

Lancashire County Council

Audit and Governance Committee

Monday, 25th March, 2013 at 2.00 pm in Cabinet Room 'B' - County Hall,
Preston

Agenda

Part 1 (Open to Press and Public)

| No. | Item |
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| 1. | Apologies |
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| 2. | Disclosure of Pecuniary and Non-Pecuniary Interests |
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Members are asked to consider any Pecuniary and Non-Pecuniary Interests they may have to disclose to the meeting in relation to matters under consideration on the Agenda.

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| 3. | Minutes of the Meeting held on 14 January 2013 | (Pages 1 - 4) |
| | To be confirmed, and signed by the chair. | |

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| 4. | Internal Audit Service Progress Report | (Pages 5 - 16) |
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| 5. | Internal Audit Plan for 2013/14 | (Pages 17 - 22) |
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| 6. | External Audit Lancashire County Council and Lancashire County Pension Fund Annual Audit Plans 2012/13 | (Pages 23 - 62) |
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| 7. | External Audit Lancashire County Council Annual Certification Work Report 2011/12 | (Pages 63 - 74) |
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| 8. | Urgent Business |
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An item of urgent business may only be considered under this heading where, by reason of special circumstances to be recorded in the Minutes, the Chair of the meeting is of the opinion that the item should be considered at the meeting as a matter of urgency. Wherever possible, the Chief Executive should be given advance warning of any Member's intention to raise a matter under this heading.

9. Date of Next Meeting

The next meeting of the Committee will be held on 24 June 2013 at 2.00pm at County Hall, Preston.

I M Fisher
County Secretary and Solicitor

County Hall
Preston

Agenda Item 3

Lancashire County Council

Audit and Governance Committee

Minutes of the Meeting held on Monday, 14th January, 2013 at 2.00 pm in Cabinet Room 'B' - County Hall, Preston

Present:

County Councillor Sam Chapman (Chair)

County Councillors

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| K Brown | M Welsh |
| J Lawrenson | D Westley |
| M Parkinson | M Younis |

Officers in attendance

Beryl Rhodes - head of commercial and central finance
George Graham – deputy county treasurer
Mike Jensen – chief investment officer
Ruth Lowry – chief internal auditor
Fiona Blatcher – associate director, Grant Thornton
Leonard Cross - Grant Thornton
Roy Jones - assistant county secretary

1. Apologies

Apologies were presented on behalf of County Councillors H Henshaw and C Grunshaw.

2. Disclosure of Pecuniary and Non Pecuniary Interests

County Councillor M Welsh declared a non pecuniary interest in item 4 as Chair of Lancashire County Developments Limited.

3. Minutes of the Meeting held on 26 September 2012

Resolved: That the Minutes of the meeting held on the 26 September 2012 be confirmed and signed by the Chair.

4. Accounts of Lancashire County Developments Limited 2011/12

A report was presented by Beryl Rhodes, head of commercial and central finance on the 2011/12 audited Statement of Accounts for Lancashire County Developments Limited (LCDL).

The committee was informed that the company had made a pre-tax profit of £4,251,122 for the period. This was mainly attributable to a £6,000,000 gain from the disposal of fixed assets and a loss of £1,894,355, resulting from the reduction in the valuation of property assets.

Resolved: That the 2011/12 Statement of Accounts for Lancashire County Developments Limited as set out at appendix A to the report, be noted.

5. Update on treasury management activity

A presentation was made to the committee by Mike Jensen, chief investment officer on a review of the county council's treasury management activities during the third quarter of the 2012/13 financial year and included:

- A review of the economic conditions and the impact on the county council's borrowing and lending activities.
- Summaries of borrowing and investment transactions.
- Monitoring of Prudential Indicators
- An update on the investment in Landsbanki hf.

Details of the treasury management activities were presented at appendix A. This included details of the current investment policy of accessing high credit quality institutions through bond investments.

It was reported that the investment portfolio had been divided into sub-portfolios to broadly reflect the County Council's overall cash position and profile of when balances were required. From this position it was possible to provide geographical and financial sector diversity, whilst increasing liquidity and credit quality management. Inflation and interest rate risk could also be managed and there was a possibility of increased investment returns if suitable opportunities arose.

A table outlining the types of financial instruments to be held within these sub-portfolios and how they were accounted for was included at appendix B.

During discussion, the committee queried whether it was proposed to make any changes to the strategy in order to address the council's future capital requirements. The committee was advised that despite a reduction in the council's grant allocation, other streams of funding were expected to be received in the future which would free up revenue constraints. Following further discussion, it was recommended that the County Treasurer be consulted at an early stage where funding was required for substantial capital projects.

Resolved: i) That the update on treasury management activities as shown at appendix A and B to the report now presented, be noted.

ii) That the County Treasurer be consulted at an early stage where funding is required for substantial capital projects.

6. Internal Audit Service Progress Report

Ruth Lowry, chief internal auditor, presented a report on the work undertaken during the period to 14 December 2012 by the council's Internal Audit Service.

The committee was taken through the main issues raised in the report including the council's information governance arrangements; direct payments to service users within the Adult and Community Services and Children and Young People Directorates; and Independent Reviewing Officer's compliance with relevant statutory guidance.

The committee was advised that the Chief Executive had taken forward discussions in relation to the council's information governance arrangements. Priority was being given to measures which were being put in place to meet the information governance arrangements for the new public health function.

Following debate and questions to officers by the Members, it was agreed that prior to the next meeting in March, a briefing session with Members be arranged to discuss the progress being made to re-invigorate the information governance arrangements and the appointment of a Senior Information Risk Officer.

Resolved:

- i) That the internal audit progress report for the period to 14 December 2012 as now presented be noted;
- ii) That prior to the next meeting in March, a briefing session be arranged to discuss the progress being made to re-invigorate the information governance process and the appointment of a Senior Information Risk Officer.

7. External Audit - Annual Audit Letter 2011/12

Fiona Blatcher, associate director with Grant Thornton presented the external auditor's Annual Audit letter for 2011/12 which summarised for members the findings of the annual audit for 2011/12.

The report audit was made up of two elements: the audit of the council's financial statements and an assessment of the council's arrangements to achieve value for money in the use of resources.

The committee was informed that the overall quality of the accounts was good reflecting the commitment of the Council's officers to meet the requirements of the code of Practice of Local Authority Accounting. The committee was also informed that the council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Resolved: That the Annual Audit letter for 2011/12 be noted.

8. County Council and Pension Fund External Audit Fees 2012-13

Fiona Blatcher presented a report on the proposed fees for the external audit of Lancashire County Council and Lancashire Pension Fund for 2012/13.

This comprised of an audit fee letter which set out the main elements of the proposed audit work for 2012/13 and highlighted the specific risks which would be reviewed as part of this work.

It was noted that the fees represented a reduction of 40% compared to the audit fees for 2011/12 and that the fees would be reviewed and updated as the work progressed.

Resolved: That the external auditor's fee letter for the audit of the County Council and the Pension Fund for the year ending 31 March, 2013 be noted.

9. Urgent Business

There were no items of urgent business.

10. Date of Next Meeting

It was noted that the next meeting of the committee would be held on Monday 25 March 2013 at 2.00 pm at County Hall, Preston.

I M Fisher
County Secretary and Solicitor

County Hall
Preston

Audit and Governance Committee
Meeting to be held on 25 March 2013

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| Electoral Division affected: All |
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Internal Audit Service Progress Report
(Appendices A and B refer.)

Contact for further information:
Ruth Lowry, (01772) 534898

Executive Summary

In the context of fulfilling its responsibility to consider periodic reports of internal audit activity and outcomes, the committee is asked to consider the progress report for the period to 28 February 2013 (Appendices A and B).

Recommendation

The Audit and Governance Committee is asked to consider the Internal Audit Service progress report for the period to 28 February 2013.

Background and advice

This report sets out for the Committee the internal audit work performed, the key issues emerging from it and management's responses to it.

Appendix A to this report summarises the main issues emerging from the internal audit work completed to date. Appendix B sets out the work performed against the annual audit plan for the year and the assurance assessment provided where work has been completed, including our work to assess progress against management's agreed action plans. The table in this appendix also indicates where the audit plan has been amended.

Internal audit assurance

Internal audit assurance is stated in the following terms:

Full assurance: there is a sound system of internal control which is designed to meet the service objectives and controls are being consistently applied.

Substantial assurance: there is a generally sound system of internal control, designed to meet the service objectives, and controls are generally being applied consistently. However some weakness in the design and/ or inconsistent application of controls put the achievement of particular objectives at risk.

Limited assurance: weaknesses in the design and/ or inconsistent application of controls put the achievement of the service objectives at risk.

No assurance: weaknesses in control and/ or consistent non-compliance with controls could result/ have resulted in failure to achieve the service objectives.

Consultations

Not applicable.

Implications

Not applicable.

Risk management

This report supports the Audit and Governance Committee in undertaking its role, which includes providing independent oversight of the adequacy of the council's governance, risk management and internal control framework.

Local Government (Access to Information) Act 1985

List of Background Papers

| Paper | Date | Contact |
|-----------------|------|---------|
| Not applicable. | | |

Reason for inclusion in Part II, if appropriate: Not applicable.

Matters arising from internal audit work for the period to February 2013

1 Introduction

- 1.1 This report highlights key issues that the Audit and Governance Committee should be aware of in fulfilling its role of providing independent oversight of the adequacy of the council's governance, risk management and internal control framework. It summarises the work undertaken during the year to 28 February 2013 by the council's Internal Audit Service under the internal audit plan for 2012/13.
- 1.2 A full table of all the audit work currently planned and on-going for 2012/13 is included at Appendix B, setting out brief notes of the progress made on each project and the outcomes where work has been completed. It also clarifies where planned assignments have been deferred or removed from the plan since the last report to the committee, and where additional work has been included in the programme for the year.
- 1.3 The Internal Audit Service continues to follow our risk-based audit methodology, using a risk and control evaluation-based approach ('RACE-based') combined with compliance testing of key controls, computer assisted audit techniques ('CAATs') and follow-up work.

2 Key issues

- 2.1 A number of areas have now been removed from the audit plan for the year as management is continuing to work on service restructures or ongoing process improvements, and as audit resources have been temporarily constrained during the year. Although the council will continue to reconfigure its services on an on-going basis, the Internal Audit Service will be fully resourced by the end of March 2013. We will also implement new audit support software at the start of the new audit year, to further improve our efficiency and effectiveness.
- 2.2 During the period since December 2012 we have reported assurance in relation to emergency planning, payment of staff expenses, officers' declarations of interest and of gifts and hospitality, and the carbon reduction commitment. Brief details are provided in appendix B to this report. A number of other pieces of work are nearing completion or are being discussed with management.

3 Other sources of assurance

- 3.1 A short quality screening inspection of the Lancashire Youth Offending Team was recently completed by Her Majesty's Inspectorate of Probation (HMIP). The purpose of the inspection was to assess the quality and effectiveness of the council's casework with children and young people who have offended, and it considered a sample of 47 recent cases supervised by the Youth Offending Team.
- 3.2 Good quality assessment and planning at the start of a sentence is critical to increasing the likelihood of positive outcomes. The inspection report provided in February 2013 summarised its findings as follows:

Internal Audit Service progress against plan 2012/13
Audit and Governance Committee meeting 25 March 2013

'Lancashire YOT Management Board recognised that management support and oversight were critical to the achievement of consistent and high quality work. Sufficient resources had been allocated to an appropriate management structure and quality assurance processes but the impact on work was not always clear, as the focus was on the process rather than the quality of work undertaken. Advice and support to courts, assessment and planning for those in custody, and engagement and enforcement had received attention and, consequently, performance was good. Case managers generally knew and understood the needs of the children and young people they were working with and were good at engaging them at the start of orders. Compliance was used to re-engage those who lost motivation, resulting in some positive outcomes for children and young people.

'In contrast, we found a wide variation in the quality of assessments, planning and reviews and inconsistency in the use of recognised assessment tools to support effective case management.'

- 3.3 The full inspection report may be downloaded at the following address:
<http://www.justice.gov.uk/publications/inspectorate-reports/hmi-probation/inspection-reports-youth/inspection-of-youth-offending-work>

| Control | Audit review | Audit scope | Comments | Assurance |
|---|--|--|---|---------------------|
| Corporate controls | | | | |
| Governance | | | | |
| | Support to management, including input to the council's annual governance statement. Corporate performance monitoring. | RACE-based review. | Work is continuing with the Assistant County Secretary to consider the council's governance arrangements. The corporate performance monitoring framework has recently been amended and this work will now begin early in 2013/14. | Not applicable - |
| | Staff acceptance of gifts and hospitality. | RACE-based re-review – previously limited assurance. | A Statement of Ethical Standards and a revised Code of Conduct for Officers were approved by Full Council on 29 September 2011 and implemented with effect from that date. The Statement of Ethical Standards appropriately reflects the implications of the Bribery Act 2010 and this has been communicated effectively to officers through staff notices on the intranet in September 2011 and April 2012. However, there has been a low response to these initiatives and it is unlikely that all interests have been declared appropriately. Declarations of interest can currently be viewed only by Chief Officers but it is important that managers have this information readily available to inform decision making: this has been accepted and will be amended. Consideration has been given to requesting that all staff above a particular grade complete either a declaration of interests or provide a nil return. However this option has been rejected as disproportionate to the risks involved and the resources currently available. | Limited |
| | Staff disclosures of business interests and their use by management. | RACE-based re-review – previously limited assurance. | This work has been combined with that above relating to staff acceptance of gifts and hospitality. | - |
| | Members' allowances and expenses, and declarations of interests, gifts and hospitality. | Follow-up review. | We reported in January 2013 that action has been taken as agreed, although further work is planned to train new elected members after May 2013 and to use plain English in the guidance. | Not applicable |
| Working in strategic partnership | | | | |
| | Funds flow between LCC and One Connect Ltd. | RACE-based review. | We reported in January 2013 that there are effective controls over the flow of funds between the county council and One Connect Ltd. | Substantial |
| Legislative compliance | | | | |
| | Consideration of the legal implications of decisions. Testing within service areas of their compliance with service-specific legislation: | RACE-based review. | This work is almost complete and a draft report is being prepared. | |
| | Compliance testing of the Registration Service operated within the Adult and Community Services Directorate. | Compliance testing. | We reported in January 2013 that the Registration Service operates a robust system of control to effectively identify and interpret the legislation affecting it. | Full |
| | Compliance testing of the Trading Standards Service within the Environment Directorate. | Compliance testing. | A report is being drafted and discussed with management. | |
| Information governance | | | | |
| | Overall corporate arrangements. | RACE-based re-review. | As reported previously, information governance arrangements are still subject to further development. However as members will have heard on 11 March, progress is now being made and the role of senior information risk officer will be taken up by the council's monitoring officer, who is a member of the management team. | Nil |
| | Overall corporate arrangements for data sharing with partners, supported by work in directorates. | RACE-based review – completion of prior year's work. | We reported in September 2012 that the local arrangements employed by a sample of service areas were adequately designed but that corporate information sharing arrangements were out of date, incomplete and not complied with. | Limited |
| Cross-service controls | | | | |
| Partnerships/ accountable body | | | | |
| | The council's accountable body role. | RACE-based re-review – previously limited assurance. | In January 2013 it was reported that changes are being made that will strengthen the council's arrangements supporting its accountable body role, but that it is still too soon to undertake a re-review. | - |

| Control | Audit review | Audit scope | Comments | Assurance |
|---|---|---|--|--|
| Business continuity and emergency planning | | | | |
| | Overall corporate arrangements for emergency planning. | RACE-based review. | Our work has focussed on the council's emergency planning duties – its arrangements to meet its obligations under the Civil Contingencies Act 2004 and ensure delivery of services if normal operations are disrupted. A comprehensive framework has been developed and, in particular, the risk assessment process and emergency planning carried out with the Lancashire Resilience Forum demonstrate good practice. By December 2012 71% of the required business continuity plans were in place and progress is being made to develop the remainder. However, whilst we can provide substantial assurance over these corporate arrangements further work is required, including exercising to confirm that business continuity plans are effective. Further, links between the council's business continuity arrangements and those of One Connect Limited relating to the services they provide to the council, are still being developed. | Substantial |
| Transition from children's services to adult services. | | | | |
| | Transition from children's services to adult services. | RACE-based re-review – previously limited assurance. | As already reported, the arrangements to support young people as they move from children's services to receiving services as young adults have been re-designed. This audit was scheduled to start at the end of the audit year but we will now undertake this work early in 2013/14. | - |
| Transport | | | | |
| | Accessible transport arrangements including internal re-charges. Safeguarding children's transport. | RACE-based re-review – some restricted audit work gave no assurance in 2011/12. RACE-based re-review – previously limited assurance. | This work is almost complete. This work is on-going and is being undertaken in conjunction with the work on accessible transport under the new arrangements implemented within the Integrated Transport Unit. | |
| Common controls | | | | |
| Financial controls | | | | |
| | Accounts payable. Accounts receivable. Budgetary monitoring and control and scheme of delegation. Cash and banking. Capital accounting. Expenses. General ledger. Payroll codings to the general ledger Payroll. Payroll controls in LCCG. Treasury management. VAT. | Compliance testing (split start and end of year). Compliance testing (split start and end of year). RACE-based review. Compliance testing. RACE-based review, to tie into work on directorates. Compliance & CAATs testing (split start and end of year). Compliance testing. Compliance & CAATs testing (split start and end of year). Compliance & CAATs testing (split start and end of year). Compliance testing. RACE-based review. Compliance testing. | This work has begun and is on-going. A draft report is being prepared for management. This work will take place early in 2013/14, as the new arrangements for budget-holders under the latest release of the Oracle financial system start to settle down. This work has not yet begun but will be completed before the external auditors begin their work on the council's financial statements. Since the second phase of development of the Oracle financial system which will introduce changes to controls over the council's fixed assets has been delayed, this work will be undertaken in 2013/14. Our testing has focussed on excess mileage claims and is complete. Weaknesses in the system, both in terms of management approval and automated controls built into the IT system, have allowed a number of staff to claim excess mileage inappropriately. Action is already being taken to build stronger controls into the IT system but on the basis of the work we have done, it is not clear that claims for excess mileage are adequately controlled. This work has started and will be completed before the external auditors begin their work on the council's financial statements. The Internal Audit Service has supported on-going data cleansing work, and compliance testing specifically on payroll codings is included with work on the general ledger above. Compliance testing has begun, and will be complete by early in 2013/14. We have already undertaken considerable analysis of the whole of the council's payroll to identify any areas of particularly large allowances relative to basic pay both for teams as a whole and for individual members of staff and a small number of areas are now being investigated further. This work has now been incorporated with the work on payroll for the county council as a whole. Our work to follow up the action taken in response to the Audit Commission's report is ongoing and close to completion. As reported in January 2013 there are adequate controls, operating effectively to identify, account for and recover VAT on the council's purchases. | - Limited - Substantial |

| Control | Audit review | Audit scope | Comments | Assurance |
|---|--|--|---|----------------|
| | Oracle release 12 - ongoing implementation and further work on the controls established in phase 1 and phase 2. | RACE-based review. | We continue to be involved in work on this project, which includes work on the new fixed assets and procurement modules. | Not applicable |
| HR controls | | | | |
| | Connect2HRP (previously 'Ask HR') | RACE-based review. | We reported in September 2012 that there are examples of good practice in a number of areas of this service. | Substantial |
| | Hierarchies in the Oracle HR/ payroll system. | Compliance testing. | We are continuing to provide support to the project to resolve the hierarchies in the HR/ payroll system, including reviewing the project testing programme. However it is too soon at this point to undertake compliance testing of this during the current year. | - |
| | Leave system | Compliance testing. | This work has begun but is likely to continue into 2013/14. | |
| | Long term sickness absence | RACE-based review. | This work is on-going but nearing completion. | |
| | Oracle HR/ payroll system. | RACE-based review. | This work is focussed on ICT controls and will take place in March and April 2013. | |
| ICT controls | | | | |
| | Data centre. | RACE-based re-review – limited assurance in 2011/12. | Work by management to address the issues raised during 2011/12 is on-going. | - |
| | Help desk. | RACE-based review. | This work is beginning and will continue into 2013/14. | |
| | Implementation of Lancashire Electronic Content System (LECS) and identity management. | Advice and assistance, including attendance at corporate groups. | As already reported, it is unlikely that any further input will be required from the Internal Audit Service. | Not applicable |
| | Network access. | RACE-based review. | Work is almost complete and a draft report will be prepared shortly. | |
| | Password standards. | Compliance testing | A draft report has been prepared and is being discussed with management. | |
| | Security of mobile devices. | RACE-based review. | Terms of reference for this work have been agreed but the work will continue into 2013/14. | |
| | Web content management. | RACE-based review. | After discussion with management, this work will be deferred until the new system has been implemented. | |
| | Web usage. | RACE-based re-review – nil assurance 2011/12. | We have previously reported that new software has been implemented that resolves the issues we raised in 2011/12. | Substantial |
| | Database security. | RACE-based review – completion of prior year's work. | We reported our work on database security in September 2012. | Limited |
| Procurement | | | | |
| | Procurement Centre of Excellence – purchasing and tendering control compliance testing (including follow-up of previous audit work). | RACE-based review and follow-up work. | Work on purchasing and tendering has been combined into a single project that has now begun, and work is ongoing. However work to follow up specific issues relating to the procurement of goods and services in Highways, and contracts for adult social care will be undertaken in 2013/14. | |
| Estate management | | | | |
| | Property asset inventory control and usage – reactive repairs and planned maintenance. | RACE-based review. | A draft report has been issued and is being discussed with management. | |
| | Follow-up: Property asset inventory control and usage – high level controls. | Follow-up review – substantial assurance in 2011/12. | This work has not yet been completed. | |
| Service specific controls | | | | |
| Adult and Community Services (ACS) | | | | |
| | Support to management. | | We are continuing to consider the procurement of certain social care contracts. | - |
| | Care decision-making panels. | RACE-based review. | A representative of the Internal Audit Service is supporting the working group, but further audit work is now scheduled for 2013/14. | - |
| | Data quality for performance management. | RACE-based review. | Our work, focussed specifically on monitoring the performance of the Library Service, was reported in January 2013. | Substantial |
| | Direct payments. | RACE-based review. | This work was reported in January 2013. | Limited |
| | Health and safety of lone workers. | RACE-based review – previously limited assurance. | As previously reported, this work is being undertaken in conjunction with assignments on lone workers in each of the directorates, and work is now almost complete: a report has been drafted and is under review. | |
| | Establishment visits (cash management). | Compliance testing – completion of prior year's work. | We undertook a number of unannounced visits to libraries, museums and county information centres to review cash handling procedures, and reported our work in January 2013. | Limited |

| Control | Audit review | Audit scope | Comments | Assurance |
|----------------------|---|--|---|-------------------------------|
| | ISSIS replacement: advice and support re controls over configuration, security and implementation of replacement system. Management of case referrals: compliance testing. | Advice and support. Compliance testing. | As previously reported, the Internal Audit Service is represented on the project board and work has begun. Input is being coordinated with work on the CYP project board. We have considered procedures for the receipt and allocation of case referrals, the creation and closure of user records, workload management arrangements, supervisory review functions, recording arrangements, performance management arrangements and the approval of packages of care. In June 2011 we provided only limited assurance over these control procedures, but our latest work has identified areas of good practice, including formal documented procedures for the management of social care cases and the management of referrals, and consideration of case complexity, priority, staff roles and training when allocating cases to staff. We previously noted that cases were being assigned to ceased worker mailboxes that were not being checked but, although ISSIS still allows cases to be assigned to ceased workers, this is now reviewed and resolved on a regular basis. We reported our work on this area in January 2013 and there are no significant issues to note. | Not applicable Substantial |
| | Non residential care system (NRCS): compliance testing. | Compliance testing. | We reported our work on this area in January 2013 and there are no significant issues to note. | Substantial |
| | Payment and monitoring system (PAMS): compliance testing. | Compliance testing. | We reported our work on this area in January 2013 and there are no significant issues to note. | Substantial |
| | Preferred provider scheme. | RACE-based review – completion of prior year's work. | We reported our work on this area in January 2013, noting that a high proportion of providers were automatically accredited as 'preferred' and the accreditation process was variable. The standard domiciliary monitoring framework has not been consistently applied, and it is not clear that all preferred providers are meeting the required standards. This work has begun, and will incorporate follow-up of the work on fair access to care criteria. | Limited |
| | Resource allocation within the model that allocates individual budgets. | RACE-based review. | This work has been combined with the work above on the allocation of individual budgets. | - |
| | Follow-up: Fair access to care criteria (FACS). | Follow-up review – substantial assurance in 2011/12. | This work will be addressed with the follow-up review of direct payments in 2013/14. | - |
| | Follow-up: Prepayment card pilot | Follow-up review – substantial assurance in 2011/12. | We reported in January 2013 that good progress has been made by Domiciliary Services in implementing recommendations from the previous review of this area in August 2011. | Not applicable |
| | Follow-up: Vulnerable adults' domiciliary services and day centres. | Follow-up review – previously substantial assurance. | We are providing on-going support to the Project Board and in 2013/14 will provide assurance over key system developments including the identification and prioritisation of claimants, safeguards against error, fraud and abuse, and the integration of the service with other areas of discretionary financial assistance. | Not applicable |
| | Care grants and crisis loans | RACE-based review. | | Not applicable |
| Public health | | | | |
| | Operational review in the shadow year (in two-phases). | RACE-based review. | We are working to understand the services and related contracts and costs that will be transferred to the county council and this work has continued throughout the year. We will provide assurance regarding the way that information has been compiled to support the transfer and this work is almost complete. | |
| CYP | | | | |
| | Support to management. Emergency payments to families. | Support to management. RACE-based re-review – previously limited assurance. | We have continued to work with management to consider their responses to control issues. We reported in November 2011 that controls were not operating effectively and had been applied inconsistently, and that local judgement of appropriate expenditure was inconsistent across the county. Most of the actions agreed by management to address these issues remained incomplete when we reported our re-review in January 2013, but we have recently met the Directorate Leadership Team and action is now being taken to implement the outstanding recommendations. We reported our work on this area in January 2013 and there are no significant issues to note. | - Limited |
| | Financial, operational and safeguarding procedures within children's residential homes. | RACE-based review – completion of prior year's work. | We reported our work on this area in January 2013 and there are no significant issues to note. | Substantial |
| | Health and safety of lone workers. | RACE-based review. | As previously reported, this work is being undertaken in conjunction with assignments on lone workers in each of the directorates. A report has been drafted and is under review. | |

| Control | Audit review | Audit scope | Comments | Assurance | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--------------------------------|--|---|--|---------------------------|------------------|--------------------|--|--|--|------|-------------|---------|------|-------------|---|---|---|---|---|----------------|----|---|----|---|---|----------------|---|---|---|---|---|-------|----|---|----|---|---|--|
| | ISSIS replacement process: advice and support re controls over configuration, security and implementation of the replacement system. Independent Reviewing Officers (IROs) | Advice and support re controls over configuration, security and implementation of replacement system. RACE-based review – completion of prior year's work. | The Internal Audit Service is represented on the project board and work is on-going. Input is being coordinated with work on the ACS project board. It was reported in January 2013 that high priority ('starred') recommendations are not fully logged and the log is not adequately monitored to ensure that actions are taken as required. The Directorate Leadership Team has recently discussed this and will implement the outstanding agreed actions. | Not applicable Limited | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Management of children's social care referrals. | RACE-based re-review – previously limited assurance. | As reported in September 2012 management has already acted to ensure that cases are not allocated to ceased workers or managers. Further follow-up work and compliance testing will be undertaken at the end of March 2013. Since the system will be significantly changed by the introduction of the replacement for ISSIS we will not undertake a full re-review during 2013/14; this will be scheduled for 2014/15. | Not applicable | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Partnership working with the NHS to support children with mental health needs. | RACE-based review. | This work is nearing completion. | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Performance management framework. | RACE-based review. | This work has not yet begun and is now likely to be superseded by the introduction of the ISSIS replacement system. | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Provision for children with disabilities (direct payments). | RACE-based review – completion of prior year's work. | We reported a number of concerns in January 2013, relating to the approval and review of initial assessments of need within the directorate, and on-going reviews of the use of the financial support provided. The Directorate Leadership Team is now taking action to address this. | Limited | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Pupil Referral Units and excluded pupil interventions. | RACE-based review. | Pupil referral units are now in the process of becoming self-managing, akin to other non-academy schools and this is not an appropriate time to undertake this work. | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | The Safeguarding Children's Board budget. | RACE-based re-review – previously limited assurance. | Work on this review has begun but, at management's request, has been re-scheduled for 2013/14. | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | School budget formula and pupil forecasting. | RACE-based review. | Work on this review is complete and a draft report has been issued. | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Troubled Families programme | RACE-based review. | The Troubled Families programme was introduced earlier in the year and our work is focussed on the directorate's operational response to this programme and its related payment-by-results scheme. Our work is on-going and will continue into 2013/14. | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Young Persons Learning Agency (now the Education Funding Agency) grant certification. | Compliance testing – grant certification. | Although the Young Persons Learning Agency has now become the Education Funding Agency, certification of the funding provided to schools with sixth forms is still required and work is in progress for completion and certification at the financial year end. | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Follow-up of the Ofsted action plan and actions arising from the peer review. | Follow-up review of Ofsted's report. | As we reported in January 2013, most of the actions arising from Ofsted's review of the council's children's services are being monitored by the Head of Safeguarding Inspection and Audit, but there are significant deficiencies in the directorate's review of its case files. The Directorate Leadership Team is now taking action to implement the outstanding recommendations. | Limited | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Follow-up: Financial and performance monitoring of schools. | Follow-up review – substantial assurance in 2011/12. | Actions were due by September 2012 but will not be evidenced until the spring term, and will therefore be followed up before the end of the audit year. | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Follow-up: Personnel file documentation. | Follow-up review. | This work will be undertaken in the first quarter of 2013/14. | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Follow-up: SureStart children's centres. | Follow-up review – limited assurance in 2011/12. | Actions were due by September 2012 but will not be evidenced until the spring term, and will therefore be followed up before the end of the audit year. | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Schools and sixth forms | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Support to LCC management. | | The Internal Audit Service is continuing to work with other members of the County Treasurer's team to assess the council's responsibilities in relation to schools, the related assurance requirements, and the impact of the move of some schools to academy status. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | School reviews. | Whole-school reviews. | Work has been completed as follows: | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | <table border="1"> <thead> <tr> <th rowspan="2">School type</th> <th rowspan="2">Number of audits</th> <th colspan="4">Level of assurance</th> </tr> <tr> <th>Full</th> <th>Substantial</th> <th>Limited</th> <th>None</th> </tr> </thead> <tbody> <tr> <td>High school</td> <td>3</td> <td>0</td> <td>3</td> <td>0</td> <td>0</td> </tr> <tr> <td>Primary school</td> <td>23</td> <td>0</td> <td>12</td> <td>8</td> <td>3</td> </tr> <tr> <td>Nursery school</td> <td>3</td> <td>0</td> <td>2</td> <td>1</td> <td>0</td> </tr> <tr> <td>Total</td> <td>29</td> <td>0</td> <td>17</td> <td>9</td> <td>3</td> </tr> </tbody> </table> | School type | Number of audits | Level of assurance | | | | Full | Substantial | Limited | None | High school | 3 | 0 | 3 | 0 | 0 | Primary school | 23 | 0 | 12 | 8 | 3 | Nursery school | 3 | 0 | 2 | 1 | 0 | Total | 29 | 0 | 17 | 9 | 3 | |
| School type | Number of audits | Level of assurance | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | Full | Substantial | Limited | None | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| High school | 3 | 0 | 3 | 0 | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Primary school | 23 | 0 | 12 | 8 | 3 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Nursery school | 3 | 0 | 2 | 1 | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total | 29 | 0 | 17 | 9 | 3 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| Control | Audit review | Audit scope | Comments | Assurance |
|--------------------|--|--|---|-------------|
| | Follow-up of school reviews. | Follow-up review. | Visits to schools to follow up the action plans agreed last year will take place during the spring term. | |
| | Thematic review - income. | Thematic review | Our work on this area was reported in January 2013. | Limited |
| | Thematic review - special schools. | Thematic review | This work is now due to begin in 2013/14. | - |
| | Thematic review - payroll services. | Thematic review | This work is now due to begin in 2013/14. | - |
| | Thematic review - schools with public sports facilities | Thematic review | This work has begun but will continue into 2013/14. | - |
| | Follow-up of thematic reviews: procurement, unofficial school funds and data protection. | Follow up all 2011/12 thematic reviews. | This work has begun and draws on our work on individual school visits. | |
| | Premises management framework - schools and sixth forms | RACE-based review – completion of prior year's work. | We noted in January 2013 that the mechanism to enforce or verify schools' compliance with the council's premises management framework or any other framework is not comprehensive and there is no evidence that more than half of all schools have arrangements in place to ensure that premises are compliant with health and safety requirements. In 2013/14 the Environment Directorate will undertake a programme of school visits to validate schools' compliance. | Limited |
| Environment | | | | |
| | Support to management. | | We have discussed the integrated assurance plan/ risk management arrangements involved in the Pennine Reach project. | |
| | Analysis of overtime and additional payments. | Data analysis to support management. | This work was added to the plan for the year to support management in understanding overtime and other additional payments made to groups of staff now within the directorate. Management is satisfied that the amounts being paid are appropriate and, although a formal assurance level was not provided within our report, the council should take substantial assurance that such payments are not being made inappropriately within the Environment Directorate. | Substantial |
| | Budgetary control within the directorate. | RACE-based review. | This work was scheduled for late in the year as the new arrangements for budget-holders under the latest release of the Oracle financial system settle down but has now been incorporated into the work on budgetary control for the council as a whole. | - |
| | Capital programme (of the combined Environment Directorate and former Property Group). | RACE-based review. | As already reported, this work is linked with other work on the common financial systems and, since the second phase of development of the Oracle financial system (introducing changes to controls over the council's fixed assets) has been delayed, this work will be undertaken in 2013/14. | - |
| | Carbon reduction commitment. | Compliance testing. | The Carbon Reduction Commitment Energy Efficiency Scheme is aimed at improving energy efficiency and cutting carbon dioxide emissions in large public and private sector organisations. Participants have been required to monitor and report their energy use each year from 2010/11 onwards and to purchase and surrender allowances equal to their carbon dioxide emissions during each year from 2011/12 onwards. We have reviewed the process by which the council's return has been made to the Scheme for 2011/12 and two issues could lead to incorrect energy usage being reported and the purchase of the wrong number of allowances. There are discrepancies in the energy usage reported in the annual return and the supplier statements, although the overall total has been validated by management and is understood to be within the 5% +/- parameter required by the Environment Agency. The monitoring system provider has been informed of the system error and an adjustment to correct the calculation will be implemented. We were also unable to locate any documentary evidence or advice regarding the correct treatment of energy used by properties accommodating One Connect Ltd and this is still being sought by management. | Limited |
| | Concessionary travel. | RACE-based review – completion of prior year's work. | We reported our findings on this area in January 2013. We noted in particular that the national scheme to identify the use of lost or stolen NoWcards is not yet fully enabled and there is therefore a risk that lost or stolen cards may be misused. Certificates of accuracy were received late from operators, and one was inaccurate, but no payments were suspended. | Limited |
| | Corporate manslaughter - highways responsibilities. | RACE-based re-review – previously limited assurance. | This work has been combined with work on highways asset management, and a report is being drafted. | |
| | Flood risk management. | RACE-based review. | This work is nearing completion. | |

| Control | Audit review | Audit scope | Comments | Assurance | |
|---|---|---|--|----------------|----------------|
| | Health and safety of lone workers. | RACE-based re-review – previously limited assurance. | As previously reported, this work is being undertaken in conjunction with assignments on lone workers in each of the directorates. A report has been drafted and is under review. | Limited | |
| | Highways asset management. | RACE-based review. | This work has been combined with work on highways responsibilities in relation to corporate manslaughter, and a report is being drafted. | | |
| | Highways purchasing and use of subcontractors. | RACE-based review – completion of prior year's work. | An outline of our findings was reported to the Audit Committee in June 2012, and the implications of this work are being considered by the Environment Directorate, LCCG and the Procurement Centre of Excellence. | | |
| | PFI waste project - Area East waste transportation. | RACE-based review. | Terms of reference have been drafted for this work but it will now be deferred into 2013/14. | | |
| | PFI waste project - strategic and budget forecasting. | RACE-based re-review – previously limited assurance. | The financial position of the PFI contract is currently subject to close management scrutiny and on-going negotiations with the contractor and this work has therefore been postponed. | | |
| | Winter highways information management system. | RACE-based re-review – previously limited assurance (although the previous opinion used different terms). | This work is under way. | | |
| | Follow-up: Closed landfill sites. | Follow-up review – previously substantial assurance. | As previously reported, all the agreed actions have been completed by management. | | Not applicable |
| | Follow-up: Compliance with relevant legislation and LCC regulations. | Follow-up review. | As noted above, a report is being drafted and discussed with management. | | |
| | Follow-up: Development control s278. | Follow-up review. | This work is complete and the action plan has been largely completed as agreed. | | Not applicable |
| | Grant audit: Citizen Rail. | Compliance testing – grant certification. | This work is on-going; we are actively involved in supporting the preparation of an appropriate claim, and in certifying expenditure in accordance with EU requirements. | | - |
| | Grant audit: CIVINET. | Compliance testing – grant certification. | One audit is complete, but we will also be required to certify the closure of this funding stream. | - | |
| | Grant audit: ENVIREO. | Compliance testing – grant certification. | This grant claim is due to be certified shortly. | - | |
| | Grant audit: Growth Point. | Compliance testing – grant certification. | This work has been completed. | - | |
| | Grant audit: Interreg IVB SusStations (NWE). | Compliance testing – grant certification. | This work is on-going and another claim will be certified early in 2013/14. | - | |
| | Grant audit: Local Transport Capital | Compliance testing – grant certification. | We have certified the Department for Transport's grant to the council relating to integrated transport and capital maintenance of highways. This work was unplanned but was completed at the end of September 2012. | - | |
| Lancashire County Commercial Group | | | | | |
| | Support to management. | | We have continued to provide ad hoc support to management. | Not applicable | |
| | Bus service operators grant. | Compliance testing – grant certification. | As already reported, the first claim has been certified, but another claim will be made at the end of March for audit certification in April 2013. | | |
| | Compliance with relevant legislation and LCC regulations: Working Time Directive. | Compliance testing. | The work planned in relation to compliance with the European Working Time Directive has been postponed at the request of the Director of Human Resource and Payroll Service. | | |
| | Catering income procedures in schools. | RACE-based re-review – previously limited assurance. | Progress has been made in implementing most of the actions agreed. Work instructions have been reissued to units and area managers have been reminded of the importance of complying with work instructions. Furthermore, audit visits are now up to date and are being undertaken on a termly basis by the quality auditor. | | |
| | Food stock and consumption, ordering, provision, invoicing controls. | RACE-based review. | This work is complete and a draft report is being discussed with management. | | |
| | Health and safety of lone workers. | RACE-based re-review – previously limited assurance. | As previously reported, this work is being undertaken in conjunction with assignments on lone workers in each of the directorates. A report has been drafted and is under review. | | |
| Customer service centre | | | | | |
| | Emergency Duty Team. | Support to management. | At management's request we have provided support to understand the structure and costs of the Emergency Duty Team in readiness for its transfer into Care Connect. We have undertaken work specifically to understand the allowances paid and the shift patterns worked by the team, but an opinion regarding the assurance we can provide is not appropriate. | Not applicable | |
| Economic development | | | | | |
| | Growing Places outcomes (the grant element of the Lancashire Enterprise Partnership). | RACE-based review. | This work has not begun and will be removed from the audit plan for 2012/13. | - | |

| Control | Audit review | Audit scope | Comments | Assurance |
|----------------------------------|--|---|---|-------------------------|
| | Superfast broadband project, involving the assistant chief executive, LCDL's grant specialist team and the economic development team. Grant audit: Intensive Business Start-up. | RACE-based review. Compliance testing – grant certification. | We have started to work with the specialist grants team to consider what procedures are required to support the council's claims for grant funding. We have completed work begun in 2011/12 to certify this grant funding claim. | - Not applicable |
| Counter fraud service | | | | |
| Counter fraud | | | | |
| | Bribery Act. Cash handling. | RACE-based review. Compliance testing directed by data analysis. | This work has not yet begun and will now be considered for inclusion in the 2013/14 audit plan. This audit has been replaced by testing of expenses, and by testing of cash handling in county establishments. Our review of expenses has highlighted a number of issues which we are discussing with the County Treasurer and Director of Human Resource and Payroll Services. We have undertaken a number of investigations during the year relating to the management of school income; one school bursar will shortly appear in court. A report is being drafted. | - - |
| | School income testing. | Compliance testing directed by data analysis. | | - |
| | Prevention of bribery - streetworks. | RACE-based review – completion of prior year's work. | | - |
| National Fraud Initiative | | | | |
| | National Fraud Initiative testing. | | Data has been submitted and we have received back reports of data matches that should be investigated. We are working with a number of managers around the council to investigate these. | - |
| Reactive work | | | | |
| | Responsive work to support management. | Individual investigations. | We have supported management, and continue to provide on-going support, on a number of investigations and disciplinary procedures. | - |
| Risk management | | | | |
| | Preparation of the corporate risk register. Other support to management. | | Work on this has been coordinated with the preparation of the audit plan for 2013/14. Additional work to review the guidance to managers will now take place during 2013/14. | - - |

Audit and Governance Committee

Meeting to be held on 25 March 2013

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| Electoral Division affected: All |
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Internal Audit Plan for 2013/14

(Appendix A refers.)

Contact for further information:

Ruth Lowry, (01772) 534898

Executive Summary

This paper explains the approach to establishing the plan of work to be undertaken by the county council's internal audit service for the coming financial year. The total planned resource is approximately **2,800 audit days**.

Appendix 'A' sets out the audit planning process in more detail.

Recommendation

The committee is requested to consider and approve the audit plan for 2013/14.

Background and advice

The council is required by The Accounts and Audit (England) Regulations 2011 ('the regulations') to conduct a review at least once in a year of the effectiveness of its system of internal control and to approve an annual governance statement, prepared in accordance with proper practices in relation to internal control.

The regulations also require the findings of this review to be considered by a committee of the council or else by the council as a whole, and the Audit and Governance Committee fulfils this role.

The responsibility for implementing, maintaining and reviewing the system of internal control rests with the council, but the process by which the effectiveness of its system of internal control is reviewed and the governance statement is made includes obtaining assurances on the effectiveness of key controls. In practice, these assurances will be substantially drawn from the work of internal audit.

The audit plan is therefore focussed on providing these assurances to the chief executive and leader of the council who are jointly required to sign the annual governance statement.

Consultations

As part of the audit planning process the internal audit team has:

- Considered the county council's corporate and individual directorate/ service plans and budget reports;
- Met the senior management teams of the county council's directorates to discuss their risks and related controls; and
- Made its own assessment of the risks facing the county council.

Implications

Not applicable.

Risk management

This report supports the Audit and Governance Committee in undertaking its role, which includes providing independent oversight of the adequacy of the council's governance, risk management and internal control framework.

Local Government (Access to Information) Act 1985

List of Background Papers

| Paper | Date | Contact |
|-------|------|---------|
|-------|------|---------|

Not applicable.

Reason for inclusion in Part II, if appropriate: Not applicable.

Audit Committee meeting 25 March 2013

Internal audit plan for the year 1 April 2013 to 31 March 2014

1. Summary

- 1.1 The Audit and Governance Committee is invited to consider the outline annual internal audit plan for Lancashire County Council for 2013/14 and the process by which this will plan will be developed for the new administration which will be elected in May 2013. The audit plan will provide the assurance that the chief executive and leader of the council need that the risks to the council's objectives are being adequately and effectively controlled, and support an annual opinion on the effectiveness of the systems of governance, risk management and internal control across the council.
- 1.2 The Internal Audit Service plans to provide a total resource input to the county council of approximately **2,800 audit days** (2011/12: 2,800 days). It is anticipated that approximately 660 days (2012/13: 750 days) will also be provided to external organisations within Lancashire including the pension fund, the Police and Crime Commissioner and a number of the district councils.

2. The council's assurance requirements

- 2.1 The council provides a wide range of services across the county and its senior management teams are aware both of the risks to achieving their service objectives and the risks inherent in their work. Each of these risks should be managed by controls designed to reduce the risk to a corporately acceptable level and which operates effectively and consistently in practice.
- 2.2 The chief executive, Audit and Governance Committee, and ultimately the Council, need assurance that these controls have been adequately designed and are operating effectively. In due course the chief executive and the leader of the council will jointly sign an annual governance statement incorporating a statement on internal control, which will refer to the effectiveness of the system of internal control.
- 2.3 The assurance needed to make this statement is available from a variety of sources including external regulators, but also from the council's Internal Audit Service. To avoid duplication with other assurance providers and ensure that we maximise resources, we need to understand this framework of assurance; where assurance is required but not otherwise available, the Internal Audit Service may provide it, and this will form our annual audit plan.

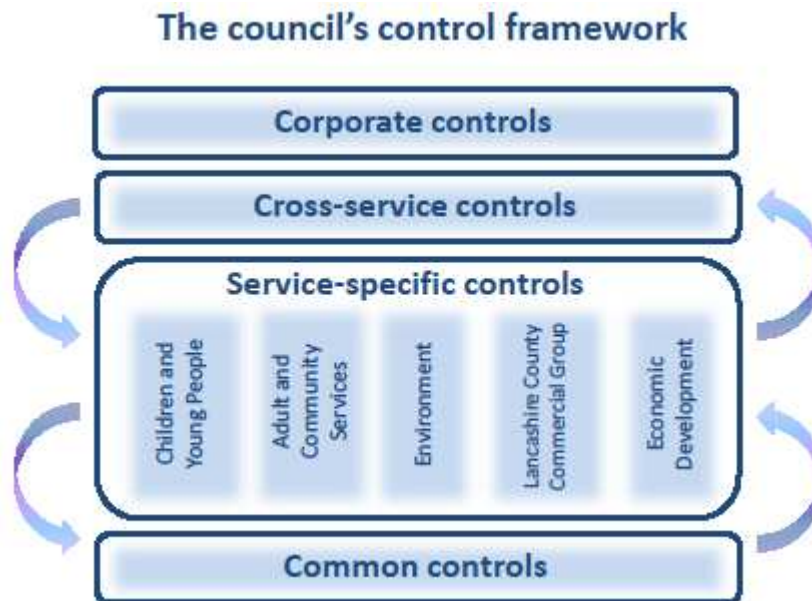
3. The council's control framework

- 3.1 The Internal Audit Service groups controls under the following categories, and aims to provide assurance over each:
 - Corporate controls: These controls relate to the overall governance arrangements of the county council as a whole, and are therefore largely limited to corporate governance and risk management, information

governance, and the council's partnership arrangements with One Connect Ltd.

- Cross-service controls: These are the controls that support the council's work across some or all of its service areas, either where two or more teams provide a single service, or where risks are common to a number of (or all) service teams. Very few risks are managed by a single corporate solution but similar controls may be implemented across a number of teams to address the same or similar risks.
- Service-specific controls: The controls designed to manage the risks arising from the provision of particular services and from individual service areas.
- Common controls: These are the controls that under-pin the council's work whatever service is being provided and in whatever service or directorate. They manage the elements of the council's day to day operations that are operated in common across the whole organisation, such as financial and ICT services, and human resources.

3.2 These form the building blocks of our audit plan, and can be illustrated as shown below.



4. The planning process

- 4.1 The Internal Audit Service has discussed with directors and executive directors the risks they have identified both corporately and for their own service areas. We have sought to identify the areas with the greatest inherent risk, and where there is the greatest need for effective mitigation by strong controls as these are the controls over which the council needs greatest assurance.
- 4.2 Where services are provided by One Connect Ltd we will provide assurance over the controls the council relies upon in the same way as if the controls were operated by the county council itself, but will agree our plan with the chief operating officer and Board of the company as well as with the county council.

- 4.3 On this basis, we will make an assessment of the assurance we need to provide to the council during 2013/14, but this process is still ongoing.
- 4.4 Internal Audit Service resources are and will continue to be focussed effectively on the council's risks and directed to deliver high quality advice to the council. The level of resources support the delivery of a service consistent with professional practice, although it is recognised that resources cannot be reduced further without potentially impacting upon this. However it is vital that our resources are deployed as effectively as possible, and the audit plan will therefore be focussed on the key areas of risk.
- 4.5 Although the annual plan will enable both managers and elected members to see the overall scope of internal audit work, work is on-going throughout the year. In particular at the end of 2012/13 a number of audit reviews are still in progress and some time will be spent on completing them, as well as undertaking work on audits deferred from 2012/13 where that work is still appropriate. We will continually reassess our resources against the council's priorities and we will amend the plan throughout the year as required.

5. The county council context

- 5.1 The Internal Audit Service must be alive to changes affecting the whole of the county council as we undertake our work.
- 5.2 In particular, the whole Council faces elections in May 2013 that will result in the formation of a new administration and a new Audit and Governance Committee. The detailed plan of audit work, by individual area will therefore be presented to the Committee at its first meeting in June 2013.
- 5.3 Other aspects of the county council's operational environment remain very similar to those set out in March 2012: cost savings, service re-organisation and re-structuring and system re-design as well as on-going service developments.
- 5.4 From 1 April 2013 the council will take responsibility for public health in Lancashire, with its considerable associated resources and on-going operational activities, as well the need to absorb these into the council's management structure.
- 5.5 The need for the council to make significant cost savings will continue into the third year of its three-year cost-saving programme and beyond. The reduction in the council's workforce will also continue, affecting many of the council's services and resulting in their reconfiguration and, in some cases, their transfer between directorates. Many of the risks associated with these services have changed to some degree and their corresponding control frameworks are being or have been re-designed. At the same time as the number of managers is falling, it is likely that there will be a greater reliance on monitoring controls operated by managers and on detective controls, but fewer directly preventative controls.
- 5.6 The new financial management system, Oracle Release 12, has now been introduced although additional modules of the system are still being implemented, and a number of operational systems are also changing. The integrated social services information system (ISSIS) operated jointly by the

Directorate for Children and Young People and the Adult and Community Services Directorate will be replaced during 2013/14 with significant implications for the work of both directorates, and with significant resource requirements to support the replacement project too.

6. The Internal Audit response

- 6.1 In a time of such fundamental change the Internal Audit Service must be prepared to be flexible in our planning and our approach to the council's assurance needs. We must be prepared to provide whatever other support, as well as assurance, is required.
- 6.2 All our work will continue to consider value for money and the value of the council's controls and we will, where appropriate, identify superfluous controls or controls of limited value.
- 6.3 We aim to provide integrated assurance across the whole council, recognising the relationships between different services and support functions to provide assurance to individual executive directors and to the council as a whole. This audit plan will build on that experience, and on our use of computer assisted audit techniques and compliance testing, to provide the assurance the council needs across its key controls and its service areas.

Controls to manage the risk of fraud

- 6.4 In addition to our audit work, the Audit Service provides support to the council's management team in managing the risk of fraud. It has for many years provided an investigatory service to support management in responding to instances of suspected fraud or impropriety. In recent years we have undertaken more proactive work to identify and pursue indications of potentially fraudulent activity, both through corporate systems testing and through additional testing of other areas particularly susceptible to fraud.
- 6.5 Our audit plan will integrate our assurance work (specifically our compliance testing) with our proactive counter fraud testing, particularly in areas susceptible to fraud and misappropriation of assets.

Risk management

- 6.6 The Internal Audit Service is also responsible for supporting management in managing the council's risks. In particular the Internal Audit Service will work during 2013/14 to revise the associated risk management guidance to managers.
- 6.7 The council's approach to risk management makes clear that managers – rather than the Internal Audit Service – are responsible for ensuring that risk is considered as part of any new service developments or improvements, and in on-going performance monitoring. However the synergy between internal audit and risk management is clear and the Internal Audit Service will be well placed to ensure that the assurance we provide to the council is focussed on controls over its greatest risks.

Audit & Governance Committee

Meeting to be held on 25 March 2013

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| Electoral Division affected: All |
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External Audit

Lancashire County Council and Lancashire County Pension Fund Annual Audit Plans 2012/13

Contact for further information:

Karen Murray, 0161 234 6364, Director, Grant Thornton

karen.l.murray@uk.gt.com

Executive Summary

The Annual Audit Plan sets out the nature and scope of work that the Authority's external auditor will carry out to discharge its statutory responsibilities, compliant with the Audit Commission Act 1998 (the Act) and the Code of Audit Practice for Local Government.

This audit plan is specific to the financial year 2012/13 and sets out in broad terms the programme of work required to

- give a financial opinion on whether the financial statements:
 - give a true and fair view of the financial position of Lancashire County Council and of the Pension Fund as at 31 March 2013 and of their expenditure and income for the year then ended;
 - have been prepared in accordance with proper accounting practice
- conclude whether the Authority has put proper arrangements in place to secure economy, efficiency and effectiveness in the use of its resources.

The Audit Plans, setting out the process that underpin the audit are set out at Appendix A and B

Recommendation

The Committee is asked to note the External Audit plans for the audit of the County Council and the County Pension Fund for 2012/13, and the fees therein.

Background and Advice

Attached at Appendix 'A' is the external auditor's Annual Audit Plan for the audit of the County Council for the year ended 31 March 2013. The Audit Plan has been produced in accordance with the Audit Commission's statutory Code of Audit Practice for Local Government bodies.

The Audit Plan sets out the main risk areas which the audit will focus on. These are:

Financial statements

- compliance with Code requirements;
- general Ledger upgrade and implementation of a new capital accounting module;
- payroll;
- operating expenses;
- journals;
- accounting estimates and judgements
- clarity of reporting

Value for money

- Financial resilience;
- One Connect Ltd;
- Waste Management PFI
- Treasury Management

The fee for the audit of the County Council, including the certification of claims and returns is £154,360 as reported to the Audit and Governance Committee meeting in January 2013.

Appendix B is the external auditor's plan for the audit of the Lancashire County Pension Fund. The plan sets out the main risk areas which the audit will focus on. These are:

- the appointment of 5 new fund managers and transfer of investments to them to use in new global equities portfolios
- increasing complexity of the internally managed portfolio
- widening of the company vehicle used to make infrastructure investments
- work undertaken to investigate and resolve the unexplained imbalance on the pension fund bank reconciliation last year
- the three key elements of the fund accounts being investments, contributions and benefits payable.

The fee for the audit of the pension fund has been set at £41,505. This is £7,336 higher than the scale fee of £34,169 set by the Audit Commission as notified to you in the external auditor's letter of 16/12/2012. The external auditor considers that the changes in the investment portfolio of the pension fund resulting in the transfer of significant funds between fund managers, an increase in the overall number of managers and the increasing complexity of the financial instruments involved have given rise to additional risks which require additional audit work. The revised fee is £25,495 (38%) less than the audit fee in the previous year of £67,000. (The scale fee set by the Audit Commission for pension fund audits is based on a formula linked to the size of the net assets of the fund and has no specific risk factors linked to it).

Karen Murray, Engagement Lead, will attend the meeting to present the report and answer any questions.

Consultations

The reports have been agreed with the County Treasurer.

Implications

This item has the following implications, as indicated:

N/A

Risk management

No significant risks have been identified.

Local Government (Access to Information) Act 1985

List of Background Papers

| Paper | Date | Contact/Directorate/Tel |
|-------|------|-------------------------|
|-------|------|-------------------------|

N/A

The Audit Plan for Lancashire County Council

Year ended 31 March 2013

07 March 2013

Karen Murray

Director – Public Sector Assurance

T 0161 234 6364

E karen.l.murray@uk.gt.com

Fiona Blatcher

Associate Director – Public sector
Assurance]

T 0161 234 6393

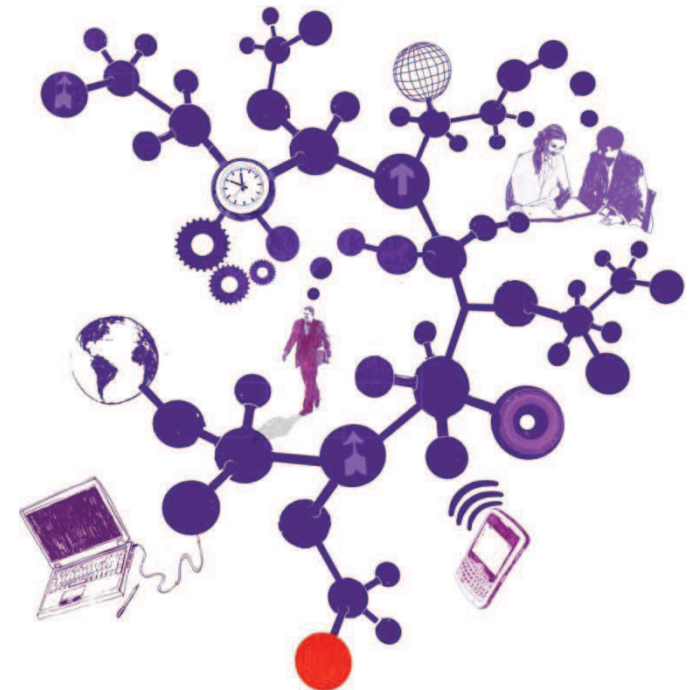
E fiona.c.blatcher@uk.gt.com

Len Cross

Manager

T 0161 234 6387

E leonard.e.cross@uk.gt.com



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

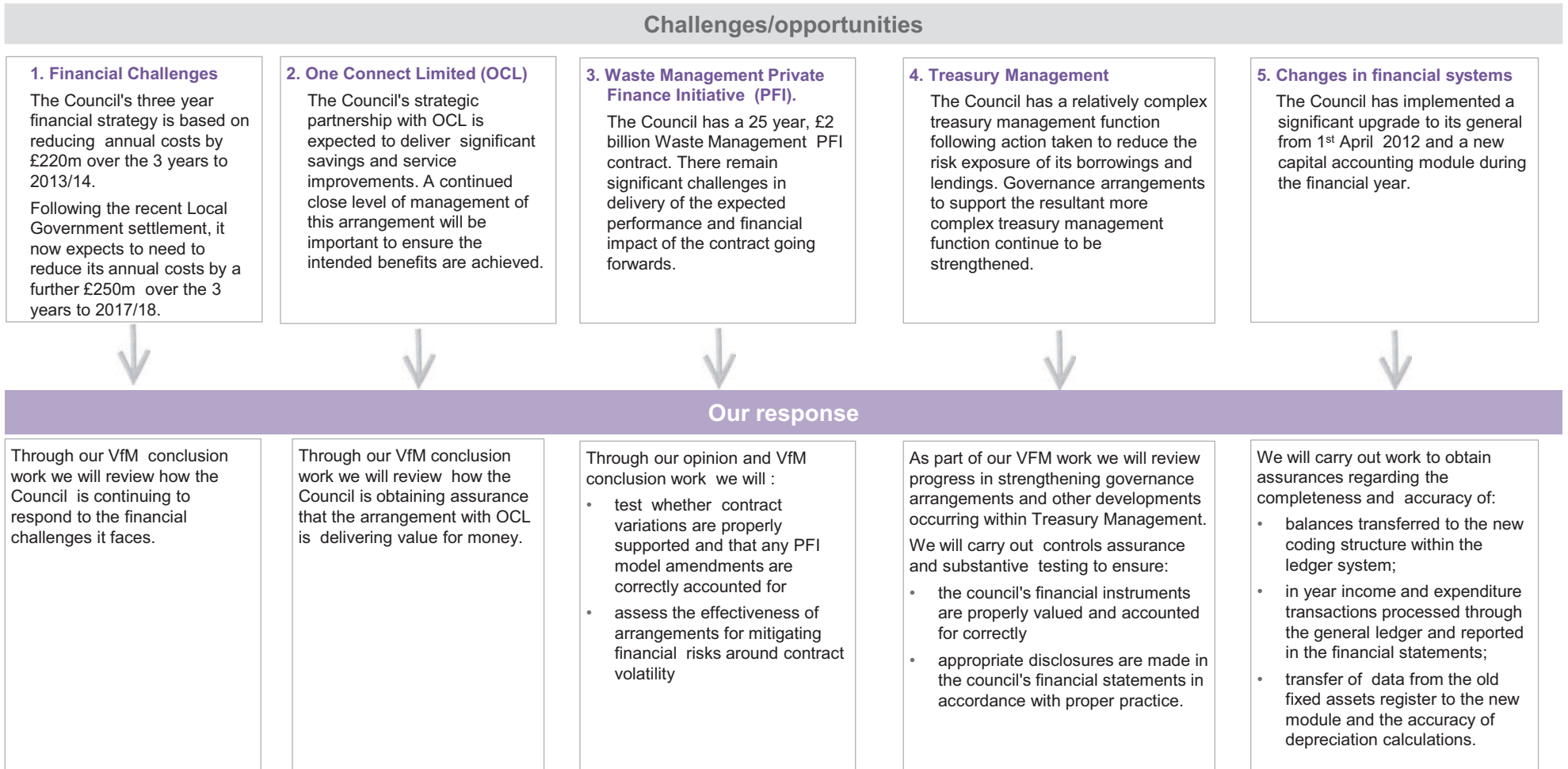
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2. Developments relevant to your business and the audit
3. Our audit approach
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6. Other risks
7. Results of interim work
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10. Fees and independence
11. Communication of audit matters with those charged with governance

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.



Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

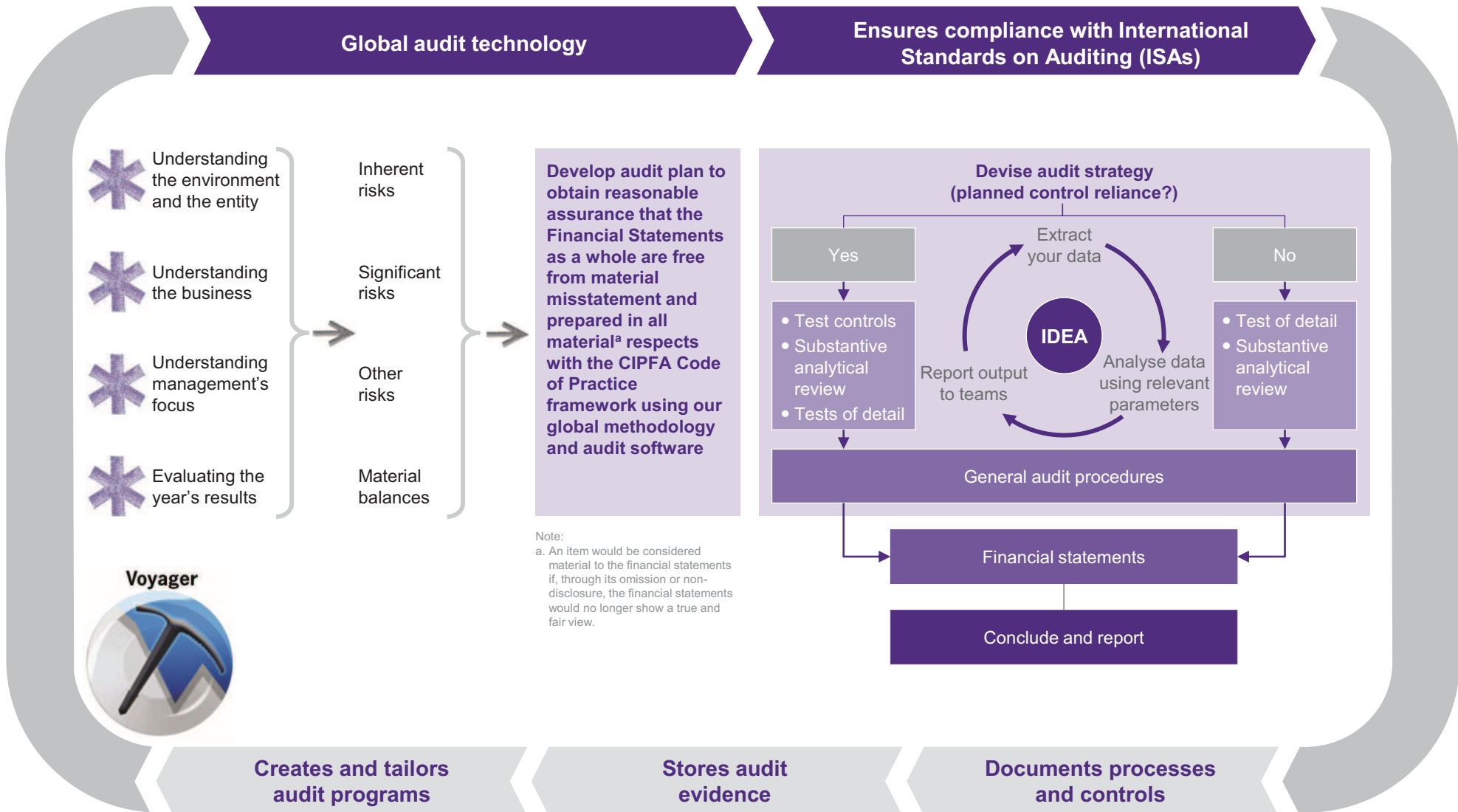
Developments and other requirements

| | | | | | |
|--|--|---|--|--|---|
| <p>1. Financial reporting</p> <ul style="list-style-type: none"> • Changes to the CIPFA Code of Practice • accounting for transfer of assets to Academies • improving clarity of corporate reporting | <p>2. Legislation</p> <ul style="list-style-type: none"> • Localisation of business rates and council tax reform | <p>3. Corporate governance</p> <ul style="list-style-type: none"> • Annual Governance Statement (AGS) • Explanatory foreword | <p>4. Pensions</p> <ul style="list-style-type: none"> • Planning for the impact of 2014/15 changes to the Local Government pension Scheme (LGPS) | <p>5. Financial Pressures</p> <ul style="list-style-type: none"> • Managing service provision with less resource • Progress against savings plans | <p>6. Other requirements</p> <ul style="list-style-type: none"> • The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion • The Council completes grant claims and returns on which audit certification is required |
|--|--|---|--|--|---|

Our response

| | | | | | |
|--|---|--|---|---|--|
| <p>We will ensure that</p> <ul style="list-style-type: none"> • the Council complies with the requirements of the CIPFA Code of Practice through our substantive testing • schools are accounted for correctly and in line with the latest guidance <p>We will also:</p> <ul style="list-style-type: none"> • support improvements in clarity of financial reporting through workshops with accountants • sharing good practice on financial reporting matters | <p>We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate</p> | <ul style="list-style-type: none"> • We will review the arrangements the Council has in place for the production of the AGS • We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge | <p>We will discuss how the Council is planning to deal with the impact of the 2014/15 changes through our meetings with senior management</p> | <p>We will:</p> <ul style="list-style-type: none"> • review the Council's performance against the 2012/13 budget, including consideration of performance against the savings plan; • undertake a review of Financial Resilience as part of our VFM conclusion | <p>We will:</p> <ul style="list-style-type: none"> • carry out work on the WGA pack in accordance with requirements; • certify grant claims and returns in accordance with Audit Commission requirements |
|--|---|--|---|---|--|

Our audit approach



An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

Significant – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

Other – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

| Account | Material (or potentially material) balance? | Transaction Cycle | Inherent risk | Material misstatement risk? | Description of Risk | Substantive testing? |
|--|---|-------------------------------|---------------|-----------------------------|-----------------------------------|----------------------|
| Cost of services - operating expenses | Yes | Operating expenses | Medium | Other | Operating expenses understated | ✓ |
| Cost of services – employee remuneration | Yes | Employee remuneration | Medium | Other | Remuneration expenses not correct | ✓ |
| Cost of services – other revenues (fees & charges) | Yes | Other revenues | Low | None | | ✓ |
| (Gains)/ Loss on disposal of non current assets | Yes | Property, Plant and Equipment | Low | None | | ✓ |
| Precepts and Levies | No | Council Tax | Low | None | | × |

An audit focused on risks (continued)

| Account | Material (or potentially material) balance? | Transaction Cycle | Inherent risk | Material misstatement risk? | Description of Risk | Substantive testing? |
|--|---|-----------------------------|---------------|-----------------------------|---------------------|----------------------|
| Interest payable and similar charges | Yes | Borrowings | Low | None | | ✓ |
| Pension Interest cost | Yes | Employee remuneration | Low | None | | ✓ |
| Interest & investment income | Yes | Investments | Low | None | | ✓ |
| Return on Pension assets | Yes | Employee remuneration | Low | None | | ✓ |
| Impairment of investments | No | Investments | Low | None | | × |
| Investment properties: Income expenditure, valuation, changes & gain on disposal | No | Property, Plant & Equipment | Low | None | | × |
| PFI revenue support grant & other Government grants | Yes | Grant Income ⁹ | Low | None | | ✓ |
| Capital grants & Contributions (including those received in advance) | Yes | Property, Plant & Equipment | Low | None | | ✓ |

An audit focused on risks (continued)

| Account | Material (or potentially material) balance? | Transaction Cycle | Inherent risk | Material misstatement risk? | Description of Risk | Substantive testing? |
|--|---|-----------------------------|---------------|-----------------------------|---|----------------------|
| (Surplus)/ Deficit on revaluation of non current assets | Yes | Property, Plant & Equipment | Low | None | | ✓ |
| Actuarial (gains)/ Losses on pension fund assets & liabilities | Yes | Employee remuneration | Low | None | | ✓ |
| Other comprehensive (gains)/ Losses | No | Revenue/ Operating expenses | Low | None | | × |
| Property, Plant & Equipment | Yes | Property, Plant & Equipment | Medium | Other | <ul style="list-style-type: none"> • PPE activity not valid; • Revaluation measurements not correct | ✓ |
| Heritage assets & Investment property | Yes | Property, Plant & Equipment | Low | None | | ✓ |
| Intangible assets | No | Intangible assets | Low | None | | × |
| Investments (long & short term) | No | Investments | Low | None | | × |
| Debtors (long & short term) | Yes | Revenue | Low | None | | ✓ |
| Assets held for sale | No | Property, Plant & Equipment | Low | None | | × |
| Inventories | No | Inventories | Low | None | | × |
| Cash & cash Equivalents | Yes | Bank & Cash | Low | None | | ✓ |

An audit focused on risks (continued)

| Account | Material (or potentially material) balance? | Transaction Cycle | Inherent risk | Material misstatement risk? | Description of Risk | Substantive testing? |
|--------------------------------|---|-----------------------|---------------|-----------------------------|---|----------------------|
| Borrowing (long & short term) | Yes | Debt | Low | None | | ✓ |
| Creditors (long & Short term) | Yes | Operating Expenses | Medium | Other | Creditors understated or not recorded in the correct period | ✓ |
| Provisions (long & short term) | Yes | Provision | Low | None | | ✓ |
| Pension liability | Yes | Employee remuneration | Low | None | | ✓ |
| Reserves | Yes | Equity | Low | None | | ✓ |

Significant risks identified

'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 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

| Significant risk | Description | Substantive audit procedures |
|--|--|--|
| The revenue cycle includes fraudulent transactions | Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. | Audit coverage <ul style="list-style-type: none">• Review of revenue recognition policies;• Sample testing of material revenue streams |
| Management over-ride of controls | Under ISA 240 there is a presumption that the risk of management over-ride of controls is present in all entities. | Audit coverage <ul style="list-style-type: none">• Review of accounting estimates, judgments and decisions made by management• Testing of journal entries• Review of unusual significant transactions |

Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

| Other reasonably possible risks | Description | Interim | Further work planned |
|---------------------------------|---|---|---|
| Operating expenses | Operating expenses understated | <ul style="list-style-type: none"> Walk through testing to confirm our understanding of the controls framework; Completion of controls testing to obtain assurance that controls on which we seek to place reliance for opinion audit purposes have operated effectively throughout the year of account | <ul style="list-style-type: none"> sample testing to obtain opinion audit assurance around the completeness, accuracy and classification of operating expenses within the Comprehensive Income & expenditure Statement (CIES) |
| Operating expenses | Creditors understated or not recorded in the correct period | <ul style="list-style-type: none"> Controls testing to obtain assurances around the completeness and accuracy of system generated creditors | <ul style="list-style-type: none"> Review of year end accounts payable to general ledger reconciliation; 'cut off' testing to obtain assurances that system generated creditors have been accounted for in the correct year of account; Sample testing of manually accrued creditors |
| Employee remuneration | Remuneration expenses not correct | <ul style="list-style-type: none"> Walk through testing to confirm our understanding of the controls framework; Completion of controls testing to obtain assurance that controls on which we seek to place reliance for opinion audit purposes have operated effectively throughout the year of account | <ul style="list-style-type: none"> Review of year end payroll system to general ledger reconciliation; sample testing to obtain assurances that payroll expenditure has been properly accounted for across the Service Expenditure Code of Practice (SERCOP) analysis within the CIES; Predictive analytical review techniques to compare actual staff costs to our estimate |

Other risks (continued)

| Other reasonably possible risks | Description | Interim | Further work planned |
|---------------------------------|-------------------------------------|--|---|
| Property, Plant & Equipment | PPE activity not valid | <ul style="list-style-type: none"> Walkthrough testing to confirm our understanding of the PPE controls framework ; | <ul style="list-style-type: none"> Review of year end fixed assets register to general ledger reconciliation; Sample testing of material in year movements (depreciation, impairments, revaluations, additions and disposals); Sample testing to obtain assurances for opinion audit purposes around existence and ownership assertion level risks; Review of reconciliation between closing 2011/12 fixed asset register and the opening balances in the new fixed asset register. |
| Property, Plant & Equipment | Revaluation measurement not correct | | <ul style="list-style-type: none"> Sample testing to obtain opinion audit assurances that asset revaluations recorded in the fixed assets register are adequately supported by professional valuations. |

Interim audit work

Scope

We are currently undertaking our interim audit work in advance of our final accounts audit field work. This includes:

- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement;
- tests of key management controls over operating expenses, property plant and equipment (PPE) transactions and payroll costs;
- journal testing;
- review and testing of the IT control environment;
- testing of the transfer of data from the old ledger codes to the new ledger codes and of the new code hierarchies;
- testing of the journals following the re-classification of the bond portfolio.

We are liaising closely with internal audit to ensure we can take assurance from their work wherever this is possible.

Reporting

At this stage there are no significant issues to report. If any such issues arise we will report them to management immediately. We will report the overall outcome of our interim work to the Audit & Governance Committee at the June meeting. This will include any change in planned testing strategy following completion of our interim work.

Value for Money

Introduction

The Code of Audit Practice requires us to issue a conclusion on whether 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.

2012/13 VfM conclusion

Our Value for Money conclusion will be based on two reporting criteria specified by the Audit Commission.

We will tailor our VfM work to ensure that as well as addressing high risk areas it is, wherever possible, focused on the Council's priority areas and can be used as a source of assurance members.

The results of all our local VfM audit work and key messages will be reported in our Audit Findings report and in the Annual Audit Letter.

We will agree any additional reporting to the Council on a review-by-review basis.

Code criteria

The Council has proper arrangements in place for:

- securing financial resilience
- challenging how it secures economy, efficiency and effectiveness in its use of resources

We will consider whether the Council is prioritising its resources with tighter budget

Work to be undertaken

Risk-based work focusing on arrangements relating to financial governance, strategic financial planning and financial control.

Specifically we will:

- carry out work to clarify how management and those charged with governance (TCWG) obtain assurance that the One Connect Limited (OCL) arrangement is delivering value for money;
- assess the effectiveness of management arrangements for mitigating financial risks around the Council's Waste Management PFI contract;
- assess progress in strengthening the governance arrangements to support the Council's increasingly complex treasury management function
- update our understanding using existing available information, a review of key documents and our cumulative knowledge;
- hold discussions with key officers and request further information as required;
- select a sample of relevant key indicators of performance for benchmark analysis;
- assess whether resources are prioritised and whether the Council uses cost and performance information to assess the impact of spending decisions;
- produce a financial resilience report.

The audit cycle

Logistics and our team



| Date | Activity |
|--------------------|---|
| January 13 | Planning meeting |
| January – April 13 | Interim site work |
| March 13 | The audit plan presented to Audit Committee |
| July 13 | Year end field work commences |
| September 13 | Audit findings clearance meeting |
| September 13 | Issue Audit Findings Report to Audit & Governance Committee |
| | Issue audit opinion and VFM conclusion |
| October 13 | Issue Annual Audit Letter |

Our team

Karen Murray
Engagement Lead

T 0161 234 6364
 M 07880 456 205
 E karen.l.murray@uk.gt.com

Colin Smith
Executive (in charge auditor)

T 0161 234 6357
 E colin.p.smith@uk.gt.com

Fiona Blatcher
Audit Manager

T 0161 234 6393
 M 07780 456196
 E fiona.c.blatcher@uk.gt.com

Saima Ashraf
Associate

Associate
 T 0161 234 6396
 E saima.ashraf@uk.gt.com

Len Cross
Support Manager

T 0161 234 638
 M 07780 4561987
 E leonard.e.cross@uk.gt.com

Pete Lancaster
IT Auditor

M 07962 624214
 E pete.lancaster@uk.gt.com

Fees and independence

Fees

| | £ |
|---------------------|----------------|
| Council audit | 150,660 |
| Grant certification | 3,700 |
| Total | 154,360 |

Fees for other services

| Service | Fees £ |
|---------|--------|
| None | Nil |

Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

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.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

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

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 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.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

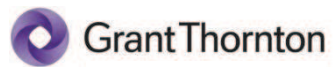
This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

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. 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 Audit Commission and includes nationally prescribed and locally determined work. 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 issue 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 the auditor's report, or emphasis of matter | | ✓ |
| Uncorrected misstatements | | ✓ |
| Significant matters arising in connection with related parties | | ✓ |
| Significant matters in relation to going concern | | ✓ |



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The Audit Plan for Lancashire County Pension Fund

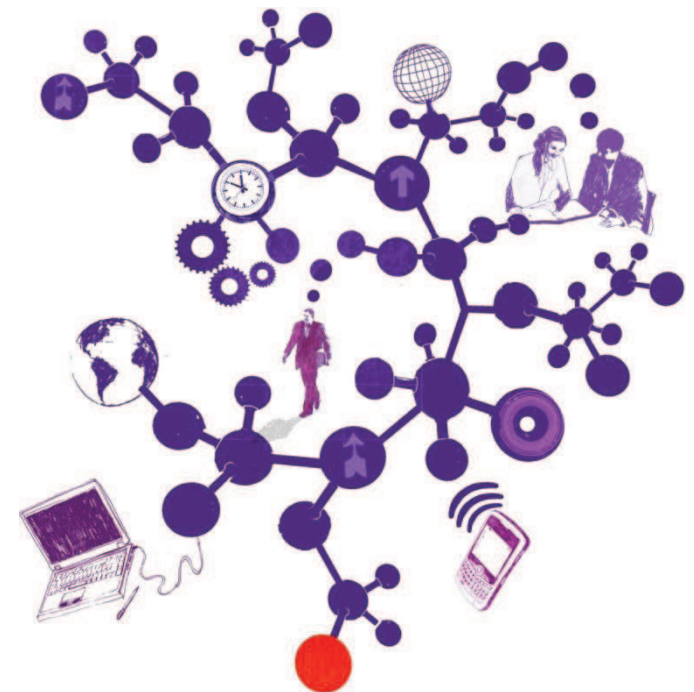
Year ended 31 March 2013

11 March 2013

Karen Murray
Director-Public Sector Assurance
T 0161 234 6364
E karen.l.murray@uk.gt.com

Fiona Blatcher
Associate Director – Public Sector
Assurance
T 0161 234 6393
E fiona.c.blatcher@uk.gt.com

Ian Pinches
Executive
T 0161 234 6359
E ian.m.pinches@uk.gt.com



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Understanding the business of your pension fund

In planning our audit we need to understand the challenges and opportunities the Pension fund is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Change in fund managers

- In response to the need to improve financial returns for the pension's fund, the fund has appointed 5 new managers with an unconstrained global equity mandate. £1.5bn has been transferred from existing equity mandates to these managers during 2012/13.

2. Increasing complexity of investments within internally managed fund

- As part of the diversification of investments, the internally managed funds are being targeted towards more fixed income and credit instruments including senior secured loan debt, (£130m), emerging markets local currency, (£230m), absolute return funds (£230m) and credit opportunities funds (£230m).

3. Investment in new infrastructure company

- During 2012/13 the fund has invested in a coal mining company (£24m), using the Red Rose infrastructure company structure to do so.

4. Bank reconciliation

- A potential mis-classification of monies between the County Council and the Pension Fund was identified in 2011/12 and detailed work has been undertaken by the Fund during 2012/13 to investigate the unexplained variance within the bank reconciliation.

Our response

We will:

- review the reconciliation of funds transferred from 3 existing fund managers to the transition fund manager and on to the 5 new fund managers to gain assurance over the completeness of the transfer
- obtain and review independently produced controls assurance reports for the new fund managers.

We will:

- review the nature of these investments and the methods being used to estimate the fair value of those investments at 31/3/2013
- we will assess the appropriateness of the valuation bases and assumptions being used to arrive at a fair value.

We will:

- review the contractual arrangement between the pension fund and mining company and the impact this has had on the company structure for Red Rose Infrastructure Ltd
- assess the appropriateness of the valuation of this investment within the context of the contractual terms.

We will:

- review the arrangements for regular bank reconciliations to gain assurance that pension fund transactions are being correctly reflected in its bank account and accounting records.
- review the exercise completed to assess the reasons for the previous difference and any resultant accounting adjustments.

Developments relevant to your pension fund and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements

1. Financial reporting

- CIPFA have published a revised set of example accounts for pension funds in 2013.

2. LGPS 2014

- Planning for the impact of the implementation of career average re-valued earnings scheme (CARE) from 1 April 2014.
- Planning for the proposed changes in governance and regulation of pension funds.

3. Financial Pressures – scheduled and admitted bodies

- Where contributing bodies are offering early retirement and redundancies there is additional work for the pension fund administration team in dealing with the severance arrangements.

4. Financial Pressures – Pension fund

- Pension funds are increasingly needing to withdraw from investment assets to fund the demand on benefits payable that is not covered by contributions in year. Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of investment markets.

5. Triennial valuation

- The need to provide information to and have a regular dialogue with the actuary in respect of the triennial revaluation of the fund will create additional work for the pension fund staff.

Our response

- We will ensure that the Pension Fund complies with the requirements of the CIPFA Code of Practice through our substantive testing

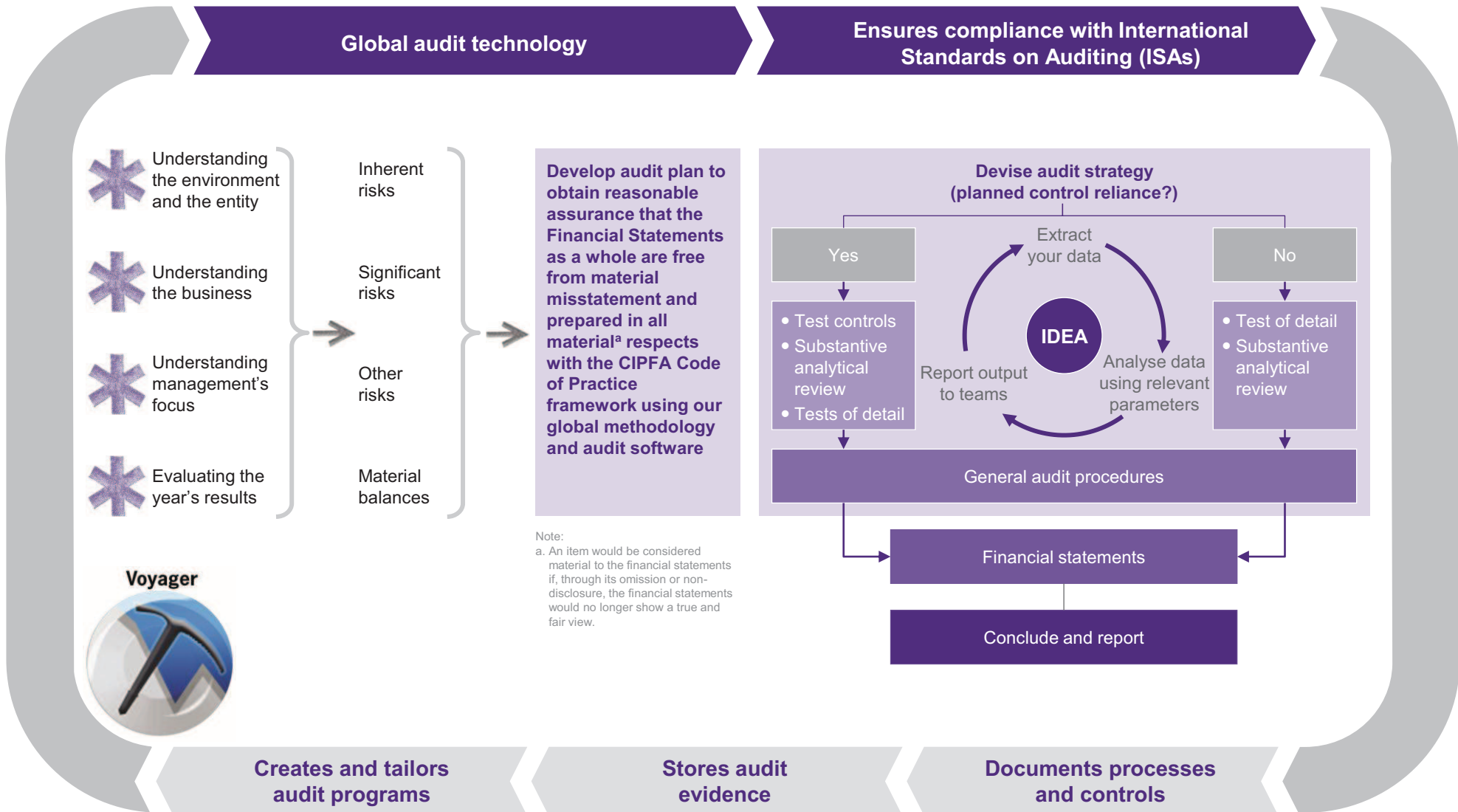
- We will discuss the impact of the changes with the Pension Fund through our regular meetings with senior management and those charged with governance, providing a view where appropriate.

- We will maintain regular dialogue with management to assess the impact this may have on the administration of the Pension fund. We will raise any concerns with those charged with governance.

- We will monitor the changes being made to the pension fund investment strategy through our regular discussions with senior management and those charged with governance.
- We will consider the impact of changes on the nature of investments held by the pension fund and adjust our testing strategy as appropriate.

- We will maintain regular dialogue with management to assess the impact this may have on the administration of the Pension fund. We will raise any concerns with those charged with governance.

Our audit approach



An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

Significant – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

Other – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

| | Material (or potentially material) balance? | Transaction Cycle | Inherent risk | Material misstatement risk? | Description of Risk | Planned control reliance? | Substantive testing? |
|--|---|----------------------------|---------------|-----------------------------|---|---------------------------|----------------------|
| Contributions receivable | Yes | Scheme Contributions | Medium | Other | Recorded contributions not correct. Completeness and accuracy of contributions may be mis-stated. | Yes | ✓ |
| Transfers in | Yes | Transfers in to the scheme | Low | None | | No | ✓ If material |
| Pensions payable (including lump sums) | Yes | Benefit payments | Medium | Other | Accuracy, completeness and validity of payments to members may be mis-stated. | Yes | ✓ |
| Payments to and on account of leavers (including death benefits) | Yes | Benefit payments | Low | None | | No | ✓ If material |
| Administrative expenses | No | Administrative expenses | Low | None | | No | X |
| Investment income | Yes | Investments | Medium | Other | Investment activity not valid | No | ✓ |

An audit focused on risks (continued)

| | Material (or potentially material) balance? | Transaction Cycle | Inherent risk | Material misstatement risk? | Description of Risk | Planned controls assurance? | Substantive testing? |
|--|---|--|---------------|-----------------------------|--|-----------------------------|----------------------|
| Profit and loss on disposal of investments and changes in value of investments | Yes | Investments | Medium | Other | Investment activity not valid | No | ✓ |
| Taxes on income | No | Investments | Low | None | | No | × |
| Investment management expenses | Yes | Investments | Low | None | | No | ✓ |
| Investments | Yes | Investments | Medium | Other | Valuation of investments is misstated. Evidence of existence and ownership may not be available. Incorrect or insufficient disclosure. | No | ✓ |
| Current assets | No | Scheme Contributions, investments and cash | Low | None | | No | × |
| Current liabilities | No | Benefit payments, investments | Low | None | | No | x |

Significant risks identified

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

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

| Significant risk | Description | Substantive audit procedures |
|---|--|---|
| Revenue | Under ISA 240 there is a presumed risk that revenue (which for the purposes of Lancashire County Pension Fund we have considered as investment income, transfers into the scheme and contributions) may be misstated due to the improper recognition of revenue. | <p>We have rebutted this presumption and therefore do not consider this to be a significant risk for Lancashire County Pension Fund because:</p> <ul style="list-style-type: none"> • The nature of the pension fund's revenue is, in many respects, relatively predictable and does not generally involve cash transactions. • The split of responsibilities between the Pension Fund, its fund managers and the custodian, provides a very strong separation of duties to reduce the risk around investment income. • Revenue contributions are made by direct salary deductions and direct bank transfers from admitted bodies. They are supported by separately sent schedules and are directly attributable to gross pay. This makes any improper recognition unlikely. • Transfers into the scheme are all supported by an independent actuarial valuation of the amount which should be transferred. This is then subject to agreement between the transferring and receiving funds. <p>We will complete our normal substantive testing procedures around the Pension Fund's material revenue streams.</p> |
| Management over-ride of controls | Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities. | <ul style="list-style-type: none"> • Review of accounting estimates, judgements and decisions made by management • Testing of journals entries • Review of unusual significant transactions |

Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

| Other reasonably possible risks | Description | Planned audit procedures |
|---------------------------------|--|---|
| Investments | Investment activity not valid. Valuation of investments is mis-stated. Evidence of existence and ownership may not be available. Incorrect or insufficient disclosure. | <p>We will:</p> <ul style="list-style-type: none"> review the reconciliation between information provided by the fund managers, the custodian and the pension fund's own records and seek explanations for any variances. select a sample of the individual investments held by the Scheme at the year end and test the valuation by agreeing prices to third party sources where published (quoted investments) or by critically assessing the assumptions used in the valuation for unquoted investments and direct property investments. The existence of investments will be confirmed directly with independent custodians or by agreement to legal documentation. test a sample of sales and disposals during the year back to detailed information provided by the custodian and fund managers. review the latest controls assurance reports for each fund manager and the custodian review the detailed investments disclosures for compliance with code requirements and agreement to underlying records. |
| Benefit Payments | Benefits improperly calculated /claims liability understated | <p>We will</p> <ul style="list-style-type: none"> select a sample of individual transfers, pensions in payment (new and existing), lump sum benefits and refunds. We will test, by reference to the member files, to ensure appropriate documentation is held and that internal control procedures operated by Lancashire County Pension Fund have been followed. rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year together with comparing pensions paid on a monthly basis to ensure that any unusual trends are satisfactorily explained. The movements on membership statistics will also be compared to transactions in the accounting records. |
| Contributions | Recorded contributions not correct. Completeness and accuracy of contributions may be mis-stated. | <p>We will</p> <ul style="list-style-type: none"> test the controls the pension fund operates to ensure that it receives all expected contributions from member bodies. rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained. |

Interim audit work

Scope

Our interim audit work is due to take place in March 2013. This will include our consideration of:

- internal audit's work on the Pension fund's key financial systems
- walkthrough testing to confirm whether controls are implemented in line with our understanding in areas where we have identified a risk of material misstatement
- a review of the Information Technology (IT) controls environment
- testing of controls relating to the receipt of contributions and the payments of pension benefits (taking assurance from the work of internal audit where possible)
- review of the reconciliation of the transfer of investments from the existing equity mandates to the transition manager and then onto the 5 new fund managers
- review of the reconciliation of the pension fund bank account and clearance of the unexplained difference reported last year
- review of the contractual arrangements for the new infrastructure investment, its impact on company structures and the planned method of valuation
- review of the new style investments entered into within the internally managed portfolio and the planned method of valuation
- review of the work undertaken by the pension fund on its private equity portfolio, in particular to assess whether this review provides an additional source of assurance over the valuation of such investments.

Reporting

If we identify any significant risks of material mis-statement as a result of this work we will adjust our testing strategy accordingly and report this to management immediately.

Our progress report to the meeting of the Audit and Governance Committee in June 2013, will update members on the outcome of our interim work and any resultant changes in testing strategy if a change has been made.

Logistics and our team

The audit cycle



| Date | Activity |
|-----------|--|
| November | Planning meeting |
| March | Interim site work |
| March | The audit plan presented to the Audit and Governance Committee |
| June | The audit plan presented to Pension Fund Committee |
| July | Year end fieldwork commences |
| August | Audit findings clearance meeting |
| September | Audit and Governance Committee meeting to report our findings |
| November | Pension Fund Committee meeting to report our findings |
| Sept | Issue opinion of the financial statement and annual report |

Our team

| | |
|--|---|
| <p>Karen Murray Engagement Lead T 0161 234 6364 M 7880 456 205 E karen.l.murray@uk.gt.com</p> | <p>Saima Ashraf Auditor T 0161 234 6396 E saima.ashraf@uk.gt.com</p> |
| <p>Fiona Blatcher Manager T 0161 234 6393 M 0788 045 6196 E [fiona.c.blatcher@uk.gt.com</p> | <p>We will seek advice from our financial services team as necessary.</p> |
| <p>Ian Pinches In-charge T 0161 234 6359 E ian.m.pinches@uk.gt.com</p> | <p>Pete Lancaster IT Auditor M 0796 262 4 214 E pete.lancaster@uk.gt.com</p> |

Fees and independence

Fees

| | £ |
|--------------------|--------|
| Pension fund audit | 41,505 |

Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Pension fund and its activities have not changed significantly
- The Pension fund will make available management and accounting staff to help us locate information and to provide explanations.

The fee is above the scale fee of £34,169 set by the Audit Commission and reported to you in our fee letter of 16/12/2012. Changes in the investment portfolio and its increasing complexity give rise to additional audit risks for which we need to complete additional work .

The revised fee is £25,495 less than the 2011/12 audit fee of £67,000 and represents a 38% reduction on the previous year's fee.

Fees for other services

| Service | Fees £ |
|---------|--------|
| None | Nil |

Independence and ethics

Ethical standards and International Standards on Auditing (ISA) 260 require us to give you full and fair disclosure of matters relating to our independence. In this context, we disclose the following to you:

- the in-charge member of our team has a family member who works within the Pension Fund's benefits administration team. To avoid any potential conflicts, this member of our team does not undertake any work on the benefits payable elements of the accounts and is not responsible for the planning or supervision of such work. 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.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

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

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 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.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to those charged with governance.

Respective responsibilities

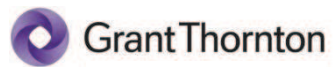
This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council and Pension fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. 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 Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Pension Fund's key risks when reaching our conclusions under the Code.

The audit of the Pension fund's financial statements does not relieve management or those charged with governance of their 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 issue 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 the auditor's report, or emphasis of matter | | ✓ |
| Uncorrected misstatements | | ✓ |
| Significant matters arising in connection with related parties | | ✓ |
| Significant matters in relation to going concern | | ✓ |



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Audit and Governance Committee

Meeting to be held on 25 March 2013

Electoral Division affected:

All

External Audit

Lancashire County Council Annual Certification Work Report 2011/12

Contact for further information:

Karen Murray, 0161 234 6364, Director, Grant Thornton

karen.l.murray@uk.gt.com

Executive Summary

The Council's external auditors are required to certify certain claims and returns submitted by the Council to government bodies and other agencies. The report at Appendix A sets out the work completed and the outcome of that work. Four claims/returns were certified in respect of 2011-12 under these arrangements.

Recommendation

The Committee is asked to note the report at Appendix A.

Background and Advice

The Council's external auditors are required to complete work to certify certain claims and returns submitted to government departments and other agencies. Typically this work takes place between 6 and 12 months after the financial year end. For 2011-12, 4 such claims/returns were certified by the Council's external auditors.

There were no significant issues arising from the audit work completed.

Karen Murray, Engagement Lead, will attend the meeting to present the report and answer any questions.

Consultations

The report has been agreed with the County Treasurer.

Implications

This item has the following implications, as indicated:

N/A

Risk management

No significant risks have been identified.

Local Government (Access to Information) Act 1985

List of Background Papers

| Paper | Date | Contact/Directorate/Tel |
|-------|------|-------------------------|
| N/A | | |



Lancashire County Council

Certification work report 2011/12

February 2013

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Appendices

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1 Executive Summary

Introduction

- 1.1 Grant Thornton, as the Council's auditors and acting as agents of the Audit Commission, is required to certify the claims submitted by the Council. This certification typically takes place some 6-12 months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.
- 1.2 Up until October 2012, the Audit Commission's audit practice were the Council's external auditors. Together we have certified 4 claims and returns for the financial year 2011/12 relating to expenditure of £71.8 million.
- 1.3 This report summarises our overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

Approach and context to certification

- 1.4 We provide a certificate on the accuracy of grant claims and returns to various government departments and other agencies. Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.
- 1.5 Appendix A sets out an overview of the approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work we perform.

Key messages

- 1.6 With the exception of one claim, the School Centred Initial Teacher Training (SCITT) return, audited subsequent to our appointment, all work reported in this certification report was completed by the Audit Commission prior to our appointment as the Council's auditors.
- 1.7 A summary of all claims and returns subject to certification and details of the certification fee is provided at Appendix B. The key messages from our review are summarised in Exhibit One, and set out in detail in the next section of the report.

Arrangements for certification for claims and returns:

- below £125,000 - no certification
- above £125,000 and below £500,000 - agreement to underlying records
- over £500,000 - agreement to underlying records and assessment of control environment. Where full reliance cannot be placed, detailed testing.

Exhibit One: Summary of Council performance

| Aspect of certification arrangements | Key Message |
|---|---|
| Submission and certification | All claims were submitted on time to audit and all claims were certified within the required deadline. |
| Accuracy of claim forms submitted to the auditor Amendments and qualifications | <p>Overall the Council is performing well and there are no significant matters arising from our certification of claims and returns.</p> <p>The teachers' pension return was subject to a qualification letter, relating to a one off issue. A school had paid contributions directly to the Teachers' Pensions Agency for two months following moving to an external payroll provider prior to taking up academy status. The contributions had been incorrectly omitted from the Council's return.</p> <p>Two single programme claims were amended to correct compilation errors. In one case this did not have any impact on the amount of grant funding due to the Council and in the other it reduced the amount by £2,825.</p> |
| Supporting working papers | Working papers supporting claims and returns were good, which enabled certification within the deadlines. |

The way forward

- 1.8 Claim amendments and one qualification letter picked up one off issues; accordingly there are no recommendations that we wish to raise.

Acknowledgements

- 1.10 We would like to take this opportunity to thank Council officers for their assistance and co-operation during the course of the certification process.

Grant Thornton UK LLP

February 2013

2 Results of our certification work

Key messages

- 2.1 Your external auditors have certified 4 claims and returns for the financial year 2011/12 relating to expenditure of £71.8 million.
- 2.2 The Council's performance in preparing claims and returns is summarised in Exhibit Two.

Exhibit Two: Performance against key certification targets

| Performance measure | Target | Achievement in 2011-12 | | Achievement in 2010-11 | | Direction of travel |
|---|--------|------------------------|-----|------------------------|-----|---------------------|
| | | No. | % | No. | % | |
| Total claims/returns | | 4 | | 5 | | |
| Number of claims submitted on time | 100% | 4 | 100 | 5 | 100 | → |
| Number of claims certified on time | 100% | 4 | 100 | 5 | 100 | → |
| Number of claims certified with amendment | 0% | 2 | 50 | 3 | 75 | ↑ |
| Number of claims certified with qualification | 0% | 1 | 25 | 0 | 0 | ↓ |

- 2.3 The number of claims submitted to audit in the last two years is small and amendments and one qualification reflected one off issues. In this context there are no systemic issues that we wish to highlight.
- 2.4 Details on the certification of all claims and returns are included at Appendix B.
- 2.5 A total fee of £6,651 has been charged for the certification of claims and returns in 2011-12. This compares to £10,540 charged in 2010-11. Details of fees charged for specific claims and returns are included at Appendix B.

A Approach and context to certification

Introduction

In addition to our responsibilities under the Code of Audit Practice, we also act as agents for the Audit Commission in reviewing and providing a certificate on the accuracy of grant claims and returns to various government departments and other agencies.

The Audit Commission agrees with the relevant grant paying body the work and level of testing which should be completed for each grant claim and return, and set this out in a grant Certification Instruction (CI). Each programme of work is split into two parts, firstly an assessment of the control environment relating to the claim or return and secondly, a series of detailed tests.

In summary the arrangements are:

- for amounts claimed below £125,000 - no certification required
- for amounts claimed above £125,000 but below £500,000 - work is limited to certifying that the claim agrees to underlying records of the Council
- for amounts claimed over £500,000 - an assessment of the control environment and certifying that the claim agrees to underlying records of the Council. Where reliance is not placed on the control environment, detailed testing is performed.

Our certificate

Following our work on each claim or return, we issue our certificate. The wording of this depends on the level of work performed as set out above, stating either the claim or return is in accordance with the underlying records, or the claim or return is fairly stated and in accordance with the relevant terms and conditions. Our certificate also states that the claim has been certified:

- without qualification;
- without qualification but with agreed amendments incorporated by the authority; or
- with a qualification letter (with or without agreed amendments incorporated by the authority).

Where a claim is qualified because the authority has not complied with the strict requirements set out in the certification instruction, there is a risk that grant-paying bodies will retain funding claimed by the authority or, claw back funding which has already been provided or has not been returned. In addition, where claims or returns require amendment

or are qualified, this increases the time taken to undertake this work, which impacts on the certification fee.

Certification fees

Each year the Audit Commission sets a schedule of hourly rates for different levels of staff, for work relating to the certification of grant claims and returns. When billing the Council for this work, we are required to use these rates. They are shown in the table below.

| Role | 2011/12 | 2010/11 |
|-----------------|----------------|----------------|
| Engagement lead | £325 | £325 |
| Manager | £180 | £180 |
| Senior auditor | £115 | £115 |
| Other staff | £85 | £85 |

B Details of claims and returns certified for 2011-12

| Claim or return | Value (£) | Amended? | Amendment Amount (£) | Qualified? | Fee 2010/11 (£) | Fee 2011/12 (£) | Comments |
|------------------------------|------------|----------|----------------------|------------|-----------------|-----------------|---|
| Teachers' pension return | 69,627,000 | No | None | Yes | 1,937 | 1,558 | A qualification letter was issued relating to a one-off issue. A school had paid contributions directly to the Teachers' Pensions Agency for two months following moving to an external payroll provider prior to taking up academy status. The contributions had been incorrectly omitted from the Council's return. |
| Single programme (2 returns) | 511,000 | Yes | (2,825) | No | 3,794 | 2,763 | Less audit work was required due to this being the last year of both schemes and improved working papers provided. Both claims were amended to correct compilation errors. In one case this did not have any impact on the amount of grant funding due to the Council and in the other it reduced the amount by £2,825. |

| Claim or return | Value (£) | Amended? | Amendment Amount (£) | Qualified? | Fee 2010/11 (£) | Fee 2011/12 (£) | Comments |
|---|-------------------|----------|----------------------|------------|-----------------|-----------------|---|
| School centred initial teacher training | 1,648,000 | No | None | No | 4,809 | 2,330 | Working papers supporting the 2011/12 academic year return were of an excellent standard and there were no matters arising from audit. (The previous years' fee was significantly higher due to 2010-11 being the first year we were required to certify the claim and therefore additional testing being required during 2010-11). |
| Total | 71,786,000 | | (2,825) | | 10,540 | 6,651 | |

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