

Councillor C Pritchard
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Dear Councillor Pritchard

Lancashire County Council Financial Statements for the Year End 31 March 2014

Understanding how the Audit & Governance Committee gains assurance from management

To comply with International Auditing Standards, each year we need to refresh our understanding of how the Audit & Governance Committee gains assurance over management processes and arrangements.

WE would be grateful, therefore, if you could write to us in your role as Chair of the Audit & Governance Committee with your responses to the following questions.

- 1 How does the Audit & Governance Committee oversee management's processes in relation to:
 - carrying out an assessment of the risk the financial statements may be materially misstated due to fraud or error
 - identifying and responding to the risk of breaches of internal control
 - identifying and responding to risks of fraud in the organisation (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 views on appropriate business practice and ethical behavior (for example by updating, communicating and monitoring against the codes of conduct)?
- 2 Do you have knowledge of any actual, suspected or alleged frauds? If so, please provide details.
- 3 How does the Audit & Governance Committee gain assurance that all relevant laws and regulations have been complied with?
- 4 Are you aware of any actual or potential litigation or claims that would affect the financial statements?

Chartered Accountants

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We are also required to make enquiries of management and recently sent a letter and schedule of questions to the County Treasurer, Gill Kilpatrick. We suggested that it would be useful to co-ordinate both the Audit & Governance Committee and management responses in time for discussion at the Audit & Governance Committee meeting scheduled for 31 March. If you are in agreement with this we would be grateful for the Audit & Governance Committee's formal response by mid-April, say Monday 14th.

Yours sincerely

Len Cross
Manager
For Grant Thornton UK LLP

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Fraud risk assessment

Auditor Question	Response
Has the Council assessed the risk of material misstatement in the financial statements due to fraud?	
What are the results of this process?	
What processes does the Council have in place to identify and respond to risks of fraud?	
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	
Are internal controls, including segregation of duties, in place and operating effectively?	
If not, where are the risk areas and what mitigating actions have been taken?	
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	
Are there any areas where there is a potential for misreporting override of controls or inappropriate influence over the financial reporting process?	
How does the Audit & Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud?	
What arrangements are in place to report fraud issues and risks to the Audit & Governance Committee?	
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2013?	

Law and regulation

Auditor Question	Response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	
How does management gain assurance that all relevant laws and regulations have been complied with?	
How is the Audit & Governance Committee provided with assurance that all relevant laws and regulations have been complied with?	
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2013, or earlier with an on-going impact on the 2013/14 financial statements?	
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	
Is there any actual or potential litigation or claims that would affect the financial statements?	
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance	