Appendix A

Annual governance report

Lancashire County Council

Audit 2011/12

audit commission

Contents

Key messages

This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

My audit of the Council's financial statements is substantially complete and as at 10 September I expect to issue an unqualified audit opinion by 30 September 2012.

I have not identified any material errors within the financial statements and those errors which have been identified have not affected the underlying financial position of the Council. All errors have been corrected and mainly relate to disclosure issues.

This has been another challenging year for the finance team with the introduction of a new ledger and the new partnership arrangement with One Connect Limited, (OCL), supporting the delivery of significant financial savings in-year and ongoing re-structuring of the team. Within this context, the preparation of materially correct statements, which included bringing onto the balance sheet the new waste PFI assets and heritage assets for the first time, is a significant achievement.

Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

The Council has demonstrated a strong financial performance during 2011/12, exceeding extremely challenging delivery targets for the year, whilst showing an overall improvement in performance across its services. It is well placed to deal with the financial and operational challenges ahead. Good progress has been made in strengthening governance arrangements to support treasury management, and in monitoring and managing both the contract with OCL and the financial and operational challenges presented by the waste PFI contract.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) – Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

During the year the Audit Commission’s Audit Practice undertook non-audit work for the Authority for a fee of £9,400. The Audit Commission completed a detailed review of Internal Audit against the CIPFA code and good practice.

I ask the Audit Committee to:

- take note of the adjustments to the financial statements included in this report (page 5); and
- approve the letter of representation provided alongside this report, on behalf of the Council and Pension Fund before I issue my opinion and conclusion.

Financial statements

The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Uncorrected errors

There are no uncorrected errors.

Corrected errors

A number of amendments have been agreed to improve the accuracy, clarity and internal consistency of the disclosure notes within the financial statements. This has included adding disclosures about the nature of the Council's interests in the Lancashire Economic Partnership and extending the disclosures about its relationship with OCL.

We also identified an error within the financial statements relating to the 2010/11 comparative figures shown on the face of the balance sheet and the movement in reserves statement. The total value of heritage assets of £28.4m had been included in the Property Plant and Equipment balance as well as being shown separately. This error impacted only on the 2010/11 comparatives and had no impact on the final balances shown at 31/3/12 which were correctly stated.

All errors identified during the course of the audit have been amended for. None of the amendments have affected the reported surplus or general county fund balance.

Significant risks and my findings

I reported to you in my January Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In table 1 I report to you my findings against each of these risks.

Table 1: **Risks and findings**

Risk	Finding
Waste PFI scheme commencement The Council's waste PFI scheme became operational during 2011/12 and the Council's accounts for 2011/12 now reflect the asset and corresponding liability on the balance sheet. This requires a professional assessment of the unitary payment to the contractor between its capital and revenue elements to ensure it is correctly recognised and accounted for within the balance sheet. The nature of the contract and the related technical guidance is complex, increasing the risk of a material misstatement occurring. The Council has used external consultants specialising in PFI schemes to support it in this respect.	I have reviewed the financial model used for the PFI and have tested the detail to the contract, payments made under the contract and the valuer's report. I have reviewed assumptions and estimates used within the model for reasonableness. I have agreed the figures appearing in the Council's accounts back to the financial model. My testing has not identified any issues to bring to your attention.

Risk	Finding
Implementation of new payroll system The Council implemented a new payroll system during 2011/12. This covers a large proportion of the Council's expenditure. In addition to the risks of material error linked to the implementation of any new major financial system, problems occurred resulting in the misclassification of payroll expenditure within the Council's ledger.	I evaluated the design and implementation of controls over the new payroll system including the actions and controls implemented to deal with the misclassification issue. I completed sample testing of individual payroll costs to ensure they related to staff employed by the Council, were properly calculated and correctly accounted for. I placed reliance on testing completed by Internal audit in this respect and completed additional testing to achieve a large enough sample to satisfy my requirements. I completed a predictive analytical review based on information from previous years and known changes to provide me with assurance that the full amount of payroll costs recorded within the council's ledger are materially correct. I am satisfied that the misclassification issues which occurred initially have been resolved and that the initial errors have been appropriately corrected. My testing has not identified any issues to bring to your attention.
Production of group accounts The Council has not produced group accounts since 2005/06 on the basis that whilst there are a number of organisations which would form part of its group, group accounts were judged not to be material to the Council's financial statements. Following the creation of OCL in 2011/12, the Council has now determined that group accounts will need to be prepared for 2011/12. This will require close liaison with the relevant entities within the group, adjustments to take into account different accounting policies which may exist between them, different methods of consolidation depending on the nature of the Council's relationships with the entities. Particularly in the first year, there is a risk of material misstatement arising.	In the event, the Council decided not to produce group accounts. The method of consolidation for OCL, requires only the net position to be included within the Council's group accounts. OCL's net financial position for 2011/12 was a net nil position and therefore preparing group accounts would not have resulted in a materially different position than that shown within the council's main accounts. The Council's accounts do include relevant disclosures about its relationship with and transactions with OCL within note 64. I completed a review of the Council's consideration of its group entities and their materiality to the Council. I am satisfied that group accounts are not required for 2011/12.

Risk	Finding
Valuation of property, plant and equipment (PPE) The Authority is required to value PPE at fair value (with some exceptions). At 31/3/2012 these were valued at £2,647m. Valuation of these assets is undertaken by qualified valuers on the instructions of the Council. The nature of such valuations involves a high degree of subjectivity bringing with it an inherent risk of mis-statements of the valuations.	I have evaluated the instructions given to the Council's valuer against the CIPFA guidance and the valuers' qualifications and independence. I have tested a sample of assets to satisfy myself that the valuation and depreciation of property, plant and equipment accounted for by the Council and disclosed in the financial statements was in line with the requirements of IAS 16 and the Code. My testing has not identified any issues to bring to your attention.
Pension asset and liability estimates The Council has a net pensions liability at 31 March 2012 of £939m. This liability represents the extent to which the present value of liabilities exceeds the fair value of assets. This has a substantial impact on the net worth of the authority as recorded in the Balance Sheet. Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The liabilities have been assessed by Mercers, an independent firm of actuaries, using the latest full valuation of the scheme as at 31 March 2010 adjusted for current information about membership numbers, current pay levels etc. The resultant estimated figures involve a high degree of subjectivity and small changes in the assumptions used can have a material impact on the financial	I reviewed and tested controls over the accuracy and completeness of information provided by the pension fund to Mercers. I have evaluated the work of Mercers using an expert commissioned by the Audit Commission for this purpose. I have tested the entries within the Council's financial statements and disclosure notes to ensure they agree to the information provided by Mercers. My testing has not identified any issues to bring to your attention.

Significant weaknesses in internal control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Council only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I have not identified any significant weaknesses in control.

I reported to you last year a number of areas for improvement within the ICT control environment of Lancashire County Council. Whilst I did not consider them to be likely to result in a risk of material mis-statement within the Council's accounts, I considered them to be significant enough to bring to your attention. Some progress has been made to improve the controls in the areas raised but there remain issues to be addressed as set out in table 2.

Table 2: **ICT control of access issues**

ICT control issues reported 2010/11	Progress in 2011/12	Planned actions
Access to live financial systems by IT application support staff is more widely available than usual with some staff having permanent access to live systems application facilities	Full access privileges are now better controlled. OneConnect officers have reviewed all full access rights and consider that current access rights are required.	No further action needed other than ongoing application of controls.
Password controls for access to the network are weaker than usually seen at similar authorities	No change made during 2011/12.	A project has been approved to move to a minimum of 8 character complex passwords for network access.
The prompt removal of leavers' access rights to the network and to individual applications is not consistent.	No change made during 2011/12. Work carried out by Internal Audit showed that control over leavers' access is still weak.	Action is planned to introduce an improved identity management system which will provide a single identifier for all staff to be used for ICT and HR/payroll purposes. This will enable automatic notification of leavers and speedy removal of access rights.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

I have no matters I wish to report.

Whole of Government Accounts

Alongside my work on the financial statements, I also review and report to the National Audit Office on your Whole of Government Accounts return. As at 10 September I have not completed the procedures specified by the National Audit Office. I expect to complete my report by 26 September 2012.

Value for money

I am required to conclude whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.

I assess your arrangements against the two criteria specified by the Audit Commission. In my January 2012 Audit Plan I reported to you the significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the risks I identified.

I intend to issue an unqualified conclusion stating that the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in appendix 1.

Table 3: **Value for money conclusion criteria and my findings**

Criteria: Financial resilience – The organisation has proper arrangements in place to secure financial resilience.
Focus for 2011/12: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
Risks identified for 2011/12: The Council has responded well to the current financial climate and is delivering successfully on its financial plans. However, bridging future funding gaps remained a challenge as the Council will also have to respond to the uncertainties over future funding and expenditure demands. To reduce net financing costs whilst also reducing financial risk, the Council has moved away from a relatively simple and traditional approach to Treasury Management. The new strategy is more complex and requires an ability to monitor and react more quickly to market developments than in previous years. We made recommendations to officers to improve the governance of this more complex environment.

Criteria: Financial resilience – The organisation has proper arrangements in place to secure financial resilience.

Findings

As reported last year, the Council faced a significant financial challenge following the government's local government spending review. The Councils response to this had been impressive, with a three-year budget agreed in February 2011 for 2011/12 to 2013/14. This included plans to save £179m over that period. The development of this budget followed significant work which had already begun some years previously to achieve a more cost effective Council whilst still providing the desired level of services. This involved making some relatively radical changes to service delivery, especially around back office services, which required time to develop and implement. The Council's financial planning has continued to progress since then to both deliver on existing plans whilst also responding to, and planning for, new financial risks. At the time of agreeing the 2011/12 budget detailed plans were in place to achieve the full savings needed over the three years subject to a shortfall of £7.5m. Additionally there were also, (and still are), a variety of unknowns and cost pressures which could impact on the deliverability of the budget.

During the last 12 months the Council has:

- achieved efficiency savings ahead of those planned (£10m);
- achieved additional efficiency savings which have now been built into future years budgets to off-set additional cost pressures (£10m); and
- agreed detailed plans for the £7.4m savings needed to balance the budget for 2013/14.

This strong performance, taken together with exceptional one-off gains arising from management of the Council's bond portfolio, has enabled the Council to agree a programme of one-off investments in specific areas to help address the Council's priorities around economic regeneration, employment, respite care and residential and day care facilities. A total of £59m has been moved into a new strategic investment reserve at year-end to fund these plans which will be delivered over the next five years.

The Council still faces significant cost and funding pressures going forwards. The Council is fully aware of these and is taking action to reduce the impact where possible. In addition the Council is continuing to implement a range of initiatives aimed at further reducing costs and improving efficiency in future years. The general fund reserve has reduced slightly from £41.9m at 1/4/11 to £36.5m at 31/3/12, but the Council considers this to be sufficient as a contingency to off-set future spending and funding pressures in the short term.

The Council has continued to implement its strategy to reduce the risk exposure of its borrowings and lendings. In doing so it has also achieved significant financial benefits for the Council. This has included the achievement of exceptional one-off gains of £55.7m arising from management of the council's bond portfolio. The governance arrangements to support the more complex treasury management function have been strengthened over the last 12 months. In particular:

- the updated Treasury Management policy framework adopted by the Council in February 2012 is much clearer about its strategy in respect of reducing risks and within this environment, its policy around borrowing and investments;
- the Council is better able to explain and justify its borrowing needs and borrowing is more closely controlled against much tighter limits;

Criteria: Financial resilience – The organisation has proper arrangements in place to secure financial resilience.

- the monthly Treasury Management meetings with the County Treasurer have been formalised and significant decisions are more clearly documented, explained and supported within the context of the agreed strategy;
- reporting to members is clearer around the impact of general market conditions on the Council's own portfolio and strategy and includes clearer reporting on the impact of decisions on the levels of investment and borrowing and against limits and performance targets;
- additional capacity within the Treasury Management team has been obtained through recent recruitment exercises; and
- members have received additional training in investments and there is a programme of future training covering, for example borrowing and more complex financial instruments.

Work is still ongoing to further strengthen the governance arrangements including:

- acquisition of a new Treasury Management IT system which is expected to improve the production of management information especially around the risk profile of the portfolios;
- updating of treasury management practice notes; and
- staff continue to pursue programmes of professional treasury management training although the ability to do so has been restricted due to workload/capacity issues.

Criteria. Securing economy efficiency and effectiveness – The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2011/12:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Risks identified for 2011/12:

As part of the Council's approach to delivering financial savings whilst improving services it entered into a strategic partnership arrangement with British Telecom (BT). The partnership involved the creation of One Connect Limited (OCL) to deliver a range of core back office services to the County Council. The guaranteed cumulative financial benefits to the County Council over the lifetime of the contract (10 years) are over £100 million. Effective and close monitoring of the delivery of agreed performance standards and financial targets is crucial.

Waste management has been identified as a financial pressure and the Council was looking at a range of options to address this risk. Due to increases in waste management costs, the Council's savings requirement has increased by £8m.

Criteria. Securing economy efficiency and effectiveness – The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Findings:

As well as delivering significant financial savings the Council is continuing to perform well against its performance targets. Over 80% of targets have been met in the year, and where targets have not been met, significant improvements have still been achieved. Significant successes during the year have included a significant reduction in serious road casualties of 226 (25.9%) and increasing the percentage of pupils achieving 5 or more A*-C grades at GCSE level by 4% (56% to 60.1%).

The arrangement with OCL is delivering on its high level objectives. In overall terms, the cost to the council of services provided has reduced as expected. The annual contract figure agreed of £37.3m compares with the cost of seconded staff of £41.5m which has been billed to OCL. A further £11.9m has been paid for agreed service developments such as the implementation of the new HR/payroll system and ledger system. An additional amount of £0.5m has been paid for work requested by Lancashire County Council which is recognised to be outside the agreed contract. Procurement savings achieved through contract negotiations by OCL on the Council's behalf are reported by OCL to be £3.2m.

OCL are largely meeting agreed service targets and two significant service developments have been delivered. As with any significant change, there have been issues in implementation. The contract is being managed robustly and the two parties are working closely together at a management team level to address issues as they arise. Baseline performance levels and targets have been agreed during the year and are now reported against on a monthly basis together with reporting of how any specific issues under each service are being dealt with. Given the significant level of agreed improvement achievements and high level of savings to be delivered by OCL it will be important to ensure a continued close level of management of this arrangement.

The environment team have identified and agreed efficiency savings which are sufficient to offset the current cost pressures created by the waste management contract. During 2011/12 it became increasingly apparent that the waste contract was not delivering as was originally envisaged. Since December 2011 the Council has been working closely with the contractor, Global Renewables Lancashire Ltd, (GRLL), to identify and implement changes which will improve the value for money achieved by the contract and reduce the ongoing financial risks to the Council. A memorandum of understanding and change to the contract have recently been agreed which are intended to incentivise diversion from landfill, thereby reducing the financial pressures on the landfill budget. There remain significant challenges in delivery of the expected performance and financial impact of the contract going forwards. The Council together with GRLL, have achieved a more stable footing to proceed from and are continuing to explore ways of reducing the financial risks of the contract.

Fees

I reported my planned audit fee in the January 2012 Audit Plan.

I will complete the audit within the planned fee.

Appendix 1 – Draft independent auditor’s report

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

Opinion on the Authority financial statements

I have audited the financial statements of Lancashire County Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Lancashire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the County Treasurer and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the County Treasurer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword and the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Lancashire County Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Lancashire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the County Treasurer and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the County Treasurer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the 'Pension fund operations and membership' section to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the 'Pension fund operations and membership section' for the financial year for which the financial statements are prepared is consistent with the financial statements.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

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

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Lancashire County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

I certify that I have completed the audit of accounts of Lancashire County Council and Lancashire County Pension Fund in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission

[*Signature*]

Karen Murray
District Auditor

Audit Commission
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BL6 6QQ

September 2012

Appendix 2 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion and conclusion.

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Significance

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

audit commission

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September 2012