

The Audit Plan for Lancashire County Council

Year ended 31 March 2015

March 2015

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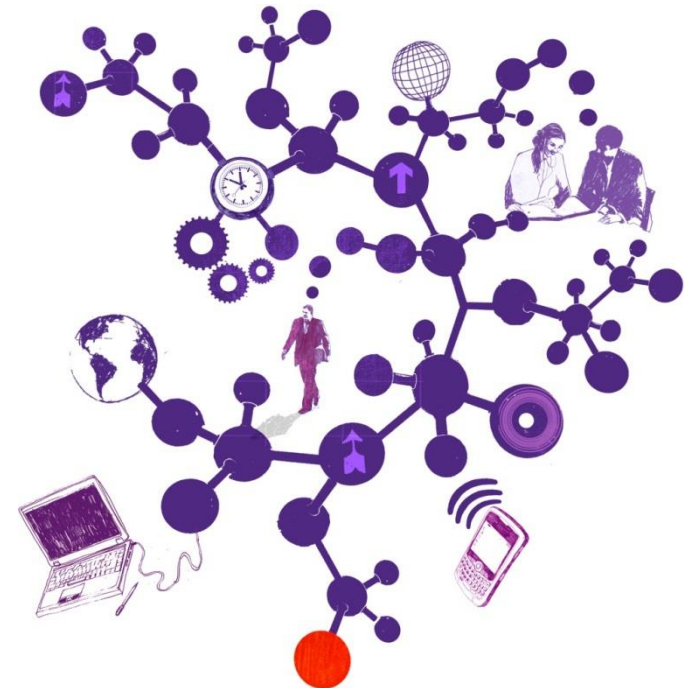
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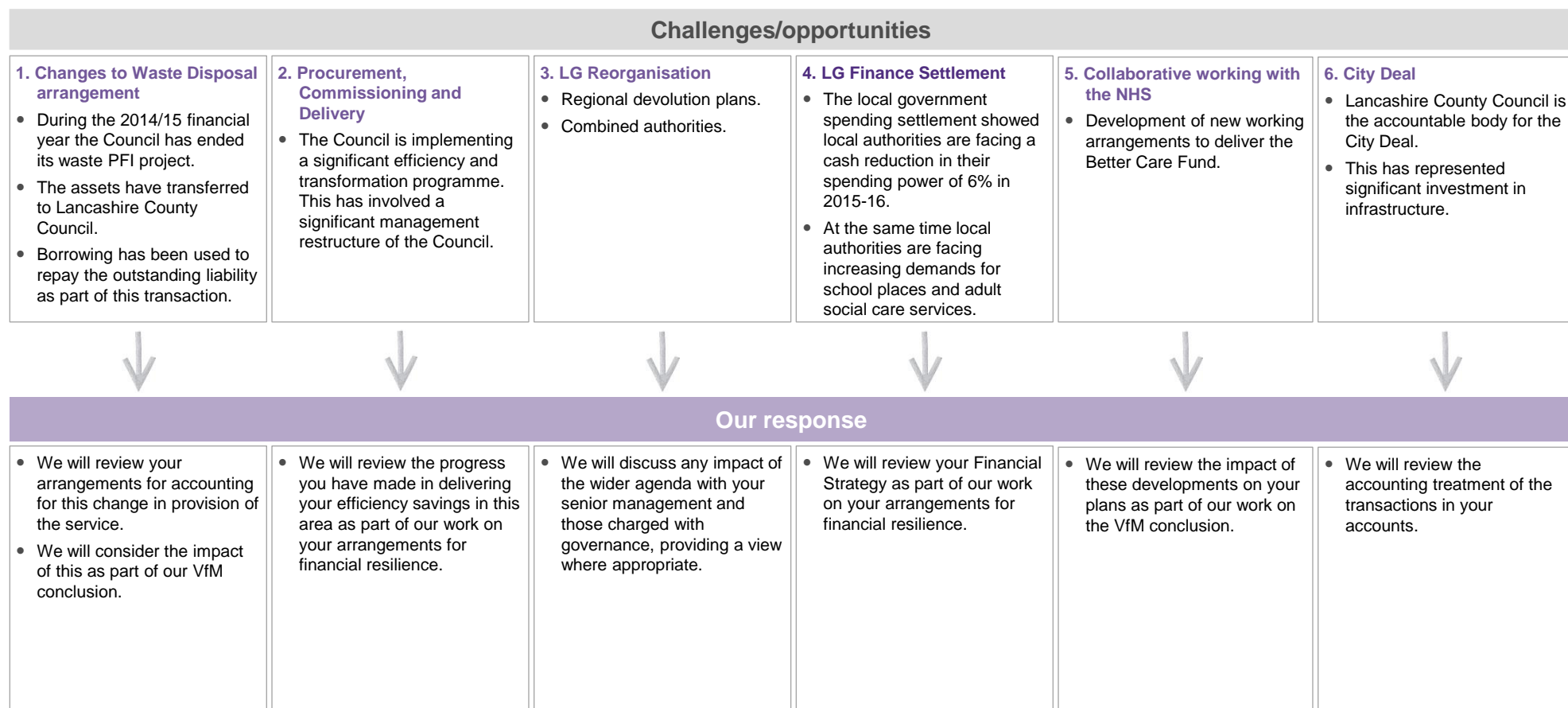
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Understanding your business

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 ('the code') and associated guidance.

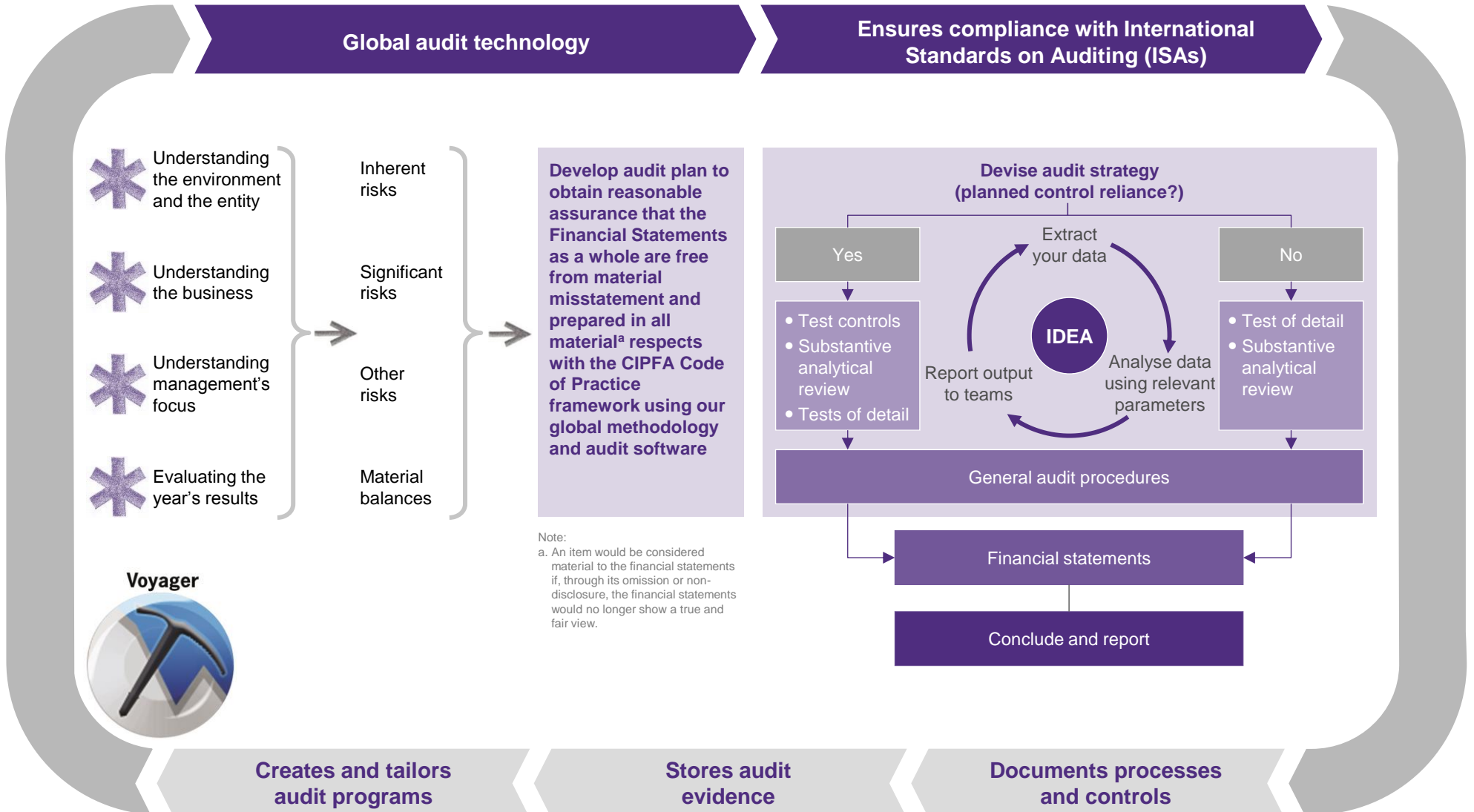
Developments and other requirements

1. Financial reporting	2. Legislation	3. Corporate governance	4. Better Care Fund	5. Financial Pressures	6. Other requirements
<ul style="list-style-type: none"> • Changes to the CIPFA Code of Practice • Changes to the recognition of school land and buildings on local authority balance sheets • Adoption of new group accounting standards (IFRS 10,11 and 12) 	<ul style="list-style-type: none"> • Local Government Finance settlement 	<ul style="list-style-type: none"> • Annual Governance Statement (AGS) • Explanatory foreword 	<ul style="list-style-type: none"> • Better Care Fund (BCF) plans and the associated pooled budgets will be operational from 1 April 2015 	<ul style="list-style-type: none"> • Managing service provision with less resource • Progress against savings plans 	<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 a Local Transport Plan grant claim which requires audit certification

Our response

<p>We will ensure:</p> <ul style="list-style-type: none"> • the Council complies with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing; • schools are accounted for correctly and in line with the latest guidance; and • the group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly 	<ul style="list-style-type: none"> • 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>We will:</p> <ul style="list-style-type: none"> • review the arrangements and evidence the Council has in place to support the production of the AGS; and • review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge 	<ul style="list-style-type: none"> • We will confirm that disclosures relating to the BCF are correctly disclosed in the accounts. 	<p>We will:</p> <ul style="list-style-type: none"> • review the Council's performance against the 2014/15 budget, including consideration of performance against the savings plans; and • 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 your Local Transport Plan claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd. This company will take over the Audit Commission's responsibilities for grant certification from 1 April 2015.
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Our audit approach



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	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Lancashire County Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited because of the nature of the income received by the Council. A significant amount of the revenue received is related to central government grants, Council Tax precepts and business rates. The nature of this income means that it is less open to being recognised incorrectly.
Management over-ride of controls	<p>Under ISA 240 there is a presumption that the risk of management over-ride of controls is present in all entities.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Testing of journal entries <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Further testing of journal entries • Review of unusual significant transactions

Other risks identified

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).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Documentation and assessment of the design effectiveness and implementation of internal controls <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of reconciliation of accounts payable system control accounts • Search for unrecorded liabilities by comparing cash payments to suppliers in 2015/16 to supplier creditor balances as at 31 March 2015
Employee remuneration	Employee remuneration understated	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Documentation and assessment of the design effectiveness and implementation of internal controls, including those operated by BT Lancashire Services Limited <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of reconciliation of payroll costs to the general ledger • Completion of trend analysis to assess whether employee remuneration is in line with expectations
Accounting for local authority maintained schools	Property Plant and Equipment misstated	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Discussions with Finance staff to confirm compliance with the new accounting requirements included in the 2014/15 CIPFA Code of Practice following the adoption of the new International Financial Reporting Standards on group accounting <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgements and decisions made by management

Other risks identified

Other risks	Description	Audit Approach
Waste PFI	During the 2014/15 financial year the Council has ended its waste PFI project by purchasing the waste PFI company. Borrowing has been used to repay the outstanding liability as part of this transaction.	We will continue to discuss the accounting treatment for this transaction with your finance team. We will review the accounting transactions included in the accounts
City Deal	The Council is the accountable body for the Preston, South Ribble and Lancashire City Deal (City Deal). The scheme is delivering new infrastructure with resources from central government, local government and the private sector.	We will review the accounting treatment of the income and expenditure relating to this scheme included in your accounts.

Value for money

Value for money

The Code 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.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

We will review the arrangements in place for your governance framework and in particular the arrangements in place to support the production of your annual governance statement.

This will include reviewing:

- action taken by management in response to the issues raised in the 2013/14 annual governance statement and your arrangements to prepare the statement for this year;
- we will review the overall governance framework;
- the progress you've made in delivering savings and the associated transformation programme included in the 2014/15 budget;
- the robustness of the 2015/16 budget and plans to 2017/18 which identify savings of £146.2m in the three years period.

The results of our VfM audit work and the key messages arising 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.

Results of interim audit work

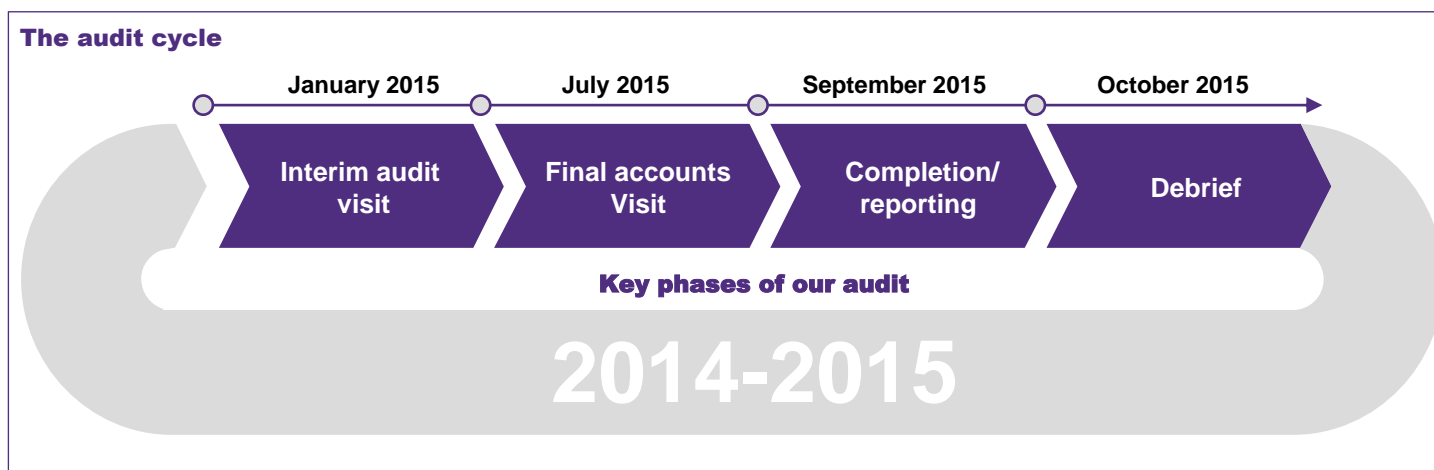
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusion
Internal audit	We have reviewed internal audit's work on the Council's key financial systems to date.	<p>Our review of internal audit work has not identified any weaknesses which impact on our approach to the audit of your financial statements.</p> <p>We will update our assessment of the work undertaken by Internal Audit as they deliver their plan and report any findings to you.</p>
Walkthrough testing	We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.	Our work has not identified any weaknesses which could lead to a material error.
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none">• Communication and enforcement of integrity and ethical values• Commitment to competence• Participation by those charged with governance• Management's philosophy and operating style• Organisational structure• Assignment of authority and responsibility• Human resource policies and practices	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.

Results of interim audit work cont'd

	Work performed	Conclusion
Review of information technology controls	Our information systems specialists have performed a high level review of the general IT control environment, as part of the overall review of the internal controls system. We have also performed a follow up of the issues that were raised last year.	The output of this work will be agreed with management and we will report the findings to this committee in our audit findings report.
Journal entries	Review of unusual journal transactions recorded for the first nine months of the financial year.	No significant issues have been identified from the work performed to date We will complete our testing for the final quarter of the financial year on receipt of the draft 2014/15 accounts
Payroll substantive testing	Substantive testing of a sample of payroll transactions for the first nine months of the financial year, including employer contributions	No significant issues have been identified from the work performed to date We plan to complete our testing for the final quarter of the financial year prior to receipt of the draft 2014/15 accounts
Accounts payable substantive testing	Substantive testing of a sample of operating expenses and capital expenditure transactions for the first nine months of the financial year, including agreement to source documents	No significant issues have been identified from the work performed to date We plan to complete our testing for the final quarter of the financial year prior to receipt of the draft 2014/15 accounts
Accounts receivable substantive testing	Substantive testing of a sample of revenue transactions for the first nine months of the financial year, including agreement to source documents	No significant issues have been identified from the work performed to date We plan to complete our testing for the final quarter of the financial year prior to receipt of the draft 2014/15 accounts

Key dates



Date	Activity
January 2015	Planning
January 2015 – March 2015	Interim site visit
13 April 2015	Presentation of audit plan to Audit Committee
July 2015 – September 2015	Year end fieldwork
Mid September 2015	Audit findings clearance meeting with interim Director of Financial Resources
28 September 2015	Report audit findings to those charged with governance (Audit and Governance Committee)
28 September 2015	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	£150,660
Grant certification	£2,800*
Total fees (excluding VAT)	£153,460

Our fee assumptions include:

- 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

Grant certification

- Our fees for grant certification cover only the Local Transport plan grant certification, which falls under the remit of Public Sector Audit Appointments Limited, as the successor to the Audit Commission in this area.
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services.'
- *These fees are estimated based on the fees for 2013/14. We will confirm the fees for these on completion of the work.

Fees for other services

Service	Fees £
Reasonable assurance report on the 2014/15 Teacher's Pensions return	£4,200*

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

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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