

The Audit Plan for Lancashire County Council

Year ended 31 March 2013

07 March 2013

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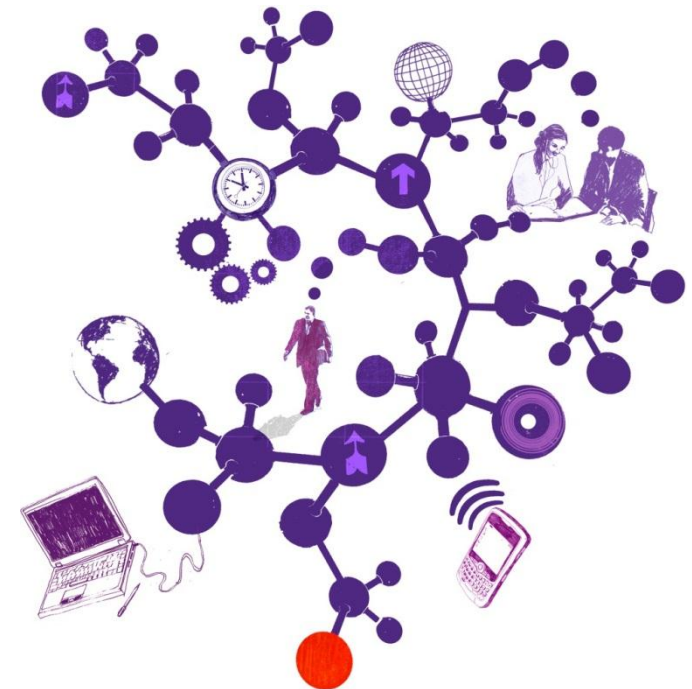
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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.

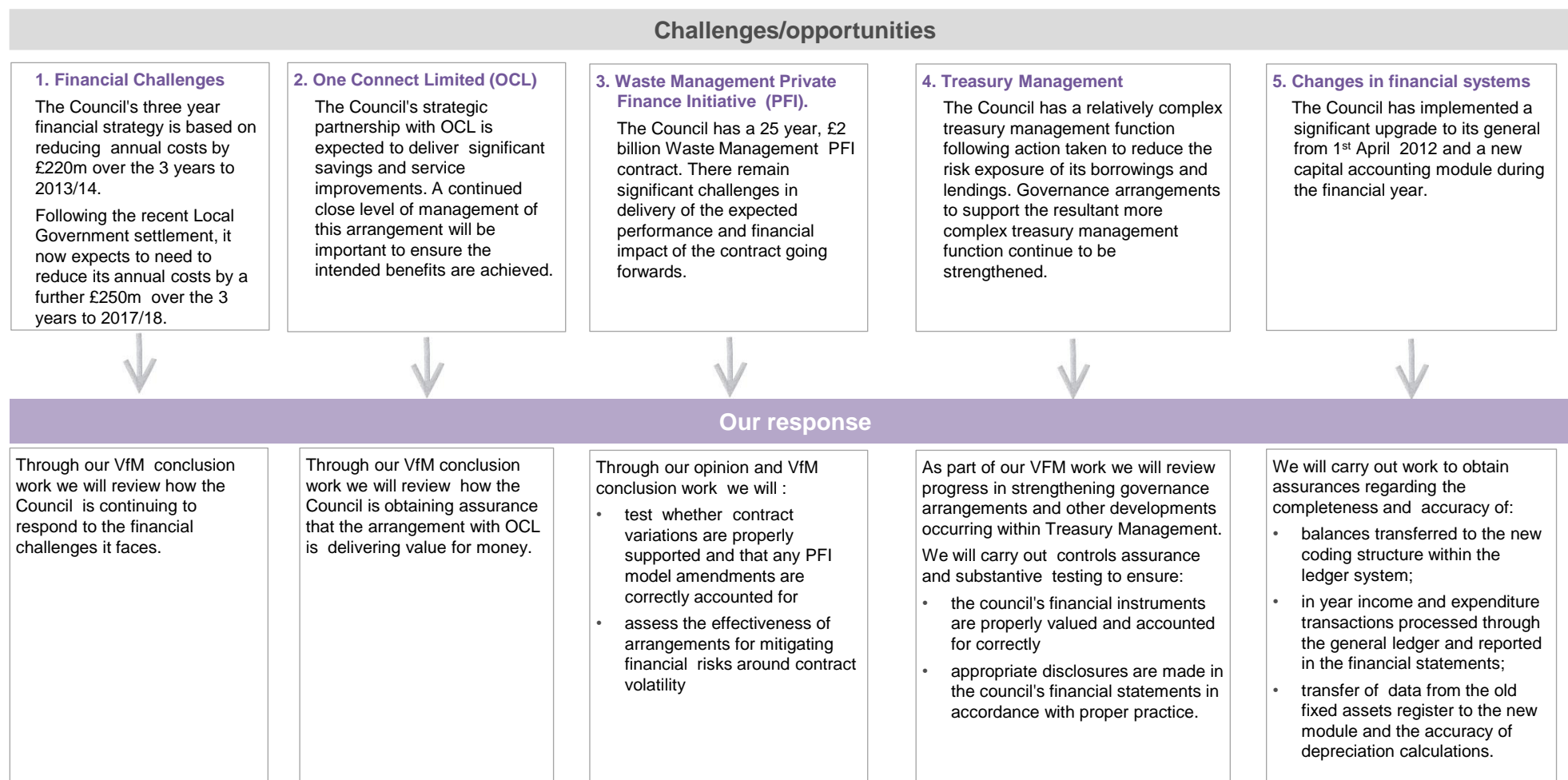
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Understanding your business

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
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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
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Our audit approach

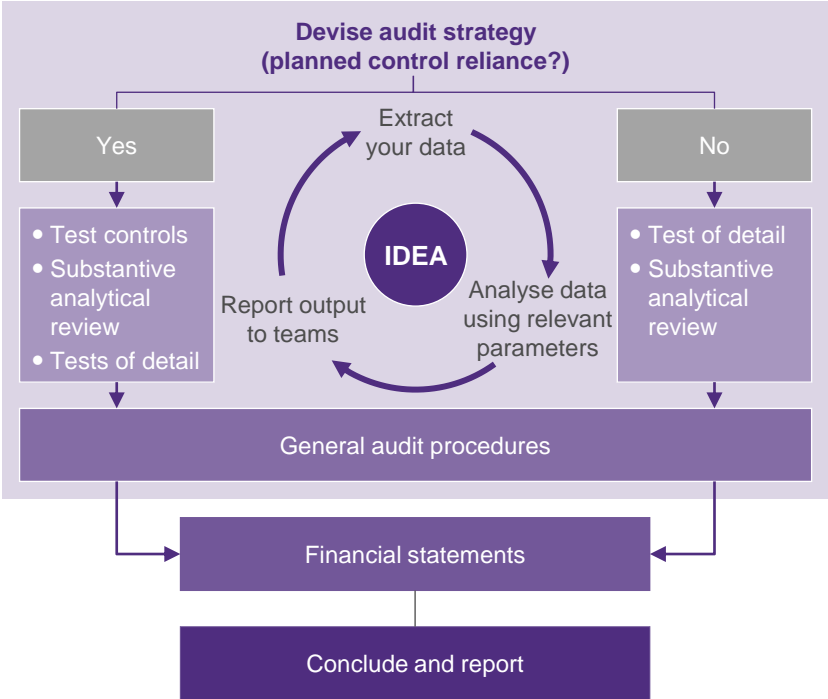
Global audit technology

Ensures compliance with International Standards on Auditing (ISAs)

- * Understanding the environment and the entity
- * Understanding the business
- * Understanding management's focus
- * Evaluating the year's results

Inherent risks
 Significant risks
 Other risks
 Material balances

Develop audit plan to obtain reasonable assurance that the Financial Statements as a whole are free from material misstatement and prepared in all material^a respects with the CIPFA Code of Practice framework using our global methodology and audit software



Note:
 a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.



Creates and tailors audit programs

Stores audit evidence

Documents processes and controls

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

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Fees and independence

Fees

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

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

Fees for other services

Service	Fees £
None	Nil

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.

	Audit plan	Audit findings
Our communication plan		
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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