APPENDIX A

Grant Thornton

The Audit Findings for Lancashire County Council

Year ended 31 March 2013

30 September 2013

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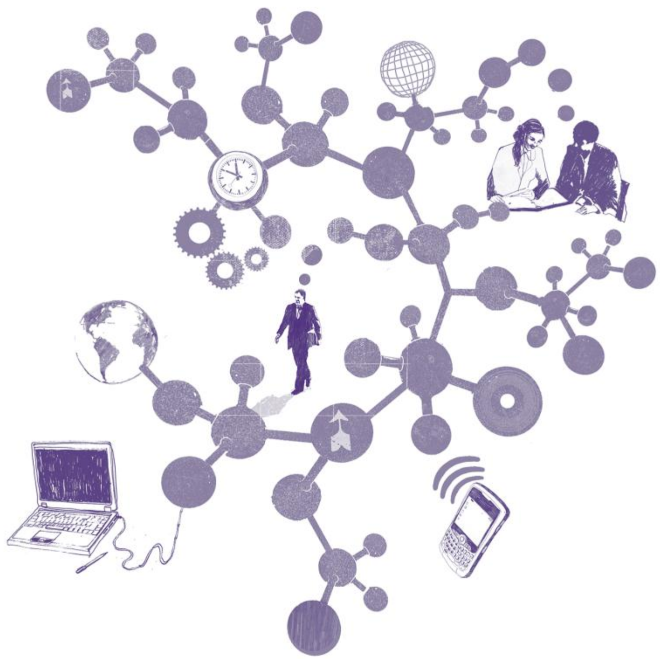

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

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.

Contents

Section 1: Executive summary

Section 1: Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Lancashire Council's ('the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated March 2013.

Our audit is substantially complete although we are finalising our work in the following areas:

- review of revised senior officers' remuneration disclosure note
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- review of the final version of the annual governance statement
- updating our post balance sheet events review to the date of our audit opinion; and
- our work on the whole of government accounts return.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

This has been a challenging year for the Council's finance team. Roles and responsibilities have been changed during the year to deliver savings and to better focus the available staff resource on providing a robust service for the Council. It is therefore pleasing to report that the draft accounts were, overall, prepared to a good standard and were supported by good quality working papers. The accounts and working papers were available for audit in line with the agreed timetables.

A number of material amendments have however been made to the Statement of Accounts, mostly in relation to grant income, financial instruments and the Cash Flow Statement/ Two of these amendments affected the Comprehensive Income and Expenditure Statement. Further details are provided in section 2 of this report.

A number of other changes have been made in response to audit findings to improve consistency within the Statement of Accounts and correct trivial arithmetical and presentational errors, these are not reported here.

Officers also made significant changes to improve the clarity of the Statement of Accounts, including removing disclosures considered to be immaterial or otherwise unnecessary.

Value for money conclusion
We expect to issue an unqualified Value for Money Conclusion.

Further details of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)
We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.
Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Findings
We draw your attention in particular to control issues identified in relation to:

- controls for ensuring the correct classification of debtor and creditor balances
- analysing £6.2M of payables system generated accruals

Further details are provided within section 2 of this report.

The way forward

Matters arising from the financial statements audit have been discussed with the County Treasurer and members of her team.

Our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Acting Chief Executive.

Audit Certificate
We are required to certify the closure of the audit each year. We normally expect to do this at the same time we issue our opinion on the statement of accounts and value for money conclusion.

The certificate confirms that we have completed our audit in accordance with the Code of Audit Practice and Audit Commission Act 1998.

We are unable to issue our certificate for 2012/13 until the Council has completed its work in respect of the weaknesses identified in procurement and good governance.

Further detail is provided in section 4 of this report.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2013

Section 2: Audit findings

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Accounts and Audit Committee on 20 March 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you in March 2013.

Audit opinion

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.

Audit findings against significant risks

"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 detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Improper revenue recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	• examined and tested the policies for recognising revenue • completed testing on material revenue streams • examined any unusual significant transactions	Our audit work has provided assurance that there are adequate controls in place to ensure income is appropriately recorded and not subject to manipulation.
2.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls	• assessed entity-level controls at the Council e.g. journals and role of the Audit & Governance Committee • reviewed information technology (IT) general controls • reviewed and tested significant accounting estimates, judgements and decisions made by management • tested a sample of journals entries using computer assisted audit techniques (CAATs) • reviewed any unusual significant transactions	Our audit work has not identified any evidence of management override of controls in 2012/13. Our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgments.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Operating expenses understated	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the operating expenses cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • substantive testing of sample of expenses	Our audit work has not identified any significant issues in relation to the risk identified.
Operating expenses	Creditors understated or not recorded in the correct period	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the operating expenses cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • substantive testing of creditors including post year end payment for cut-off	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Remuneration expenses not correct	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the employee remuneration cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • substantive testing of sample of 25 items of salary payments to employees	The disclosure notes relating to senior offices remuneration have been amended as a result of payments identified by the finance team.
Property, plant & equipment	PPE activity not valid	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the property, plant and equipment cycle • walked through the key controls to determine if those controls are designed effectively • substantively tested samples of additions and disposals	Our audit work has not identified any significant issues in relation to the risk identified.
Property, plant & equipment	Revaluation measurement not correct	• We have examined the work of the Council's expert property valuer	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks

Review of Information Technology (IT) Controls

As part of our planned programme of work, our information systems specialist team undertook a high level review of the general IT control environment at the Administering authority. This was undertaken as part of the review of the internal controls system and included a follow up of the issues that had been raised by the previous auditor, the Audit Commission. Some improvements have been made in this area, although the following are areas where the existing IT arrangements can be further developed :

Network access: Network log-on passwords are still allowed to be simple (they can be all-letter, i.e. a word). This issue was raised by the Council's previous auditors. Although management have agreed to introduce stronger network passwords, implementation has been slower than planned.

Monitoring network access permissions: Arrangements for removing leavers' network accounts were previously weak. Improvements have been made during 2012-13 by using HR reports to identify leavers so that accounts can be deleted as they arise. However, redundant accounts for staff who left before this change was made, may remain on the system. A process for monitoring which network accounts have been unused for a lengthy period and disabling or deleting them has been proposed but is not yet in place.

These areas apply to the whole of the IT controls environment for the administering authority and are not specific to the operation of the Fund. An action plan has been agreed which includes resolution of these issues by June 2014.

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Revenue from the provision of services is recognised when the Council can measure reliably the level of completion of the transaction and it is probable that benefits will flow to the Council • Government Grants are recognised when there is reasonable assurance that the Council will comply with any conditions attached to the payments	• The Council's policy is appropriate and consistent with the relevant accounting framework – the Local Government Code of Accounting Practice • Minimal judgement is involved • Accounting policy is properly disclosed	●
Judgements and estimates	Key estimates and judgements include: • useful life of capital equipment • pension fund valuations and settlements • revaluations • impairments • provisions/accruals	• The Council's policy is entirely appropriate and consistent with the relevant accounting framework – the Local Government Code of Accounting Practice • Reliance on experts is taken where appropriate • Accounting Policy is properly disclosed	●
Other accounting policies	• The Council has adopted accounting policies in accordance with the Local Government Code of Accounting Practice	• While minor changes have been made to the accounting polices note to the accounts, our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	●

Assessment

● Marginal accounting policy which could potentially attract attention from regulators
● Accounting policy appropriate but scope for improved disclosure
● Accounting policy appropriate and disclosures sufficient

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management, including the impact on the key statements and the reported financial position.

Impact of adjusted misstatements

	Detail	Primary financial statements impact
	TRADING OPERATIONS	
1	The Financing and Investment Income & Expenditure line of the Comprehensive Income and Expenditure Statement (CIES) included gross income and expenditure for trading operations. Since the cost of services provided by trading operations is already reflected in the Cost of Services section of the CIES, only the net position should have been reflected.	Yes – Gross income and expenditure for the Financing and Investment Income & Expenditure line of the CIES have both reduced by **£125.6m**. The **£33.0m** surplus is unaffected.
	GRANT INCOME	
2	**£49.6m** of non-ring fenced Early Intervention Grant (EIG) included in the CIES within gross income for Education Services and Children's Social Care has been reclassified within Taxation and non-specific grant income, where other non-ring fenced grants are recorded. Entries in the relevant notes to the accounts have also been adjusted and comparatives restated.	Yes – Net expenditure for the cost of services has increased by **£49.6m**, although there has been a matching reduction in net expenditure for taxation and non specific grant income. The **£33.0m** surplus is unaffected.
3	In the grant income disclosure note, the 2012/13 Local Support Services Grant includes funding for the North West Inshore Fisheries and Conservation Authority which was recorded as **£202.0m** rather than **£0.202m**.	No – the impact is limited to the grant income disclosure note.

Adjusted misstatements

	Detail	Primary financial statements impact
	GRANT INCOME (Cont'd)	
4	**£310.9m** of Non Domestic Rate funding has been reclassified from income from Council tax to Government grants and contributions in the detailed reconciliation included in the Amounts Reported for Resource Allocation Decisions disclosure note.	No – the impact is limited to the Amounts Reported for Resource Allocation Decisions disclosure note.
5	During the audit, the Council identified that **£21.7m** of pupil premium grant funding had not been included in the funding analysis for Individual Schools Budget expenditure in the Dedicated Schools Grant disclosure note. As a result, the Council has also re-profiled the agreed initial budgeted distribution in 2012/13 so that it is consistent with the funding analysis.	No – the impact is limited to the Dedicated Schools Grant disclosure note.
	FINANCIAL INSTRUMENTS	
6	In the financial instruments disclosure note, **£65.6m** of cash and cash equivalent balances were misclassified as investments. This should have been separately disclosed. Additionally **£26.9m** of statutory debtors and **£42.6m** of statutory creditor balances were misclassified as financial instruments in this disclosure note. As well as being restated in respect of these misclassifications, comparatives have been amended to reflect a **£8.2m** restatement relating to the residential care deferred payment scheme.	No – the impact is limited to the financial instruments disclosure note.

Adjusted misstatements

	Detail	Financial statements impact
	FINANCIAL INSTRUMENTS (Cont'd)	
7	**£47.8m** of PFI related interest charges had not been included in the Income, Expense, Gains and Losses on Financial Instruments disclosure note. Comparatives have also been restated. Interest expenses were understated in this disclosure note by a further **£6.0M** as a result of a misclassification of a one-off adjustment for reclassified unamortised premiums, as well as the inclusion of premiums and discounts released from the Financial Instruments Adjustments Account.	No – the impact is limited to the Income, Expense, Gains and Losses on Financial Instruments disclosure note.
8	In the Fair Value of Financial Assets and Liabilities disclosure note, the fair value of financial liabilities as at 31 March 2012 was understated by **£49.0m** as a result of the omission of LOBO and call borrowing. Additionally, following a change in the basis for determining the fair value of LOBO borrowing as at 31 March 2013, comparatives have been increased by **£27.0m** to ensure consistency.	No – the impact is limited to the Fair Value of Financial Assets and Liabilities disclosure note.
9	The Council made changes to the disclosure notes for debtors and creditors to simplify their presentation. In doing so, **£19.7m** of debtors and **£34.5m** of creditors were misclassified. Comparatives have also been restated.	No – the impact is limited to the debtors and creditors disclosure notes.

Adjusted misstatements

	Detail	Financial statements impact
	PROPERTY, PLANT AND EQUIPMENT	
10	The amount included in the "cost or valuation" section of the property, plant and equipment (PPE) disclosure note for disposals was understated by **£2.1m**. However, a compensating overstatement of 'de-recognition – others' within the depreciation and impairments section of the note, means the net book value is unaffected. Additionally the Council had classified **£5.0m** of transfers from assets under construction as donations. The note has been amended to reclassify these transfers as part of asset reclassifications, as well as the matching entry included in PPE additions.	No – the impact is limited to the property, plant and equipment disclosure note.
11	In the analysis of the rolling programme of revaluations within the PPE disclosure note, assets valued at current value in 2009/10 are overstated by **£10.0m** with a matching understatement of assets valued at historic cost.	No – the impact is limited to the property, plant and equipment disclosure note.
	UNUSABLE RESERVES	
12	The balance on the Capital Adjustment Account in the analysis of movements included in the unusable reserves note is consistent with the balance sheet. However, depreciation and impairment of non-current assets is understated by **£5.9m** with amortisation of intangible assets overstated by the same amount.	No – the impact is limited to the unusable reserves disclosure note.
13	The balance on pensions reserve in the analysis of movements included in the unusable reserves note is consistent with the balance sheet. However, the actuarial gains or (losses) on pensions assets and liabilities were overstated by **£99.4m.** The Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES was equally understated. Comparatives have also been restated.	No – the impact is limited to the unusable reserves disclosure note.

Adjusted misstatements

CASH FLOW STATEMENT

The following amendments have been made to the detailed analysis of cash flows from operating activities provided in the supporting disclosure note. As a result of these amendments, the Cash flow statement is now consistent with the supporting disclosure notes; previously the purchase and sale of investments had been netted off.

Description	Pre audit £m	Post audit £m	Reason for not adjusting
Adjustment to surplus or deficit on the provision of services for non cash movements			
• Decrease in creditors	88.1	1.9	The Council identified the incorrect inclusion of **£86.2m** of movements on short term borrowing.
• Increase in debtors	16.1	18.2	The Council identified the incorrect omission of **£2.1m** of movements in long term debtors.
Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities			
• Net proceeds from the sale of short and long term investments	1,893.9	9.8	**£1,881.9m** of proceeds from the sale of short and long term investments have been reclassified within cash flows from investing activities where related purchases are disclosed. A further adjustment of **£21.8m** has been made by the Council to correct the residual compensating error.
• Adjustment for purchase of investments which were settled post year end	62.5	0	This adjustment should not have been made to this element of the cash flow statement.

Comparatives have also been restated to ensure consistency of presentation. In doing so, the Council has identified that **£54.3m** of net proceeds from the sale of investments, included within adjustments for effective interest rate, should be reclassified. The 'adjustment to surplus or deficit on the provision of services for non cash movements' section of the detailed analysis of cash flows from operating activities also contained an **£8.2m** arithmetical error and **£13.3m** misclassification , both of which have been corrected.

Unadjusted misstatements

The table below provides details of adjustments identified during the audit but which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Comprehensive Income and Expenditure Account £m	Balance Sheet £m	Reason for not adjusting
1	The interest accrual for **£312.2m** of debt has been incorrectly calculated due to a formula error. As a result, accrued interest on debt is understated by **£1.3m**. This would have the effect of reducing the reported surplus of £33.0m.	1.3	1.3	The error is considered to be trivial.
2	During the course of the audit, the Council has amended Note 20 to the accounts in respect of senior officers remuneration. The note has been amended in respect of both 2011/12 and 2012/13 to reflect the remuneration paid to the Council's Director of Change Management and Transformation. The remuneration was actually paid in June and July 2013 in respect of the two previous financial years. The CIES has not been amended in respect of these amounts which will instead be reflected in 2013/14 - as these costs are recharged to OCL both income and expenditure are understated by the same amount.	**0.325 in 2011/12** **0.287 in 2012/13**	**Nil**	The overall impact on the CIES is nil because the costs are recharged to One Connect Limited.
	Overall impact	**£1.3**	**£1.3**	

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

	Assessment	Issue and risk	Recommendations
1.	●	While the ledger contains subjective codes to allow the Council to classify debtor and creditor balances in accordance with the classifications prescribed by the CIPFA Code, testing has identified £6.9M of debtor balances that have been incorrectly classified in the ledger. In addition, testing has identified non-trivial balances with other local authorities and NHS bodies within the receivables control account balance of £51.7M and payables control account balance of £21.3M, which have been incorrectly classified within other debtors and creditors. While it is not possible to quantify the exact value of related classification errors, the error is not material.	**Review arrangements for classifying debtor and creditor accruals.** **Review control account balances for the payables and receivables systems as part of closedown arrangements to identify balances that should not be included within other debtors and creditors.**
2.	●	The Council has been unable to provide details of transactions for testing purposes of £6.2M of accruals generated from the payables system where an order has been raised and the goods or services receipted, but an invoice has not been received before year end.	**Ensure transaction listings are available for all cost centres.**

Assessment

- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	• We have previously discussed the risk of fraud with the Audit & Governance Committee and have not been made aware of any other incidents in the period.
2.	Matters in relation to laws and regulations	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	• A letter of representation has been requested from the Council. • We have asked the Council to comment specifically on matters relating to fraud and contingent liabilities.
4.	Disclosures	During the audit, the Council also: • prepared a revised version of the related parties note to better comply with Code disclosure requirements; • replaced a pie chart included in the credit risk section of the Nature and Extent of Risks Arising from Financial Instruments note with a more detailed analysis of credit risk; • reclassified Private Finance Initiative (PFI) liabilities in the Balance Sheet as other liabilities, rather than borrowings; and • added an analysis of the waste PFI liability to the PFI schemes note. Our review found no additional material omissions in the financial statements, although further changes to disclosures have been made, mostly to improve internal consistency.
5.	Matters in relation to related parties	• We are not aware of any related party transactions which have not been disclosed.
6.	Going concern	• Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Other matters

We include here other matters of governance interest we want to draw to your attention.

The Council prepares an annual governance statement every year. This document sets out the Council's responsibilities and approach to ensuring appropriate corporate governance arrangements are in place for the year, and to the date of signing the accounts.

The annual governance statement is published alongside the Council's statement of accounts. We are required to report to you if, in our opinion, the annual governance statement does not reflect compliance with CIPFA/SOLACE guidance.

The annual governance statement was presented to and discussed by the Audit and Governance Committee at its June 2013 meeting. Members of the committee approved the statement for signature.

However, in our view, the statement did not properly reflect the Council and following discussion with management, the statement has been revised. It now reflects that, although the Council's Head of Internal Audit provided substantial assurance that there is a generally sound system of internal control in place, some 42% of the individual jobs undertaken by internal audit provided either nil or limited assurance that control objectives were being met. The statement now also reflects the way in which management team will address this going forward.

The statement was subsequently revised again by management to reflect the arrangements in place for the leadership and management of the Council.

We are satisfied that the final revised version now reflects the Council's corporate governance arrangements and is compliant with the guidance.

Section 3: Value for Money

Value for Money

Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

- **The Council has proper arrangements in place for securing financial resilience.** The Council 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.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

Overall our work concluded that the Council had arrangements in place to secure financial resilience in 2012/13 and over the next year. The budget for 2012/13 has been delivered and remains on track in 2013/14.

However, the Council has recently identified some weaknesses in its arrangements for ensuring financial control, in respect of procurement and good governance. Work is underway to investigate these issues.

Challenging economy, efficiency and effectiveness

Work is now underway to develop the medium term financial plan for the three years to 31 March 2017. In developing this plan, the Council faces a significant financial challenge where it must look to make savings in the order to £300m over the three years.

The arrangements in place to develop the strategy and annual budget for 2014/15 appear robust. The Council starts from a relatively strong position given it has £457m of usable reserves at 31 March 13, some of which is earmarked to support strategic investment, service transformation, downsizing and invest to save projects. However, the savings target still represents a significant financial challenge for the Council.

Overall VFM conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are 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 2013.

Section 4 Certifying the audit closed

Certifying the audit closed

The audit certificate

The Code of Audit Practice 2010 (the Code) requires auditors to formally certify at the end of the audit that they have undertaken the audit in accordance with the requirements of the code.

This includes all of the work required to issue an opinion on the Council's financial statements and the value for money conclusion.

It also includes consideration of any matters that might require formal audit action.

We are unable to issue the certificate to confirm this and to certify the 2012/13 audit closed. This is because we are awaiting the outcome of the Council's work to investigate issues relating to contract procurement.

Section 5: Fees, non audit services and independence

Fees, non audit services and independence

We confirm below our final fees charged for the audit and that were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Council audit	150,660	150,660
Grant certification	3,700	TBA
Total audit fees	**154,360**	**TBA**

Fees for other services

Service	Fees £
There were no fees for the provision of non audit services	

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.

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

Section 6: Communication of audit matters

Communication of audit matters to those charged with governance

International Standard 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.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report 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 issues 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		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system
Medium - Effect on control system
Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1.	**Review arrangements for classifying debtor and creditor accruals.**	Medium	While work will be undertaken to make improvements in this area the only way of eliminating (as opposed to further reducing) the risk identified which is one of misclassification and not incompleteness is to make alterations to the council's core financial systems. This approach would lead to an increase in costs of running the system given that it would require customisation which would increase the ongoing running cost , and as such cannot be justified. This risk has existed in previous years and not been highlighted by the auditors and the scale of relevant balances is unlikely to have changed materially.	
2.	**Review control account balances for the payables and receivables systems as part of closedown arrangements to identify balances that should not be included within other debtors and creditors.**	Medium	The Council maintains an on-going process of reconciliation in this area which represents a compensating control and which auditors have previously indicated they were content with. A report is available that allows this reconciliation to be undertaken at a point in time. However, this report cannot be run retrospectively, hence the information could not be provided in report format when requested a number of months after the year end.	
3.	**Ensure transaction listings are available for all cost centres.**	Medium	The Council will, having now been asked to ensure this information is available, produce the relevant report as part of the year end routine and ensure it is kept to be available for the auditors.	Underway

Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report. However, we will not issue a certificate to formally close the audit

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

Opinion on the Authority financial statements

We have audited the financial statements of Lancashire Council for the year ended 31 March 2013 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 Collection Fund 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 2012/13.

This report is made solely to the members of Trafford 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. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the County Treasurer and auditor

As explained more fully in the Statement of the County Treasurer 's 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. Our 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 us 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 Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the foreword by the Director of Finance to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:
give a true and fair view of the financial position of Lancashire County Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the foreword by the County Treasure for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:
in our 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;
we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
we 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
we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the 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.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves 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 us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we 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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, 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 us to consider under the Code of Audit Practice in satisfying ourselves 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 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we 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 our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are 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 2013.

Certificate

Awaiting confirmation of wording from Audit Commission

Karen Murray
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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