud and Internal Control**

1) How do you exercise oversight of management's processes in relation to:

- undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);
- identifying and responding to risks of fraud in the Authority and Pension Fund, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;
- communicating to employees its view on business practice and ethical behavior; and
- communicating to you the processes for identifying and responding to fraud or error.

2) How do you oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control? Are you aware of any breaches of internal control during 2011-12?

3) In addition to overseeing management processes and controls, I would like your views on fraud to inform my assessment of the risk of fraud and error in the financial statements.

- Are you aware of any instances of actual, suspected or alleged fraud during the period 1 April 2011 to 31 March 2012?
- Do you have any concerns over whether internal controls, including segregation of duties, exist and work effectively?
- Are you aware of any related party relationships or transactions that could give rise to instances of fraud?

- Are you aware of any entries in the accounting records that you believe or suspect are false or intentionally mis-leading?

**Laws and Regulations**

4) How do you gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2011-12?

**Litigation and Claims**

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

**Going Concern**

6) How does the Audit Committee satisfy itself as to whether it is appropriate to adopt the going concern basis in preparing financial statements? Have you carried out a preliminary assessment of the going concern assumption and if so have you identified any events which may cast significant doubt on the Authority's ability to continue as a going concern?

Please provide a response by 30 June 2012 and please contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Fiona Blatcher  
*Audit Manager*